



Sofiyska Voda AD

Annual Management Report and Consolidated Financial Statements

For the year ended 31 December 2021

With independent Auditors' Report thereon

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Annual Management Report

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Independent Auditors' Report

ANNUAL CONSOLIDATED ACTIVITY REPORT

SOFIYSKA VODA AD AND WATER INDUSTRY SUPPORT AND EDUCATION EOOD

31 DECEMBER 2021

Financial review:

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

In 2021 the Group's revenue from main charges amounted to BGN 194.3 M, which was by 5.92% higher than the revenue from main charges in the same period of the previous year – BGN 184.3 M. The main reason is the increase in the price as of 1 January 2021 by 6.12%. The Group's total revenue for 2021 amounted to BGN 212.05 M (BGN 204.9 M in the same period of 2020). The revenue from construction in 2021 amounted to BGN 16.9 M (BGN 20.2 M in 2020). 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 2021 for power supply predominantly.

The Group's operating costs in 2021 amounted to BGN 167.3 M (2020 – BGN 165 M). This amount includes BGN 16.9 M for construction costs, which resulted from the application of IFRIC 12.

The depreciation and amortization costs in 2021 amounted to BGN 66.3 M. The value is higher than the one reported for 2020 (BGN 57 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 2021 were by BGN 120 K less than those reported in the same period of 2020, which is due to the full early repayment of the long-term loan of the Group.

As a result of the above factors, the profit after tax for 2021 amounted to BGN 39.4 M as compared to BGN 34.5 M for the same period of 2020.

The management of the financial risk and the exposure of Sofiyska Voda 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 separate financial statement.

Signed significant contracts:

Contract No	Subject	Contractor	Start Date	End Date	Value, VAT excluded	Option value and renewal
8827	First stage from the establishment of a system for smart measurement of water consumption within a qualification system with subject "Delivery of components and water meters and gradual building of a system for smart measurement of water consumption"	NMG-Vodni Sistemi DZZD	20.01.2021	20.01.2026	9 000 000	2 000 000
8830	Delivery of pipes and access fittings from ductile iron for potable water - Lot 1	HTI Bulgaria EOOD	15.01.2021	15.03.2023	1 035 000	
8876	Provision of Microsoft software right-to-use licenses	Kontrax AD	24.03.2021	24.03.2024	1 579 323	
8895	Non-cash purchase of fuels from one chain of filling stations through Sofia Commodity Exchange AD	Bent Oil AD	01.05.2021	01.05.2023	1 980 000	
8913	Water meter reading on the territory of the Municipality of Sofia	DZZD OV 2021 partnership	01.06.2021	01.06.2024	6 270 000	
8980	Electronic processing, printing, folding, placing into an envelope and delivery of invoices, notification letters, information and advertising materials to the customers of Sofijska Voda AD	Direct Couriers partnership	09.08.2021	09.08.2023	2 165 000	1 050 000
9024	Supply of ferric chloride (FeCl ₃) for physico-chemical removal of phosphorus from wastewater – Lot 1	Continvest Ltd.	06.10.2021	06.10.2023	3 000 000	1 350 000
9025	Supply of zero-valent iron (Fe ⁰) for physico-chemical removal of phosphorus from wastewater – Lot 2	Continvest Ltd.	06.10.2021	06.10.2023	1 000 000	450 000
9065	Insurance services- "All risk property Insurance", "Business interruption" – Lot 1	Insurance Company "OZK Zastrahovane" AD	04.11.2021	04.11.2024	1 503 247	234 700

Signed related party transactions:

On 1 November 2021 two contracts were signed with ViK EAD for rent of real estates: 2 single-family 1-floor residential buildings 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 2021 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 16708/12.21/Oper/NG, issued by BNP Paribas S.A. – Sofia Branch, in the amount of 750,000 dollars and validity until 15 December 2022;
- Performance guarantee of Sofiyska Voda AD under Contract No.ПД-568-68/10.08.2011 with the Municipality of Sofia for repair of defects and damages that have occurred at municipal property sites where Sofiyska Voda AD carries out construction works, with No.MD2135510000, issued by United Bulgarian Bank AD, in the amount of 613,000 BGN and validity until 31 December 2022.

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

On 25 January 2021 the Group fully repaid the principal and interest on the loan to the consortium of the United Bulgarian bank and DSK in the amount of 22,484 k BGN, and all collaterals on the loan were removed.

Information for the ultimate parent company 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 company in their capacity as borrowers, including provision of guarantees of any kind, including to related parties, as the terms under them are specified, including the deadlines for repayment and the objective for which they have been granted:

As at 31 December 2021 the Group has no concluded loan agreements as a lender or borrower with companies from the Group.

Information for the ultimate parent company 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:

The Group 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 Company 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 company's own funds, i.e. from the company 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 "greenness"

From the beginning of 2022 for the year ended 31.12.2021, the Group has a requirement to disclose "greenness" data: % of the revenues, capital expenditure, operational costs, set by the European Council. In 2021, according to the assessment made and the criteria set, the distribution of the revenues, costs and investments for the Group is as follows:

- Criteria 1-5.1. Construction, extension and operation of water collection, treatment and supply systems:

	Thousand BGN
Revenues	142 825
Costs	113 822
Investments	27 543

The technical indicators are:

- The energy used for drinking water abstraction and treatment is less than the upper limit of 0.5 kWh/m³ set and is 0.038 kWh/m³;
- Total losses are less than the long-term KPI set by the water and energy regulator of 49%, and constitutes 39.99 %;

- Criteria 1-5.3. Construction, extension and operation of wastewater collection and treatment:

	Thousand BGN
Revenues	66 934
Costs	51 207
Investments	12 583

The technical indicators are:

- The net energy consumption is less than 20 kWh/ p.e. and is 2.45 kWh/p.e.

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.

The Group 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 company 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:

- Code of Conduct of Veolia Group– including the Ethics Guide (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 AD;
- Procedure “Gifts, Hospitality, and Donations. Conflict of Interests”, version 2020; incl. the Anti-Corruption telephone line (+359 2 8122 521, published on SV official website: www.sofiyskavoda.bg);
- Anti-Fraud Procedure, (last updated in 2020)
- 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.

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 company.

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 is in place with third interested parties such as customers, suppliers, regulators and shareholders.

Sofiyska Voda's Communications Department ensures the focus on internal as well as external exchange of information with the stakeholders. In addition, the company's Regulation and Concession Compliance Department is in charge of 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 company are also a two-way channel for exchange of information both inside and outside the company.

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

General Meeting:

On 27 September 2021 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 2020 and the consolidated annual financial statements of the Group for 2020 were approved;
2. The report on the activity of Sofiyska Voda AD for 2020 and the separate annual financial statements of the Group for 2020 were approved;
3. The report on the activity of the Audit Committee of Sofiyska Voda for 2020 was approved;

4. Mr. Fabien Ferrer was dismissed as a member of the Audit Committee, Mrs. Yana Patkova was appointed a member of the Audit Committee of Sofiyska Voda with a 2-year (two) term of office;
5. The General Meeting decided for the profit of Sofiyska Voda AD for 2020, in the amount of BGN 34,195,427.52 (after 1% allocation to handback account as per the Concession Agreement), to be distributed between the shareholders of the Group in the form of dividends, as the amount of one share is BGN 3.8489;

6. The Board members were released from liability to the company for their activity in 2020 as follows: Mr. Francois Debergh, Ms. Mariana Iteva, Mr. Frederic Faroche, Mr. Vasil Trenev, Mr. Vladimir Stratiev, Mr. Biser Damyanovski, Ms. Milena Tsanova (dismissed with the decision under item 6 of the regular General Shareholders' Meeting dated 10.08.2020), and Mr. Georgi Bankov (appointed with the decision under item 6 of the regular General Shareholders' Meeting dated 10.08.2020).

Within the statutory time limits the Group disclosed its separate and consolidated financial statements and reports on the activity, as well as the proposal of the management body for distributing the profit and the decision of the General Shareholders' Meeting on the way of distributing the profit under its account in the Trade register at the Registry Agency.

Board of Directors:

In 2021, there was no change in the Board of Director of the Group.

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

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 2021 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 2021 were 503,000 BGN (2020: 296,000 BGN), from which the unpaid amount as at the reporting data was 39,000 BGN (31.12.2020: unpaid 25,000 BGN). The income of the Board members in the period is as follows: Mr. Francois Debergh, Mr. Frederic Faroche; Mr. Georgi Bankov, Mr. Vladimir Stratiev, Mr. Biser Damyanovski – 29,000 BGN each; Mrs. Mariana Iteva – 60,000 BGN, and Mr. Vasil Borisov Trenev –298,000 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 2021 the Board Members participated in the management of other companies, registered in the Trade Register and the Non-Profit Legal Entities Registry with the Registry Agency or entities, or commercial proxies, managers or board members of companies, registered in the Trade Register and the Non-Profit Legal Entities Registry 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 2021 the Group did not acquire or transfer own shares.

Number and nominal value of the own shares held and the proportion of the capital which they represent:

As at 31 December 2021, the share capital included 8,884,435 ordinary registered shares (2019: 8,884,435), each having a par value of BGN 1.

As at 31 December 2021 the shareholders in Group's capital are:

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

Research and development

The Group does not carry out research and development.

Presence of the branches of the enterprise:

The Group has no branches.

Business Plan:

In 2021 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 2021, quality of potable water, commercial and operational issues etc., is presented in the other parts of the present report.

The prices of the WSS services for 2022 remained unchanged, the same as those effective in 2021, because the Business Plan 2022-2026 has not been reviewed by the Municipality of Sofia yet and has not been approved by the EWRC, respectively.

During the reporting period (2021) 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 2021. At the end of December 2021, EWRC published a "Comparative Analysis of the WSS Sector in the Republic of Bulgaria for 2020". The analysis confirms the leading position of Sofiyska Voda AD in the WSS sector in the country.

In the period June – August 2021 EWRC conducted the traditional annual audit of the Group. The focus of the audit was on the quality of the provided reporting data for 2020, 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 beginning of September.

At the end of September, Sofiyska Voda submitted to the Municipality of Sofia (MoS) a draft Business Plan 2022-2026 and until the end of 2021 the Municipality of Sofia did not express an opinion on the prepared document. After an opinion on the Business Plan is provided by the MoS, the document will be submitted to the Energy and Water Regulatory Commission for approval.

At the end September an official letter was also submitted to MoS, by which Sofiyska Voda AD and Veolia proposed extension of the Concession Agreement due to distorted economic balance of the concession. By the end of 2021, the Group did not receive an answer to the letter.

Events following the reporting date:

In regard to the contract for cross-border merger of Veolia Voda (Sofia) B.V. and Veolia Central & Eastern Europe S.A., the transfer of the shares held by Veolia Voda (Sofia) B.V. to Veolia Central & Eastern Europe S.A. was entered in the Group Book of Shareholders on 04.02.2022.

On 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions, including the EU, Switzerland, the UK, the US, Canada, Japan, and Australia have imposed initial tranches of economic sanctions on Russia (and in certain cases Belarus). In addition to the imposition of sanctions, a growing number of large public and private companies have announced voluntary actions to curtail business activities with Russia and Belarus.

The conflict between Russia and Ukraine and related events occur at a time of significant global economic uncertainty and volatility. The effects are likely to interact with and exacerbate the effects of current market conditions. Many sectors/jurisdictions are already facing the impacts of rising commodity prices and increased raw materials costs due to surging consumer demand as the COVID-19 pandemic eases. Supply-chain bottlenecks arising from the effects of the pandemic continue to persist to a certain extent. These conditions may be significantly exacerbated by the broader impacts of the conflict between Russia and Ukraine, increasing inflationary pressures and weakening the global post-pandemic recovery.

The continuing economic impact from the conflict depends on variables that are difficult to predict. The uncertainty originates from the duration of and the degree to which government sanctions restrict and will restrict the ability to operate in Russia, voluntary decisions by companies to reduce or withdraw from operations or relationships in the region, and the extent of the impact of supply chain disruption.

The Company operates in water supply sector that has not been directly affected by the outbreak of the conflict between Russia and Ukraine. The Company has no direct exposures (eg, transactions, balances, commitments) to related parties and / or to key customers, suppliers or banks in Russia, Belarus, and Ukraine. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the conflict and its expected impact on the Company and the economic environment in which the Company operates. The effects of the above events may affect the Company through further negative development of the overall macroeconomic conditions and business environment in Bulgaria, which are the main jurisdiction where the main Company's clients and suppliers are located.

Regarding the supply chain, the management does not foresee significant problems.

At the time of approval of these financial statements for publishing, the management assesses the risk as low.

In respect of sales, the management considers that there is no risk for a significant decrease in sales unless significant detrimental events resulting from the above stated information may affect the overall business environment the Company's clients operate in and the disposable income of the population.

In summary, based on currently publicly available information, the Company's current KPI's and in view of the actions initiated by management, it is not anticipated a direct immediate and significant adverse impact from the conflict between Russia and Ukraine on the Company, its operations, financial position and operating results. The management cannot however preclude the possibility that an escalation of the conflict and deterioration of the overall business environment in Bulgaria and in the jurisdiction the Company mainly makes business in might have an adverse effect on the Company, and its financial position and operating results, in the medium and longer-term. The management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances.

After the beginning of the COVID -19 crises and the conflict between Russia and Ukraine the Company Increased level of inventories, as result the operating activities of the company are secured for at least 6 months.

In addition, Company made a plan for the necessary inventories for the next 6 – 9 months and made purchase orders to the suppliers. As a result Sofiyska voda secured operational activities and keep the price level.

Information about services provided by the independent auditor:

The expenses on the remuneration of the appointed independent auditor amounted to 187 thousand BGN, of which 126 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 2021 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 2021, 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 2021, 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.

Under 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 has adapted to these processes by developing additional options for remote customer service both on the corporate website and through the mobile application “My water” which provide faster and easier way of interacting with customers.

Throughout the entire 2021 we continued to work towards optimization of the resources and fulfilment 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.

was up to 10 calendar days versus their 9% increase on an annual basis. The achieved average response time for online inquiries was 10 hours versus their 6% increase on an annual basis.

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”.
- expanded communication channels by implementing live chat;
- expanded payment channels by implementing a virtual POS terminal on the website and the mobile application.

The measure introduced by the company for evaluating the overall “customer experience” in the process of asking questions, requests, complaints etc. showed very good results. The overall satisfaction rate registered an increase by 1 more point, from 89% in 2020 to 90% in 2021, moreover, under the conditions of an extraordinary situation.

The monthly “Customer experience” survey aims at showing how our customers perceive the company’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 company establish and manage the processes. The survey is conducted through a phone interview of a sample of 2,000 customers per quarter.

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 2021, the total number of the contacts with customers increased by 7% compared to 2020, as the increased number of calls to the Call Center mostly contributes to that – 714,321, which is 6% more compared to the preceding year. The contacts with customers in the CSC were 153,197, which is by 11% more compared to the preceding year. For the calendar year the missed calls are 10.6%, or a 7.6% 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 achieved for the service “talks with a reply received in less than 30 seconds” is 62%. For the period the registered average time, which the customers waited in the queue, is 23 seconds.

The number of the complaints from all communication channels decreased by 16%.

Customer Service Centers

In 2021, the total number of the visits (excluding for payments) to the customer service centers (CSC) was 117,128, which is by 11.5% more compared to the previous year.

The number of the payments at the CSCs increased by 2.8% in view of the existing network of various payment channels, incl. the upward trend for digital and non-cash payments.

