



2007 was another successful year for Sofiyska Voda AD

2007 was another successful year for Sofiyska Voda AD. Despite some challenges such as unexpected high inflation and tariff lower than proposed, the company remains profitable and EBIT improved from BGN 18,5 million in 2006 to BGN 20,2 million in 2007. Revenues from main charges grew to a level of BGN 76,0 million, which represents an increase of 15%.

The prime reason for this positive end result was the continued control over operating expenses and focus on efficiencies that brought net savings in the total operating expense.

Profit before tax reduced from BGN 3,5 million in 2006 to BGN 2,4 million in 2007 due to higher Euribor interest rates during the year and respectively higher finance expenses.

Investments in the past year reached a level of BGN 17,9 million. The improvement of the water supply

infrastructure in Sofia was the clear investment driver with BGN 12,8 million invested. In order to comply with the EU environmental requirements, BGN 2,3 million were invested in sewerage and BGN 1,9 million in waste water treatment.

Another key development for the year was the approval that the SCEWR gave on April 23 for a complex water-and-sewerage service tariff of BGN 0,88 net of VAT as of May 2007. A further tariff increase to a level of BGN 1,02 was conditionally approved provided Sofiyska Voda AD achieves the following: (1) concluding a Loan Agreement with EBRD in the amount of BGN 50 million and receiving its first instalment, (2) realization of investments of BGN 15 million for 2007, (3) joint submission of documents proving the investments described in item 2 by Sofiyska Voda AD and the Municipality of Sofia to SCEWR.

In order to comply with the first requirement of the SCEWR decision, in June 2007 Sofiyska Voda AD approached six banks for offers for the refinancing the existing EBRD debt and providing funds for investments to the amount of BGN 50 million. After assessments of the offers, the company's shareholders selected EBRD and on 20th September 2007 a Mandate Letter was signed with the bank. As at the end of 2007 the company was still in the process of negotiating the terms and conditions of the new loan with EBRD and seeking approval from Municipality of Sofias.

When summarising the significant achievements for 2007, it is worth listing the continued negotiations between Sofiyska Voda AD and Municipality of Sofia on the amendments of the Concession Agreement. They finished in the end of 2007 and after the due approval by the Sofia Municipal Council, EBRD, SCEWR and Ministry of

Environment and Water, on 19th March 2008, the Second Amendment Agreement to the Concession Agreement was signed. Some further details on the amendments that would have a material effect on the activity of the company are described in the Notes to the Financial Statement of the Company.

A clear success for the company is the Agreement between Sofiyiska Voda AD and the Carbon Fund established at EBRD, signed on 21st September 2007. In its capacity as a Concessionaire of the Sofia water supply and sewerage network, Sofiyiska Voda AD invested in

Project „Capturing biogas and producing electric power at Kubratovo Waste Water Treatment Plant.” As a result of the project, the methane emissions in the atmosphere due to the activities on sludge treatment will be reduced. That allows Sofiyiska Voda AD to sell to the Carbon Fund the reduced carbon emission in compliance with the Kyoto Protocol. Furthermore, the company expects significant savings in energy costs at the Kubratovo Waste Water Treatment Plant.

Looking forward, Sofiyiska Voda AD submitted to SCEWR its Business Plan

for the second regulatory period 2009–2013 within the statutory deadline. It included a projection for an Investment Programme amounting to BGN 250 million for the period 2009–2013 designed to meet the levels of services required by SCEWR. A loan from EBRD to the amount of BGN 44,8 million and own revenues of BGN 205,2 million are to fund this huge Investment Programme.

*Teodora Koseva
Finance Director*



Independent Auditors' Report

To the shareholders of Sofiyska Voda AD

Report on the Separate financial statements

We have audited the accompanying separate financial statements of Sofiyska Voda AD ("the Company"), which comprise the separate balance sheet as at 31 December 2007, and the separate income statement, separate statement of changes in equity and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Separate financial statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the professional requirements of International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the "Sofiyska Voda" AD as of 31 December 2007, and of its separate financial performance and separate cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Without qualifying our opinion we draw attention to the following:

- The Company has capitalized costs incurred applying the estimation of management to link the costs incurred with the corresponding assets capitalized. The total amount of such capitalized expenses is BGN 3,808 thousand at 31 December 2007 in respect of development costs related to systems and processes.

- The Company is exposed to a number of contingent liabilities as described in note 25 to the separate financial statements. To the extent that no reliable estimate of liabilities can be determined no provision has been made.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Company in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information prepared by Management and disclosed in the annual report of the activities of the Company, as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the financial information disclosed in the audited separate financial statements of the Company as of and for the year ended 31 December 2007. Management is responsible for the preparation of the annual report of the activities of the Company which was approved by the Board of directors on 19 June 2008.

Sofia, 20 June 2008

Gilbert McCaul
Partner

Antoaneta Boicheva
Registered Auditor

KPMG Bulgaria OOD
37 Fridtjof Nansen Str.
1142 Sofia Bulgaria

Separate income statement

For the year ended 31 December 2007

<i>In thousands of BGN</i>	<i>Note</i>	<i>2007</i>	<i>2006</i>
Revenue	4	80,300	69,669
Other income	5	2,184	5,257
		82,484	74,926
Expenses for materials	6	(8,229)	(7,311)
Expenses for hired services	7	(22,296)	(20,351)
Depreciation and amortization	12,13	(12,403)	(10,600)
Salaries, remuneration and other personnel benefits	8	(9,374)	(7,302)
Social security contributions and other social expenses	8	(3,493)	(3,109)
Other operating expenses	9	(6,461)	(7,709)
Profit from operating activities		20,228	18,544
Finance income		484	194
Finance expense		(18,333)	(15,219)
Financing expense, (net)	10	(17,849)	(15,025)
Profit before tax		2,379	3,519
Income tax expense	11	(1,387)	(2,219)
Net profit for the year		992	1,300

The separate income statement is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 38 to 72.

The financial statements were approved on 19 June 2008.

Financial Director:
Teodora Koseva

Executive Director:
Gregory Endemano

Partner:
Gilbert McCaul

Registered Auditor:
Antoaneta Boicheva

Separate statement of changes in equity

For the year ended 31 December 2007

<i>In thousands of BGN</i>	<i>Share capital</i>	<i>Reserves</i>	<i>Retained earnings</i>	<i>Total</i>
Balance at 1 January 2006	8,884	72	3,173	12,129
Change in reserves	-	98	(98)	-
Recognized profit for the year	-	-	1,300	1,300
Balance at 31 December 2006	8,884	170	4,375	13,429
Balance at 1 January 2007	8,884	170	4,375	13,429
Change in reserves	-	130	(130)	-
Recognized profit for the year	-	-	992	992
Balance at 31 December 2007	8,884	300	5,237	14,421

The separate statement of changes in equity is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 38 to 72.

Financial Director:
Teodora Koseva

Executive Director:
Gregory Endemano

Partner:
Gilbert McCaul

Registered Auditor:
Antoaneta Boicheva

Separate balance sheet

For the year ended 31 December 2007

<i>In thousands of BGN</i>	<i>Note</i>	<i>2007</i>	<i>2006</i>
Non-current assets			
Property, plant and equipment	12	111,557	104,180
Intangible assets	13	12,745	14,688
Goodwill	13	7,393	7,393
Financial assets		60	49
Investments in subsidiaries		5	5
Loans to related parties		63	100
Total non-current assets		131,823	126,415
Current assets			
Short term loans to related parties		38	-
Inventories	14	1,327	1,887
Trade and other receivables	15	29,546	27,518
Cash and cash equivalents	16	9,045	10,242
Total current assets		39,956	39,647
Total Assets		171,779	166,062
Equity			
Share capital		8,884	8,884
Reserves		300	170
Retained earnings		5,237	4,375
Total capital and reserves	17	14,421	13,429
Non-current liabilities			
Interest bearing loans and borrowings	18	110,909	112,912
Liabilities under finance leases	18	589	906
Liabilities for retirement compensation	24	404	362
Total non-current liabilities		111,902	114,180
Current liabilities			
Interest bearing loans and borrowings	18	13,508	3,997
Liabilities under finance leases	18	320	325
Tax liabilities	22	1,840	6,895
Payables to related parties	26	13,329	16,369
Trade and other payables	20	16,020	10,012
Provisions	21	251	725
Liabilities for retirement compensation	24	188	130
Total current liabilities		45,456	38,453
Total liabilities		157,358	152,633
Total equity and liabilities		171,779	166,062

The separate balance sheet is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 38 to 72.

