

Sofiyska Voda AD

Separate Financial Statements

For the year ended 31 December 2011

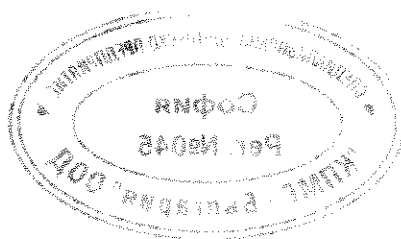
With independent auditors' report

Contents

Separate statement of financial position	2
Separate statement of comprehensive income	4
Separate statement of changes in equity	5
Separate statement of cash flows	7
Notes to the separate financial statements	10
Independent auditors' report	

Separate statement of financial position

<i>In thousands of BGN</i>	<i>Note</i>	As at 31 December 2011	As at 31 December 2010
Assets			
Property, plant and equipment	14	16,023	17,104
Intangible assets	15	222,091	195,103
Investment in subsidiaries		5	5
Deferred tax assets	21	5,425	4,781
Long-term receivables	17	257	154
Non-current assets		243,801	217,147
Inventories	16	1,631	2,020
Trade and other receivables	17	32,161	32,243
Tax receivables		-	962
Cash and cash equivalents	18	18,791	17,817
Current assets		52,583	53,042
Total Assets		296,384	270,189



Separate statement of financial position (continued)

<i>In thousands of BGN</i>	<i>Note.</i>	As at 31 December 2011	As at 31 December 2010
Equity			
Share capital	19	8,884	8,884
Reserves	19	(1,028)	(4,074)
Retained earnings		76,162	49,036
Total equity		84,018	53,846
Liabilities			
Interest bearing loans and borrowings	20	142,775	135,491
Finance lease liabilities	20	795	1,035
Employee benefits	27	453	772
Financing for non-current assets		1,169	1,063
Long-term liabilities to Municipality of Sofia	22	7,115	6,440
Non-current liabilities		152,307	144,801
Interest bearing loans and borrowings	20	8,999	8,948
Finance lease liabilities	20	529	704
Tax liabilities	24	900	1,151
Payables to related parties	30	1,602	794
Trade and other payables	22	37,724	47,746
Derivatives		7,411	9,321
Provisions	23	2,522	2,695
Employee benefits	27	372	183
Current liabilities		60,059	71,542
Total liabilities		212,366	216,343
Total equity and liabilities		296,384	270,189

The notes on pages 10 to 57 are an integral part of these separate financial statements.

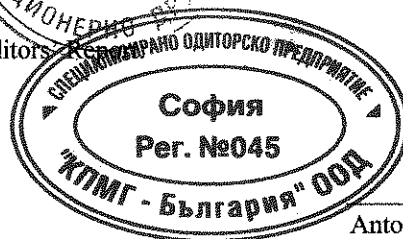
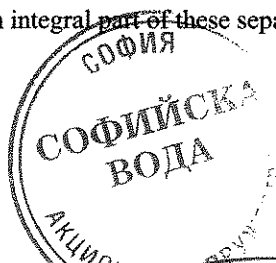
Jean Edmond Henri Salessy
Procurator

Miroslav Mitkov
Commercial Director

In accordance with an Independent Auditors Report
KPMG Bulgaria OOD:

Krassimir Hadjidimov
Director

Antoaneta Boicheva
Registered Auditor



Separate statement of comprehensive income

For the year ended 31 December

In thousands of BGN

	Note	2011	2010
Revenue	5	124,350	118,009
Other income	6	4,104	4,668
Revenue from construction	7	43,487	48,048
		<u>171,941</u>	<u>170,725</u>
Expenses for materials	8	(9,730)	(9,899)
Expenses for hired services	9	(28,105)	(27,066)
Depreciation and amortization	14,15	(19,796)	(23,720)
Personnel expenses	10	(14,251)	(14,417)
Social security contributions and other social expenses	10	(3,498)	(3,385)
Other expenses	11	(9,001)	(14,199)
Expenses for construction	7	(43,487)	(48,048)
Results from operating activities		<u>44,073</u>	<u>29,991</u>
Finance income	12	214	174
Finance costs	12	(12,474)	(12,637)
Net finance costs		<u>(12,260)</u>	<u>(12,463)</u>
Profit before income tax		31,813	17,528
Income tax expense	13	(3,236)	(3,016)
Profit for the year		<u>28,577</u>	<u>14,512</u>
Other comprehensive income			
Net change in fair value of cash flow hedges reclassified to profit or loss		1,772	(1,201)
Deferred tax on other comprehensive income	21	(177)	120
Other comprehensive income for the period, net of tax		<u>1,595</u>	<u>(1,081)</u>
Total comprehensive income for the period		<u>30,172</u>	<u>13,431</u>

The notes on pages 10 to 57 are an integral part of these separate financial statements.