Internet Services

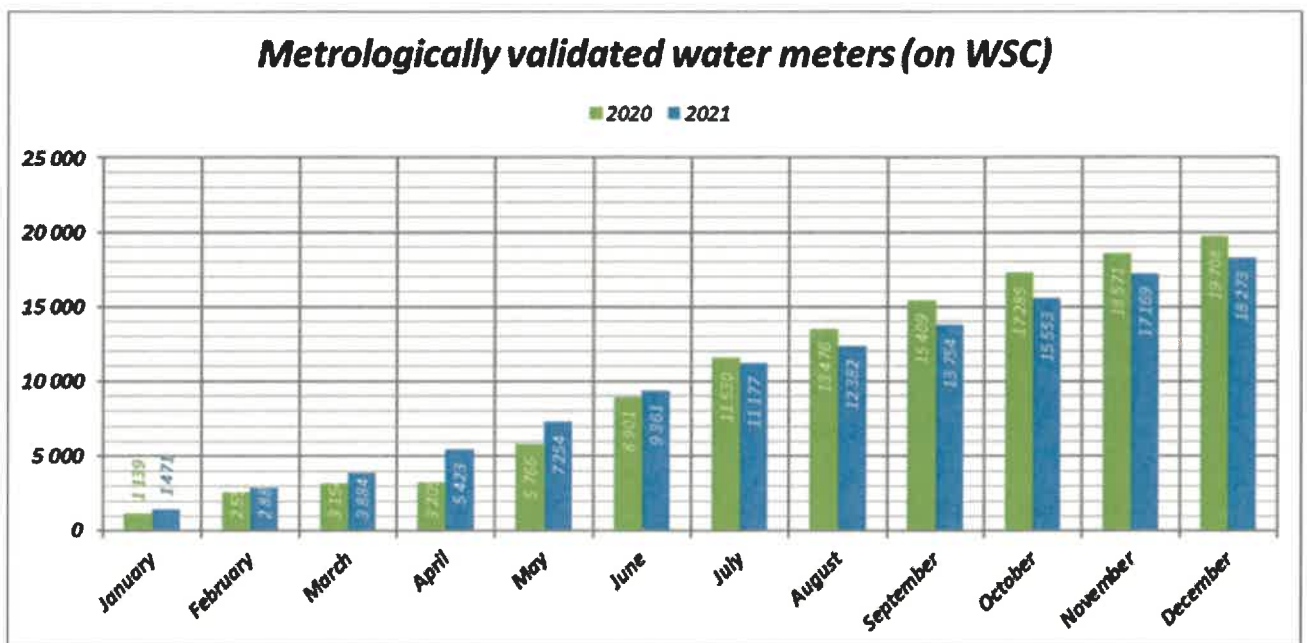
In June 2021, the new website of the company was launched and over the period January-December 2021, 5,717,012 visits to the website were registered and 523,908 self-readings were submitted by customers. For comparison, the visits to the website in 2020 were 2,496,413 and the submitted online self-readings – 220,897.

The enquiries received online over the period January - December 2021 were 19,308 and 17,978 required a response. All answers were sent within 24 hours from the receipt of the enquiry.

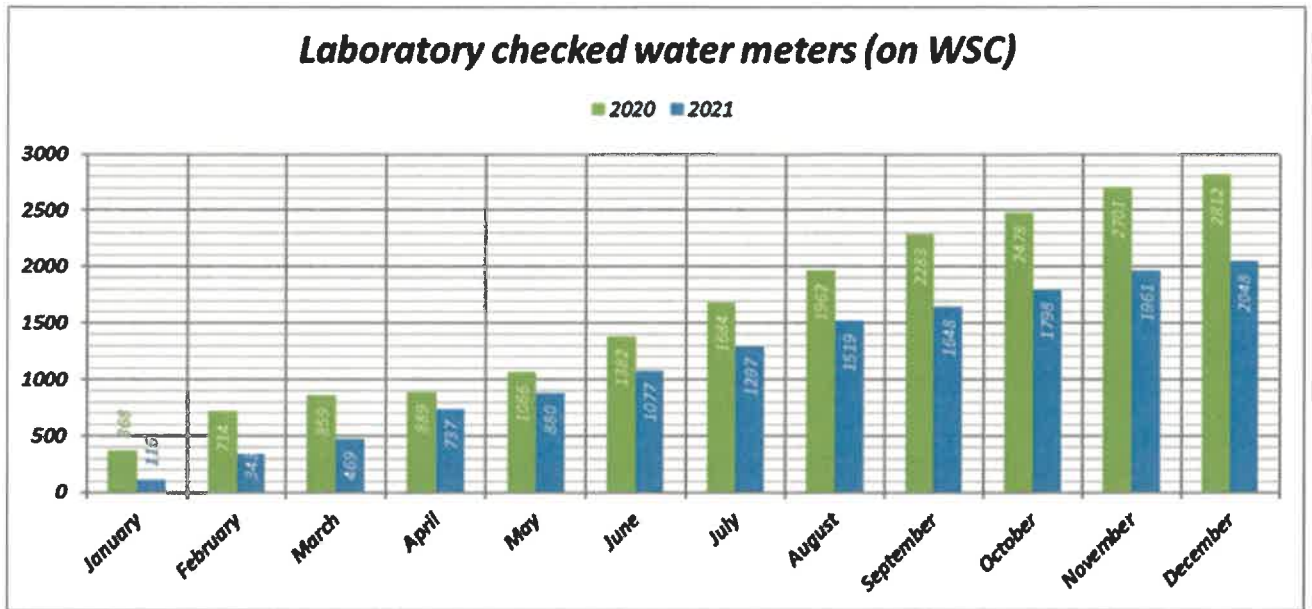
Over the period January – December 2021, another 32,991 customers registered to receive an e-invoice, and their total number at the end of the year reached 190,358.

Water Meter Services, Billing and Debt Collection

Replacement of water meters on water service connections

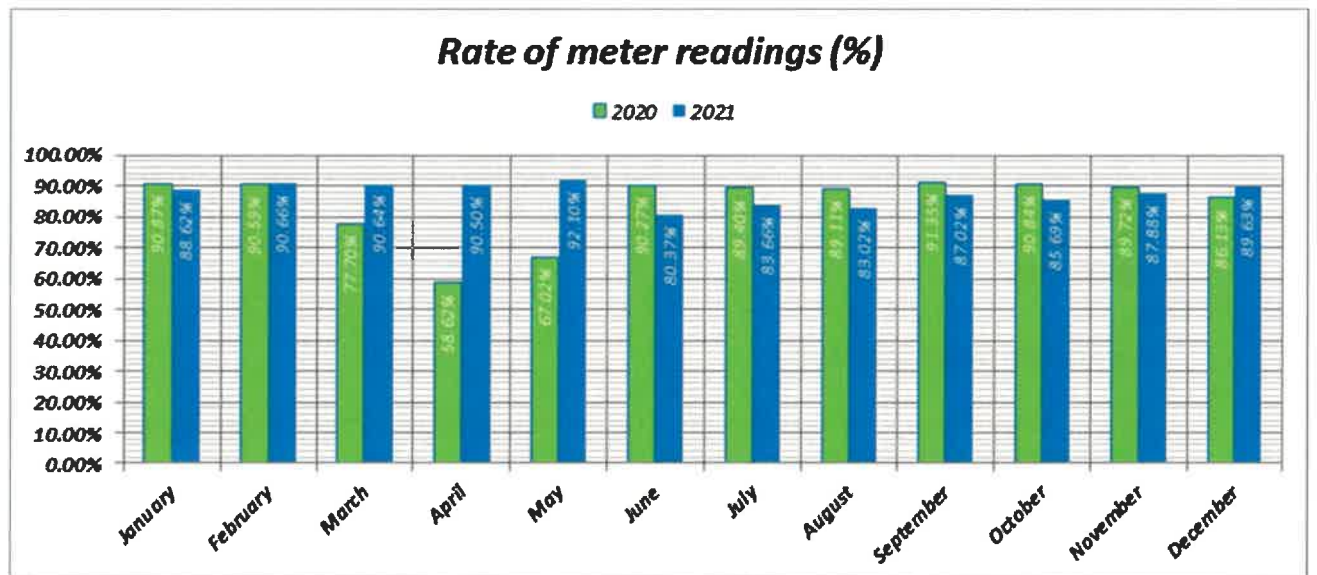


In 2021, the water meters on water service connections, set in metrological validity, are 18,273, which is by 7.28% less compared to 2020. That is due to the smaller number of water meters with expiring or expired metrological validity in 2021. Regardless of the smaller number of water meters set in metrological validity in 2021, they are 91.67% compared to 90.07% in 2020, or an increase of 1.60%.



In 2021, the water meters checked in authorized laboratories for water meters were 2,048, which is an over 27% decrease compared to the levels in 2020. The reduction is due to the completion of the project for testing water meters on a sample basis.

Water Meter Reading



The success rate in the meter reading activity for 2021 is 87.81% as compared to 84.30% in 2020. Despite the registered increase, the main difficulty for meter reading is the pandemic situation and the limited social contacts.

Since the beginning of June 2021, after a conducted public procurement procedure for the selection of a contractor, a new 3-year contract was concluded for water meter reading with OV 2021 DZZD. For that reason, as a result of the transfer of the activity between the contractors and the resulting organizational difficulties, a decrease was registered in the meter reading success rate over that period.

Billing

A 0.72 % decrease in the billed potable water volumes was registered in 2021 on an annual basis compared to 2020 (76.35 M m³ in 2021 and 76.91 M m³ in 2020), which is due to the decrease in the consumption of the household customers as a result of the coronavirus pandemic in the country.

By decision of EWRC, as of 1 January 2021 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 6.1% and the total amount of the billed volumes in 2021 was 225.41 M BGN, VAT included, which is 11.20 M BGN more (+5.2%) compared to 2020.

Collection of Receivables

In 2021, 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 221.50 M in comparison with BGN 204.45 M in 2020, or the registered increase is 8.3% on an annual basis. The annual collection coefficient for 2021 was 98.27% compared to 95.45% in 2020, as the main problems in the collection of receivables were connected mostly to the consequences of the COVID-19 pandemic and the political instability – a large number of businesses suspended their activities and the solvency of the households was affected considerably. The delay or lack of payments from the budget and institutional customers also had a negative impact.

During the reviewed period an increase was registered in the result and the activities of the internal debt collection teams, as the total amount collected by them was 25.41 M BGN in comparison with 23.57 M BGN in 2020, or a registered annual growth of 7.8%.

In its constant attempt to improve the quality of the provided services and customer satisfaction, the Group continued expanding the offered payment channels and as of June 2021 it added new digital services – a new website, mobile application with various functionalities, incl. inbuilt virtual POS terminal, where customers can pay cash-free, quickly and easily their debts for the consumed WSS services. The company also continued applying the policy aimed at the customers with temporary financial difficulties by offering them flexible and individually structured deferred payment agreements.

BUSINESS DEVELOPMENT

In the period January - December 2021, the revenue resulting from the activity of the Business Development Directorate amounted to BGN 2,267,829.

Public and industrial customers

In April 2021, organizational and structural changes aiming at optimization of the processes in the company became effective. The main activity of the new Business Development Directorate covers the overall process on deployment and development of services and markets.

Over the period April – December 2021, contracts were concluded with a value of BGN 913,069 under projects for industrial and public customers as well as for laboratory services.

Complex services and 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.

Over the period January - December 2021, the revenue from the service Installing and Testing Individual Water Meters amounted to 1,067,778 BGN, and in the same period of 2020 the revenue was 1,098,887 BGN.

Over the period January - December 2021, the revenue from the service Water Meter Sealing amounted to 169,982 BGN, and in the same period of 2020 the revenue was 187,692 BGN.

The realized revenue from contractors in 2021 amounts to 112,000 BGN, and in the same period of 2020 it amounted to 96,424 BGN. During the reviewed period, the concluded contracts for advertising activity amount to 5,000 BGN, and in the same period of 2020 there were no realized revenues from advertising activity.

Over the period January - December 2021, 897 remotely-read water meters were installed both on entire buildings or condominiums for new and old buildings, as well as for individual customers in a total amount of BGN 273,997. Over the same period of 2020, 582 remotely-read water meters were installed in a total amount of BGN 165,781 were installed, or the revenue in 2021 is 65% higher.

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, 2021, was 136,456,186 m³.

The data obtained from the monitoring throughout the year shows that the water volumes used for water supply decreased in comparison with 2020. The decrease was mainly due to the efforts of the company 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 2021 compared to the same period of 2020 decreased by 10,395,327 m³.

Consumption Trends

In 2021, the Group's total quantities billed decrease by -3.78% compared to 2020, or 3.584 million m³ less, as the main cause is the lack of transited water volumes to WS Pernik as opposed to 2020. In 2021, barely 27 thousand m³ were billed to WS Pernik, which constitutes an adjustment invoice for consumption in 2020.

For the potable water, the registered decrease was by -0.72% or -556,440 thousand m³ less compared to 2020.

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

Water	2020, m ³	2021, m ³	Annual variation (m ³)	Annual variation (%)
Households	61 274 951	60 592 261	-682 690	-1.11%
Budget Customers	3 597 287	3 589 960	-7 327	-0.20%
Commercial Customers	12 037 729	12 171 307	133 577	1.11%
<i>Non-potable water</i>	5 343 265	6 095 438	752 173	14.08%
<i>Raw Water (WS Beli Iskar and WS Bozhurishte)</i>	9 896 385	8 851 600	-1 044 785	-10.56%
<i>Transit water (WS Pernik)</i>	2 761 655	26 944	-2 734 711	-99.02%
Total potable water WS Sofia	76 909 968	76 353 528	-556 440	-0.72%
Total billed water for all water supply systems	94 911 273	91 327 510	-3 583 763	-3.78%

The greatest reduction is observed for the household customers, respectively by -1.11% (-683 thousand m³) on an annual basis, mainly due to the Covid-19 crisis. During the past second year under the conditions of a pandemic, employers continued encouraging teleworking which in combination with the remote learning of school and university students and the closed kindergartens led to internal migration of a part of the population from the capital to other residential places and villa areas.

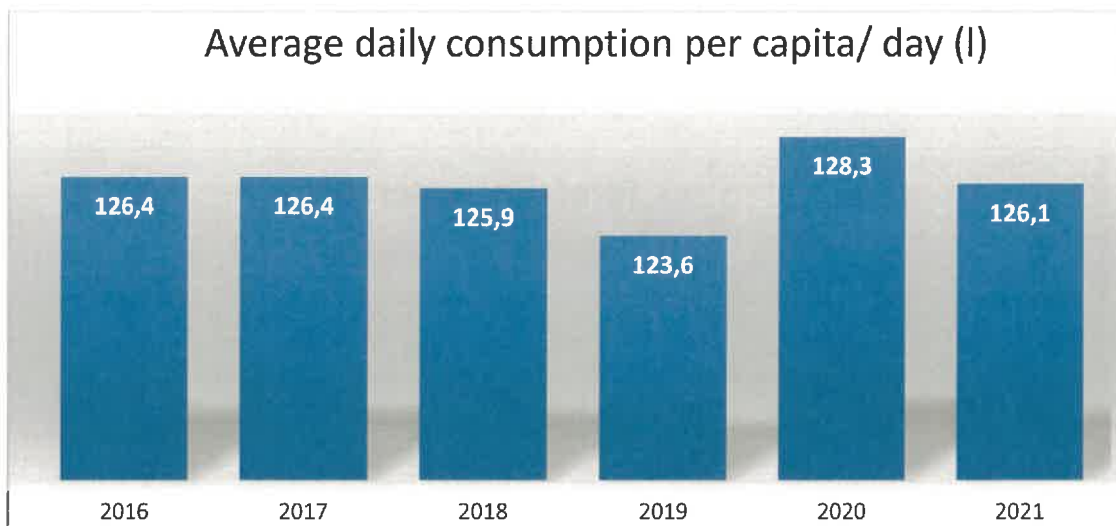
A reduction was registered for raw water, which is due to the decreased billed volumes for Samokov (-968 thousand m³), and for WS Bozhurishte (-76 thousand m³) vs. 2020. The volumes of raw water supplied from the two water systems (WS Beli Iskar and WS Bozhurishte) to the only customer of the Group – the state-owned Vodostabdyavane i Kanalizatsia EOOD, depend on the available reserves of its own bored wells.

In 2021, the volumes of industrial water registered an increase compared to 2020 by +14.08% (+752 thousand m³), as the main customer is Toplofikatsia Sofia EAD.

