

Water Industry Support and Education EOOD

Financial Statements

For the year ended 31 December 2012

With independent auditors' report

Contents

Statement of financial position	3
Statement of comprehensive income	4
Statement of changes in equity	5
Statement of cash flows	6
Notes to the financial statements	7
Independent auditor's report	

ANNUAL REPORT
WATER INDUSTRY SUPPORT AND EDUCATION EOOD

2012

Water Industry Support and Education EOOD (WISE) is a subsidiary of “Sofiyska Voda” AD. It was established in the beginning of 2006 under a contract agreement for the provision of project design services. Its business involves design preparation in reference to the investment programme of the company. Another reason for WISE to be set up as a separate company is the goal of the company to pursue opportunities for additional business, i.e. to enable the design team to provide design services to external entities.

The project design activity commenced in 2006. The service is based on a design contract with Sofiyska Voda AD. The workload directly depends by Sofiyska Voda’s investment programme as well as external orders. Company’s revenue from the project design activity in 2012 is BGN 401 thousand (in 2011 BGN 384 thousand). The contract prices of the project service provided by WISE to Sofiyska Voda AD fully comply with the market prices of similar services.

The direct operating costs for the design activity in 2012 are BGN 404 thousand (BGN 346 thousand for 2011). The major costs for the delivery of the design activity in 2012 are the employee benefits – BGN 257 thousand (BGN 214 thousand in 2011) and the expenses for hired services – BGN 132 thousand (BGN 124 thousand in 2011).

The activity of the designers remains focused mainly on the core business of the company and the investment programme of Sofiyska Voda AD. The amount of the investments for the next period (2013) under the investment programme remains similar in size to the level as in 2012. In this regard the company expects that the project activity in 2013 under the investment programme will generate the same amount of revenue and similar workload as in 2012.

The financial result of WISE after tax in 2012 is a profit of BGN 0 thousand (2011: BGN 39 thousand).

The financial result in 2011 has been distributed and no dividends have been paid.

The Company’s policy regarding the financial risk, as well as its exposure to price, credit and liquidity risk are described in detail in the notes to the 2012 financial statements.

The future development of WISE directly depends on the amount of the Investment programme of Sofiyska Voda AD. Considering the fact that Sofiyska Voda has an approved Business Plan for the period 2009 – 2013 and also in view of management’s goal to provide new project design services to external customers, it is believed 2013 will be a profitable year.

As at the end of 2012 the company has no outstanding liabilities under loan agreements with external financial institutions or the Group.

The Company has no research and development activity.

The Company did not transfer or acquire shares during the reported financial year 2012.

No events have occurred after the reporting date, which require the disclosure or adjustment of the annual financial statements.

No remunerations were paid out to the General Manager of the Company during the financial year 2012.

The General Manager of the Company does not participate in any companies as a general partner with unlimited liability, does not own more than 25% of another company's equity, as well as does not participate in the management of other companies or cooperations as procurator, general manager or board member.

The Company has a related party relationship with the parent company – Sofiyska Voda AD, which has a 100% share in Water Industry Support and Education EOOD. The amount of the transactions and the amount of receivables and payables to related parties are disclosed in Note 22 in the Separate Financial Statements of the company for 2012.

The Company does not have branches at home and abroad.



Aneliya Ilieva

/Act. CFO/

Stanislav Stanev

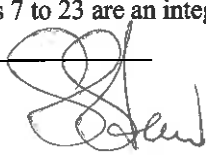
/General Manager/

Statement of financial position

As at 31 December
In thousands of BGN

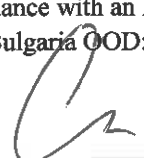
	Note	2012	2011
Assets			
Property, plant and equipment	13	31	8
Total non-current assets		31	8
Receivables from related parties	22	75	62
Trade and other receivables	14	34	1
Prepayments and deferred expenses	15	156	46
Income tax receivables		14	15
Cash and cash equivalents	16	205	243
Total current assets		484	367
Total assets		515	375
Equity			
Share capital	17	5	5
Retained earnings		232	231
Total equity		237	237
Liabilities			
Payables to related parties	22	143	19
Trade and other payables	18	112	82
Payables to employees	19	23	37
Total current liabilities		278	138
Total liabilities		278	138
Total equity and liabilities		515	375

The notes on pages 7 to 23 are an integral part of these financial statements.