Financial Director:
Teodora Koseva

Executive Director:
Gregory Endemano

Partner:
Gilbert McCaul

Registered Auditor:
Antoaneta Boicheva

Separate statement of cash flows

For the year ended 31 December 2007

<i>In thousands of BGN</i>	<i>Note</i>	<i>2007</i>	<i>2006</i>
Cash flows from operating activities			
Net profit before tax		2,379	3,519
Adjustments for:			
Depreciation and amortization	12,13	12,403	10,600
Interest expense for loans at amortized cost	10	15,716	14,016
Other interest expenses	10	1,991	541
Impairment of receivables	9	5,395	5,359
(Gains)/ loss from derivative		(12)	61
Other non cash items		200	1,273
(Increase)/decrease in trade and other receivables		(8,053)	(2,791)
(Increase)/decrease in inventories		3	320
Increase/(decrease) in trade and other payables		3,026	(15,912)
Income tax paid		(7,568)	(1,137)
Net cash flow from operating activities		25,480	15,849
Investment activities			
Payments for acquisition of property, plant and equipment		(17,987)	(14,541)
Proceeds from sale of property, plant and equipment		4	24
Net cash flow from investing activities		(17,983)	(14,517)
Financing activities			
Repayment of borrowings		(4,057)	(3,668)
Loan provided to related party		-	(100)
Interest paid on borrowings		(4,152)	(3,694)
Payment of finance lease liabilities		(485)	(798)
Net cash flow from financing activities		(8,694)	(8,260)
Net increase/(decrease) in cash and cash equivalents		(1,197)	(6,928)
Cash and cash equivalents at the beginning of the year	16	10,242	17,170
Cash and cash equivalents at the end of the year	16	9,045	10,242

The separate statement of cash flows is to be read in conjunction with the notes to and forming part of the separate financial statements set out on pages 38 to 72.

Financial Director:
Teodora Koseva

Executive Director:
Gregory Endemano

Partner:
Gilbert McCaul

Registered Auditor:
Antoaneta Boicheva

Notes to the separate financial statements

1. Reporting entity.....	38
2. Basis of preparation.....	38
3. Significant accounting policies.....	39
4. Revenue.....	50
5. Other operating income.....	50
6. Expenses for materials.....	51
7. Expenses for hired services.....	51
8. Salaries, remuneration and other personnel benefits.....	52
9. Other expenses.....	52
10. Net financing costs.....	53
11. Income tax expense.....	53
12. Property, plant and equipment.....	54
13. Intangible assets.....	56
14. Inventories.....	56
15. Trade and other receivables.....	57
16. Cash and cash equivalents.....	57
17. Share capital and reserves.....	58
18. Interest – bearing loans and borrowings.....	58
19. Deferred tax assets and liabilities.....	59
20. Trade and other payables.....	60
21. Provisions.....	60
22. Tax liabilities.....	61
23. Financial instruments.....	61
24. Liabilities for retirement compensation.....	65
25. Contingent liabilities.....	66
26. Related parties.....	67
27. Obligations for acquisition of property, machines, equipment and devices.....	69
28. Subsequent events.....	69

1. Reporting entity

Sofiyska Voda AD (the Company) is a company registered in Sofia City Court on 28 December 1999 under company case N° 16172/1999 / N°54111, p.557, registration. 1, page 20. The address of the registered office of the Company is Bulgaria, Sofia, bl. Mladost 4, str. Business Park Sofia 1, building 2A. The Company is 77.10% owned by United Utilities (Sofia) BV and 22.90% owned by Vodospripravane I Kanalizatsia EAD.

The Company's business is the provision of water and wastewater services in the Municipality of Sofia, including managing and maintenance of the public assets which represent part of the watermain and wastewater-treatment system in Sofia and also construction, financing and managing of new assets.

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

2. Basis of preparation

(a) Statement of compliance

The financial statements for 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Commission.

These are the Company's first financial statements prepared in accordance with IFRS as endorsed by the European Commission and IFRS 1 – First time adoption of the International Financial Reporting Standards has been applied. The financial statements of the Company for the year ending as at 31 December 2006 is prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Commission, as at 1 January 2005, prepared by the International Accounting Standards Board (IASB). The Company management has performed an analysis and has not identified quantitative differences in the carrying amounts of the assets and the liabilities as well as in amounts presented in the income statement, as they were reported in the financial statements and the way they would have been reported for the year ending as at 31 December 2006 in accordance with the International Financial Reporting Standards (IFRS), prepared by the International Accounting Standards Board (IASB) and adopted by the European Commission.

IAS 8 Accounting policies, changes in accounting estimates and errors requires the Company to disclose the fact that it has not applied standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application. The Company has disclosed the effects from application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may have an effect on the Company's activities (see note 3 (I)).

The financial statements were approved by the Board of Directors on 19 June 2008.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the derivative, which is stated at fair value (significant accounting policy 3(b)).

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimate uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 12 - Property, plant and equipment;
- Note 13 - Intangible assets;
- Note 15 - Trade and other receivables.

3. Significant accounting policies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the company at exchange rates stated by the central bank at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate stated by the central bank at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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

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

(b) Financial Instruments

(i) Non-derivative financial instruments

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

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

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Financial assets at fair value through profit or loss

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

Other

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

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(iii) Derivative financial instruments

The Company holds derivative financial instruments to hedge foreign currency, interest rate risk exposures. Derivative financial instruments are recognized initially at fair value, any directly attributable transaction costs are recognised in the income statement when occurred.. Subsequent to initial recognition derivative financial instruments are recognized at fair value through profit or loss.

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

Owned and public assets

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

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

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

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

Subsequent expenditure

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

Leased assets

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

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

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(ii) Depreciation

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

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

● Buildings	25 years
● Plant and equipment	5-25 years
● Vehicles – automobiles	5-10 years
● Vehicles – trucks	12,5 years
● Water main improvements	25 years (or rate required to depreciate over remaining period of the concession if greater)

All depreciation methods, useful life and residual value is reviewed at every date of preparation of financial statements. There is a revision of the estimated appraisal of the life of some vehicles – automobiles in 2007.

(d) Intangible assets

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

(i) Goodwill

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

(ii) Research and development

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

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

(iii) Software

The software purchased by the Company is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (e)).

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

(iv) Subsequent expenditure

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

(v) Amortization

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

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

(e) Inventories

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

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

(f) Impairment

(i) Financial Assets

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

An impairment loss in respect of a financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

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

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

3. Significant accounting policies (continued)

(f) Impairment (continued)

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(g) Defined benefit plans

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

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

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

Other long-term benefits

The net obligation of the Company for long-term employee income, other than retirement plans, comprises amounts for future income due and payable to employees for present and past service; this income is discounted in order to determine its present value; the fair value of associated assets is reduced. The discount rate is an income as at the

3. Significant accounting policies (continued)

(g) Defined benefit plans (continued)

date of the balance sheet related to securities which have been awarded credit rating AA and which have maturity approximately corresponding to the term of contractual obligation of the Company. The calculation is performed by the method of credit forecast able units. The actuarial profits or losses are reported in the income statement in which these originate.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes as a liability the undiscounted amount of the expenses for annual paid leave that are expected to be paid to employees for the services provided during prior reporting period.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Provisions

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

(i) Revenue

Goods sold and rendered services

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

(j) Finance income and expenses

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

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

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

3. Significant accounting policies (continued)

(k) Income tax

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

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

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

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

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

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

IAS 1 Presentation of Financial Statements (effective date: 1 January 2009). The standard requires all changes in equity resulting from transactions with Company's owners to be presented separately from transactions with parties which do not own a share of the Company's capital. The presentation of components from the detailed income in the Statement of Equity is not permitted. IAS 1 requires income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income). In addition, the Standard requires components of other comprehensive income to be displayed in the statement of comprehensive income and total comprehensive income to be presented in the financial statements. The Company will apply the standard when preparing and presenting the financial statements for the period ending 31 December 2009.