Consumption of households – analysis of the current trends

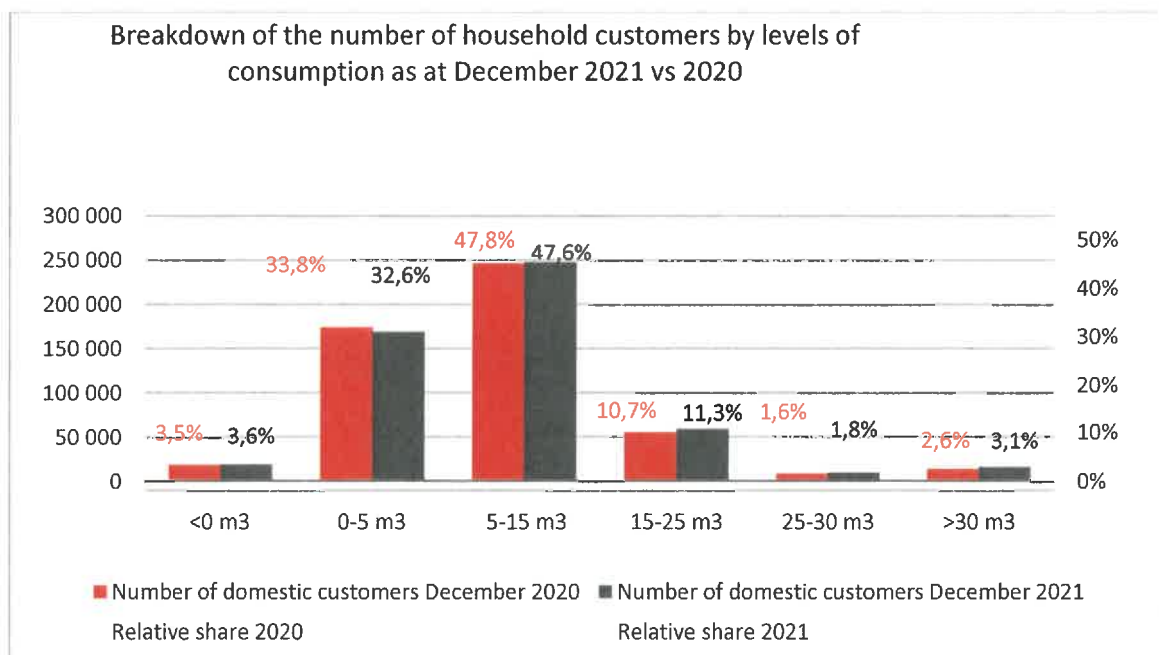
In 2021, the billed volumes of potable water for the households had the highest share of 79% in the total billed consumption as compared to 2020 (80%). The total billed volumes for the households were by -683 thousand m³ less compared to 2020, which was mainly due to crisis resulting from the COVID-19 pandemic.

The chart below represents the trend in the billed consumption for a 24-hour period per capita in Sofia with a distinct downward trend in water consumption except for 2020 and 2021 due to the remote work and learning.



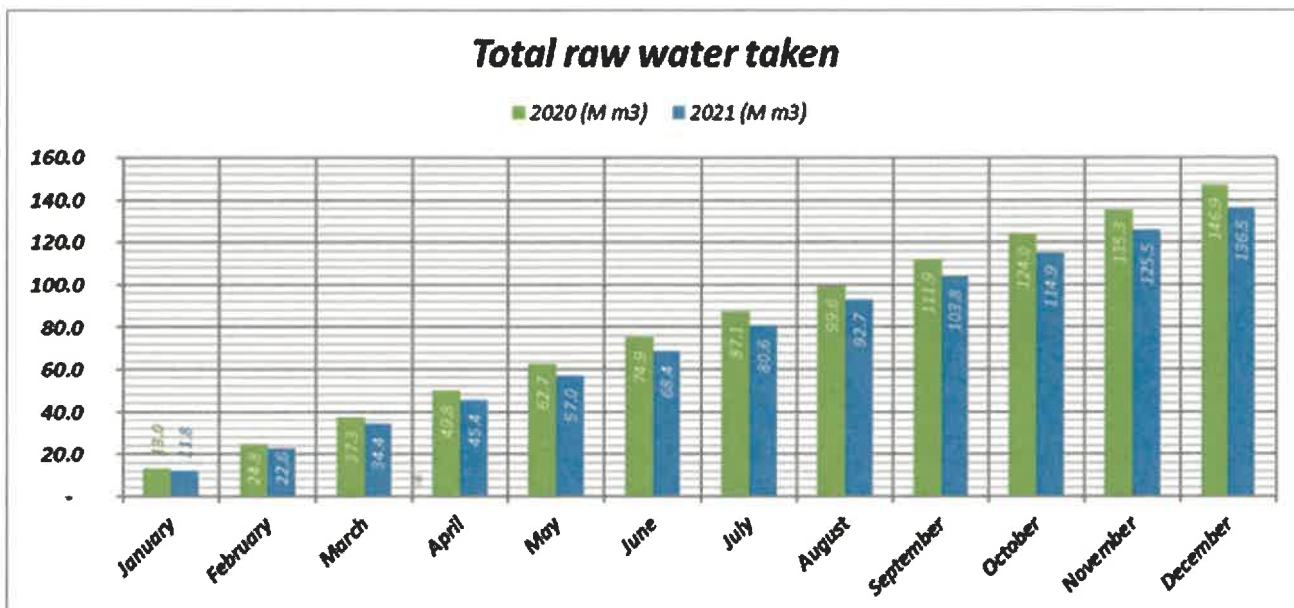
The average daily consumption is calculated as a ratio between the billed annual volumes for households and the number of the population of Sofia city (forecast for 2021 of the National Statistical Institute), divided by 365 days.

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 household customers, whose water consumption is measured according to the following monthly consumption: 0-5 m³, 5-15 m³, 15-25 m³, 25-30 m³, exceeding 30 m³/month. In 2021, the highest was the share of the customers with average monthly consumption 5-15 m³ (47.6%) and those with 0-5 m³ (32.6%). The downward 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:

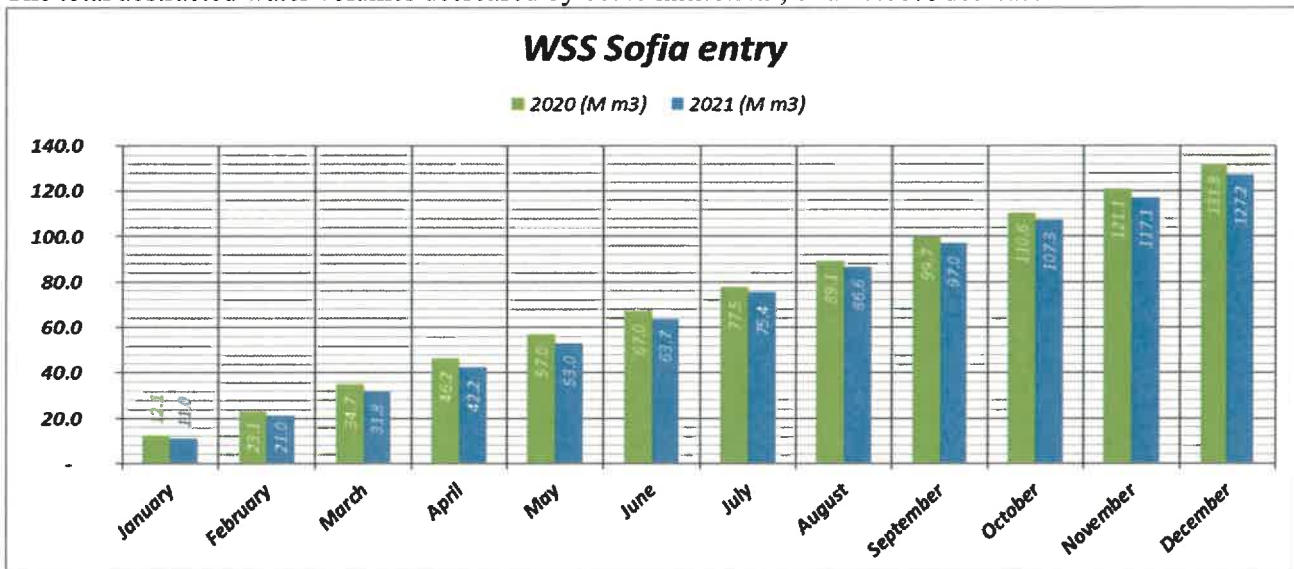


Reduction of unaccounted-for water

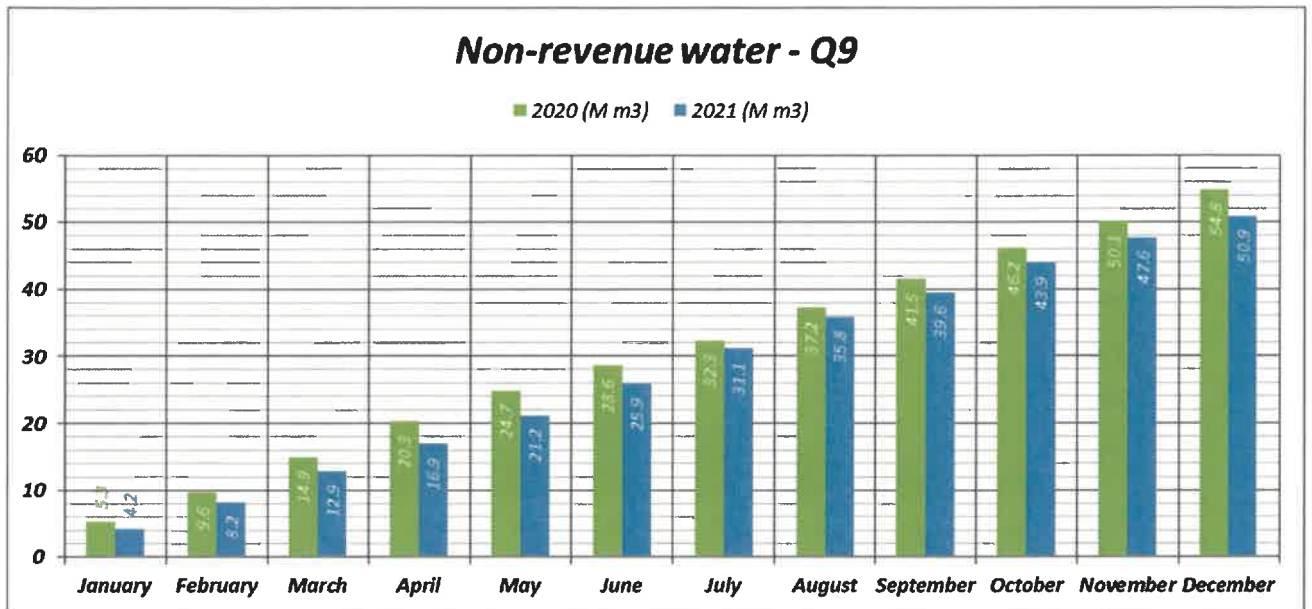
Over the period January – December 2021 the following results were achieved:



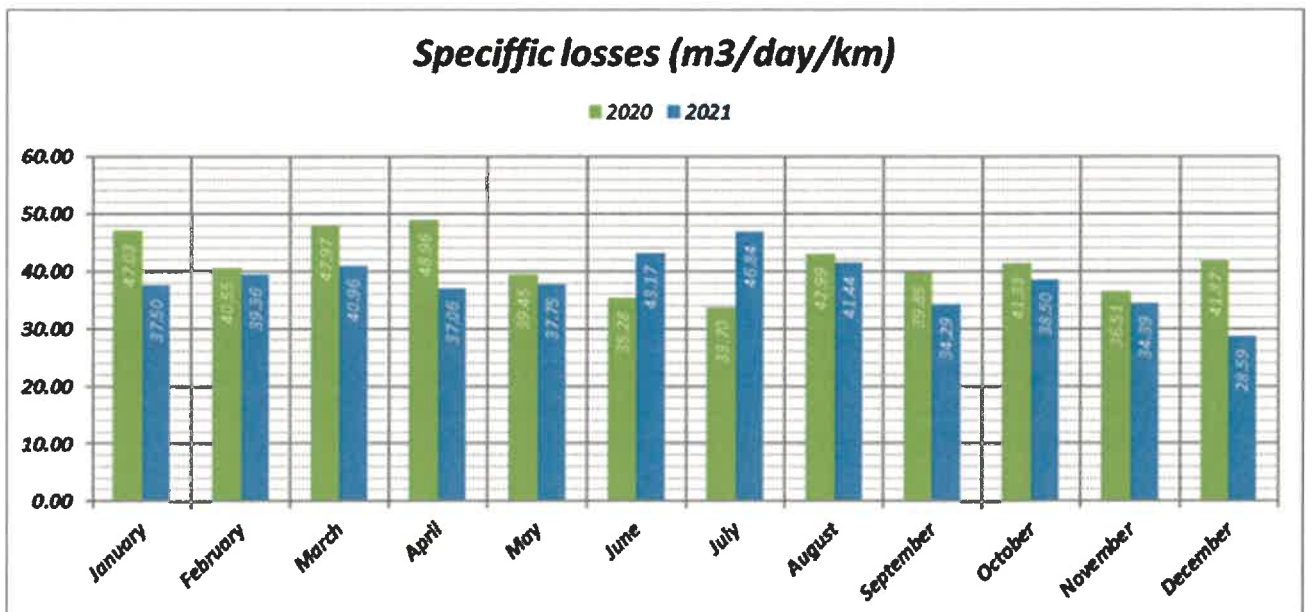
The total abstracted water volumes decreased by 10.40 million m³, or an 7.08% decrease.



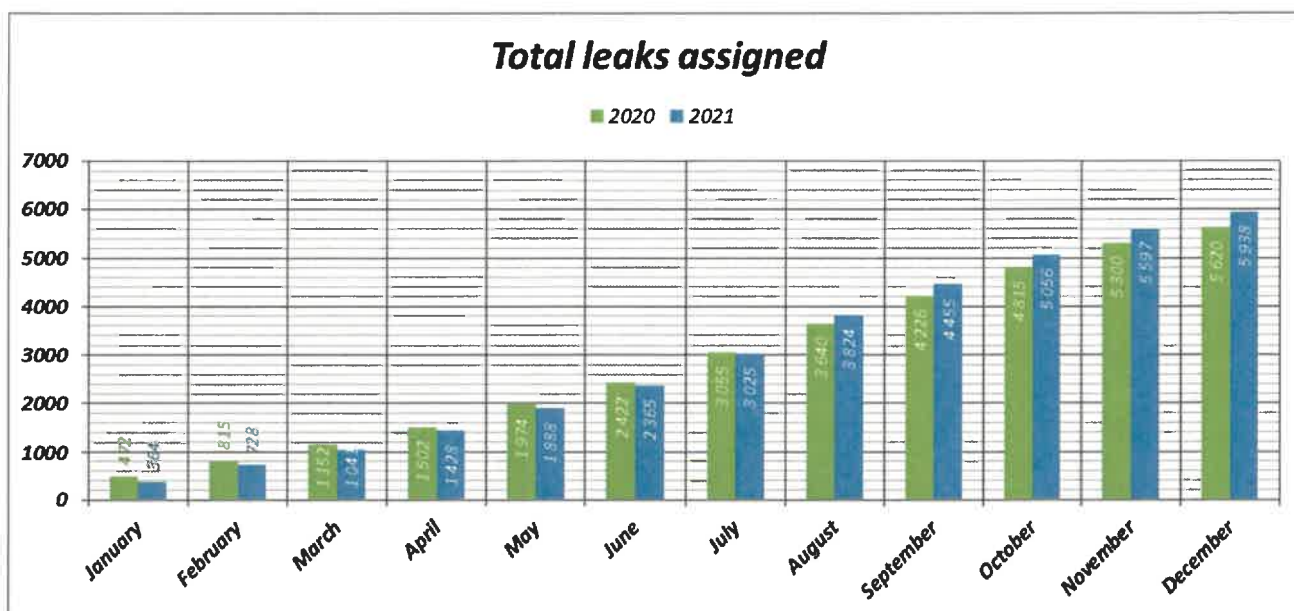
Reduction of the water supplied at the entry of WS Sofia by more than 4.5 million m³ or a decrease by 3.44% in comparison with the same period of 2020.