Stanislav Stanev
General manager



Aneliya Ilieva
acting Finance director
In accordance with an Independent Auditors' Report:
KPMG Bulgaria OOD:


Gilbert McCaul
Director
KPMG Bulgaria OOD



Krassimir Hadjirdinev
Registered Auditor

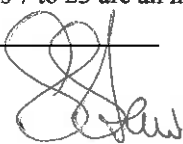

Statement of comprehensive income

For the year ended 31 December

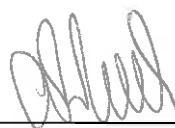
<i>In thousands of BGN</i>	<i>Note</i>	2012	2011
Revenue	6	395	384
Other revenue	6	6	-
		401	384
Expenses for materials	7	(6)	(1)
Expenses for hired services	8	(132)	(124)
Amortization and depreciation expenses	13	(3)	(2)
Personnel expenses	9	(257)	(214)
Other operational expenses	10	(6)	(5)
Results from operating activities		(3)	38
Finance income	11	4	6
Finance expenses	11	(1)	-
Net finance expenses		3	6
Profit before tax		-	44
Income tax expense	12	-	(5)
Profit for the period		-	39
Total comprehensive income for the period		-	39

The notes on pages 7 to 23 are an integral part of these financial statements.

Stanislav Stanev
General manager

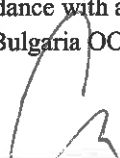



Aneliya Ilieva
acting Finance director



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

Gilbert McCaul
Director
KPMG Bulgaria OOD




Krassimir Hadjilidnev
Registered Auditor



Statements of changes in equity

<i>In thousands of BGN</i>	Note	Share Capital	Retained Earnings	Total
Balance at 1 January 2011		5	193	198
Total comprehensive income for the period				
Profit for the year		-	39	39
Other comprehensive income		-	-	-
Total comprehensive income for the period				
Balance at 31 December 2011	17	5	232	237
Balance at 1 January 2012		5	232	237
Total comprehensive income for the period				
Profit for the year		-	-	-
Other comprehensive income		-	-	-
Total comprehensive income for the period				
Balance at 31 December 2012	17	5	232	237

The notes on pages 7 to 23 are an integral part of these financial statements

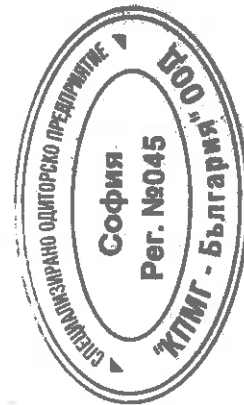
Stanislav Stanév
General manager

Aneliya Ilieva
acting Finance director

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

Gilbert McCaul
Director
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Krassimir Hadjidinev
Registered Auditor



Statement of cash flows

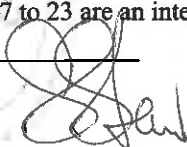
the year ended 31 December

In thousands of BGN

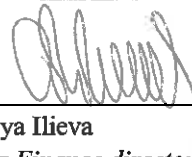
	Note	2012	2011
Cash flows from operating activities			
Net profit for the period		-	39
<i>Adjustments for:</i>			
Depreciation and amortization expenses	13	3	2
Net finance expense / (income)	11	(3)	(6)
Income tax expense	12	-	5
		<u>-</u>	<u>40</u>
Change in trade and other receivables	14	(33)	(3)
Change in trade and other receivables from related parties	22	(13)	18
Change in prepayments	15	(110)	27
Change in trade and other payables	18,19	24	13
Change in trade and other payables to related parties	22	124	7
Change in VAT payable		(6)	(4)
Income tax paid		(1)	(5)
Net cash from operating activities		<u>(15)</u>	<u>93</u>
Cash flows from investing activities			
Acquisition of property, plant, equipment and intangible assets	13	(26)	-
Net cash from investing activities		<u>(26)</u>	<u>-</u>
Cash flows from financing activities			
Interest received		4	6
Other finance expenses paid		(1)	-
Net cash from financing activities	11	<u>3</u>	<u>6</u>
Net increase / (decrease) in cash and cash equivalents		<u>(38)</u>	<u>99</u>
Cash and cash equivalents as at 1 January		<u>243</u>	<u>144</u>
Cash and cash equivalents as at 31 December	16	<u>205</u>	<u>243</u>

The notes on pages 7 to 23 are an integral part of these financial statements.