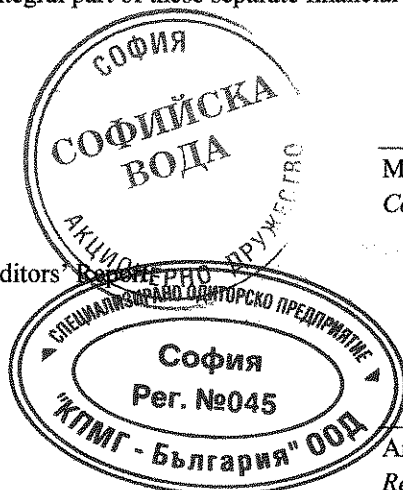
Jean Edmond Henri Salessy
Procurator

Miroslav Mitkov
Commercial Director

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

Krassimir Hadjidinev
Director

Antoaneta Boicheva
Registered Auditor



Separate statement of changes in equity

In thousands of BGN

	Note	Share capital	Hedging reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2010		8,884	(6,658)	2,039	36,150	40,415
Total comprehensive income for the period						
Profit		-	-	-	14,512	14,512
Other comprehensive income						
Net change in fair value of cash flow hedges		-	(1,081)	-	-	(1,081)
Total other comprehensive income		-	(1,081)	-	-	(1,081)
Total comprehensive income for the period		-	(1,081)	-	14,512	13,431
Transactions with owners of the Company, recognized directly in equity						
Transfer between reserves based on shareholders' decision		-	-	1,626	(1,626)	-
Total transactions with owners of the Company		-	-	1,626	(1,626)	-
Balance at 31 December 2010	19	8,884	(7,739)	3,665	49,036	53,846

Separate statement of changes of equity (continued)

<i>In thousands of BGN</i>	Note	Share capital	Hedging reserve	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2011		8,884	(7,739)	3,665	49,036	53,846
Total comprehensive income for the period		-	-	-	28,577	28,577
<i>Profit</i>		-	-	-	28,577	28,577
Other comprehensive income		-	1,595	-	-	1,595
Net change in fair value of cash flow hedges		-	1,595	-	-	1,595
Total other comprehensive income		-	1,595	-	-	1,595
Total comprehensive income for the period		-	1,595	-	28,577	30,172

Transactions with owners of the Company, recognized directly in equity

Transfer between reserves based on shareholders' decision

Total transactions with owners of the Company

Balance at 31 December 2011

-	-	1,451	(1,451)	-
-	-	1,451	(1,451)	-
19	8,884	(6,144)	76,162	84,018

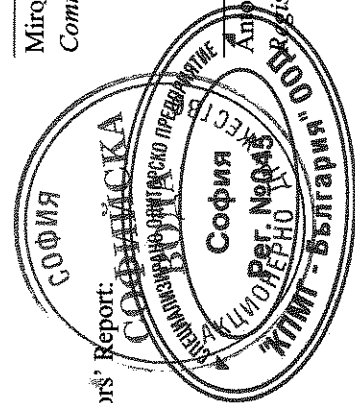
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Jean Edmond Henri Salessy
Procurator

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

Krassimir Hadjicinev
Director

Miroslav Mitkov
Commercial Director



Separate statement of cash flows

For the year ended 31 December

In thousands of BGN

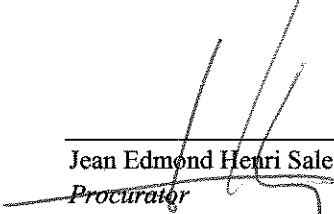
	Note	2011	2010
Cash flow from operating activities			
Profit for the year		28,577	14,512
<i>Adjustments for:</i>			
Depreciation expenses	14	3,204	3,142
Amortisation of intangible assets	15	16,592	20,578
Net finance costs	12	12,260	12,463
Impairment losses on trade receivables	11	5,663	9,387
Write-downs of inventories to net realisable value	11	97	154
Expenses for scrapping of materials	11	279	4
Expenses for scrapping of non-current assets	11	74	50
Gain on sale of non-current assets		-	(19)
Income tax expense	13	3,236	2,424
		<hr/>	<hr/>
		69,982	62,695
Changes in:			
- employee benefits	27	(178)	229
- other provisions	23	(173)	2,206
- inventories		292	(372)
- trade and other receivables		(4,508)	(10,158)
- trade and other payables		(1,031)	(1,540)
- deferred income, including financing		106	-
		<hr/>	<hr/>
Cash generated from operating activities		64,490	53,060
Income tax paid		(4,881)	(2,579)
Net cash from operating activities		<hr/>	<hr/>
		59,609	50,481
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,972)	(3,669)
Acquisition of intangible assets		(51,285)	(39,344)
Proceeds from sales of property, plant and equipment		-	30
		<hr/>	<hr/>
Net cash used in investing activities		(53,257)	(42,983)