Non-revenue water (Q9) marks a decrease by nearly 4 million m³ or a decrease by 7.25% in comparison with 2020.



The level of the specific losses is marked by a decrease – 2.97 m³/day/km of network on average, or by 7.20%.



In 2021 the total number of the assigned jobs for fixing leaks on the water network (street water mains, water service connections, fittings, water meter nodes, etc.) increased by 5.66% or by 318 leaks compared to 2020.

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, organoleptic and radiological indicators are monitored for the large and small water supply zones separately.

According to the requirements of the *Ordinance on the Regulation of the Quality of Water Supply and Sewerage Services* dated 18.01.2016, the fulfilment 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 2021 was as follows:

- KPI2a – compliance rate for large water supply zones - 99.92%, which exceeds the statutory requirements of 99% for the long-term levels of the KPIs;
- KPI2b - compliance rate for small water supply zones - 98.27%, 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 2021, 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 analysing the microbiological, hydro biological, physical and chemical, organoleptic 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, validity of the results from the analysis 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 2021, in the Potable Water Unit of LTC, a total of 9,028 samples were received, to which 168,443 analyses were made, and in the Wastewater Unit – 9,396 samples and 81,499 analyses, respectively. For comparison, in 2020 in the Potable Water Unit of LTC, a total of 8,101 samples were received, to which 152,077 analyses were made, and in the Wastewater Unit – 9,234 samples and 77,968 analyses. The analyses conducted by LTC in 2021 were by 9% more compared to 2020, and the samples taken were by 6% more vs. 2020.

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 monitored sites.

In 2021, 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 2021, LTC participated in proficiency tests for a total of 59 analyses, from which the successful results were 57 and the unsuccessful – 2. The success rate of LTC from all participations until now is 97%. 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 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.

- The activity of LTC was observed and assessed on site on 20 and 21 April 2021 in relation to the second scheduled audit of the Bulgarian Accreditation Service, combined with an assessment for extending the accreditation under BDS EN ISO/IEC 17025:2018 with new methods and characteristics. The assessment is a follow-up of the remote assessment made in December 2020. The overall result is one insignificant non-conformity related to the methods for extending the accreditation, which LTC removed in a timely manner. As a result, LTC obtained the accreditation certificate No.50 ЛН/27.08.2021 valid until 12.03.2022. The purpose of the extension is on the one hand, to meet the legal requirements, and on the other hand, to enhance the competitiveness. It includes the following new services:
 - Sampling and analyses of water from swimming pools – for physico-chemical and microbiological indicators;
 - Analyses of soils and biological waste – for physico-chemical and microbiological indicators;
 - New volatile organic compounds in potable water like vinyl chloride and epichlorohydrin;
 - Organophosphorus and organonitrogen pesticides in potable waters
 - Chlorates and chlorites required under the new Drinking Water Directive from Dec. 2020;
 - Sampling and analyses of aluminum-based coagulants in order to control the quality of these products when used in drinking water;
 - Sampling from potable water provided with tanks or means other than distribution pipes.

The next procedure was launched on 01.09.2021 – for reaccreditation and extension of the scope with other new methods. An assessment is to be made by the Bulgarian Accreditation Service Executive Agency.

Water Network Management

The focus of the Group in 2021, like in 2020, 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 Company 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 new modules for management of the work of the teams from Proactive Water Network Operations and Leak Detection;
- The total number of customers who requested the SMS notification service for planned water supply interruptions was 42,982, and in the period January - December 2021 a total of 92,493 messages were sent;
- Over the period January - December 2021, 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 79% on average.

Sewerage

In 2021, the implementation of the program for proactive maintenance of the sewerage network continued, as a result of which more than 110 km of the network within the Concession Area were proactively cleaned, which is 6 km more as compared to 2020. 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 2021, the sewer network surveyed and recorded with all cameras of the Group was 87 km, which is 8 km less in comparison with 2022. 22 km of them were surveyed and coded with a robotized camera. The drop in the surveyed km is due to the decreased number of employees in the team conducting CCTV sewer surveys, as the team operated with all of its employees in October.

In addition, on foot were inspected also 8 km of sewers over Φ 1500 mm compared to 22 km in 2020. The reason for the reported drop is also the reduced teams, which does not allow for the fulfilment of the set standard tasks in full, including also due to the requirement for a minimum number of participants in the implementation of the activity in view of guaranteeing their safety.

In 2021, there is a slight regress in the positive trend over the last years towards reduction in the number of emergency signals with reasons – sewer clogging, clogging of sewer service connections or structural damage of sewers. The Group strives through proper planning of the proactive works along the sewer network to continue reducing the inconvenience to our customers.

	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	839	1732	126.67
2019	80	926	546	1750	88.69
2020	58	937	495	1755	84.90

2021	49	904	588	1768	87.16
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Since 2020 there has been a change in the methodology for calculation of the variable structural destruction of
 * the sewer network

In 2021, after some delay, continued also the implementation of the “Digital Water City” project 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 video recording during the actual cleaning, and the installation of temperature sensors for monitoring the condition of the overflows by overflowing/not overflowing status.

In the direction of CCTV survey, 3 km were cleaned and surveyed, as the lagging behind is due to the limited number of employees on the CCTV survey team.

In the direction of monitoring overflows, 4 on-line sensors were installed on overflow facilities, as the lagging behind is due to the delay in the supply of the equipment by our partners; consequently, also flaws were established in the connections of the sensors, which we fixed with own resources. Implementation of the delayed actions is expected in 2022.

Wastewater Treatment

In the period **January – December 2021**, Sofia Wastewater Treatment Plant (WWTP) treated a total of **125.9 million m³** of wastewater from the sewer network of the 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 analysed - biological oxygen demand (BOD₅), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all other indicators specified in the discharge permit for treated wastewater at the outlet of WWTP.

In 2021 the fixed statutory number of samples was taken for the above quality indicators of the treated wastewater.

The values of the quality indicators of the samples were 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 until 11.08.2030.

Over the year there was an upward trend of the inflowing volume of wastewater while keeping the level of concentration of carbon pollution from the previous three years. The level of nitrogen and phosphorus loads was kept, as well.

Sludge Stabilization and Utilization

The sludge generated through wastewater treatment is stabilized in five anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a “sludge cake” with dry matter content of around 18.41%.

Over the period, 16,106 tons of absolute dry matter sludge from the treatment processes were stabilized and mechanically dewatered, and 16,977 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 over the waste generated at Kubratovo WWTP, including the dewatered sludge, is exercised in accordance with the requirements of the Waste Management Act, and the volumes of waste and sludge are entered in the public register - National Waste Information System to Executive Environment Agency. Sofiyska Voda monitors and submits the required reports to the Ministry of Environment and Water.

INVESTMENTS JANUARY – DECEMBER 2021

According to the approved Business Plan 2017-2021, the investment program (IP) of Sofiyska Voda AD for 2021 is at the total value of BGN 35.24 million. At the beginning of 2021, the Group updated the annual IP, so as to ensure funding for the completion of projects from 2020 and new projects of high priority, as well as to realize the additional investments according to the signed in 2018 Third Amendment Agreement to the Concession Agreement. The planned investments have the following structure.

2021	Investment Program under Business Plan (BGN)	Updated Investment Program (BGN)
Investments in regulated services	32 981 833	36 738 026
Investments in non-regulated business	1 196 011	210 296
Additional investments	1 060 000	1 938 216
Total:	35 237 844	38 886 538

The realized total investments were in the amount of BGN 40.23 M. BGN 38.25 M of them was in regulated services, which is 116% of the envisaged in Business Plan 2017-2021. The realization of the total investment is 113% compared to the Business plan and 103% compared to the Updated Investment Program.

QUALITY MANAGEMENT

In May Sofiyska Voda AD passed successfully an external audit of the Anti-Bribery Management System which confirmed the certification of the System under the standard BDS ISO 37001:2016, part of the Integrated Management System of the Group.

In November the rest of the systems from Integrated Management System of Sofiyska Voda passed successfully the external audit, which 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.

During the two audits non-conformities were not ascertained for any of the four management systems.

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 2021, the maintenance of the system continued by updating the environmental aspects and conducting regular internal inspections in accordance with the approved annual schedule.

In 2021, Sofiyiska 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 2021, the reported cases were as follows: 3 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, 7 cases of emergency opening of flood gates due to intensive rainfalls at the inlet of Kubratovo WWTP. The relevant measures to address those incidents were taken in a timely manner and they did not have considerable environmental impact.

Program for the fulfilment 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. In 2021, special attention was paid to the objectives related to preservation of biodiversity at the sites of the Group, the respective audits were conducted and the respective practices were introduced. The implementation of the objectives for 2021 was satisfactory and led to improved environmental impact.

Trainings and initiatives

7 trainings of the employees were held in 2021 in accordance with the annual environmental training program. Furthermore, different internal and external initiatives were conducted related to environmental preservation – Biodiversity Day on May 22 was marked with a publication in 24 Chasa Newspaper; Bird Day was also marked with the initiation of a project for the elaboration of bird houses and feeders; World Environment Day on June 5 was marked by placing bird houses and feeders, as well as insect hotels on the territories of Mala Tsarkva PWTP and Kubratovo WWTP. In April, educational panels were built for raising the awareness of biodiversity at Bistritsa PWTP and Pancharevo PWTP. In May, 140 kg of caps were handed over in the Caps for the Future Campaign. During the same month the final report was adopted under a project with topic “Possibilities for utilization of sludge obtained in wastewater treatment and the effect for a sustainable agriculture”; in November, the European Week for Waste Reduction was marked with various initiatives.

Waste Management

The Group strictly complies with the Bulgarian waste management legislation. In 2021, the following waste was delivered for disposal, utilization or recycling:

- 12.162 tons of hazardous waste;
- 47,615.861 tons of non-hazardous waste, which include dug out soil and do not include sludge from SWWTP for utilization on agricultural areas;
- 16,977.285 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

Green energy production

The generated green energy in the period January – December 2021 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 23,654 MWh. The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2021, the green energy produced in the treatment plant covered more than 115.59 % the electricity needs of the treatment plant.

HEALTH AND SAFETY AT WORK

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

Occupational Health and Safety Management System (OHSMS)

In 2021, the certification of the Occupational Health and Safety Management System of Sofiyska Voda AD 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 were assessed and managed systemically.

Trainings and exchange of information

In 2021, there were 13,052 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 1,179. The number of participations in occupational health and safety trainings was 4,041 (there were employees, who took part in more than 1 training).

In 2021, the health and safety risks were assessed and managed systematically. There is a regular assessment and management of the risks related to the activities of the different workstations and positions. In September, 2021, the corporate H&S week was conducted, focused on the topic “Slips, Trips and Falls Life-Size Risk Spotting”.

The potential contractors were assessed for H&S competence and performance. The contractors were audited for H&S. Information and good practices in terms of H&S were exchanged. Regular meetings were held with the contractors in connection with the implementation of the H&S requirements on the Group sites, where civil works were performed.

Accidents, incidents and near-misses

There were 3 occupational accidents in 2021 (as per art. 55, par. 1 – at work), 0 incidents (without loss of working capacity), 9 near-misses (undesired events without personal injury) and 139 registered damages to company vehicles. All accidents, incidents and near-misses are reported and analysed 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 2021, the salaries of the employees were increased by 1.7%, which is the official average annual inflation for 2020 as per the data of the National Statistical Institute.

In March 2021, 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 fulfilment of the company's business objectives agreed in the previous year.

As of 1 April, the salaries of the employees were increased by 2.98% 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.

In 2021, a new 2-year Collective Labor Agreement was signed, as since 01.01.2022, the size of the vouchers for food and social benefits has been increased by BGN 1.

Training, Motivation and Development

Trainings

A total of 1,182 employees participated in trainings in 2021, and the number of the participations was 10,809.

The training hours were 29,586, from which nearly 20,000 hours – in the form of an online training. There were 6,160 participations and 15,517 training hours in professional trainings held.

The company strictly complies with the requirements for gaining certificates of competence and updating the knowledge in health and safety at work, necessary for carrying out high-risk activities. There were 4,648 participations and 14,069 training hours in mandatory H&S trainings held in 2021.

A pilot mentoring program was implemented in 2021 in the Commercial Directorate. 24 employees from all the departments of the directorate were trained as mentors, as each department has an approved induction program for the new employees.

135 employees from the Technical Directorate participated in a project for team performance improvement.

Also, the register of internal H&S trainers was updated in 2021. 21 lecturers were identified in the company who are able to give instructions under 9 topics from the program. Thus, the process of conducting mandatory trainings for the employees, including the new ones, will be much more flexible and accessible.

Summer Internship Program

In 2021, for the nineteenth time in Sofiyska Voda AD internship program "Challenge the Future" was organized. 15 young specialists and students from different majors joined the program.

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

The joint project initiated in 2020 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, specialty "WSS Construction" continued in 2021. At the end of the training cycle, in July, visits were organized to our plants Bistritsa PWTP and Kubratovo WWTP

where the students had the opportunity to get acquainted with the facilities and the processes of water treatment live.

Educational cooperation with Private Secondary School “Tsar Simeon the Great”

In October, 2021, a framework agreement was signed with the Private Secondary School “Tsar Simeon the Great” for free of charge educational practice of students from the 10th and 11th grades with profile Natural Sciences. The cooperation agreement aims at increasing the efficiency of the educational process, achievement of quality education and higher level of preparation and career orientation for the future specialists. The following is planned during the practical trainings that will be conducted in 2022: familiarizations with the work standards and processes performed on the territory of the LTC of Sofiyska Voda AD.

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, considering 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.

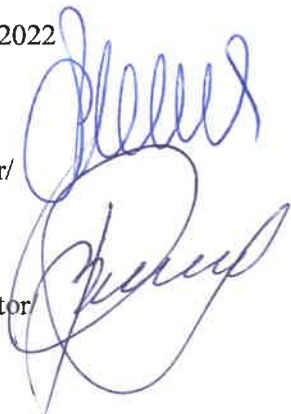
The management confirms that it has acted in accordance with its responsibilities and that the financial statements have been prepared in full compliance with the International Financial Reporting Standards applicable in the European Union.

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 2021.

Sofia, 28 March 2022

Aneliya Ilieva
/Finance Director/

Vasil Trenev
/Executive Director/



Consolidated statement of financial position

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2021	31 December 2020
Assets			
Property, plant and equipment	12	19,232	20,779
Intangible assets	13	243,992	268,243
Deferred tax assets	19	10,351	9,763
Trade and other receivables	15	1,926	1,610
Total non-current assets		275,501	300,395
Inventories	14	4,154	3,359
Trade and other receivables	15	32,417	33,489
Contract assets	4	12,154	11,309
Related party receivables	26,15	132	107
Income tax receivables		323	2
Cash and cash equivalents	16,22	78,323	69,273
Total current assets		127,503	117,539
Total assets		403,004	417,934
Equity			
Share capital	17	8,884	8,884
Reserves	17	10,774	10,774
Retained earnings		314,240	309,047
Total equity		333,898	328,705

Consolidated statement of financial position (continued)

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2021	31 December 2020
Liabilities			
Loans and borrowings	18,22	-	7,472
Lease liabilities	27,22	1,575	2,781
Employee benefits	23	1,880	1,712
Trade and other payables	20,26	5,927	6,864
Total non-current liabilities		9,382	18,829
Loans and borrowings	18,22	-	14,892
Lease liabilities	27,22	1,618	1,834
Contract liabilities	4	7,908	7,022
Income tax liabilities		-	1,784
Payables to related parties	22,26	3,075	3,186
Trade and other payables	20	42,999	37,902
Provisions	21	3,571	3,163
Employee benefits	23	553	617
Current liabilities		59,724	70,400
Total liabilities		69,106	89,229
Total equity and liabilities		403,004	417,934

The notes on pages 11 to 74 are an integral part of these consolidated financial statements.