Stanislav Stanev
General manager





Aneliya Ilieva
acting Finance director



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

Gilbert McCaul
Director
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Notes to the Financial Statements

1	Reporting entity	8
2	Basis of preparation	8
3	Significant accounting policies	9
4	New Standards and interpretations not yet adopted	14
5	Determination of fair values	16
6	Revenues	17
7	Cost of materials	17
8	Hired services expenses	17
9	Personnel expenses	17
10	Other operating expenses	17
11	Finance income and expenses	17
12	Income tax expense	18
13	Property, plant and equipment	18
14	Trade and other receivables	18
15	Prepayments and deferred expenses	19
16	Cash and cash equivalents	19
17	Share capital and reserves	19
18	Trade and other payables	19
19	Payables to employees	19
20	Financial instruments	19
21	Operating leases	22
22	Related parties	22
23	Subsequent events	23

Notes to the Financial Statements

1. Reporting Entity

“Water Industry Support and Education” EOOD is a commercial entity registered in Bulgaria under Sofia City Court decision No: 9889/2000. volume 633, p. 29, lot No: 57546.

The address of the registered office of the company is Bulgaria, Sofia, district Mladost 4, Business Park Sofia, Building 2A. The subsidiary’s business involves project measurement, maintenance and design.

Water Industry Support and Education EOOD (The Company) is a subsidiary of “Sofiyska Voda” AD.

2. Basis of preparation

(a) Statement of compliance

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

The financial statements as of year ended 31 December 2012 were approved by the Board of Directors on 28 March, 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(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 estimates are revised and in any future periods affected.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates 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 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.

Effective 1 January 1999 up until the reporting date, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.

(b) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date, which bear insignificant risk of changes in their fair value and are used by the Company to manage short-term commitments.

3. Significant accounting policies (continued)**(b) Financial instruments (continued)****(ii) Non-derivative financial liabilities**

Financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Share capital

The equity of the Company is presented at historical cost at the date of registration.

(c) Property, plant and equipment**(i) Recognition and measurement**

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses (see significant accounting policy 3 (f)). They are stated at cost at their initial acquisition. Cost includes the purchase price, the unrecoverable taxes for the purchase, as well as any other costs directly attributable to bringing the asset to a working condition for its intended use.

The cost of self-constructed assets includes the cost of materials, direct labor and any other direct costs, including also expenses for services performed by subcontractors.

Profits and losses from disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" in the Statement of Comprehensive Income.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(ii) Depreciation

Depreciation is recognized in the Statement of Comprehensive income on a straight-line basis over the estimated useful lives of items of property, plant and equipment.

The depreciation rates used are based on the estimated useful lives as follows:

Fixtures and fittings	10 years
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3. Significant accounting policies (continued)**(d) Intangible assets****(i) Recognition and measurement**

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

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(ii) Amortization

Amortization is charged in the Statement of Comprehensive income on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

software	5 years
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(e) Leased assets

Lease contracts, under the provision of the contractual rights of which The Company acquires all the significant risk and rewards of the ownership are classified as finance lease. Initially the leased assets are recognized at lower of the fair value and the present value of the minimal lease payments. Subsequent to initial recognition the asset is measured in accordance with the relevant accounting policy.

Contracts for operating leases differ from the finance leases and are not presented in the financial statements of The Company.

(f) Impairment of Assets**(i) Non-derivative financial assets**

A financial asset that is not accounted at fair value in profit or loss, 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 and the effect can be reliably evaluated.

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

Separately significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the statement of comprehensive income.

3. Significant accounting policies (continued)**(f) Impairment (continued)****(ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an estimate of the recoverable amount is made. For goodwill and intangible assets that have indefinite useful lives or that are not available for use yet, the recoverable amount is estimated annually at the same time.