Separate statement of cash flows (continued)


For the year ended 31 December
In thousands of BGN

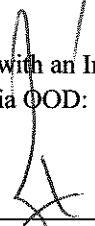
	Note	2011	2010
Cash flow from financing activities			
Proceeds from repayment of loans provided to related parties		-	13
Receipts of loans and borrowings		16,266	10,110
Repayment of loans and borrowings		(9,498)	(4,419)
Payment of finance lease liabilities		(642)	(1,090)
Interest paid		(11,392)	(10,545)
Other financial payments		(112)	(115)
Net cash from (used in) financing activities		(5,378)	(6,046)
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		17,817	16,365
Cash and cash equivalents at 31 December	18	18,791	17,817

The notes on pages 10 to 57 are an integral part of these separate financial statements.




Jean Edmond Henri Salessy
Procurator



Miroslav Mitkov
Commercial Director
In accordance with an Independent Auditors' Report:
KPMG Bulgaria OOD:


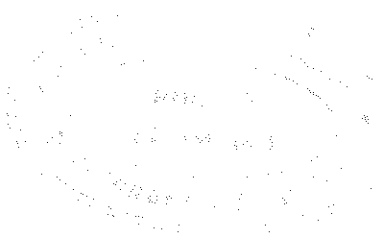
Krassimir Hadjidinev
Director



Antoaneta Boicheva
Registered Auditor

Notes to the separate financial statements

1	Reporting entity	10
2	Basis of preparation	10
3	Significant accounting policies	11
4	Determination of fair values	23
5	Revenue	24
6	Other income	24
7	Revenue from and expenses for construction	25
8	Expenses for materials	25
9	Expenses for hired services	25
10	Personnel expenses	26
11	Other operating expenses	26
12	Finance income and finance costs	26
13	Taxes	27
14	Property, plant and equipment	28
15	Intangible assets	30
16	Inventories	31
17	Trade and other receivables	32
18	Cash and cash equivalents	33
19	Share capital and reserves	33
20	Interest-bearing loans and borrowings	34
21	Deferred tax assets and liabilities	35
22	Trade and other payables	37
23	Provisions	38
24	Tax liabilities	39
25	Financial instruments	39
26	Operating leases	48
27	Employee benefits	49
28	Contingencies	51
29	Obligations for acquisition of property, plant, and equipment	53
30	Related parties	54
31	Concession contract	56
32	Subsequent events	57



Notes to the separate financial statements

1. Reporting entity

Sofiyska Voda AD (the Company) is a company registered in Sofia City Court on 28 December 1999 under company case № 16172/1999 / №54111, p.557, registration. 1, page 20 and registered as per the Public Register Act in the Public Register to the Registry Agency under uniform identification code 130175000. The address of the registered office of the Company is Bulgaria, Sofia , bl. Mladost 4, 1 Business Park Sofia Str, building 2A. The Company is 77.10% owned by Veolia Voda (Sofia) BV and 22.90% owned by Vodossnabdiavane and 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 as well as design, construction, financing and managing of new assets.

On 23 December 1999, Sofiyska Voda AD signed a Concession Contract through which the Municipality of Sofia granted to the Concessionaire (Sofiyska Voda AD) a specific right for use of the public assets and exclusive right 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 separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), which are approved by the International Accounting Standards Board (IASB) and adopted by the European Commission.

The separate financial statements for the year ended 31 December, 2011 were approved by the Board of Directors on 26 March 2012.

(b) Basis of measurement

The separate financial statements have been prepared on historical cost basis except for the following positions in the Statement of Financial Position:

- Derivative financial instruments are measured at fair value;
- the defined benefit liability is recognised at the present value of the defined benefit obligation.

(c) Functional and presentation currency

The separate 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 unless otherwise stated.