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.

3. Significant accounting policies (continued)

(l) New standards and interpretations not yet adopted (continued)

IFRIC 11 IFRS 2 – “Group and Treasury Share Transactions” (effective for annual periods beginning on or after 1 March 2007). The interpretation requires share-based payment, for which an entity receives goods or services for its own equity instruments, to be accounted for as a share-based payment, based on shares, settled in shares, regardless of the method the equity instruments are received. The interpretation directs to whether share-based payments, where to suppliers of goods or services are issued equity instruments of the parent company, these should be accounted in the financial statements as settled in cash or in shares.

IFRIC 12 “Service Concession Agreement (effective for annual periods beginning on or after 1 January 2008). The interpretation clarifies for the private sector companies certain aspects of disclosure and valuation issues, arising from the accounting for a public-private concession agreement. The Concessionaire will recognize all expenses related to the improvement of available public assets or building new public assets based on the requirements of IAS 11 “Construction Contracts”. The Concessionaire will recognize its engagements for capital investments based on the requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. The interest expenses have to be recognized based on the requirements of IAS 23 “Borrowing Costs”, except if the Concessionaire does not have a contractual right to include the expenses in the price of the publicly rendered service. Consequently the borrowing costs will be capitalized during the period of the construction of these assets, based on the requirements of IAS 23 “Borrowing Costs”. The public assets given by the Grantor to the Concessionaire are not recognized as items of property, plant and equipment by the Concessionaire, but as intangible asset to the amount to which the Concessionaire receives the right to oblige the users of the public service. The changes of the accounting policy resulting from the requirements of IFRIC 12 “Service Concession Agreement” will be applied retrospectively in the financial statements of the Company.

IFRIC 13 “Customer Loyalty Programs” (effective for annual periods beginning on or after 1 July 2008) The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services (‘awards’) to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognize these proceeds as revenue only when they have fulfilled their obligations. The Company does not expect the Interpretation to have any impact on the financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions (effective for annual periods beginning on or after 1 January 2008). The Company does not expect IFRIC 14 to have an effect on the financial statements.

Revised IFRS 3 Business combinations and supplementary IAS 27 Consolidated and separate financial statements. All transferred positions of the acquiring party are presented at fair value.

The major changes as compared to IFRS 3 (2004) and IAS 27 (2003) are the following:

- IFRS 3 (2008) applies also to business combinations involving only mutual entities and to business combinations achieved by contract alone;
- The definition of business combination is changed and is focused on control;
- The acquiring party may choose to assess the non-controlling participation at fair value as at acquisition date or proportionally to the participation in the fair value of the identifiable assets and liabilities of the acquired party on transaction by transaction basis;
- Transaction costs incurred by the acquiring party in relation to the business combinations are not part of the business combination transaction;
- When an acquisition is executed through the purchase of shares (acquisition step), the identifiable assets and liabilities are recorded at fair value when control is acquired; income and losses are recognized in the income statement as the difference between the fair value and the carrying amount of the previously owned shares in the

3. Significant accounting policies (continued)

(l) New standards and interpretations not yet adopted (continued)

acquired party. The amount of the previously owned shares in the acquired party which was directly recorded in equity (i.e. investment classified as available-for-sale) is reclassified and includes recalculation of income and losses recognized in the income statement;

- Acquisition of additional non-controlling shares in the equity after business combination is recorded as transaction of the Company's capital;
- Sale of equity share, while control is preserved, is recorded as transaction of the Company's capital;
- Transactions resulting in loss of control of the company are recorded as income or loss on the income statement. Income or loss include revaluation to the fair value of the accumulated investment shares;
- New disclosures are required.

IFRS 3 (2008) is effective for periods beginning on or after 1 July 2009 and earlier application is permitted. Nevertheless, IFRS 3 (2008) cannot be applied earlier than the periods beginning on or after 30 June 2007. If the Company applies the standard earlier, it also has to apply IAS 27 (2008) and to disclose this fact.

The carrying amount of assets and liabilities resulting from business combinations before the application of IFRS (2008) are not adjusted. The Company has not determined yet the potential effect of the application of IFRS 3 and IAS 27.

(m) Financial risk management

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

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

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

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

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

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

Credit risk

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

(i) Trade receivables

The credit risk exposure of the Company is resulting from individual characteristics of individual clients. This exposure also depends on the risk of not payment relevant to the business sector. The Company is a monopolist in rendering

3. Significant accounting policies (continued)

(m) Financial risk management (continued)

its services on the territory of Sofia Municipality. As at 31 December 2007 the active clients of the company are 519,476 (2006 – 505,896). Based on the analyses of the Company, the services rendered have low price elasticity. The prices are regulated by the State Energy and Water Regulation Commission. The Company requires a guarantee from its customers in relation to the services rendered.

Liquidity risk

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

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

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

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

Market risk

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

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

The company manages its interest risk, as in 2000 it has signed a contract limiting the six month EURIBOR (hedging) up to 7 % maximum.

Capital management

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

The purpose of the Board of Directors is to maintain a balance between the higher return which may result from higher indebtedness levels and the benefits and security of a strong capital position. The return on equity during 2007 is 6.88% (2006 – 9.68%).

There were no changes in the Company's approach to capital management during the year. The Company was not the subject of equity requirements enforced by external authorities

According to the second additional amendment to the Concession contract, signed after the date of the balance sheet (19 March 2008) the return on capital must be 17 %.

4. Revenue

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Income from water suppl	54,000	44,100
Income from sewerage	8,298	10,197
Income from waste water treatment	13,708	11,913
Interest income on overdue receivables	2,780	2,152
Income or service sales	1,861	1,307
Invoiced income related to ISPA	(347)	-
	80,300	69,669

According to agreement dated 22/06/2007 between Sofiyska Voda AD and Sofia Municipality, and in connection with granted funds through Financial Memorandum ISPA 2000 BG 16 P PE 001, signed between European Commission and Republic of Bulgaria, the Company is obliged to include in the price of the offered service water – supply, sewerage and purification of refuse waters all the yearly necessary funds for repayment of the loan that will be received from the European Investment Bank project, amounting to 8,775 thousand EUR (15 % of project's amount). The beneficiary of the loan from the European Investment Bank is the Sofia Municipality. The Company is obliged to collect the amounts mentioned above for the repayment of the loan.

The State Energy and Water Regulatory Commission (SEWRC) has approved these necessary amounts for repayment of the loan to be included in the price of provided water – supply and sewerage service. In 2007 all the revenues, which are meant to be transferred for repayment of this EIB loan amount to 347 thousand leva.

The amounts collected by the Company from its customers will be transferred to the Ministry of Environment and Waters in a special bank account opened for the loan. As at the date of the preparation of this separate financial statement the loan from European Investment Bank is not received and the special bank account is not yet opened.

5. Other income

Other income for 2007 includes revenues from imposed sanctions for industrial discharges with above the standard concentration of fixed pollutants equal to 1,129 thousand leva (2006 : 53 BGN thousands), gains from sold inventories to subcontractors for repair works - 185 thousand leva (2006 : 224 BGN thousands).

In 2006 the Company recognized EUR 2 million as other income resulting from a contract for transfer of rights and obligations in accordance with contract with an option for purchase of property (land and building, where the Company is a tenant) dated 27 April 2005, based on which the rights and obligations are transferred to a third party.