Vasil Trenev
Executive Director



Anelia Ilieva
Finance Director

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

Dobrina Kaloyanova
Authorized representative



Ivan Andonov
Registered auditor,
responsible for the audit

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

For the year ended 31 December

In thousands of BGN

Note

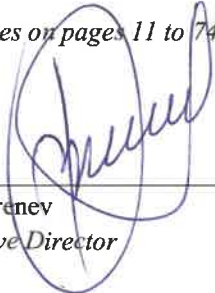
2021

2020

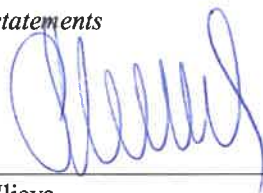
Other comprehensive income*Items that will not be reclassified in profit or loss:*

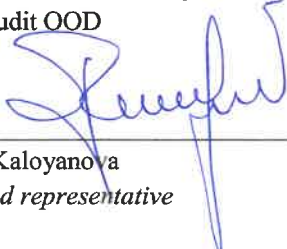
Remeasurement of defined benefit liability	23	(44)	(81)
		(44)	(81)
Other comprehensive income for the period, net of tax		(44)	(81)
Total comprehensive income for the period		39,388	34,454

The notes on pages 11 to 74 are an integral part of these consolidated financial statements




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Executive Director



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

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Revenue	4	194,289	183,444
Construction revenue		16,889	20,210
Other income	5	872	1,236
		<u>212,050</u>	<u>204,890</u>
Expenses for materials	6	(15,432)	(13,499)
Expenses for hired services	7	(40,221)	(41,487)
Depreciation and amortization	12,13	(66,258)	(56,956)
Employee benefit expenses	8	(29,986)	(29,327)
Social security contributions and other social expenses	8	(7,295)	(7,543)
Impairment loss on trade receivables and contract assets	22	(3,000)	(10,218)
Other operating expenses	9	(5,132)	(5,996)
Operating profit		<u>44,726</u>	<u>39,864</u>
Finance income	10	2	4
Finance costs	10	(876)	(998)
Net finance costs		<u>(874)</u>	<u>(994)</u>
Profit before taxes		43,852	38,870
Income tax expenses	11	(4,420)	(4,335)
Profit for the period		<u>39,432</u>	<u>34,535</u>

Consolidated statement of changes in equity

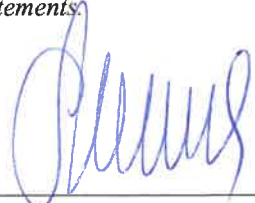
In thousands of BGN

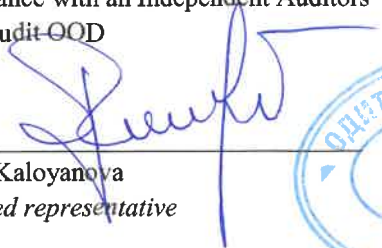
	Note	Share capital	Legal reserve	Retained earnings	Total equity
Restated balance at 1 January 2020		8,884	10,774	274,593	294,251
Total comprehensive income for the period					
Profit for the period		-	-	34,535	34,535
Other comprehensive income, net of taxes		-	-	(81)	(81)
Total comprehensive income for the period		-	-	34,454	34,454
Balance at 31 December 2020	17	8,884	10,774	309,047	328,705
Balance at 1 January 2021		8,884	10,774	309,047	328,705
Total comprehensive income for the period					
Profit for the period		-	-	39,432	39,432
Other comprehensive income, net of taxes		-	-	(44)	(44)
Total comprehensive income for the period		-	-	39,388	39,388
Transactions with shareholders					
Installments to shareholders					
Dividends	17	-	-	(34,195)	(34,195)
Total installments to shareholders		-	-	(34,195)	(34,195)
Balance at 31 December 2021	17	8,884	10,774	314,240	333,898

The notes on pages 11 to 74 are an integral part of these consolidated financial statements.

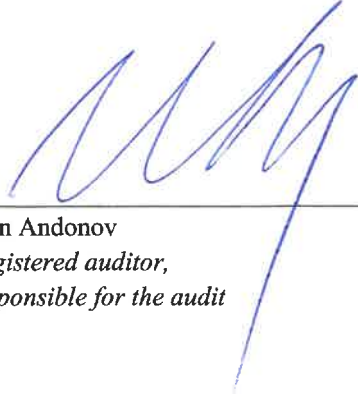


Vasil Trenev
Executive Director



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


Dobrina Kaloyanova
Authorized representative



Ivan Andonov
Registered auditor,
responsible for the audit

Consolidated statement of cash flows

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Cash flow from operating activity			
Net profit for the period		39,432	34,535
Adjustments for:			
Depreciation of property, plant and equipment	12	6,332	6,336
Amortisation of intangible assets	13	59,926	50,620
Impairment loss on trade receivables and contract assets	22	3,000	10,218
Write-down of inventories to net realizable value/ (realization)	9	102	462
Scrapping materials	9	10	28
Expenses for scrapping fixed assets	9	28	15
Net finance costs	10	874	994
Gain on sale of property, plant and equipment		(11)	-
Tax expense	11	4,420	4,335
		<u>114,113</u>	<u>107,543</u>
Changes in:			
- employee benefits		38	(79)
- provisions		408	591
- inventories		(906)	(1,496)
- trade and other receivables		(2,268)	(15,867)
- trade and other payables		(41)	(3,369)
- contract assets	4	(845)	(782)
- contract liabilities	4	886	1,506
Cash flow from operating activity		<u>111,385</u>	<u>88,047</u>
Income tax paid		(5,390)	(3,856)
Net cash flow from operating activity		<u>105,995</u>	<u>84,191</u>
Cash flows from investing activity			
Income from sale of property, plant and equipment		34	-
Acquisition of property, plant and equipment		(4,451)	(2,096)
Acquisition of intangible assets		(34,017)	(36,945)
Net cash flow used in investing activity		<u>(38,434)</u>	<u>(39,041)</u>

Consolidated statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN


	Note	2021	2020
Cash flow from financing activity			
Loans paid	18	(22,458)	(22,391)
Payment of lease liabilities	27	(1,824)	(2,084)
Dividends paid	17	(34,195)	-
Interest paid	18	(34)	(507)
Other finance cost		-	-
Net cash flow used in financing activity		(58,511)	(24,982)
Net increase in cash and cash equivalents		9,050	20,168
Cash and cash equivalents at 1 January		69,273	49,105
Cash and cash equivalents at 31 December	16,22	78,323	69,273

The notes on pages 11 to 74 are an integral part of these consolidated financial statements.




Vasil Trenev
Executive Director



Anelia Ilieva
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Ivan Andonov
Registered auditor,
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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, 159 Tsar Boris III street, Business Center Tsar Boris. The Group is 77.1% owned by Veolia Voda (Sofia) BV and 22.9% owned by Vodospabdiavane and Kanalizatsia EAD. Във връзка с Договор за трансгранично вливане между Веолия Вода (София) БВ и Веолия Централ & Истърн Юроп, на 04.02.2022 г. в Книгата на акционерите на дружеството е вписано прехвърляне на притежаваните от Веолия Вода (София) БВ акции на Веолия Централ & Истърн Юроп.

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.

These are the Group's consolidated financial statements prepared by law by Sofiyska Voda AD as a parent Group where the investments in subsidiaries are presented at acquisition cost less impairment. Sofiyska Voda AD also prepares consolidated financial statements

The consolidated financial statements as of and for the year ended 31 December 2021 were approved for issuance by the Board of Directors on 28 March 2022.

(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.

2. Basis of preparation (continued)

(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 2020 in the volumes of supplied potable water for households (-1.12%) and budget customers (-0.20%) was compensated partially by the +1.11% increase in the water consumption of the commercial customers, and the decrease in total in the volumes of the supplied potable water vs 2020 is below 1%, it is -0.72%. Regarding the supplied raw water, the increase vs 2020 is 14.08% and regarding the volumes supplied to another WSS operator – in 2021 there is a decrease mainly due to the fact that water volumes were not supplied to the town of Permik;
- the revenues of the Company in value terms were supported by the legally set annual updates of the prices of the WSS services (valid as of 01 January 2021) in compliance with the approved Business plan 2017-2021 of the company, and the total revenues without the revenues from construction increase versus the previous year by 10.6 M BGN;
- in 2021 with the continuing coronavirus pandemic, the management of the company prolonged the additional measures for control over the operating costs within a recovery plan under specific operational projects and at the same time enhanced the ongoing control over cashflow management;
- regarding the investment program of the company, the investments in regulated services on an annual basis in nominal terms exceeded (by +15.7) those set for 2021 as per Business Plan 2017-2021;
- For further information about the crisis related to the war between Ukraine and Russia, see Note 28 Events after the balance sheet date.

(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.

2. Basis of preparation (continued)

(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.

(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 2021 but they do not have a material effect on the Group's consolidated financial statements.

(a) The Company/ Group has initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 January 2021.

The Group applied the Phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the Phase 2 amendments, the Group has elected not to restate comparatives for the prior periods to reflect the application of these amendments. Since the Group had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as at 31 December 2020, there is no impact on opening equity balances as a result of retrospective application.

Specific policies applicable from 1 January 2021 for interest rate benchmark reform

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, then the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform.

Finally, the Phase 2 amendments provide a series of temporary exceptions from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument that permits the hedging relationship to be continued without interruption. The Group applied the following reliefs as and when uncertainty arising from interest rate benchmark reform was no longer present with respect to the timing and amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument:

- the Group amended the designation of a hedging relationship to reflect changes that were required by the reform without discontinuing the hedging relationship; and
- when a hedged item in a cash flow hedge was amended to reflect the changes that were required by the reform, the amount accumulated in the cash flow hedge reserve was deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

The details of the accounting policies are disclosed in Note 43(p)(iii), (v) and (s)(i). See also Note 34(c)(iv) for related disclosures about risks, financial assets and financial liabilities indexed to LIBOR and hedge accounting.

(b) 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.

3. Significant accounting policies (continued)

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

(b) Financial Instruments

(i) *Recognition and initial measurement*

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.

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.

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

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 policies (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	2020	2021
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 policies (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 consolidated 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 policies (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 policies (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 consolidatedly. 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.

Therefore, an investor must possess all of the following elements to be deemed to control an investee.

3. Significant accounting policies (continued)

(g) Investments (continued)

- power over the investee
- 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 policies (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).

Taking into account the unemployment rate in 2021, the forecast levels for this indicator for 2022 are not expected to change by more than 3% compared to 2021.

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 policies (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 policies (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 policies (continued)

(o) 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.

(p) 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 policies (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 2021, and have not been applied in preparing these consolidated 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 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020, effective for annual periods beginning on or after 1 January 2022:

- the amendments to IFRS 3 Business Combinations update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- the amendments to IAS 16 Property, Plant and Equipment prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- the amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify which costs a company includes when assessing whether a contract will be loss-making.
- the Annual Improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

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

(b) Amendments to IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021)

The amendment is effective for annual periods beginning on or after 1 April 2021. The pronouncement amended IFRS 16 Leases to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. On issuance, the practical expedient was limited to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021.

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

(c) 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 consolidated financial statements of the Group because the Group does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(d) 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. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
- several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements;
- and the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted

In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

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

(e) 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 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The changes to IAS 8 focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The Group does not expect the amendment 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 consolidated financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

The following amendments and improvements to standards are not expected to have a material impact on the consolidated 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 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.*
- *Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021), 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.

<i>In thousands of BGN</i>	Note	2021	2020
Revenues from contracts with customers			
<i>Revenues related to water supply and sewerage</i>			
Revenue from water supply		123,652	118,813
Revenue from sewerage		37,043	34,258
Revenue from wastewater treatment		25,399	24,020
Interest income from overdue receivables		3,494	3,167
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget		(218)	(198)
Penalties for industrial discharges of water with excessive concentration of pollutants		720	488
		<u>190,090</u>	<u>180,548</u>
Revenues from non-regulated services			
Revenues from sale of services		<u>3,417</u>	<u>2,571</u>
Revenues from the sale of green energy			
Revenues from green energy		<u>782</u>	<u>325</u>
Total revenues from sales of services and green energy		<u>194,289</u>	<u>183,444</u>
<i>Revenues from construction services</i>			
Water supply		7,395	7,932
Potable water treatment		530	947
Sewerage		4,799	5,577
Wastewater treatment		613	1,817
Water service connections and water meters		3,552	3,937
		<u>16,889</u>	<u>20,210</u>
Total revenues from contracts with customers		<u>211,178</u>	<u>203,654</u>

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 2021, the Group transferred two instalments for a total amount of BGN 799 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 2021, set aside for servicing and repayment of the EIB loan, based on the price component included into the WSS services tariff, amounts to BGN 862 thousand (2020: BGN 853 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 2021 and 2020 (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	1 January
	2021	2021
Receivables, which are included in 'trade and other receivables'	33,200	33,407
Contract assets– unbilled receivables	12,154	11,309
Contract liabilities	<u>(7,908)</u>	<u>(7,022)</u>
Total	<u>37,446</u>	<u>37,694</u>

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 2021 the Group has contract liabilities at the amount of BGN 7,908 thousand (2020: BGN 7,022 thousand).

The amount of BGN 3,247 thousand recognized as contract assets at the beginning of the period was recognized as income during the period ending on 31 December 2021.

No information is provided on the remaining performance obligations as at 31 December 2021, 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 consolidated components – water supply, sewerage and wastewater treatment. The three components cannot be consolidated as consolidated 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 consolidated 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

<i>In thousands of BGN</i>	2021	2020
Penalties to contractors	112	121
Gain on sale of inventories to subcontractors for construction works	169	(8)
Gain on sale of Property, plant and equipment	11	-
Income from financing	142	175
Gain on sale of carbon emissions	200	453
Other	238	495
	<u>872</u>	<u>1,236</u>

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

	2021	2020
Revenue from sale of vehicles	34	-
NBV of sold vehicles	(23)	-
	<u>11</u>	<u>-</u>

6. Expenses for materials

<i>In thousands of BGN</i>	2021	2020
Electricity, water, heating	1,903	1,228
Sub-contractors	4,218	3,220
Fuels and lubricants	1,182	1,009
Water for technological needs	1,472	1,502
Chemicals	4,411	4,007
Plumbing materials	638	646
Other	1,608	1,887
	<u>15,432</u>	<u>13,499</u>

7. Expenses for hired services

<i>In thousands of BGN</i>	2021	2020
Construction services provided by sub-contractors	7,806	11,720
Repairs and maintenance of concession infrastructure	6,181	5,103
Insurance	1,285	1,263
Commission for collection of trade receivables	1,723	1,597
Rent	8	142
Security	10,545	9,353
Other expenses for hired services	12,673	12,309
	<u>40,221</u>	<u>41,487</u>

Other expenses for hired services include:

<i>In thousands of BGN</i>	2021	2020
Water meter reading	1 719	1,777
Transportation of sludge	1 038	764
Courier services	366	340
Printing services	515	549
Technical services	1 494	1,500
Consultancy	860	531
Asphalt covering	470	520
EWRC fee	387	392
Disinfection	478	646
Communication	367	497
Annual software licenses	1,221	1,172
Collection of receivables	-	122
Hired transportation	180	75
Water tankers	284	203
Software maintenance and internet	1 252	1,119
Training	172	297
Announcements and communications	212	306
Local taxes and fees	139	114
Cleaning of offices and water tanks	133	138
Fees	70	61
Other	1,316	1,186
	<u>12,673</u>	<u>12,309</u>

The accrued charges on remunerations for the appointed auditor for 2020 BGN 120 thousand and 2021 amount to BGN 187 thousand including the statutory independent financial audit of BGN 126 thousand.

8. Employee benefit expenses

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Wages and salaries		29,253	28,824
Compulsory social security and pension contribution		4,920	5,107
Social expenses		72	12
Expenses for additional pension contribution		615	590
Current and past service costs in relation to employee benefits	23	425	288
Voucher expenses		1,760	1,846
Share-based payments		236	203
		<u>37,281</u>	<u>36,870</u>

The salary expenses include an accrual for unused annual paid leave amounting to BGN 1,086 thousand (2020: BGN 818 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 227 thousand (2020: BGN 159 thousand).