2. Basis of preparation (continued)

(d) Use of estimates and judgments

The preparation of the separate 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 separate financial statements are described in the following notes:

Note 5- Revenues;

Note 20 – accounting for an arrangement containing a lease;

Note 15 –Reporting of an intangible asset “Concession right”;

Information about significant areas of estimate uncertainty that are expected to have considerable effect in the following financial year is described in the following notes:

Note 27 - measurement of defined benefit obligations and personnel liabilities;

Note 23 and 28 - Provisions and contingencies;

Note 15 - Amortization of the intangible asset “Concession right”;

Note 17 – Estimation of the recoverable amount of trade receivables from clients ;

Note 22 – Estimation of the liability to Municipality of Sofia as per Contract settlement;

3. Significant accounting policies

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

(a) Foreign currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the Company’s functional currency 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 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-cash assets and liabilities denominated in foreign currencies, which are accounted for at historical cost, are turned into the functional currency at the rate of the date of the transaction. Foreign exchange differences are accounted for in profit and loss, except for the following, which are accounted for in other comprehensive income:

- Equities available for sale (except for impairment, when the foreign currency differences recognized in other comprehensive income are reclassified to profit or loss); or
- Cash flow hedges that meet the conditions, as far as the hedging is effective

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

3. Significant accounting policies (continued)

(b) Financial Instruments

(i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date they originated. All other financial assets are recognized initially on the trade date on 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 instruments: loans and receivables.

Loans and receivables

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

Loans and receivables include cash and cash equivalents and trade and other receivables

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with initial maturity of three months or less of the acquisition date, which are associated with insignificant risk of changes in 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

The Company initially recognizes issued debt securities and subordinated liabilities on the date that they originated. All other 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.

The Company classifies the non-derivative financial liabilities as other financial liabilities. Such financial liabilities are initially recognized at fair value plus any directly attributable transaction costs. After the initial recognition those financial liabilities are measured at their amortized cost, by using the effective interest rate method.

(iii) 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. The equity of the Company is presented at historical cost as at the date of registration.

(iv) Derivative financial instruments, including hedge accounting

The Company holds financial instruments to hedge its interest rate risk exposures.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect profit or loss.

Derivatives are recognized initially at fair value; the attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, financial instruments are measured at fair value, and changes therein are accounted for as described below.

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

Cash flow hedges

When a financial instrument is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the financial instrument is recognized in other comprehensive income and presented in the hedging reserve in equity.

The amount recognized in other comprehensive income is reclassified in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item.

Any ineffective portion of changes in the fair value of the financial instrument is recognized immediately in profit or loss.

The amount recognized in the equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is recognized immediately in profit or loss.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see note 3(h)). Cost comprises the purchase price, including duties and non-refundable taxes, as well as all other expenditure that is directly attributable to bringing the asset to the location and condition necessary for its operation in the manner intended by management. The acquisition cost also includes capitalized borrowing costs.

The cost of self-constructed assets includes the cost of materials and direct labor, and the relative proportional part of the indirect costs; any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalized borrowing costs. Purchased software, that is essential for the functioning of the purchased equipment, is capitalized as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on 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 profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

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 each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	25 years
Plant and equipment	5-25 years
Vehicles – automobiles	5-10 years
Vehicles – trucks	12.5 years
Improvements of leased assets	10 years

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

(d) Intangible assets

IFRIC 12 „Concession service agreement”

As stated in Note 3, Sofiyska Voda AD is a party in a concession contract with the Municipality of Sofia, and as a result a specific right emerges for the Company granting it the use of public assets as well as an exclusive right to render water supply and sewerage services within the concession area – the territory of the Municipality of Sofia.

Taking into account the concession contract with the Municipality of Sofia, the requirements of IFRIC 12 have been applied, and consequently an intangible asset “concession right” has been recognized in the financial statements of the Company, based on Sofiyska Voda’s right to revenue from the water supply, sewerage and waste water treatment services it provides to the customers on the territory of the concession.

(i) Intangible asset “concession right”

The intangible asset “concession right” is recognized at acquisition cost less accumulated amortization and impairment losses (see accounting policy 3 (h)).

The intangible asset “concession right” arises in relation to the Concession Agreement, which sets Sofiyska Voda’s right of use of public assets in order to deliver water supply, sewerage and waste water treatment services within the concession area. This is a complex right of use in its essence and by exercising it the separate components of an intangible asset (Concession right) have emerged. These components differ in type and function which is the reason for calculating their amortization depending on the useful life of each.

The Concedent (Municipality of Sofia) has the ownership rights on all the existing public assets for the concession period, but the Concessionaire has exclusive and specific right to use the existing public assets.

The ownership rights of any new assets are transferred to the Municipality of Sofia at the time of their acquisition by the Concessionaire or at the beginning of their operation. The Company does not have the right to receive any payments from Municipality of Sofia related to the acquisition or construction of new public assets. The improvements in the public assets are capitalized and represented as improvements in the intangible asset “concession right”.

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortization

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

The estimated useful lives for the current and comparative years are as follows:

Components of the intangible asset "concession right":

Plant and equipment	5-25 years
Water network improvements	25 years (or the period remaining until the end of the Concession Agreement)
Improvements of other public assets	10 years

Other intangible assets

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

All amortization methods, useful life and residual value are reviewed at every reporting date.