6. Expenses for materials

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Electricity	2,209	2,092
Fuels and lubricants	2,043	2,242
Water for technological needs	1,369	1,199
Chemicals	941	618
Other	1,667	1,160
	8,229	7,311

7. Expenses for hired services

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Annual water tax	5,063	5,126
Repairs and maintenance of non-current assets	3,459	3,621
Insurance	1,034	1,182
Rent	1,062	1,066
Other (see the table below)	11,678	9,356
	22,296	20,351

Other expenses for hired services include:

Security	3,167	1,173
Water – meters reading	1,647	1,743
Couriers	568	711
Printing services	608	513
Technical services	1,188	896
Consultancy	759	940
Asphalt covering	513	355
SEWRC fee	473	434
Sterilization	204	138
Communication	449	500
Yearly software licenses	405	471
Hired transportation	192	207
Other	1,505	1,275
	11,678	9,356

8. Salaries, remuneration and other personnel benefits

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Salaries and remuneration	9,374	7,302
Pensions and social security expenses	1,859	1,552
Social expenses	562	1,398
Expenses for additional pension contribution	198	143
Voucher expenses	800	-
Retirement compensation	74	16
	12,867	10,411

The salary expenses include an accrual for unused annual paid leave at the amount of BGN 416 thousand (2006: BGN 349 thousand). The pension and social securities expenses include an accrual for social and health securities for unused annual paid leave at the amount of BGN 106 thousand (2006: BGN 74 thousand).

The amount of the retirement compensation includes the recognized actuarial loss, determined when calculating present value of the pension liability obligation for personnel (see note 24), in accordance with the option stated in paragraph 95 of IAS 19 "Employee benefits".

9. Other expenses

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Impairment of receivables	5,395	5,359
Write down of inventories to net releasable value	519	194
One-off taxes	191	349
Scrapping of non-current assets	89	205
Other	267	1,602
	6,461	7,709

10. Finance income and finance expenses

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Effect from guarantee discounts	97	-
Interest income	159	177
Gain from subsequent measurement of derivative	12	-
Net foreign exchange gains	216	17
Financial income	484	194
Interest expenses for Loan "A" based on effective interest rate method calculations	(4,766)	(5,234)
Interest expenses for Loan "B" based on effective interest rate method calculations	(10,950)	(8,782)
Finance charges on finance leases	(86)	(120)
Interest expenses on retirement compensations' liabilities	(27)	(24)
Effect from guarantee discounts	(41)	-
Loss from subsequent measurement of derivative	-	(61)
Interest expense from Tax assessment act	(1,837)	(397)
Other financial expenses	(626)	(601)
Financial expenses	(18,333)	(15,219)
Finance expenses, (net)	(17,849)	(15,025)

11. Income tax expense

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Current corporate income tax expense	(1,387)	(1,324)
Corporate income tax per Tax assessment act	-	(895)
	(1,387)	(2,219)

Reconciliation of effective tax rate

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Profit before tax	2,379	3,519
Income tax using the domestic corporation tax rate	10% 238	15% 528
Expenses not recognized for tax purposes	10% 233	4% 155
Effect of thin capitalisation	(0.5%) (11)	(1%) (19)
Other changes in temporary differences for which deferred taxes are not recognized in the separate financial statements	39% 927	19% 660
Net current income tax expense	58.5% 1,387	37% 1,324

12. Property, plant and equipment

<i>In thousand of BGN</i>	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Vehicles</i>	<i>Water main improvements</i>	<i>Leasehold improvements</i>	<i>Assets under construction</i>	<i>Total</i>
Cost							
Balance at 1 January 2006	1,134	15,857	6,173	52,354	16,619	24,220	116,357
Acquisitions	135	554	389	-	-	11,186	12,264
Disposals	-	(418)	(135)	(1)	(7)	-	(561)
Transfers	-	1,579	-	7,090	261	(8,930)	-
Balance at 31 Dec 2006	1,269	17,572	6,427	59,443	16,873	26,476	128,060
Balance at 1 January 2007	1,269	17,572	6,427	59,443	16,873	26,476	128,060
Acquisitions	-	1,095	226	-	-	14,169	15,490
Disposals	-	(341)	(28)	-	-	-	(369)
Transfers	-	1,470	-	8,115	2,636	(12,221)	-
Balance at 31 Dec 2007	1,269	19,796	6,625	67,558	19,509	28,424	143,181
Depreciation							
Balance at 1 January 2006	(149)	(4,796)	(1,479)	(6,493)	(4,843)	-	(17,760)
Depreciation charge for the year	(39)	(1,765)	(560)	(2,440)	(1,669)	-	(6,473)
Depreciation charged on disposals	-	278	71	-	4	-	353
Balance at 31 Dec 2006	(188)	(6,283)	(1,968)	(8,933)	(6,508)	-	(23,880)
Balance at 1 January 2007	(188)	(6,283)	(1,968)	(8,933)	(6,508)	-	(23,880)
Depreciation charge for the year	(43)	(1,714)	(1,635)	(2,838)	(1,846)	-	(8,076)
Depreciation charged on disposals	-	320	12	-	-	-	332
Balance at 31 Dec 2007	(231)	(7,677)	(3,591)	(11,771)	(8,354)	-	(31,624)
Carrying amount							
At 1 January 2006	985	11,061	4,694	45,861	11,776	24,220	98,597
At 31 December 2006	1,081	11,289	4,459	50,510	10,365	26,476	104,180
At 1 January 2007	1,081	11,289	4,459	50,510	10,365	26,476	104,180
At 31 December 2007	1,038	12,119	3,034	55,787	11,155	28,424	111,557

A review estimation of the remaining useful life has been prepared for some vehicles – automobiles. The estimation has been applied since 01 January 2007 from when revised depreciation has been calculated. The effect in depreciation expenses is 1,061 BGN thousand increasing in 2007.

12. Property, plant and equipment (continued)

Acquisitions

During 2007 assets at the amount of 15,490 BGN thousands have been acquired (2006: 12,264 BGN thousands). The major assets amounting 12,577 BGN thousands are stated below (2006: 8,776 BGN thousand).

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Strengthening of Beli Iskar Dam	1,721	-
Machinery and equipment in the water treatment plants and laboratories	1,219	441
Valves and hydrants	1,471	1,543
Water mains and house connections	3,895	3,469
Hydrophores	385	-
Sewerage mains and house connections	3,886	3,323
	12,577	8,776

Property, plant and equipment under construction

At 31 December 2007 assets under construction amount to 28,424 BGN thousands (2006: 26,476 BGN thousands). The major assets under construction for 27,614 BGN thousands, are stated below (2006: 21,545 BGN thousands).

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
2nd stage of strengthening of Beli Iskar Dam	581	228
Machinery and equipment in Waste water treatment plant –sludge carbonation installation, methane-tank reconstruction	13,825	12,803
Construction of water main system, water-main net model and DMA zones for reduction of unmetered water quantities	8,208	5,032
Building of chlorinating stations	330	20
Construction of sewerage mains and sewerage model	4,670	3,462
	27,614	21,545

Assets, pledged as collateral

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

A specific pledge on the leased vehicles has been set up in favor of the lessor. These are automobiles and construction machines with a carrying amount of BGN 1,416 thousand (2006: 1,483 thousand).

13. Intangible assets

<i>In thousands of BGN</i>	<i>Goodwill</i>	<i>Development costs</i>	<i>Software</i>	<i>Total</i>
Book value				
Balance at 1 January 2006	9,719	18,649	13,276	41,644
Acquisitions	-	-	52	52
Transfers	(2,326)	-	(18)	(2,344)
Balance at 31 December 2006	7,393	18,649	13,310	39,352
Balance at 1 January 2006	7,393	18,649	13,310	39,352
Acquisitions	-	2,250	134	2,384
Balance at 31 December 2006	7,393	20,899	13,444	41,736
Amortisation				
Balance at 1 January 2006	(2,326)	(9,246)	(3,907)	(15,479)
Amortisation for the year	-	(2,797)	(1,330)	(4,127)
Disposals	2,326	-	9	2,335
Balance at 31 December 2006	-	(12,043)	(5,228)	(17,271)
Balance at 1 January 2007	-	(12,043)	(5,228)	(17,271)
Amortisation for the year	-	(2,992)	(1,335)	(4,327)
Disposals	-	-	-	-
Balance at 31 December 2007	-	(15,035)	(6,563)	(21,598)
Carrying amounts				
At 1 January 2006	7,393	9,403	9,369	26,165
At 31 December 2006	7,393	6,606	8,082	22,081
At 1 January 2007	7,393	6,606	8,082	22,081
At 31 December 2007	7,393	5,864	6,881	20,138

Acquired assets

The acquisition with the greatest value in 2007 represents capitalized expenses for the completed investment plan of the company for the whole concession contract amounting to 2,250 BGN thousands.