The recoverable amount of an asset or a cash-generating unit (CGU) of assets 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 an asset that does not generate cash flows independently, the recoverable amount is determined for the cash-generating group of assets to which it belongs.

(g) Employee benefits***Defined Contribution Plans***

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

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.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised 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.

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(h) Revenue from services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(i) Leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3. Significant accounting policies (continued)

(j) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, foreign exchange losses and impairment losses recognized on financial assets.

Foreign currency gains and losses are reported on a net basis in the financial statements.

(k) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

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

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

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be 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.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

4. New standards and interpretations not yet adopted**New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2012, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early.

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

- Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014.

The Company does not expect these standards to have an impact on these financial statements since the Company does not have control over other entities and does not have any investments in associates or joint ventures and is not a party to any joint arrangements.

- IFRS 13 *Fair Value Measurement* provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Company is currently reviewing its methodologies in determining fair values (see Note 5). IFRS 13 shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013.
- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* are shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 July 2012. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.
The amendments are not relevant to the Company's financial statements, since the Company does not have other comprehensive income.
- Amended IAS 19 *Employee Benefits* shall be applied, at the latest, as from the beginning of the first financial year starting on or after 1 January 2013.
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* is effective shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the amendments to have any impact on the financial statements, since they do not result in a change in the Company's accounting policy.
- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* i shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

4. New standards and interpretations not yet adopted (continued)**Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC (continued):**

- IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Interpretation to have any impact on the financial statements since the Company does not have any stripping activities
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2013. The Company does not expect the Amendments to have any impact on the financial statements.

IASB/IFRIC documents not yet endorsed by EC:

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

- IFRS 9 *Financial Instruments (issued November 2009 and Additions to IFRS 9 issued October 2010)* has an effective date 1 January 2015 and could change the classification and measurement of financial instruments.
- Amendments to IFRS 1 *Government Loans* with an effective date of 1 January 2013.
- Improvements to IFRSs 2009-2011 with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 *Transition Guidance* with an effective date of 1 January 2013.
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* with an effective date of 1 January 2014.

5. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes only.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

6. Revenue

The revenue of The Company realized during the financial year 2012 are in relation to project designing and amount to BGN 359 thousands (in 2011 – BGN 384 thousand).

Other revenue realized during the financial year 2012 comprises interest payments amounting to BGN 6 thousand.

7. Cost of materials

<i>In thousands of BGN</i>	2012	2011
Electricity	3	-
Fuels and lubricants	2	1
Others	1	-
	<u>6</u>	<u>1</u>

8. Hired services expenses

<i>In thousands of BGN</i>	2012	2011
Rents	53	51
Expenses for consultancy services	52	50
Accounting services	12	12
Training	1	3
Social expenses	-	1
Insurance	1	1
Other	13	6
	<u>132</u>	<u>124</u>

9. Personnel Expenses

<i>In thousands of BGN</i>	2012	2011
Wages and remuneration	203	171
Pensions and social security costs	38	30
Vouchers	16	13
	<u>257</u>	<u>214</u>

The average number of employees is 14 persons (2011: 13 persons).

10. Other operating expenses

<i>In thousands of BGN</i>	2012	2011
One-off taxes	1	1
Others	5	4
	<u>6</u>	<u>5</u>

11. Finance income and expenses

<i>In thousands of BGN</i>	2012	2011
Income from interests on bank accounts	4	6
Finance income	4	6
Finance expenses	(1)	-
Net finance income	<u>3</u>	<u>6</u>