(e) Leased assets

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

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

(f) Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories is based on weighted average cost.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

3. Significant accounting policies (continued)

(g) Assets under construction

The cost of the assets under construction includes all expenses directly related to specific projects and the relevant portion of fixed and variable production costs, resulting from the contractual obligations of the Company.

(h) Impairment

(i) Financial Assets

A financial asset that is not recognized at fair value in profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

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

The impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in profit and loss and results in decrease of the receivables. Whenever a subsequent event reduces the impairment loss, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable value is estimated.

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.

An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

3. Significant accounting policies (continued)

(ii) Non-financial assets (continued)

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

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated in such way as to reduce the carrying amount of the assets in the CGU (group of CGUs) on a *pro rata* basis.

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

(i) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Company's obligation for contributions to the defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

The contributions on a defined contribution plan, that are payable more than 12 months after the end of the period of service rendering by employees, are discounted to their present value.

(ii) Defined benefit plan

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

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labour Code. According to these regulations in the LC, when a labour contract of a company's employee, who has acquired a pension right, is ended, the Company is obliged to pay him compensations amounted to two gross monthly salaries. If the employee's length of service in the Company equals to or is greater than 10 years, as at retirement date, then the compensation amounts to six gross monthly salaries.

As at the reporting date the management estimates the amount of such expenses based on a report prepared by a qualified actuary using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the financial statements in note 27.

The Company recognizes all actuarial profits and losses arising from the defined benefits plans as employee expenses in profit and loss.

(iii) Short-term personnel benefits

Short-term personnel 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 is expected to be paid to personnel for the services provided during and prior to the 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 personnel and the obligation can be estimated reliably.

3. Significant accounting policies (continued)

(i) Defined benefits plans (continued)

(iv) 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 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.

The Company recognizes 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.

(j) Provisions

A provision is recognized 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. The unwinding of the discount is recognised as finance cost.

Legal liabilities provision

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

3. Significant accounting policies (continued)

(k) Revenue

(i) Services

Revenue from services rendered is recognized 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.

The revenue from water supply, sewerage and waste water treatment services are realized by the Company as per the Concession Contract and the effective legislation, in particular the Law of Regulation of the water supply and sewerage services (LRWSSS) and the relevant subordinate legislation. As per art.5 of LRWSSS, the prices of the water supply and sewerage services rendered are subject to regulation by the State Commission for Energy and Water Regulation (SCEWR). Within the period of the approved Business Plan 2009-2013 the Company files in and justifies price change applications, which are revised and approved by SCEWR in their Decisions.

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

(ii) Construction contracts

The negotiated revenue includes the initially negotiated amount plus all the changes in the negotiated works, counter claims, bonuses, to the extent they are expected to bring revenue that can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The management estimates the result of the execution of each construction contract. When the results of the contract cannot be defined reliably then the revenue is recognized up to the amount of the expenses on the contract that is expected to be reimbursed. Any expected loss is immediately recognized in profit and loss.

Construction contracts bring revenues related to the investments in public assets – improvement and construction of new components of the water supply and sewerage system against the right to invoice and charge the customers for the service at the prices approved by State Commission for Energy and Water Regulation (SCEWR). In this respect the Company recognizes an intangible asset “concession right” against crediting revenue from construction contracts upon termination of the works.

(iii) Revenue from carbon emissions

Revenue from sale of carbon emissions is recognized on the basis of verified quantity of emissions reduction under methane gas capture and electricity production at Koubratovo Wastewater Treatment Plant.

(l) Leases

Payments on operating leases are recognized in profit and loss on a straight-line basis over the term of the lease. Any additional payments made are recognized in profit and loss as an integral part of the total lease expenses over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

3. Significant accounting policies (continued)

(m) Finance income and finance costs

Finance income comprises interest income from funds invested, profit from transactions in foreign currencies, profit from hedging instruments, recognized in profit or loss. Interest income is recognized as it accrues using the effective interest method.

Finance expenses comprise interest expense on borrowings, expenses resulting from increase in liabilities due to being one period closer to the date for realizing the provisions, changes in the fair value of financial assets, accounted for at fair value in profit or loss, devaluation of the financial assets and loss from hedging instruments, recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset, meeting the requirements for capitalization of interest, are recognized in profit or loss using the effective interest method.

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

(n) Tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable 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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for temporary differences from the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit nor loss. 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 they relate to taxes levied by the same tax authorities.

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

When calculating its current and deferred taxes the Company is using the accounting base as described in note 2 above.