14. Inventories

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Spare parts and consumables	2,040	2,081
Stock write down to net realizable value	(713)	(194)
	1,327	1,887

Inventories, pledged as collateral

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

15. Trade and other receivables

<i>In thousands of BGN</i>	<i>Note</i>	<i>2007</i>	<i>2006</i>
Trade receivables		60,483	54,406
Impairment losses on trade receivables		(33,649)	(28,733)
Related parties receivables	26	83	47
Prepayments and deferred expenses		1,600	1,296
Tax receivables		812	154
Court receivables		1,219	716
Impairment losses on court receivables		(1,158)	(680)
Other receivables		156	312
		29,546	27,518

Accounts receivable pledged as collateral

The Company has pledged all its accounts receivable, to be collected in the future in any local currency bank account, general receivables accounts from any party and insurance receivables related to any account receivable under the requirements of a bank loan.

The Company's exposure to interest rate risk and the sensitivity analysis of all financial assets and liabilities are reported in Note 23.

Prepayments and deferred expenses include:

<i>In thousand of BGN</i>	<i>2007</i>	<i>2006</i>
Insurance	763	876
Licenses	193	183
Subscriptions	15	13
Other	629	224
	1,600	1,296

16. Cash and cash equivalents

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Cash on hand	34	55
Local currency	17	35
Foreign currency	17	20
Cash at banks	9,011	10,187
Local currency	8,938	10,114
Foreign currency	73	73
Cash and cash equivalents in the statement of cash flows	9,045	10,242

Cash at banks pledged as collateral

The Company has pledged all its bank accounts under the requirements of a bank loan "A". These accounts will be used for collection of cash from accounts receivable plus any insurance claims payable to the Company in relation to insurances against losses and potential damages.

The Company's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 23.

17. Share capital and reserves

<i>In thousands of shares</i>	<i>Ordinary shares</i>	
	<i>2007</i>	<i>2006</i>
Issued at 1 January	8,884	8,884
Changes during the year	-	-
Issued as at 31 December – fully paid	8,884	8,884

As at 31 December 2007 the Company's share capital includes 8,884,435 ordinary shares (2006: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Company as at 31 December 2007 are:

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

With pledged endorsement dated 19 December 2000 in favor of the bank which provided secured bank loan "A", 6,850,000 ordinary shares have been pledged and this fact is inscribed in the shareholders' book based on a contract for pledge of shares.

The holders of ordinary shares possess dividend rights and voting rights at the Company's General Shareholders Meeting of one vote for each share in their possession. All shares rank equally with regard to the Company's residual assets.

Legal reserves

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

18. Interest – bearing loans and borrowings

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

<i>In thousand of BGN</i>	<i>Note</i>	<i>2007</i>	<i>2006</i>
Non-current liabilities			
Loans at nominal value		110,517	115,676
Amortization		392	(2,764)
Loans at amortized cost		110,909	112,912
Finance lease liabilities		589	906
		111,498	113,818
Current liabilities			
Loans at nominal value		13,365	4,057
Amortization		143	(60)
Loans at amortized cost		13,508	3,997
Finance lease liabilities		320	325
		13,828	4,322

The Company's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 23.

18. Interest – bearing loans and borrowings (continued)

Terms and debt repayment schedule

<i>In thousands of BGN</i>	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 2 years</i>	<i>2 – 5 years</i>	<i>More than 5 years</i>
Secured bank loans:					
Loan „A“ (3,5 % plus EUROLIBOR)	52,906	4,493	4,978	18,407	25,028
Loan „B“ (13% plus EUROLIBOR)	70,976	8,872	8,872	26,616	26,616
Finance lease liabilities	909	320	346	243	-
	124,791	13,685	14,196	45,266	51,644

Finance lease liabilities

The finance lease liabilities are payable as follows:

<i>In thousand of BGN</i>	<i>Future minimum lease payments</i>	<i>Interest</i>	<i>Present value of future lease payments</i>	<i>Future minimum lease payments</i>	<i>Interest</i>	<i>Present value of future lease payments</i>
	<i>2007</i>	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>	<i>2006</i>
Less than 1 year	383	63	320	404	79	325
Between 1 and 2 years	382	36	346	384	63	321
2 to 5 years	251	8	243	629	44	585
	1,016	107	909	1,417	186	1,231

19. Deferred tax assets and liabilities

In the separate financial statements the net deferred tax assets are not recognized. The reporting of the existing deferred assets and liabilities is presented below:

<i>In thousands of BGN</i>	<i>Assets</i>		<i>Liabilities</i>		<i>Net</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Property, plant and equipment	-	-	(2,094)	(2,058)	(2,094)	(2,058)
Goodwill	-	-	(500)	(500)	(500)	(500)
Trade receivables	3,082	2,703	-	-	3,082	2,703
Interest – bearing loans and borrowings	82	93	-	-	82	93
Provisions and accruals	529	187	-	-	529	187
Accrual for unused paid leave	77	66	-	-	77	66
Liability for retirement compensation	59	49	-	-	59	49
Inventories	71	29	-	-	71	29
Deferred tax assets/ (liabilities)	3,900	3,127	(2,594)	(2,558)	1,306	569

20. Trade and other payables

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Trade payables	3,720	4,725
Payables to employees	2,097	1,645
Social security payables	525	476
Payables for water usage tax	4,103	434
Other payables and accruals (see the table below)	5,575	2,732
	16,020	10,012

Other payables and accruals include:

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Support of water-main and sewerage network	2,400	913
Security	336	83
Guarantees	997	705
Insurance	830	470
ISPA	347	-
Others	665	561
	5,575	2,732

The Company's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 23.

21. Provisions

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Provision for court liabilities	251	125
Provisions for legal services in respect to court appeals by the Company	-	600
	251	725

Changes in provisions during the year are stated below:

<i>In thousands of BGN</i>	<i>Balance at 1 January 2007</i>	<i>Provisions made during the year</i>	<i>Provisions used during the year</i>	<i>Cancelled provisions during the year</i>	<i>Discount effect</i>	<i>Balance at 31 December 2007</i>
Provision for court liabilities	125	251	(125)	-	-	251
Provisions for legal services in respect to court appeals by the Company	600	-	-	(600)	-	-
	725	251	(125)	(600)	-	251

22. Tax liabilities

<i>In thousands of BGN</i>	<i>2007</i>	<i>2006</i>
Provision according to Tax assessment act - principal	-	3,707
Provision according to Tax assessment act - interest	-	1,995
Corporate tax liability	1,387	1,082
Other tax liabilities	453	111
	1,840	6,895

In 2003 a tax assessment was performed on the Company and a tax assessment act was issued by the tax authorities. In the Separate financial statements for 2006 a provision for the liability determined by the tax assessment is accrued. The Company appealed in court the conclusions of the tax inspection. With its decision from 07 August 2007 the Supreme court rejected the Company's appeal. The court resolution is final and can not be appealed.

The amount of the Tax assessment act is 7,532 thousand BGN, consisting of 3,700 thousand BGN principal, 1,995 thousand BGN interest up to 30 September 2003 and 1,837 thousand BGN interest for the period 30 September 2003 – 07 August 2007, and was fully paid on 13 August 2007, but after deduction of receivables of VAT (498 thousand BGN). The interest amount for the second period 30 September 2003 – 07 August 2007 is recognized in the 2007 separate income statement (see Note 10).