12. Income tax expense*In thousands of BGN*

	2012	2011
Current income tax expense	-	5
	<u>-</u>	<u>5</u>

13. Property, plant and equipment*In thousands of BGN*

	Property, plant and equipment	Vehicles	Leasehold improvement	Assets under construction	Total
Balance at 1 Jan 2011	-	11	-	-	11
Acquisitions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Balance at 31 Dec 2011	<u>-</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>11</u>
Balance at 1 Jan 2012	-	11	-	-	11
Acquisitions	-	-	-	26	26
Disposals	-	-	-	-	-
Transfers	23	-	3	(26)	-
Balance at 31 Dec 2012	<u>23</u>	<u>11</u>	<u>3</u>	<u>-</u>	<u>37</u>
Depreciation					
Depreciation as at 1 Jan 2011	-	(1)	-	-	(1)
Depreciation charge for the year	-	(2)	-	-	(2)
Depreciation on disposals	-	-	-	-	-
Balance as at 31 Dec 2011	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Depreciation as at 1 Jan 2012	-	(3)	-	-	(3)
Depreciation charge for the year	(1)	(2)	-	-	(3)
Depreciation on disposals	-	-	-	-	-
Balance as at 31 Dec 2012	<u>(1)</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>(6)</u>
As at 1 January 2011	-	10	-	-	10
As at 31 December 2011	-	8	-	-	8
As at 1 January 2012	-	8	-	-	8
As at 31 December 2012	<u>22</u>	<u>6</u>	<u>3</u>	<u>-</u>	<u>31</u>

14. Trade and other receivables*In thousands of BGN*

	Note	2012	2011
Trade receivables	20	30	1
Other receivables		4	0
		<u>34</u>	<u>1</u>

The exposure of the Company to interest rate risk and sensitivity analysis of financial assets and liabilities are presented in Note 20.

15. Prepayments and deferred expenses

<i>In Thousands of BGN</i>	2012	2011
Prepayments	154	45
Deferred Expenses	2	1
	<u>156</u>	<u>46</u>

16. Cash and cash equivalents

<i>In thousands of BGN</i>	Note	2012	2011
Cash in hand		5	5
Current accounts in banks		200	238
Cash and cash equivalents in the statement of cash flows	20	<u>205</u>	<u>243</u>

The exposure of the Company to interest rate risk and a sensitivity analysis of financial assets and liabilities are presented in Note 20

17. Share capital and reserves

The capital of the company amounts to BGN 5,000, divided into 500 shares (BGN 10 each). The sole owner of the capital "Sofiyiska voda" AD.

<i>In shares</i>	2012	2011
Issued as at 1 January	500	500
Issued during the period	-	-
Total issued at period end	<u>500</u>	<u>500</u>

18. Trade and other payables

<i>In thousands of BGN</i>	Note	2012	2011
Trade payables	20	94	56
Other payables		14	15
VAT payables		4	11
		<u>112</u>	<u>82</u>

19. Payables to employees

<i>In thousand BGN</i>	Note	2012	2011
Payables to personnel	20	17	32
Social Security payables		6	5
		<u>23</u>	<u>37</u>

20. Financial instruments**Financial risk management****Overview**

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.

Risk management framework

The Company's risk management policies are established to identify and analyse 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 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.

Credit risk

<i>In thousands of BGN</i>	Note	2012	2011
Related parties receivables	22	75	62
Trade and other receivables	14	30	1
Cash and cash equivalents	16	205	243
		<u>310</u>	<u>306</u>

(i) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. As far as The Company mostly delivers services to related parties, the credit risk is minimised.

Liquidity risk

Liquidity risk occurs if The Company fails to meet its obligations at the moment of their settlement. The Company's approach to managing liquidity is to ensure, 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 has a finance plan, prepared to meet the operating expenses of its current liabilities for a period of 30 days, including servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

20. Financial instruments (continued)

Below are presented the contracted maturity dates of the financial liabilities, including the expected interest payments, and excluding the effect of contracted obligations for mutual cross-deductions:

31 December 2012*In thousands of BGN*

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Trade payables	94	(94)	(94)	-	-	-
Payables to related parties	143	(143)	(143)	-	-	-
Payables to personnel	17	(17)	(17)	-	-	-
	<u>254</u>	<u>(254)</u>	<u>(254)</u>	-	-	-

31 December 2011*In thousands of BGN*

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Trade payables	56	(56)	(56)	-	-	-
Payables to related parties	19	(19)	(19)	-	-	-
Payables to personnel	32	(32)	(32)	-	-	-
	<u>107</u>	<u>(107)</u>	<u>(107)</u>	-	-	-

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 optimising the return.

The Company undertakes analyzes over the macro-economical environment in the country on a regular basis, as well as, a detailed analysis of the specific macro- indicators. The Director is the one responsible for the assessment of the future risks that The Company faces, including the foreign currency risks.