3. Significant accounting policies (continued)

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

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

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets (issued October 2010) – effective from the first financial year that starts after 1 July 2011.
- Improvements to IFRSs 2010 (issued May 2010), various effective dates, generally 1 January 2011

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.

In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013. The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 18 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008). All of these standards have an effective date of 1 January 2013.

Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (issued December 2010) has an effective date 1 January 2012.

Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (issued December 2010) has an effective date 1 July 2012.

In June 2011 the IASB issued *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) with an effective date of 1 July 2012.

In June 2011 the IASB issued an amended IAS 19 *Employee Benefits* with an effective date of 1 January 2013.

In December 2011 the IASB issued amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2013.

In December 2011 the IASB issued amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* with an effective date of 1 January 2014.

IFRIC Interpretation 20: *Stripping Costs in the Production Phase of a Surface Mine* with an effective date of 1 January 2013.

4. Determination of fair values

A number of the accounting policies of the Company require the determination of the fair value for both financial and non-financial assets and liabilities. Fair values are determined for reporting purposes based on the methods listed below. Whenever applicable, in the relevant notes additional information is given relating to the assumptions made when determining the fair value of a specific 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 the future cash flow, discounted at the market interest rate as at the reporting date. This fair value is determined for disclosure purposes.

(ii) Derivatives

The fair value of interest swaps is based on broker quotes. They have been tested for reasonableness by discounting the future cash flows based on the conditions in each separate contract and the market interest rates for similar financial instruments as at the evaluation date. The fair value reflects the credit risk of the financial instrument and comprises corrections for credit risk reporting whenever appropriate.

(iii) Non-derivative financial obligations

The fair values, that are determined for disclosure purposes, are calculated on the basis of the present value of future cash flows of principal and interest, discounted at the market interest rate as at the reporting date. In respect of financial leases, the market interest rate is calculated based on similar lease agreements.

5. Revenue

<i>In thousands of BGN</i>	Note	2011	2010
Income from water supply		82,735	79,690
Income from sewerage		14,549	13,996
Income from waste water treatment		21,494	18,503
Interest income from overdue receivables		3,733	3,770
Income from service sales		2,856	2,908
Invoiced income related to ISPA		(944)	(858)
Revenue billed to customers, which offsets the consideration for the new W&S infrastructure financed by the Municipality of Sofia's budget	28 (b)	(73)	-
		<u>124,350</u>	<u>118,009</u>

According to an 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 of water supply, sewerage and treatment of waste waters all the necessary annual funds for repayment of the Financial Memorandum loan that was received from the European Investment Bank, amounting to 15% of the project value, at the total expected amount of EUR 8,775 thousand. The end beneficiary of the loan from the European Investment Bank is the Municipality of Sofia.

The State Energy and Water Regulatory Commission, in its Decisions for tariff adoption, has approved as per an indicative repayment schedule, the inclusion in the tariff of a certain amount for servicing and repayment of the EIB financing. In 2011 the portion of the billed revenue that may be attributed to the funds provided for servicing and repayment of the EIB loan, based on the price component in the tariff, amounts to BGN 944 thousand (2010: BGN 858 thousand).

In the Agreement stated above, dated 22-06-2007, it is provided that upon the receipt of the relevant notices the collected as a result of the price component funds will be transferred to the Ministry of Environment and Waters (MoEW) at a special bank account opened for the loan.

As per received attachments to MoEW letters dated 7 Nov 2011 and 30 Jan 2012, it is known that respectively on 30th October 2011 and 13th January 2012 two tranches of the agreed amount of the EIB loan have been disbursed, at the total value of EUR 7,086 thousand. This is the final amount as the term of availability of funds has expired. As per the received copies of the relevant repayment schedules of both tranches, starting in the beginning of 2012, repayments on interest and principal are due to EIB on each 10th March and 10th September until the year of 2030 including. After having received a notice from the Municipality of Sofia in February 2012, the Company has already transferred the first amount due for servicing of the EIB funds to a bank account indicated by the Municipality of Sofia.

6. Other income

<i>In thousands of BGN</i>	2011	2010
Income from carbon credits	1,996	1,519
Penalties of contractors	265	334
Penalties for industrial discharges of water with excessive concentration of pollutants	869	656
Sale of inventories to subcontractors for construction works	279	298
Green energy income	89	1,476
Income from rent	75	77
Income from financing	45	63
Income from guarantees	298	-
Other	188	245
	<u>4,104</u>	<u>4,668</u>