23. Financial instruments

Credit risk

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

<i>In thousand of BGN</i>	<i>Book value</i>	<i>Book value</i>
	<i>31 December 2007</i>	<i>31 December 2006</i>
Trade and other receivables	26,978	25,756
Cash and cash equivalents	9,045	10,242
Loans to related party	100	100
Derivative	60	49
	36,183	36,147

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

<i>In thousand of BGN</i>	<i>Cost</i>	<i>Cost</i>
	<i>31 December 2007</i>	<i>31 December 2006</i>
State budget organizations	492	583
Commercial customers	6,229	5,832
Domestic population	42,789	37,444
Other customers	11,056	10,594
	60,566	54,453

23. Financial instruments (continued)

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

<i>In thousand of BGN</i>	2007	2007	2006	2006
	<i>Cost</i>	<i>Impairment</i>	<i>Cost</i>	<i>Impairment</i>
Not matured	12,264	-	12,398	-
Overdue 30 days	2,971	(149)	2,387	(119)
Overdue from 31 to 120 days	5,673	(356)	5,178	(333)
Overdue from 121 to 210 days	3,830	(685)	3,894	(700)
Overdue from 211 to 270 days	2,088	(1,043)	2,043	(1,022)
Overdue from 271 to 360 days	3,008	(2,857)	2,597	(2,468)
Overdue more than 1 year	30,732	(28,559)	25,956	(24,091)
	60,566	(33,649)	54,453	(28,733)

Liquidity risk

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

31 December 2007

<i>In thousand of BGN</i>	<i>Book value</i>	<i>Contracted cash flows</i>	<i>Up to 1 year</i>	<i>Between 1 and 2 years</i>	<i>Between 2 – 5 years</i>	<i>More than 5 years</i>
Non – derivative financial liabilities						
Loan „A“ (3,5% plus EUROLIBOR)	52,316	74,112	8,839	8,925	27,502	28,846
Loan „B“ (13% plus EUROLIBOR)	72,101	124,518	21,100	19,492	49,052	34,874
Liabilities to related parties	13,329	13,329	13,329	-	-	-
Trade and other payables	13,398	13,398	13,398	-	-	-
	151,144	225,357	56,666	28,417	76,554	63,720

31 December 2006

<i>In thousand of BGN</i>	<i>Book value</i>	<i>Contracted cash flows</i>	<i>Up to 1 year</i>	<i>Between 1 and 2 years</i>	<i>Between 2 – 5 years</i>	<i>More than 5 years</i>
Non – derivative financial liabilities						
Loan „A“ (3,5% plus EUROLIBOR)	55,757	77,508	7,911	7,913	24,888	36,796
Loan „B“ (13% plus EUROLIBOR)	61,152	117,443	-	19,532	50,231	47,680
Liabilities to related parties	16,369	16,369	16,369	-	-	-
Trade and other payables	7,891	7,891	7,891	-	-	-
	141,169	219,211	32,171	27,445	75,119	84,476

Currency risk

	31 December 2007			31 December 2006		
	<i>EUR</i>	<i>GBP</i>	<i>USD</i>	<i>EUR</i>	<i>GBP</i>	<i>USD</i>
Trade payables	(4,716,687)	(661,813)	(487,669)	(6,615,127)	(668,638)	(486,484)
Interest bearing loans and borrowings	(63,613,263)	-	-	(59,774,508)	-	-
Gross Balance Exposure	(68,329,950)	(661,813)	(487,669)	(66,389,635)	(668,638)	(486,484)

23. Financial instruments (continued)

The following significant exchange rates are applied during these periods:

	Average period FX rate		FX rate at balance sheet date	
	2007	2006	2007	2006
USD 1	1.42937	1.55944	1.33122	1.48506
GBP 1	2.86005	2.86908	2.66172	2.91263

Sensitivity Analysis

A 10 % increase of the exchange rate at 31 December 2007 in relation to the currencies shown below would increase (decrease) the capital and profit or losses with the written down amounts. The analysis makes the assumptions that all other variables, especially the interest rates are fixed. For 2006 the analysis is done on the same basis.

In thousands of BGN	Capital	Income statement
31 December 2007		
USD	-	(65)
GBP	-	(176)
31 December 2006		
USD	-	(72)
GBP	-	(195)

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

Bulgaria operates under the conditions of a Currency board. The exchange rate of BGN is currently fixed to 1.95583 BGN for 1 EUR. Most deals, not undertaken in BGN are undertaken in EUR.

Interest rate risk

Profile

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

In thousands of BGN	2007	2006
Instruments with fixed interest rate		
Financial assets	9,111	10,287
Financial liabilities	-	-
	9,111	10,287
Instruments with variable interest rate		
Financial assets	26,917	25,720
Financial liabilities	(124,417)	(116,909)
	(97,500)	(91,189)

Sensitivity analysis against the fair value of instruments with fixed interest rate

The Company has not accrued financial assets and liabilities with fixed interest rate at fair value, accounted through profits and loss in the Income statement. Also the Company has no derivatives (Interest swaps) as hedge instruments according the model for hedging the fair value. Therefore the change of the interest rates at the balance sheet date does not cause either profits, or losses.

23. Financial instruments (continued)

Sensitivity analysis against the fair value of instruments with variable interest rate

A change of the interest levels with 100 basic points on 31 December would increase / decrease the equity and profit or loss with the amounts below. An assumption is made during the analysis that all other variables, especially the currency exchange rates are relatively constant. For 2006 the analysis is using the same basis.

<i>Effects in thousands of BGN</i>	<i>Change effect in Income statement</i>		<i>Change effect in Capital</i>	
	<i>100 basic</i>	<i>100 basic</i>	<i>100 basic</i>	<i>100 basic</i>
	<i>points increase</i>	<i>points decrease</i>	<i>points increase</i>	<i>points decrease</i>
31 December 2007				
Instruments with floating interest rate	557	554	-	-
Cash flow sensitivity (net)	557	554	-	-
31 December 2006				
Instruments with floating interest rate	8	12	-	-
Cash flow sensitivity (net)	8	12	-	-

Fair values compared to book values

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

<i>In thousands of BGN</i>	<i>31 December 2007</i>		<i>31 December 2006</i>	
	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
Trade and other receivables	26,978	26,978	25,756	25,756
Cash and cash equivalents	9,045	9,045	10,242	10,242
Loans to related party	100	100	100	100
Derivatives	60	60	49	49
Loans from related parties	(124,417)	(124,417)	(116,909)	(116,909)
Trade and other payables	(13,398)	(13,398)	(7,891)	(7,891)
	(101,632)	(101,632)	(88,653)	(88,653)

As at 31 December 2007 the Company has a loan „A“ liability with a nominal value of BGN 53,316 thousand. With a SWAP transaction letter agreement from 22 December 2000 the Company agreed to make a SWAP transaction with the Bank, which limits the level of basic interest rate to 7%. The cost of the hedging instrument was a premium of EUR 1,004 thousand, paid by the Company to the Bank. The premium paid is recorded as a non-current financial asset, which is stated at fair value as at the end of each reporting period.

The fair value of the SWAP at 31 December 2007 is an asset of BGN 60 thousand (2006: BGN 49 thousand).

24. Liabilities for retirement compensation

Present value of the liability for payment of defined contributions for retirement

<i>In Thousands of BGN</i>	2007	2006
Present value of the liability on 1 January	492	452
Interest expense	27	24
Current labor cost	81	71
Actuarial loss	122	56
Effect from restructuring	-	-
Paid compensations to retired employees	(130)	(111)
Present value of the liability on 31 December	592	492

Liability recognized in the balance sheet as at 31 December, including:	592	492
Short – term liabilities for retirement compensations	188	130
Long – term liabilities for retirement compensations	404	362

Expenses recognized in the income statement

<i>In thousands of BGN</i>	2007	2006
Current labor cost	81	71
Interest expense	27	24
Actuarial loss	122	56

Actuarial assumptions

	2007	2006
Discount rate at 31 December	5%	5%
Salary increase (annual for 10 years)	5%	5%
Employee turnover	11%	9%

The actuarial assumptions for death rates are based on the National statistics institute's population mortality tables.