The average number of the Group's personnel is 1,108 employees (2020: 1,154 employees).

Description of share-based payments transaction

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

In 2018, 2019, 2020 and 2021 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 Group Veolia Environnement (France). Description below is applicable for 2018, 2019, 2020 and 2021 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 Group Veolia Environnement (France) bills to the Group the costs that Veolia 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 2021 the total invested amount (incl. from the previous year) by the employees under the two programs amounts to BGN 1,509 thousand (BGN 411 thousand for 2018 program, BGN 326 thousand for 2019 program, BGN 330 thousand for 2020 program and BGN 442 thousand for 2021 program) and the sum invested by Veolia Environnement under the “Secured Offer” amounts to 906 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, BGN 203 thousand invoiced and expensed in 2020 and BGN 236 thousand invoiced and expensed in 2021).

9. Other operating expenses

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Inventory write-down / (reversal) to net realizable value	14	102	462
One-off taxes		165	195
Provisions for fines and penalties, net		97	601
Scrapping of materials		10	28
Scrapping of non-current assets		28	15
Annual fee - water and sewerage		2,704	2,741
Expenses for provision "Handback Account"	21,25	345	365
Other		1,681	1,589
		<u>5,132</u>	<u>5,996</u>

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

<i>In thousands of BGN</i>	2021	2020
Interest income	1	2
Effect from guarantee discounts	-	2
Revenue from foreign currency transaction, net	1	-
Financial income	<u>2</u>	<u>4</u>
Interest expenses for Loan "C"	(120)	(664)
Interest expenses for financial lease contracts	(8)	(19)
Interest expenses on employee benefits	(21)	(15)
Effect from guarantee discounts	(2)	(6)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(5)	(21)
Other finance costs	(704)	(262)
Loss from foreign currency exchange differences, net	(16)	(11)
Finance costs	<u>(876)</u>	<u>(998)</u>
Finance costs (net)	<u>(874)</u>	<u>(994)</u>

11. Tax expenses

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Current tax expense			
Income tax for current year		(5,007)	(5,191)
Income tax for previous periods		-	-
Deferred tax expense			
Origination and reversal of temporary differences	19	587	856
Total tax expense		<u>(4,420)</u>	<u>(4,335)</u>

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

A tax audit of the 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	2021		2020	
<i>In thousands of BGN</i>				
Profit for the year		39,432		34,535
Total tax expenses		<u>4,420</u>		<u>4,335</u>
Profit before tax		<u>43,852</u>		<u>38,870</u>
Income tax based on the Group's domestic tax rate	10%	(4,386)	10%	(3,887)
Non-deductible expenses	0.20%	(88)	0.21%	(83)
Income tax for previous periods	-	-	-	-
Other	0.12%	54	0.95%	(365)
Net current income tax expense	10.08%	<u>(4,420)</u>	11.16%	<u>(4,335)</u>

12. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 January 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	8,749	39,235	19,954	2,115	-	70,053
Balance at 1 January 2021	8,749	39,235	19,954	2,115	-	70,053
Additions	377	-	-	-	4,451	4,828
Disposals	(2,866)	(735)	(180)	-	-	(3,781)
Transfers	-	1,852	1,883	716	(4,451)	-
Balance at 31 December 2021	6,260	40,352	21,657	2 831	-	71,100
Depreciation						
Depreciation as 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)
Balance at 1 January 2021	(4,644)	(30,278)	(12,979)	(1,373)	-	(49,274)
Depreciation charge for the year	(1,423)	(3,065)	(1,704)	(140)	-	(6,332)
Depreciation on disposals	2,866	715	157	-	-	3,738
Balance at 31 December 2021	(3,201)	(32,628)	(14,526)	(1,513)	-	(51,868)
Carrying amounts						
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
At 1 January 2021	4,105	8,957	6,975	742	-	20,779
At 31 December 2021	3,059	7,724	7,132	1,317	-	19,232

12. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2021, amount to BGN 2,062 thousand (2020: BGN 4,594 thousand) and are listed below:

<i>In thousands of BGN</i>	2021	2020
Cogenerator	76	23
Vehicles and mechanization	2,090	737
Laboratory equipment	327	307
Computer equipment	461	412
CCTV	25	-
Telescopic camera	6	-
Diesel aggregate and pumps	-	8
Gardening equipment	26	1
Welding systems, grinders	13	-
Devices for geodetic measurements and leak detection	15	353
Other equipment	696	221
	3,735	2,062

Assets pledged as collateral

The Group has no pledged current and future non-current tangible assets.

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 2021 of such assets, for which the lease liabilities are not fully paid, total 473 thousand BGN.

13. Intangible assets

In thousands of BGN

	Development costs	Software	Concession right	Assets under construction – other	Total
Cost					
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
Balance at 1 January 2021	21,041	24,141	617,786	1	662,969
Additions	-	-	34,956	719	35,675
Disposals	-	-	-	-	-
Transfers		719	-	(719)	-
Balance at 31 December 2021	21,041	24,860	652,742	1	698,664
Depreciation					
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)
Balance at 1 January 2021	(21,037)	(18,200)	(355,489)	-	(394,726)
Depreciation for the year	(1)	(962)	(58,963)	-	(59,926)
Disposals	-	-	-	-	-
Balance at 31 December 2021	(21,038)	(19,162)	(414,452)	-	(454,652)
Carrying amounts					
At 1 January 2020	4	4,196	276,383	634	281,217
At 31 December 2020	4	5 941	262,297	1	268,243
At 1 January 2021	4	5 941	262,297	1	268,243
At 31 December 2021	3	5,698	226,900	1	243,992

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 2021 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 12 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 r. 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 2021, 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 2021.

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:
 - Volumes – according to the latest best estimate of the company in the period 2022-2023 for billed consumption;
 - Prices of the services – for the coming regulatory period 2022-2026 through pricing in accordance with the latest published price models as per the valid legislation, approved by the EWRC, and the assumption for inflation changes from 2027 to 2033;

13. Intangible assets (continued)

- The prices of the services are calculated by considering the operating costs of the company and the return on the regulatory asset base, included in the provision of WSS services to customers. The return determined on the regulatory asset base is calculated by using the regulatory formula for weighted average cost of capital, in which the rate of return on equity and rate of return on debt capital are included.
 - The rate of return on equity has the most significant effect on the return determined on the regulatory assets base. In the estimates for the years after 2021, a rate of return is used that reflects the actual capital structure of the company for the next regulatory period without needed borrowed capital and other circumstances specific for the company. The Business Plan 2022-2026 of the company is in a process of agreeing by the Municipality of Sofia. After their comments, it will be submitted to the EWRC for approval.
 - Investments in assets – the annual investments in the model are based on the latest best estimate in accordance with the long-term target levels and the activities planned for regulatory period 2022-2026. The annual investments set in the assumptions (in total for regulated activities and non-regulated business) over the period 2022-2023 amount to 41,434 thousand BGN on average per annum.
- The revenue and the operational expenses (excluding amortization and depreciation expenses) are inflated with the expected rate of inflation
- Discount interest rate after taxation 6,4%.

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 31.12.2021. 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 2021 at the amount of approximately BGN 47,4 million.

The management expects that the investments made by Sofiyiska 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

<i>In thousands of BGN</i>	2021	2020
Spare parts and consumables	4,154	3,359
	4,154	3,359

As at 31 December 2021 the cumulative inventory write-down to net realizable value amounts to BGN 2,163 thousand (2020: BGN 1,559 thousand).

15. Trade and other receivables

<i>In thousands of BGN</i>	Note	2021	2020
Trade and other receivables		64,790	69,769
Impairment losses on trade receivables		(31,586)	(36,358)
Total trade receivables	22	33,204	33,411
Other receivables and prepayments		1,271	1,795
		1,271	1,795
Total trade and other receivables		34,475	35,206
<i>Non-current</i>		1,926	1,610
<i>Current</i>		32,549	33,596

15. Trade and other receivables (continued)

In 2021 impairment losses on trade receivables amounting to BGN 1,617 thousand have been written off (2020: BGN 1,605 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:

<i>In thousands of BGN</i>	2021	2020
Insurance	521	861
Licenses	302	201
Subscriptions	177	366
Advances for non-current assets	224	103
Other	47	264
	1,271	1,795

16. Cash and cash equivalents

<i>In thousands of BGN</i>	Note	2021	2020
Cash on hand		66	65
Local currency		51	48
Foreign currency		15	17
Cash at banks	22	78,257	69,208
Local currency		77,509	68,540
Foreign currency		748	668
Cash and cash equivalents in the statement of cash flows	22	78,323	69,273

17. Capital and reserves

<i>In thousands of shares</i>	Ordinary shares	
	2021	2020
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	<u>8,884</u>	<u>8,884</u>

As at 31 December 2021 the Group's share capital includes 8,884,435 ordinary shares (2020: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Group as at 31 December 2021 are:

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

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

With a pledged endorsement dated 14 May 2018 in favor of the bank which provided secured bank loan "C", with consortium Expressbank and UBB AD, 6,850,000 ordinary shares have been pledged and this fact is inscribed in the shareholders' book based on a contract for pledge of shares.

The holders of ordinary shares possess dividend rights and voting rights at the 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.

Dividends

By Decision of the Company's General Meeting of Shareholders dated 27 September 2021, the company profit for 2020, in the amount of 34,195 k BGN, is distributed in the form of dividends, as the size of the dividend for 1 share is BGN 3.8489. The dividends were fully paid in 2021

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*.

<i>In thousands of BGN</i>	2021	2020
Non-current liabilities		
Loans at nominal value	-	7,486
Amortization	-	(14)
Loans at amortized cost	-	7,472
Lease liabilities	1,575	2,781
	<u>1,575</u>	<u>10,253</u>
Current liabilities		
Loans at nominal value	-	14,972
Amortization	-	(80)
Loans at amortized cost	-	14,892
Lease liabilities	1,618	1,834
	<u>1,618</u>	<u>16,726</u>
Total loans and borrowings	<u>3,193</u>	<u>26,979</u>

Terms and debt repayment schedule

<i>In thousands of BGN</i>	Current	Nominal interest	Year of	31 December 2021		31 December 2020	
				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
				<u>-</u>	<u>-</u>	<u>22,458</u>	<u>22,364</u>

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 2021.
- 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.
- On January 25, 2021, the Group made a full repayment of principal and interest on the loan to the Consortium of United Bulgarian Bank and DSK in the amount of BGN 22,484 thousand as all collateral for the loan has been released.

18. Loans and borrowings (continued)

Reconciliation of the liabilities from financial activities

In thousands of BGN

	Loans and borrowings	Leases	Total
<i>Changes in cash flows from financial activities</i>			
Balance at 1 January 2020	44,579	2,093	46,672
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

In thousands of BGN

	Loans and borrowings	Leases	Others	Total
<i>Changes in cash flows from financial activities</i>				
Balance at 1 January 2021	22,364	4,615	-	26,979
Paid dividends	-	-	(34,195)	(34,195)
Repaid from loan and borrowings	(22,458)	-	-	(22,458)
Payments on lease liabilities	-	(1,824)	-	(1,824)
Total changes in cash flows from financial activities	(94)	2,791	(34,195)	(31,498)
Changes related to the liability				
New lease	-	402	-	402
Accrued interests	120	8	-	128
Paid dividends	-	-	34,195	34,195
Paid interests	(26)	(8)	-	(34)
Total changes related to the liability	94	402	34,195	34,691
Balance at 31 December 2021	-	3,193	-	3,193

19. Deferred tax assets and liabilities

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

In thousands of BGN	Assets	Liabilities	Net	Assets	Liabilities	Net
	2021	2021	2021	2020	2020	2020
Property, plant and equipment	442	-	442	100	-	100
Inventories	216	-	216	206	-	206
Trade receivables	8,529	-	8,529	8,391	-	8,391
Provisions	442	-	442	359	-	359
Accrual for unused paid leave and bonuses	500	-	500	489	-	489
Payables as per defined benefit plan	184	-	184	178	-	178
Financing	38	-	38	40	-	40
Deferred tax assets/ (liabilities)	10,351	-	10,351	9,763	-	9,763

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 2021 is calculated by using the tax rate applicable to the Group, which is the legally set for now income tax rate for 2021 – 10%.

Changes in temporary differences during the year:

<i>In thousands of BGN</i>	Balance as at 1 January 2020	Recogni zed in profit or loss	Balance as at 31 Decemb er 2020	Recognized in profit or loss	Recogni zed in equity	Balance as at 31 Decemb er 2021
Property, plant and equipment	123	(23)	100	342	-	442
Inventories	160	46	206	10	-	216
Trade receivables	7,720	671	8,391	138	-	8,529
Provisions	294	65	359	83	-	442
Accrual for unused annual paid leave and bonuses	416	73	489	11	-	500
Liabilities under a defined benefit plan	184	(6)	178	6	-	184
Financing	10	30	40	(2)	-	38
Deferred tax assets/ (liabilities)	8,907	856	9,763	588	-	10,351

20. Trade and other payables

<i>In thousands of BGN</i>	<i>Note</i>	2021	2020
Trade payables		22 723	19,282
Retentions payable to subcontractors		3 022	2,662
Payables to employees		7 742	7,173
Insurance		494	64
ISPA payable		4,379	4,316
<i>Incl. long term part of ISPA</i>		3,601	3,518
<i>Incl. short term part of ISPA</i>		778	798
Total trade payables		<u>38,360</u>	<u>33,497</u>
Social security payables		1,191	1,045
Payable as per Settlement Agreement between the Municipality of Sofia and SV		3,504	3,601
<i>Incl. long term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda</i>		2,326	3,346
<i>Incl. short term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda</i>		1,178	255
Payables for water usage tax		2,704	2,741
VAT payable		1,478	1,576
Other taxes payable		248	425
Other payables and accruals		1,441	1,881
		<u>10,566</u>	<u>11,269</u>
Total trade and other payables		<u>48,926</u>	<u>44,766</u>
<i>Incl. Non-current</i>		5,927	6,864
<i>Incl. Current</i>		42,999	37,902

On 16 January 2009, the Group signed a Settlement agreement with the Municipality of Sofia (MoS). With this agreement, both sides agreed fully and finally on all existing mutual claims 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 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 2020-2023 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, 2020 and 2021 are - BGN 1.16 million, BGN 1.06 million, BGN 2.14 million, BGN 0.9 million, BGN 0.9 million and 2021 г. – BGN 0.9 million respectively. The final BGN 3.5 million will be invested over the period 2022-2023. As the above amounts from the Settlement Agreement are outside the investments set in the Group'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

<i>In thousands of BGN</i>	2021	2020
Provision for court liabilities	668	605
Provision for interest	1,104	1,104
Provision "Handback Account" (note 25)	1,799	1,454
	<u>3,571</u>	<u>3,163</u>

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:

<i>In thousands of BGN</i>	Balance at 1 January 2021	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2021
Provision for court liabilities	605	238	(34)	(141)	-	668
Provision for interests	1,104	-	-	-	-	1,104
Provision "Handback Account"	1,454	345	-	-	-	1,799
	<u>3,163</u>	<u>583</u>	<u>(34)</u>	<u>(141)</u>	<u>-</u>	<u>3,571</u>

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:

<i>In thousands of BGN</i>		Carrying amount 2021	Carrying amount 2020
	<i>Note</i>		
Trade and other receivables	15	33,068	33,304
Contract assets	4	12,154	11,309
Receivables from related parties	15,26	132	107
Cash and cash equivalents (at banks)	16	78,077	69,208
		<u>123,431</u>	<u>113,928</u>

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 2021 the active customers of the Group are 698,285 (2020: 682,641). 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:

<i>In thousands of BGN</i>	Book value 31 December 2021	Impair- ment 2021	Carrying amount 31 December 2021	Book value 31 December 2020	Impair- ment 2020	Carrying amount 31 December 2020
Government/municipality controlled entities	4,797	(1,519)	3,278	6,533	(3,599)	2,934
Legal entities	8,714	(2,564)	6,150	8,394	(3,605)	4,789
Domestic population	58,076	(27,068)	31,008	58,876	(28,956)	29,920
Other customers	5,183	(397)	4,786	7,130	(160)	6,970
Related parties	132	-	132	107	-	107
	<u>76,902</u>	<u>(31,548)</u>	<u>45,354</u>	<u>81,040</u>	<u>(36,320)</u>	<u>44,720</u>

22. Financial instruments (continued)

Expected measurement of credit losses for the individual customers as at 1 January and 31 December 2021

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 company has performed an analysis of debt collection based on historical data.