Currency risk**Exposure to currency risk**

Company's exposure to a currency risk is small, because 100 % of the revenues from operating activities in 2012 are in BGN or EUR (2011: 100%).

Sensitivity analysis

The sensitivity analysis of the exchange rate of the BGN / EUR and other currencies shows there are no effects on the Company's financial statements due to the circumstances stated above.

Interest risk**Profile**

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments is:

<i>In thousands of BGN</i>	Note	2012	2011
Financial assets	16	200	238
Financial liabilities		<u>200</u>	<u>238</u>

20. Financial instruments (continued)*Fair value sensitivity analysis for fixed rate instruments:*

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss in the statement of Comprehensive Income, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Capital management

The financial result for year ending 31 December 2012 is profit amounting to BGN358.

The future development of The Company depends directly on the investment program of "Sofiyska Voda" AD.

Fair values versus carrying amounts

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

<i>In thousands of BGN</i>	31 December 2012				31 December 2011			
	Loans and receivables	Other fin. liabilities	Carrying amount	Fair Value	Loans and receivables	Other fin. liabilities	Carrying amount	Fair Value
Trade and other receivables	14	30	-	30	30	1	-	1
Related party receivables	22	75	-	75	75	62	-	62
Cash and cash equivalents	15	205	-	205	205	243	-	243
		310	-	310	310	306	-	306
Payables to related parties	22	-	(143)	(143)	(143)	-	(19)	(19)
Trade and other payables	18	-	(94)	(94)	(94)	-	(56)	(56)
Payables to the personnel	19	-	(17)	(17)	(17)	-	(32)	(32)
		-	(254)	(254)	(254)	-	(107)	(107)

21. Operating leases

Leases as lessee

Irrevocable rental payments under operating leases are payable as follows:

<i>In thousands of BGN</i>	2012	2011
Less than 1 year	27	12
Between 1 and 5 years	-	-
More than 5 years	-	-
	<u>27</u>	<u>12</u>

22. Related parties

The following transactions with related parties have taken place during 2012:

Related party	Relation	Transactions during the year	Balance as at 31 December 2012	
			Receivables	Liabilities
<i>In thousands of BGN</i>				
"Sofiyska Voda" AD	Parent company which owns 100% of the registered capital	Rents	-	9
		43		
		Complex services expenses	-	6
		12		
		Revenue from project services	75	127
		380		
	Other	-	1	
	5			
	Recharges	-	-	
	338			
	Total:		75	143

The following transactions with related parties have taken place during 2011:

Related party	Relation	Transactions during the year	Balance as at 31 December 2011	
			Receivables	Liabilities
<i>In thousands of BGN</i>				
"Sofiyska Voda" AD	Parent company which owns 100% of the registered capital	Rents		4
		51		
		Complex services expenses	-	14
		12		
		Revenue from project services	62	-
		374		
	Other	-	-	
	5			
	Recharges	-	1	
	249			
	Total:		62	19

Transactions with key management personnel

During the year, the Company has not paid any remuneration to key management personnel.

23. Subsequent events

There are no subsequent events after the reporting date that would need additional disclosure or correction in the financial statements.



KPMG Bulgaria OOD
45/A, Bulgaria Boulevard
Sofia 1404
Bulgaria

Telephone +359 (2) 9697 300
Telefax +359 (2) 9805 340
E-mail bg-office@kpmg.com
Internet www.kpmg.bg

INDEPENDENT AUDITORS' REPORT

To the Sole owner of
„Water Industry Support and Education” EOOD

Report on the Financial Statements

We have audited the accompanying financial statements of „Water Industry Support and Education” EOOD (“the Company”) as set out on pages 1 to 23, which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Company prepared 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 disclosed in the annual report of the activities of the Company, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the financial information disclosed in the audited financial statements of the Company as of and for the year ended 31 December 2012. Management is responsible for the preparation of the annual report of the activities of the Company which was approved by the Board of Directors of the Company on 28 March 2013.

Gilbert McCaul
Director

KPMG Bulgaria OOD
Sofia, 29 March 2013

Krassimir Hadjidinev
Registered auditor