For the purposes of the discounting effective annual interest rate $i = 5\%$ is used. It corresponds to annual discount rate $d = 5\%$. This rate is calculated analyzing the offered long-term investment instrument on the Bulgarian stock market.

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

<i>In thousands of BGN</i>	<i>One basis point increase of salaries growth</i>	<i>One basis point decrease of salaries growth</i>
Effect of the liability for retirement compensation	(18)	19

25. Contingent liabilities

(a) Bank guarantees

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

The final date for the liquidation of the liability per the contract is 15 December 2008.

(6) Infrastructure

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

A decision of the Commission for Protection of Competition from October 2005 states that the State finances do not represent a state grant and in a three months period from the construction of new water main infrastructure, an annex will be prepared to the Concession contract the purpose of which should be to recover the amount of the water main infrastructure expenditure from Sofiyska Voda AD for the State.

The Company is pursuing a claim to the Supreme court against the decision of the Commission for Protection of Competition. The final decision of the Supreme court (dated 07 June 2007) rejects the appeal of Sofiyska voda AD.

Nevertheless the construction of the water-main and sewerage system, object of decisions of both the Commission for Protection of Competition and Supreme Court has not yet begun. The Company have initiated negotiations with Sofia Municipality to agree on the reinstatement of the equivalent considerations in the Concession contract.

(c) Concession Dispute Resolution Board (CDRB)

In accordance with Annex 15 to the Concession contract that each of the parties in the Contract will pay 50% of the remuneration of the participants in the Concession Dispute Resolution Board in respect to disputes related to the Concession. The Company has paid the entire amount of the remuneration of the members of the CDRB. In accordance with the clauses in Annex 15 and the First Supplement Agreement from 15 December 2000 half of this remuneration, in the amount of BGN 1,494 thousand, are accounted for as receivable from Sofia Municipality. The Company required this sum to be refunded by Sofia Municipality. Sofia Municipality refuses to refund this remuneration of the members of the CDRB.

(d) Concession monitoring unit

Omonit OOD is a Company, which monitored the activity of Sofiyska Voda AD till 2005 in accordance with the conditions in the Concession contract. For the period from the second quarter of the second till the fourth concession year, Omonit OOD and Sofiyska Voda AD discussed certain issues, where Omonit considers that Sofiyska Voda AD has not complied with certain clauses of the Concession contract. This is disputed by the Company. According to the

25. Contingent liabilities (continued)

(d) Concession monitoring unit (continued)

procedure stipulated in the Concession contract, Sofia Municipality should define the amount of the obligation of the Concessionaire. In the Separate financial statement no provision for failure to fulfill any obligations related to the clauses in the Concession contract was accrued, as no reliable assessment of such liability can currently be made.

The amount of these obligations of Sofiyska Voda AD towards Sofia Municipality are expected to be fixed in the near future, connected with agreed amendments of the Concession contract and the stipulated procedure for closing disputes between the two parties. The stipulated period for presenting claims is three months, as of 19 March 2008.

26. Related parties

The Company has a related party relationship with its parent company – United Utilities UU (Sofia) B.V., which holds 77,10% of the Company's shares, as well as with the other companies in the Group.

The following transactions have taken place during 2007

Related party	Relation	Transactions during the year	Balance as at 31 December 2007	
			Receivables	Payables
<i>In thousands of BGN</i>				
United Utilities UU (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided -	-	72,101
		Accrued interest 10,950		Loan liability at amortized cost
		Other 44		44
United Utilities International Limited	Controls 50% of the shares of United Utilities UU (Sofia) BV and 50% of the shares of United Utilities – Europe Holdings BV	Services as per Technical Services Agreement 1,500	50	7,150
		Other 50		
United Utilities – Europe Holdings BV	Controls 50% of the shares of United Utilities UU (Sofia) BV	-	-	6,043
Water Industry Support and Education AD	100% subsidiary of Sofiyska Voda AD	Interest income 5	1	
		Loan provided by Sofiyska Voda AS -	100	
		Project Management services provided to the Company 278	-	61
		Investor's control submitted to Sofiyska Voda AD 155		31
		Complex services provided by Sofiyska Voda AD 91	33	
European Bank for Reconstruction and Development	Controls 50% of the shares of United Utilities – Europe Holdings BV	Interest accrued 4,766	-	52,316
				Liability for loan received at amortized cost
		Total:	184	137,746

26. Related parties (continued)

The following transactions have taken place during 2006

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2006	
			Receivables	Payables
United Utilities UU (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided - Accrued interest 8,782 Other	-	61,152 Liability for loan received at amortized cost 44
United Utilities International Limited	Controls 50% of the shares of United Utilities UU (Sofia) BV and 50% of the shares of United Utilities – Europe Holdings BV	Services as per “Technical Services Agreement” 1,500 Other 14	-	8,725
United Utilities – Europe Holdings BV	Controls 50% of the shares of United Utilities UU (Sofia) BV	-	37	7,570
Water Industry Support and Education AD	100% subsidiary of Sofiyska Voda AD	Interest income 4 Loan provided by Sofiyska Voda AD 100 Project Management services provided to Sofiyska Voda AD 167 Complex services provided by Sofiyska Voda AD 36	100	30
European Bank for Reconstruction and Development	Controls 50% of the shares of United Utilities – Europe Holdings BV	Accrued interest 5,234		55,757 Liability for loan received at amortized cost
Total:			147	133,278

Transactions with directors and officers on key positions

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

<i>In thousand of BGN</i>	2007	2006
Remuneration of the Board of Directors	72	72
	72	72

27. Obligations for acquisition of property, plant and equipment

As per the Concession contract with Sofia Municipality on 23 December 1999, the Company must make a minimum capital investment during the first 15 years, as from the date this contract – amounting to not less than 150 million USD, based on the investment plan for the Concession period. Non-fulfillment of 75% (in value) of these capital investments, based on the investment plan for a period of two consecutive years may result in termination of Concession contract by the Grantor.

This article from the contract is amended with a Second additional annex to the Concession Contract, signed after the balance sheet date. Regarding this additional annex to the Concession contract, a precondition for termination is 75% non-fulfillment of the projected and approved investments by the State Commission for Energy and Water Regulation., in two consecutive years, during the regulation period (see note 28 – Termination)

As per the State Commission for Energy and Water Regulation decision Nr: C-063/ 23.04.2007 the Company is obliged to finalize investments for not less than 15 mln. BGN from the planned investment program for 2007, part of the approved Company business plan. For all executed investments Sofiyska voda AD and the specialized departments from Sofia Municipality, in charge of the control and execution of the Concession contract, must present documents proving the real realizing of the investments. The investments executed by Sofiyska voda AD and accepted by the Municipality investments for 2007 are equal to the amount of 17.9 mln. BGN

28. Subsequent events

(a) Signing of second additional annex to the Concession contract provision of water-main supply and sewerage services on the territory of Sofia Municipality

After several years of negotiations and the due approval by the Sofia Municipal Council, EBRD, the State Commission for Energy and Water Regulation and the Ministry of Environment and Waters, on 19 March 2008 a Second additional agreement to the Concession Contract was signed. The amended contract is in force after the fulfillment of several preliminary conditions, the most important of which are:

- 1) charging the price of 1,02 BGN / m³, excl. VAT for the full service, provided to the domestic customers from the water-main system of Sofia;
- 2) each party of the Concession contract to put forward to the other side his counter-party claims for the time period from the date of the Concession contract up to date of signing of the Second additional agreement to it. This condition is regarded for satisfied, including the reference to arbitration for not solved disputes, according the clauses of the initial Annex 15 to the Concession contract.

The final date for satisfying of all preliminary conditions is 4 months as from the signing date. The first can be mutually accepted and prolonged for an additional period of 3 (three) more months.