In determining the impairments as at 31 December 2021 and 31 December, based on the analyzed above historical data for the collection for each of the categories, the Company has developed a model of the expected evolution of the receivables for each of the categories under "Current" (not overdue) per age groups as per the tables below. In determining the impairment as at 31 December 2021, based on the so received data, the Company has applied discounting of the sums for each of the categories (without the receivables at the age over 3 years) as at the reporting date, and a discount rate has been applied based on the interest statistics of BNB for 2021 for the consumer credits in BGN for households in Bulgaria, and namely – the average annual percentage of 7.6%, and 2.7% has been used for the balances of the receivables from budget and commercial customers, which is the average percentage for credits for the non-financial corporations sector. For 2020, summarized and average weighted statistics of 6.9% total for credits for households and non-financial corporations has been used, which is no more available in BNB in the same format for 2021.

For the receivables with forecast payments past due by more than 3 years (1,080 days), impairment of 100% of the values of the receivables has been applied in accordance with their expected evolution.

Regarding the legal entities and the budget-financed enterprises, the management believes that the collection rates are to a great extent constant and are not affected by the changes in external factors except for essential negative changes in the entire economic environment. Such indicator is GDP of the country. The forecasts as at the end of 2021 for the GDP growth in percentage in 2022 are for levels close to those in 2021.

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

<i>In thousands of BGN</i>	2021	2021	Credit
	Book	Impairment	impairment
	Value		
Not past due	24,457	(1,036)	No
Past due 30 days	3,011	(641)	No
Past due 31-60 days	2,577	(869)	No
Past due 61-90 days	3,072	(1,089)	No
Past due 91-180 days	5,829	(2,532)	No
Past due 181-360 days	9,288	(5,375)	No
Past due 361-720 days	14,610	(9,782)	Yes
Past due 721-1080 days	14,058	(10,224)	Yes
	<u>76,902</u>	<u>(31,548)</u>	

22. Financial instruments (continued)

In thousands of BGN

	2020	2020	Credit
	Book	Impairment	impairment
	Value		
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 181-360 days	10,059	(6,289)	Yes
Past due 361-720 days	15,924	(11,273)	Yes
Past due 721-1080 days	14,535	(11,269)	Yes
	<u>81,040</u>	<u>(36,320)</u>	

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:

<i>In thousands of BGN</i>	2021	2020
Balance at the beginning of the period	(36,320)	(37,604)
Accruals during the period	(3,000)	(10,218)
Written-off	1,617	1,605
Written- off for purpose of IFRS 9	6,155	9,897
	<u>(31,548)</u>	<u>(36,320)</u>

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 2021 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 pursuant 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 2021 r.

In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Loan "C"	-	-	-	-	-	-
Liabilities to related parties	3,075	(3,075)	(3,075)	-	-	-
Lease liabilities	3,193	(3,195)	(1,621)	(1,267)	(308)	-
Trade payables	38,360	(38,360)	(38,360)	-	-	-
	44,628	(44,630)	(43,056)	(1,267)	(308)	-

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

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 2020

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

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:

<i>In thousands of</i>	31 December 2021			31 December 2020		
	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(1,515)	(1)	1	(751)	(1)	1
Interest-bearing loans and borrowings	-	-	-	(11,435)	-	-
Total	(1,515)	(1)	1	(12,186)	(1)	1

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2021	2020	2021	2020
USD 1	1.655	1.7154	1.727	1.5939
GBP 1	2.276	2.2001	2.328	2.1755

- **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 2020 is done on the same basis.

<i>In thousands of BGN</i>	Statement of comprehensive income	Statement of comprehensive income
	31 December 2021	31 December 2020
USD	-	-
GBP	-	-
CZK	-	-

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:

<i>In thousands of BGN</i>	2021	2020
Fixed rate instruments		
Financial assets	78,077	69,208
Financial liabilities	-	-
	<u>78,077</u>	<u>69,208</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(3,193)	(26,979)
	<u>(3,193)</u>	<u>(26,979)</u>

• *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 2020 is made on the same basis.

<i>Effects in thousands of BGN</i>	Profit or loss		Equity	
	25 basis points increase	25 basis points decrease	25 basis points increase	25 basis points decrease
31 December 2021				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(8)	8	-	-
Cash flow sensitivity (net)	<u>(8)</u>	<u>8</u>	<u>-</u>	<u>-</u>
31 December 2020				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(67)	67	-	-
Cash flow sensitivity (net)	<u>(67)</u>	<u>67</u>	<u>-</u>	<u>-</u>

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 2021	Carrying amount	Fair value –					Fair value						
		Defined at fair value	hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Level 1	Level 2	Level 3	Total		
<i>In thousands of BGN</i>	<i>Note</i>	Held for sale	Defined at 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	-	-	-	-	33,072	-	-	33,072				33,072
Receivables from related party	26	-	-	-	-	132	-	-	132				132
Cash and cash equivalents	16	-	-	-	-	78,257	-	-	78,257				78,257
		-	-	-	-	111,461	-	-	111,461				111,461
Financial liabilities, not measured at fair value													
Loans	18	-	-	-	-	-	-	-	-				-
Trade and other payables	20	-	-	-	-	-	-	(38,360)	(38,360)				(38,360)
Payables to related parties	26	-	-	-	-	-	-	(3,075)	(3,075)				(3,075)
Lease liabilities	27	-	-	-	-	-	-	(3,193)	(3,193)				(3,193)
		-	-	-	-	-	-	(44,628)	(44,628)				(44,628)

22. Financial instruments (continued)

Accounting classifications and fair values (continued)

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

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

* 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.

<i>In thousands of BGN</i>	2021	2020
Present value of the liability on 1 January	2 329	2,313
Interest expense	22	15
Current service cost	425	288
Actuarial loss (profit)	44	81
Paid compensations to retired employees	(387)	(368)
Present value of the liability on 31 December	<u>2,433</u>	<u>2,329</u>

Liability recognized in the statement of financial position as at 31 December, including:	2,433	2,329
<i>Short-term liabilities for retirement compensation</i>	553	617
<i>Long-term liabilities for retirement compensation</i>	1,880	1,712

Expenses recognized in the statement of comprehensive income

<i>In thousands of BGN</i>	2021	2020
Current service cost	425	288
Past service cost	-	-
Interest expense	21	15

Actuarial assumptions

	2021	2020
Discount rate at 31 December	0.90%	0.65%
Salary increase (annual for 10 years)	2.50%	2.50%
Employee turnover	5.4%	5.7%

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 $i = 0.90\%$ 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

<i>In thousands of BGN</i>	25 basis points increase of salaries growth	25 basis points decrease of salaries growth
Effect on the liability for retirement compensation	41	(41)
<i>In thousands of BGN</i>	25 basis points increase of interest growth	25 basis points decrease of interest growth
Effect on the liability for retirement compensation	(41)	41
<i>In thousands of BGN</i>	10 basis points increase of employee turnover	10 basis points decrease of employee turnover
Effect on the liability for retirement compensation	(168)	168
<i>In thousands of BGN</i>	25 basis points increase of mortality rate	25 basis points decrease of mortality rate
Effect on the liability for retirement compensation	(21)	21

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 16708/12.21/Oper/NG, issued by BNP Paribas S.A. – Sofia Branch, to the amount of 750,000 USD, and validity till December 15th, 2022;
- Performance security for the obligations of Sofiyska Voda AD under the Contract No. ПД-568-68/10.08.2011 with the Municipality of Sofia for the repair of defects and damages that occurred in municipal areas where Sofiyska Voda AD performs construction works, with No MD213551000, issued by “United Bulgarian Bank” AD, to the amount of 613,000 BGN, and validity till December 31st, 2022;

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 WSSRA and by-laws in the process of their preparing and the regulations for its implementation.

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

In that relation, in January 2009 the renegotiations for amendments in the concession 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 Group 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 Group 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 Group will rely on a contracted tariff schedule for the current 5-year regulatory period until 2021. As of 1 January 2020 the Group 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 2021 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 Group cooperates with the CMU to facilitate the monitoring of the performance and the delivery of services, and prepares and submits to CMU various reports and accounts etc.

Between 54 and 48 months prior to the expected date of expire of the concession 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 Group 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 2021 is BGN 238,291 thousand (2020: BGN 262,297 thousand).

For 2021 the investments amounted to BGN 40,126 thousand (2020: 39,740 thousand), of which BGN 34,957 thousand (2020: 35,762 thousand) represented investments in improvements and new public assets, of which 16,889 (2020: 20,210) are recognized as revenue from construction.

For the period since the beginning of the Concession until the end of 2021 the amount of investments made by the Group into the concession infrastructure is BGN 790,075 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)	2021 (in mln. BGN)
Committed investments in accordance with approved Business plan 2017- 2021	44.2	44.4	38.7	33.8	33.0
Actual investments	43.6	40.8	43.8	38.0	38.2

Committed investments in accordance with the approved business plan for 2022 are BGN 47.4 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- БИИ-ІІ-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- БИИ-ІІ-1/29.03.2017 of the Energy and Water Regulatory Commission (EWRC). On the basis of the evidence and expertise gathered and considering the arguments put forward by the parties in the proceedings, The 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 Group filed a new 5-year Business plan for the period 2017-2021, which was finally approved with the Decision of the EWRC No. БИИ-ІІ-1/29.03.2017. The total investments provided for in the new regulatory period amount to BGN 209 thousand with corresponding annual changes in the service tariffs in line with the Ordinance on the prices. The first price increase was approved by EWRC in the decision on the approval of the Business Plan 2017-2021, and the second increase became effective on 1 January 2018 in line with the decision of the EWRC No. ІІ-34/ 15.12.2017.

With Decision No. ІІ-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. ІІ-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. ІІ-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 Group for 2017-2021 the Group 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).

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

Business Plan 2022 – 2026

At the end of September Sofiyska Voda AD submitted to the Municipality of Sofia a draft Business plan 2022-2026. As at the end of 2021 the Municipality has not provided any opinion on the prepared document. After the Municipality gives its statement on the Business plan, the document will be submitted for approval to the EWRC.

The prices of the WSS services for 2022 were kept the same as those in 2021 because the Business Plan 2022 – 2026 has not been considered yet by the Municipality of Sofia and approved by EWRC, respectively.

Description of the process, status, and steps taken for challenging the rate of return on capital in the price formation and KPIs

Court case 6374/2021 is commenced at the Administrative Court of Sofia in regard to the appeal filed by Sofiyska Voda against a decision of the Regulator, setting up the target levels of the KPIs for the regulatory period 2022-2026. The first court hearing was held on 14.09.2021. With its ruling dated 21.09.2021, the Administrative Court left without consideration the appeal of Sofiyska Voda AD in the part against item 2 of decision PK-1/28.05.2021, by which the Commission set estimated specific targets for the quality indicators of the water supply and sewerage services. The ruling was appealed by Sofiyska Voda before the Supreme Administrative Court (SAC) where court case 10769/2021 was commenced. With its ruling dated 08.12.2021 SAC cancelled the ruling of the Administrative Court of Sofia and referred the case back to the court for considering also item 2. The court technical-expert opinion demanded by the Company was admitted and the next court sitting is scheduled for 12.04.2022.

Court case 6373/2021 is commenced at the Administrative Court of Sofia in regard to the appeal filed by Sofiyska Voda against a decision of the Regulator, setting up the company's rate of return on equity and the external financing for the regulatory period 2022-2026. The first court hearing was scheduled for 23.11.2021 where the hearing of a court economic expert opinion was admitted. The prepared economic expert opinion was presented and it has to be supplemented. The next court hearing is scheduled for 12.04.2022.

Based on the legal opinions of the legal consultants of the company, the management believes that the positions of the company under both legal cases are justified, and the expectations are for court decisions in favor of Sofiyska Voda AD.

26. Related parties

The Group has a related party relationship with its parent Group – “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 Group is Veolia Environnement S.A., France.

The related parties of the Group are the ultimate parent Group 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 Group 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.

26. Related parties (continued)

The following transactions took place in 2021:

Related party	Relation	Transactions during the year	Balance as at 31 December 2021	
			Receivables	Payables
<i>In thousands of BGN</i>				
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	2,994
Veolia Romania Soluti Integrate SA Finance	Company under common control	Operational guaranty fees 21	-	21
Veolia Campus	Company under common control	Trainings -	-	2
Veolia Environnement SA, France	Company under common control	Discount -	67	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 56 Metering 1 Sales of materials 1 Garbage fee 2 Deposit 1	- - 5 - -	12 - - 1 1
Veolia Energy Solutions Bulgaria EAD	Company under common control	Laboratory analysis 8 Maintenance of air-conditioners 21 Installation of cooling system 24 Purchase of air-conditioners 45 Guarantees under contracts - Consulting services 20 SCADA monitoring 15 WWTP inspection 4 Measurement campaign 2 Technological assistance 1 Flow measurement, data processing and reporting 4	10 - - - - 24 4 - 3 1 -	- 16 - 13 3 - - - - - -

26. Related parties (continued)

The following transactions took place in 2021:

Related party	Relation	Transactions during the year	Balance as at 31 December 2021	
			Receivables	Payables
<i>In thousands of BGN</i>				
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Repair works on the WSS network in Sofia 4 Guarantees under contracts - Sale of materials - Re-invoicing of costs 7	- - 3 9	- - 12 -
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Sale of materials -	6	-
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 61	-	-
		Total:	<u>132</u>	<u>3,075</u>

26. Related parties (continued)

The following transactions took place in 2020:

Related party	Relation	Transactions during the year	Balance as at 31 December 2020	
			Receivables	Payables
<i>In thousands of BGN</i>				
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 Sales of materials Garbage fee	- - 5 -	- 11 - -
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 - Consulting services - WWTP Zagorka 1 SCADA monitoring 4 Inspection and report preparation service 1	- - - - - - 1 - 2	- - - - 2 - - -
Veolia Service Bulgaria EAD	Company under common control	Reinvoicing costs 1	-	-

26. Related parties (continued)

The following transactions took place in 2020:

Related party	Relation	Transactions during the year	Balance as at 31 December 2020	
			Receivables	Payables
<i>In thousands of BGN</i>				
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Repair works on the WSS network in Sofia 2 Guarantees under contracts - Sale of materials -	- - 3	- 11 -
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 Consumables 8 Penalites 1,280 Rent 6	- 21 1 2	1,393 - 256 -
Total:			107	3,186

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:

<i>In thousands of BGN</i>	2021	2020
Short-term employee benefits	503	296
Share-based payment	-	-
	503	296

In thousands of BGN

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

39	25
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In 2021 the Group has incurred expenses amounting to BGN 1,496 thousand for technical services (2020: BGN 1,500 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:

<i>In thousands of BGN</i>	Office rent and other	Vehicles	Total
2021			
Balance at 1 January 2021	3,823	1,733	5,556
Depreciation charge for the year	(1,403)	(664)	(2,067)
Depreciation on disposals	458	-	458
Disposals	(81)	-	(81)
Balance at 31 December	2,797	1,069	3,866

<i>In thousands of BGN</i>	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

(ii) Lease liabilities

<i>In thousands of BGN</i>	2021	2020
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1,621	1,854
One to five years	1,575	2,791
More than five years	-	-
Total undiscounted lease liabilities at 31 December	3,196	4,645
Lease liabilities included in the statement of financial position at 31 December	3,193	4,615
Current	1,618	1,834
Non-current	1,575	2,781

27. Leases (continue)

(iii) Amounts recognised in profit or loss

In thousands of BGN

	Note	2021	2020
2021 – Leases under IFRS 16			
Interest on lease liabilities		8	19
Expenses relating to short-term leases	7	8	142

(iv) Amounts recognised in statement of cash flows

In thousands of BGN

	2021	2020
Total cash outflow for leases	1,824	2,085

(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 an 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 24 February 2022, Russian troops started invading Ukraine. In response, multiple jurisdictions, including the EU, Switzerland, the UK, the US, Canada, Japan, and Australia have imposed initial tranches of economic sanctions on Russia (and in certain cases Belarus). In addition to the imposition of sanctions, a growing number of large public and private companies have announced voluntary actions to curtail business activities with Russia and Belarus.