7. Revenue from and expenses for construction

<i>In thousands of BGN</i>	<i>Note</i>	2011			2010		
		Revenue	Expenses	Profits	Revenue	Expenses	Profits
Objects							
Water supply		20,733	20,733	-	22,941	22,941	-
Potable water treatment		756	756	-	849	849	-
Sewerage		14,686	14,686	-	13,295	13,295	-
Waste water treatment		1,066	1,066	-	4,965	4,965	-
House connections and meters		6,246	6,246	-	5,998	5,998	-
Total	<i>15</i>	43,487	43,487	-	48,048	48,048	-

8. Expenses for materials

<i>In thousands of BGN</i>	2011	2010
Electricity	2,327	2,994
Fuels and lubricants	1,677	1,524
Water for technological needs	1,618	1,583
Chemicals	2,004	1,686
Plumbing materials	1,086	1,605
Other	1,018	507
	9,730	9,899

9. Expenses for hired services

<i>In thousands of BGN</i>	2011	2010
Annual water tax	4,657	4,823
Repairs and maintenance of non-current assets	6,363	5,364
Insurance	1,349	1,353
Rent	1,035	1,034
Other services	14,701	14,492
	28,105	27,066

Other expenses for hired services include:

<i>In thousands of BGN</i>	2011	2010
Security	4,606	4,848
Water – meters reading	1,755	1,686
Courier services	828	916
Printing services	601	734
Technical services	1,496	1,374
Consultancy	474	286
Asphalt covering	431	608
SEWRC fee	426	431
Sterilization	27	23
Communication	240	315
Annual software licenses	522	520
Collection	1,211	-
Hired transportation	297	344
Other	1,787	2,407
	14,701	14,492

10. Personnel expenses

<i>In thousands of BGN</i>	<i>Note</i>	2011	2010
Wages and salaries		14,129	14,188
Compulsory social security contribution		2,006	1,885
Social expenses		80	32
Expenses for additional pension contribution		309	286
Retirement compensation	27	122	229
Voucher expenses		1,103	1,182
		<u>17,749</u>	<u>17,802</u>

The salary expenses include an accrual for unused annual paid leave amounting to BGN 192 thousand (2010: BGN 181 thousand). The compulsory social security contribution include an accrual for social and health security on unused annual paid leave in the amount of BGN 33 thousand (2010: BGN 74 thousand).

The amount of the retirement compensation includes the total recognized actuarial loss, determined when calculating the present value of the pension liability obligation for personnel (see note 27) in accordance with the option stated in paragraph 95 of IAS 19 "Employee benefits".

The average number of personnel is 1,109 employees (2010: 1,189 employees).

11. Other expenses

<i>In thousands of BGN</i>		2011	2010
Impairment of receivables	25	5,663	9,387
Write down of inventories to net realizable value		97	154
One-off taxes		113	120
Accrued provisions expenses	23	454	2,206
Commission for collection of trade receivables		1,111	-
Fines		83	547
Scrapping of materials		279	4
Scrapping of non-current assets		74	50
Others		1,127	1,731
		<u>9,001</u>	<u>14,199</u>

12. Finance income and finance costs

<i>In thousands of BGN</i>		2011	2010
Interest income		171	194
Interest income from discounting of a trade liability as per Contract with Municipality of Sofia		29	2
Effect from guarantee discounts		14	(22)
Financial income		<u>214</u>	<u>174</u>
Interest expenses for Loan "A" based on effective interest rate method calculations		(2,489)	(2,310)
Interest expenses for Loan "B" based on effective interest rate method calculations		(5,464)	(5,086)
Interest expenses for Loan "C" based on effective interest rate method calculations		(36)	(42)
Finance charges on finance leases		(116)	(146)
Interest expenses on employee benefits		(47)	(54)
Effect from guarantee discounts		(44)	(27)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia		(675)	(1,101)
Other finance costs		(57)	(32)

12. Finance income and finance costs (continued)

Loss from foreign exchange differences	(194)	(122)
Interest expenses on SWAP transactions	(3,352)	(3,717)
Finance costs	(12,474)	(12,637)
Net finance costs recognized in profit or loss	(12,260)	(12,463)

The financial income and expenses listed above include interest income and expenses that are not recognised at fair value in profit and loss.