The amendments that could have a material effect over Company operations are:

General rights and obligations

The rights and obligations of the parties are in compliance with the law and acknowledge the service levels and investments included in approved Business plans by the State Commission for Energy and Water regulation. Both parties are obliged to co-operate during the preparation of the Business plan projects.

28. Subsequent events (continued)

a) Signing of second additional annex to the Concession contract provision of water-main supply and sewerage services on the territory of Sofia Municipality

Service levels

The long-term quality indicators, which are written in the ordinance to the Law are recognized as a basis. The annual levels are determined, so as to achieve the long-term ones, and are approved by State Commission for Energy and Water regulation, in line with presented Business plans.

Exploitation and maintenance of the assets

A coordination procedure is implemented between the Concessionaire and the Grantor for the preparation of the Business plan projects and their agreement before they are deposited for State Commission for Energy and Water regulation approval. Sofia Municipality has the ability to impose its own projects in the Concessionaire's investment program.

Investment program and construction

The forecast Investment Plan, part of the application form of already approved "Integrated project for the water sector of Sofia" under ISPA regulations, will be used by the Concessionaire as a basis during the preparation of Business Plan Projects. The Grantor's right to participate in the public purchase orders exceeding the amount of 500,000 BGN, held by the Concessionaire, is explicitly introduced.

Public Assets

The Concessionaire must support and give periodically to the Grantor an asset register. There is a procedure regularized for official hand over for exploitation by the Concessionaire of self-constructed assets. A regularized order is fixed to the register and hand over for exploitation from the Concessionaire of New public assets.

Prices

Prices may be approved only by State Commission for Energy and Water Regulation.

If expenses exceed the accepted level, for reasons beyond the Concessionaire's control (force majeure, related events, etc.), it has the right to apply for price correction, and will have Grantor's support.

The non-receiving of such a price correction is a Price limitation, leading to without fault termination.

Conversely handing over conditions

The establishment of a bank account is expected, which will facilitate the procedure for handing back assets at the end of the concession contract. These funds will be built up from 1% from the Concessionaire's net retained earnings, and will be accrued for the period from the 15th contract year to the end of the concession. The obligations of the Concessionaire related to this handover are limited to the amounts, collected in the Account.

Concession Dispute Resolution Procedure

The procedure described in Annex 15 is amended, as the new procedure is expected to be quicker and cheaper, and is in compliance with the rules for mediation and arbitration of the International Arbitration Center of the Austrian Federal Economic Chamber. There are 2 stages of arbitration – mediator, appointed by the Board of International Arbitration Center required by both parties, and arbitration.

Concession monitoring

The Concession monitoring unit becomes part of the Sofia Municipality structure with very clear defined rights and duties. There will be a transition of the object of monitoring from the Service level to very tight monitoring of assets' condition by establishing criteria for assessment by group of assets.

The Concessionaire has the obligation to present twice a year 2 general reports and updated Asset Register. If a delay arises in meeting the deadlines the Concessionaire will have to pay a penalty of 150 BGN per day.

28. Subsequent events (continued)

a) Signing of second additional annex to the Concession contract provision of water-main supply and sewerage services on the territory of Sofia Municipality

Penalties

The Concessionaire is free of payment of penalties, imposed because of exploitation of public assets, which are not handed over following from ViK the regularized order. Annex 4 is cancelled.

Termination

The articles with the grounds for termination by the fault of the Concessionaire are amended as follows:

- An option for termination is included by State's Commission for Energy and Water Regulation proposal, when there is a second violation of year target levels of Quality indicators;
- A ground for termination is included if the Concessionaire is not paying the due amount.
- The ground for 75 % non-fulfillment of the projected investments is left, but now linked with the approved by the State Commission for Energy and Water Regulation Business plans.

Amendments to the Act that prevent the implementation of the Agreement shall result in no-fault termination..

(b) Subordinated debt Loan agreement amendment between Sofiyska voda AD and United Utilities UU (Sofia) BV

In execution of Sofia Municipality Council Decision Nr: 90 dated 28/02/2008, Sofiyska Voda AD and United Utilities UU (Sofia) BV agreed on the amendment of Subordination Debt Loan agreement. Both parties signed it on 19 May 2008.

The main amendment, resulting from this agreement, is the reduction of interest rate for the subordinated debt loan from six months EURIBOR + 13 % to six months EURIBOR + 5.95 %. The change is in force as from 1st of January 2007. The calculation from this showed, that in result from this action, the closing balance of the Subordinated debt loan on 31 December 2007 will change in the following way:

- Nominal value of the loan at 31 December 2007 in 2007 financial statements – 70,975 thousand BGN;
- Amortized value of the loan at 31 December 2007 in 2007 financial statements – 72,101 thousand BGN;
- New nominal value at 31 December 2007 – 67,500 thousand BGN;
- New amortized value at 31 December 2007 – 67,782 thousand BGN;

The tax effect resulting from the lower interest expenses for the period is 350 thousand BGN.

The changes will be reflected in the 2008 financial statements.

(c) Sales contract for emissions reductions between Sofiyska voda AD and the EBRD Carbon Fund

As a Concessionaire of the water-main supply and sewerage network of Sofia Sofiyska voda AD has invested in the project "Catching of Biogas and production of energy in Kubratovo purifying station". These results are lower emissions of methane in the atmosphere, because of the action for purifying of the sediments.

On 21 September 2007 Sofiyska Voda AD and the EBRD Carbon Funds negotiated an agreement, by which Sofiyska Voda AD sells and the Carbon Fund purchases the reduced carbon emissions, by virtue of the Frame Convention of Union Nations concerning climate changes. The agreement was signed by issuing a letter for approval of the project "Catching of Biogas and manufacturing of energy in Kubratovo purifying station" by The Ministry of Environment and Waters of Republic of Bulgaria. All reduced emissions are registered annually in a report, prepared in compliance with signed agreement. As per an appendix to this agreement the sale of emissions will be between 2008 and 2012.

28. Subsequent events (continued)

(d) Bank Loan A agreement amendment between Sofiyska Voda AD and EBRD

As at the end of 2007 Sofiyska Voda AD was in a process of re-negotiating of the existing bank loan with EBRD. The new agreements has been signed on 30th of April 2008 and is effective as of 27th of May 2008 with the following parameters:

Loan amounts

Refinancing of the existing loan and granting of an additional one for the amount of 22.6 mln. EUR, which will be used for financing the investment program of the Company during the next 3 years.

Interest rate

The 6 months EURIBOR + 1.75 % for the period of receiving the funds with the option for a reduction down to EURIBOR + 1.35 % after meeting and fulfilling certain conditions.

Loan commitment period

35 months from the date of signing this agreement.

Collateral

Pledge of Sofiyska Voda AD shares owned by United Utilities UU (Sofia) BV, all property, receivables and bank accounts in favor of EBRD.

On 27 May 2008 the refinancing of the existing EBRD loan was effectively implemented, and on 30.05.2008 the first tranche of the new investment loan, amounting to EUR 600,000, was transferred.

Thus, Sofiyska Voda AD met the conditions of State Commission for Energy and Water regulation for approving a tariff for the WSS services provided to the population of 1.02 BGN/m³ without VAT. With Decision № Л- 018 dated 26.05.2008 SWERC approved the meeting of the conditions specified for Sofiyska Voda AD and the new tariff is in effect from 01 June 2008.

(e) Establishment of pledges as collateral in connection with a contract for credit with United Bulgarian Bank.

On 13 June 2008 the Company has pledged as collateral under the requirements of a bank loan entered into on 10 June 2008 with United Bulgarian Bank in the amount of EUR 1,000,000 movable property (a co-generator, which will be acquired with the loan funds) and free assistance from the European Bank for Reconstruction and Development received in connection with the program "Energy efficiency and renewable sources" to the value of EUR 200,000. Sofiyska Voda AD also issued a promissory note in the amount of EUR 814,454, with respect to the same loan.