The conflict between Russia and Ukraine and related events occur at a time of significant global economic uncertainty and volatility. The effects are likely to interact with and exacerbate the effects of current market conditions. Many sectors/jurisdictions are already facing the impacts of rising commodity prices and increased raw materials costs due to surging consumer demand as the COVID-19 pandemic eases. Supply-chain bottlenecks arising from the effects of the pandemic continue to persist to a certain extent. These conditions may be significantly exacerbated by the broader impacts of the conflict between Russia and Ukraine, increasing inflationary pressures and weakening the global post-pandemic recovery.

The continuing economic impact from the conflict depends on variables that are difficult to predict. The uncertainty originates from the duration of and the degree to which government sanctions restrict and will restrict the ability to operate in Russia, voluntary decisions by companies to reduce or withdraw from operations or relationships in the region, and the extent of the impact of supply chain disruption.

The Company operates in water supply sector that has not been directly affected by the outbreak of the conflict between Russia and Ukraine. The Company has no direct exposures (eg, transactions, balances, commitments) to related parties and / or to key customers, suppliers or banks in Russia, Belarus, and Ukraine. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the conflict and its expected impact on the Company and the economic environment in which the Company operates. The effects of the above events may affect the Company through further negative development of the overall macroeconomic conditions and business environment in Bulgaria, which are the main jurisdiction where the main Company's clients and suppliers are located.

Regarding the supply chain, the management does not foresee significant problems.

At the time of approval of these financial statements for publishing, the management assesses the risk as low. In respect of sales, the management considers that there is no risk for a significant decrease in sales unless significant detrimental events resulting from the above stated information may affect the overall business environment the Company's clients operate in and the disposable income of the population.

In summary, based on currently publicly available information, the Company's current KPI's and in view of the actions initiated by management, it is not anticipated a direct immediate and significant adverse impact from the conflict between Russia and Ukraine on the Company, its operations, financial position and operating results. The management cannot however preclude the possibility that an escalation of the conflict and deterioration of the overall business environment in Bulgaria and in the jurisdiction the Company mainly makes business in might have an adverse effect on the Company, and its financial position and operating results, in the medium and longer-term. The management continues to monitor the situations closely and will respond to mitigate the impact of such events and circumstances.

After the beginning of the COVID -19 crises and the conflict between Russia and Ukraine the Company increased level of inventories, as result the operating activities of the company are secured for at least 6 months. In addition Company made a plan for the necessary inventories for the next 6 – 9 months and made purchase orders to the suppliers. As a result Sofiyska voda secured operational activities and keep the price level.



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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 74, which comprise the consolidated statement of financial position as at 31 December 2021 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 2021, 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 2021: BGN 186,094 thousand (2020: BGN 177,091 thousand). Contract assets - unbilled revenue as at 31 December 2021: BGN 12,154 thousand (31 December 2020: BGN 11,309 thousand)

See Note 3 (I) Significant accounting policies – Revenue and Note 4 Revenue for details.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>The Company's core revenue streams relate to the water supply, sewerage and wastewater treatment services. The Company recognized BGN 186,094 thousand as revenue from these sources for the year ended 31 December 2021, of which BGN 12,154 thousand, represents unbilled revenue.</p> <p>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 unbilled revenue requires significant management judgment and is based on estimates of daily consumption, mainly based on historical patterns.</p> <p>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.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Updating our understanding of the revenue recognition process and policies, 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 selected controls over the estimate of unbilled revenue as at 31 December 2021; — Challenging the Company's estimate of 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 2022 to the amounts of the accrued unbilled revenue as at 31 December 2021; — Considering the completeness and accuracy of the Company's revenue-related disclosures in the consolidated financial statements

Service concession arrangement: compliance

Investment commitments according to the approved business plan for the year ended 31 December 2021: BGN 33 million (2020: BGN 33.8 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.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p>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.</p> <p>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</p> <p>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.</p> <p>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</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> — Updating our understanding of the regulatory and concession compliance process; — Evaluating the design and implementation of the selected 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; — Inspecting 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 their formal responses to our audit inquiries, with an aim to identify any contingent liabilities (e.g. penalties) arising from the 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 relevant

and regulatory regime required our increased attention in the audit and was considered by us to be a key audit matter.

requirements of the financial reporting standards.

Impairment of non-current assets

Intangible assets as at 31 December 2021: BGN 243,992 thousand (31 December 2020: BGN 268,243 thousand)

Property, plant and equipment (PPE) as at 31 December 2021: BGN 19,232 thousand (31 December 2020: BGN 20,779 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 for details.

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 2021, 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,

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;
- Testing the design and implementation selected 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;

we consider the area to be our key audit matter.

- 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.

Impairment of trade receivables and contract assets

Trade receivables as at 31 December 2021 BGN 34,475 thousand (31 December 2020: BGN 35,206 thousand), Contract assets - unbilled revenue at 31 December 2021: BGN 12,154 thousand (31 December 2020: BGN 11,309 thousand)

See Note 3.(k) Significant accounting policies – Trade receivables, Note 16 Trade and other receivables and Note 5 Contract assets for details.

Key audit matter

How this key audit matter was addressed in our audit

Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the trade receivables and contract assets at the reporting date. We focused on this area as the determination of the reporting date amounts of ECLs requires significant judgment.

As discussed in Note 22, in making the estimate, the Company applied the simplified approach allowed by IFRS 9, whereby lifetime expected credit losses on trade receivables and contract assets are estimated without prior identification of significant increases in credit risk. In making the estimate the relevant loss rates are applied to the trade receivable and contract asset balances outstanding, allocated into one of three groups: domestic population,

Our audit procedures in the area included, among others:

- Inspecting the Company's ECL methods and models, and assessing their compliance with the requirements of the relevant financial reporting standards. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level factors;
- Testing the design and implementation of selected internal controls related to the estimation of impairment allowances, including those over the data used therein and validation of the ECL estimation process;

government/ municipality controlled entities and legal entities.

The main assumptions underlying the estimate are those for loss (collectability) rates and discount rates. The loss rates are estimated based on the Company's historical experience while discount rates are based on publicly available interest rate data published the Bulgarian National Bank.

In addition, in making the ECL estimate, management considers the extent to which the historical credit loss experience needs to be adjusted to incorporate forward-looking information that is available at the reporting date, including economic uncertainty resulting from events such as geopolitical events or pandemic. This includes factors as the expected level of the unemployment, and the gross domestic product.

Due to the above complexities, the area was considered by us to be associated with an increased risk of a material misstatement that required our increased attention in the audit. As a consequence, we consider it to be our key audit matter.

- Obtaining the relevant forward-looking information (FLI) and macroeconomic projections used in the Company's ECL assessment and independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information;
- Challenging the ECL amounts recognized at the reporting date by, among other things:
 - evaluating the appropriateness of the Company's grouping of customers into segments with different credit loss patterns;
 - testing the information used in the ECL estimates for trade receivables and contract assets' age and related historical collectability rates;
 - evaluating any adjustments required to the historical loss rates based on our analysis of the FLI; and
 - testing the mathematical accuracy of the impairment loss model;
- Evaluating the completeness and accuracy of ECL-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.

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

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.

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 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 2021 by the general meeting of shareholders held on 25 February 2022 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2021 represents twenty second 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 Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.

— We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.

— We hereby confirm that in conducting the audit we have remained independent of the Group.


KPMG Audit OOD

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria


Dobrina Kaloyanova
Authorised representative

Sofia, 31 March 2022




Ivan Andonov
Registered auditor, responsible for the audit

NON-FINANCIAL STATEMENT TO THE ANNUAL REPORT 2021

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

1. ENVIRONMENTAL MATTERS

1.1. ENVIRONMENTAL PROTECTION IN 2021

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

We are loyal to our mission: RESOURCING THE WORLD.

Sofiyska Voda AD has a certified environmental management system (EMS) corresponding to the requirements of the international standard ISO 14001:2015. The maintenance of the system continued in 2021 by updating environmental aspects and conducting internal regular checks in line with the approved annual schedule.

In 2021 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 2021

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 2021 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 23 654 MWh. The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2021 the green energy produced in the treatment plant covered more than 115.59 % the electricity needs of the treatment plant.

1.3. EMISSIONS INTO AIR IN 2021

Direct emissions

The company generates direct emissions in the air through the use of the transport vehicles and also the use of energy sources for heating at some of its sites. In 2021 the direct emissions amounted to 1.79 thousand tons of carbon dioxide (CO₂), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. There was a decrease by 9.52 % versus 2020. With regard to the control of these direct emissions, Sofiyska Voda uses a GPS system to monitor the routes, speed, acceleration and idle time of the company vehicles. Also, 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 2021 the data shows that the indirect emissions of the Group amounted to 2.08 thousand tons of carbon dioxide (CO₂), which is 26.95% less in comparison with the previous year.

The global reduction in emissions of greenhouse gases in 2021 was 1.61 thousand tons of carbon dioxide equivalent (CO₂), as that was mainly due to the production and use of renewable energy.

1.4. WATER RESOURCES IN 2021

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 2021 was 136 456 186 m³.

The data obtained from the monitoring throughout the year shows that the water volumes used for water supply decreased in comparison with 2020. The decrease was mainly due to the efforts of the company 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 2021 compared to the same period of 2020 decreased by 10 395 327 m³.

Water losses reduction is a priority in the investment program of Sofiyska Voda AD. The realized total investments were to the amount of BGN 40.23 M. From them BGN 38.25 M was for regulated services, which is 116% of the envisaged in Business Plan 2017-2021. The realization of the total investment is 113% compared to the Business plan and 103% compared to the Updated Investment Program.

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 2021 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

The program for proactive maintenance of the sewerage network of the Municipality of Sofia continued in 2021, and as a result of it more than 110 km of the network within the concession area were cleaned proactively, which is by 6 km more versus the kilometers of the sewerage

network cleaned in 2020.

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:

- 15,095 t BOD₅
- 33,759t COD
- 2,775 t of nitrogen
- 388 t of phosphorous.

In 2021 the determined statutory number of samples was taken for the mentioned above quality indicators for the treated wastewater.

The values of the qualitative indicators of the samples are below the levels fixed 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.

16,977 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2021 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 was 18 months.

This research studies the impact of sludge on the different types of soil and crops, which, in turn, should 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 under the project was adopted in May 2021. According to the conclusion in the report, the efficiency of the sludge from wastewater treatment on agricultural soils and crops cannot be clearly proved without further studies. SV’s management took a decision not to proceed with the studies in that direction.

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 has participated in the "Caps for Future" campaign since 2018. There are cardboard boxes at all company 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 2021 the Group participated in the delivery of the collected plastic caps, their total amount being around 140 kg.

Within the European Week for Waste Reduction (EWWR), which takes place in November each year, various initiatives were organized under the campaign motto: "Circular Communities".

The Group strictly complies with the Bulgarian waste management legislation. In 2021 the following has been delivered for disposal, utilization or recycling:

- 12,162 tons of hazardous waste;
- 47,615 tons of nonhazardous waste, which include dug out soil and do not include sludge from SWWTP for utilization on agricultural areas;
- 16,977 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.

3 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 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 April, 2021, educational paths were constructed on the territories of Bistritsa PWTP and Pancharevo PWTP with panels containing photos and curious facts about the representatives of the flora and fauna inherent to the plants. This will lead to awareness raising among the employees and the visitors of those sites as to the rich variety of species in the small areas managed by SV.

In 2022 continues the implementation of the measures from the Reports, as the construction of such educational paths is also envisaged on the territories of Mala Tsarkva PWTP and Kubratovo WWTP.

During the summer of 2021 audits - monitoring of the three sensitive sites - were conducted together with representatives of SV and the biologists from Sofia University "St. Kliment Ohridski" following a methodology defined by the Group. The practices established from the previous years for biodiversity preservation were reported and an action plan was prepared for the introduction of additional measures to be implemented in the period 2021-2023.

The Earth Day on April 22 and the International Day of Biological Diversity on May 22 were marked online due to the epidemiological situation. Discussions were held on several platforms where free access was provided to all employees.

1.8. HAZARDOUS CHEMICAL SUBSTANCES AND MIXTURES

Various chemical substances and mixtures, 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 company sets an objective on an annual basis to decrease the load of these products for the environment. Also, drills are held on an annual basis with hazardous chemical substances and mixtures, and means for limiting the spills are ensured. Emergency signaling systems were installed. Short safety leaflets were disseminated at the places of work and storage of hazardous chemical substances and mixtures, compatibility assessment was made for the storage of hazardous chemical substances and mixtures, and personal protective equipment was ensured as all that contributes to their proper storage, use and treatment of the waste from them.

1.9. OTHER ALTERNATIVES

Last year (2021) the number of inhabitants and companies in Sofia that requested to receive e-invoices from Sofiyska Voda increased by 21%. Over the period January – December 2021 additional 32,991 customers registered to receive e-invoice, and their total number at the end of the year reached 190,358.

2. SOCIAL AND STAFF MATTERS

As at 31.12.2021 the employees of Sofiyska Voda were 1,079, as 105 of them – at managerial positions (44 men and 61 women); at supervisor and technical staff positions – 233 (151 men and 82 women); office employees – 347 (57 men and 290 women), and workers – 394 (360 men and 34 women).

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

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 company.

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 6,160 participations and 15,517 training hours in professional trainings held.

The company 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 4,648 participations and 14,069 training hours in mandatory H&S trainings held in 2021.

1,182 employees participated in trainings in 2021, and the number of the participations was 10,809.

The training hours were 29,586, from which nearly 20,00 hours – in the form of an online training.

A pilot mentoring program was implemented in 2021 in the Commercial Directorate. 24 employees from all the departments of the directorate were trained as mentors, as each department has an approved induction program for the new employees.

135 employees from the Technical Directorate participated in a project for team performance improvement.

Also, the register of internal H&S trainers was updated in 2021. 21 lecturers were identified in the company who are able to give instructions for 9 topics from the program. Thus, the process of conducting mandatory trainings for the employees, including the new ones, will be much more flexible and accessible.

3. HEALTH AND SAFETY AT WORK

There were three occupational accidents in 2021 (as per art. 55, par. 1 – at work), 0 incidents (without loss of working capacity), 9 near-misses (undesired events without personal injury) and 139 registered damages to company vehicles. All accidents, incidents and near-misses are reported and analyzed immediately.

4. PREVENTION OF CORRUPTION AND BRIBERY

The main policies and procedures related to the way in which the 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;
- Whistleblowing procedure with a new version in December 2021;
- Procedure “Gifts, Hospitality, and Donations. Conflict of Interests”, version 2020;
- Anti-Fraud Procedure (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 first supervisory audit of the System of SV was successfully completed in May 2021, and its certification was confirmed.

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 Risk Management and Process Optimization 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) A signal on paper in the boxes placed before the Human Resources Department in the Headquarters on Tsar Boris III Blvd., fl. 3, including anonymous, if they wish so;
- Anonymous signal via the dedicated form;
- 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 company'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). May, 2021, the instruction on anti-bribery risk assessment was been updated in connection with the organizational-structural changes carried out at the Group earlier in the year.

The internal auditors play an important role in the assessment of the efficiency of the control systems and contribute to the current efficiency. Due to their organizational position and powers in the company, 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.

During the reviewed period there are no proven cases of corruption of employees or subcontractors of Sofiyska Voda AD.