	2011	2010
Total interest income on financial assets	186	194
Total interest expense on financial liabilities	(11,501)	(12,429)

13. Taxes

<i>In thousands of BGN</i>	<i>Note</i>	2011	2010
Income tax recognized in profit or loss			
Current tax expense			
Current year		(4,057)	(3,615)
Deferred tax expense			
Origination and reversal of temporary differences	21	821	1,191
Tax Act - principal			(592)
Total tax expenses		(3,236)	(3,016)

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

Income tax recognized in other comprehensive income

For the year ended	2011			2010		
<i>In thousands of BGN</i>	Before tax	Tax income	Net of tax	Before tax	Tax income	Net of tax
Cash flow hedges	1,772	(177)	1,595	(1,201)	120	(1,081)
	1,772	(177)	1,595	(1,201)	120	(1,081)

Reconciliation of effective tax rate

<i>In thousands of BGN</i>		2011		2010
Profit for the year		28,577		14,512
Total tax expenses		3,236		3,016
Profit excluding tax		31,813		17,528
Income tax using the Company's domestic tax rate	10%	3,181	10%	1,753
Non-deductible expenses	-0.09%	(29)	7.21%	1,263
Effects of temporary tax differences	0.26%	84		-
Net current income tax expense	10.17%	3,236	17.21%	3,016

14. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 Jan 2010	585	16,767	9,241	1,013	9	27,615
Additions	-	-	-	-	3,668	3,668
Disposals	-	(245)	(228)	-	-	(473)
Transfers	140	2,908	552	23	(3,623)	-
Balance at 31 Dec 2010	725	19,430	9,565	1,036	54	30,810
Balance at 1 Jan 2011	725	19,430	9,565	1,036	54	30,810
Additions	-	-	-	-	2,198	2,198
Disposals	-	(316)	(11)	-	-	(327)
Transfers	25	1,876	300	21	(2,222)	-
Balance at 31 Dec 2011	750	20,990	9,854	1,057	30	32,681
Depreciation						
Depreciation as at 1 Jan 2010	(69)	(5,422)	(4,899)	(575)	-	(10,965)
Depreciation charge for the year	(18)	(1,946)	(1,076)	(102)	-	(3,142)
Depreciation on disposals	-	181	220	-	-	401
Balance as at 31 Dec 2010	(87)	(7,187)	(5,755)	(677)	-	(13,706)
Depreciation as at 1 Jan 2011	(87)	(7,187)	(5,755)	(677)	-	(13,706)
Depreciation charge for the year	(21)	(2,223)	(857)	(103)	-	(3,204)
Depreciation on disposals	-	241	11	-	-	252
Balance as at 31 Dec 2011	(108)	(9,169)	(6,601)	(780)	-	(16,658)
Carrying amounts						
At 1 January 2010	516	11,345	4,342	438	9	16,650
At 31 December 2010	638	12,243	3,810	359	54	17,104
At 1 January 2011	638	12,243	3,810	359	54	17,104
At 31 December 2011	642	11,821	3,253	277	30	16,023

14. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, acquired in 2011 amount to BGN 2,223 thousand (2010: BGN 3,330 thousand) and are listed below:

<i>In thousands of BGN</i>	2011	2010
CHP generator	34	188
Transportation vehicles and mechanization	312	697
Laboratory equipment	48	378
Electricity Dispatching Board in WTP Bistritsa	-	217
ERP hardware	-	455
External data storage	-	400
Computer equipment	188	-
GPS Spatial Imaging System	44	-
Installations for the production of sodium hypochlorite	119	-
Open Distribution Device of a substation 110/3 kW	474	-
Main Switchboard – Pumping Station Yana	32	-
Other equipment	972	995
	<u>2,223</u>	<u>3,330</u>

Assets pledged as collateral

The Company has pledged all its present and future non-current assets in respect of secured bank loan “A”.

A specific pledge on the leased vehicles under the finance lease contracts has been set up in favor of the lesser – the subjects of the contracts (motor vehicles and construction machines) are individualized by type in the Central Pledges Registry and the total value amounts to BGN 406 thousand.

In accordance with the contract for bank loan with United Bulgarian Bank AD (UBB AD) dated 10 June 2008, regarding the financing of the construction of a co-generation station for utilization of natural gas in the WWTP Koubratovo, the Company has individualized and pledged in the Central Pledges Registry in favor of UBB AD an asset worth BGN 5,181 thousand.

Assets pledged as collateral on finance lease contracts

In relation to the finance lease contracts, the non-current assets under these contracts have been pledged, having a total acquisition value of BGN 406 thousand.

15. Intangible assets

In thousands of BGN

	Development costs	Software	Concession right	Assets under construction – Concession right	Assets under construction - other	Total
Cost						
Balance as at 1 Jan 2010	21,017	13,946	172,924	25,309	112	233,308
Acquisitions	-	-	-	48,048	863	48,911
Disposals	-	-	(7)	-	-	(7)
Transfers	24	520	45,358	(45,358)	(544)	-
Balance as at 31 Dec 2010	21,041	14,466	218,275	27,999	431	282,212
Balance as at 1 Jan 2011	21,041	14,466	218,275	27,999	431	282,212
Acquisitions	-	-	-	43,487	93	43,580
Disposals	-	-	-	-	-	-
Transfers	-	401	47,419	(47,419)	(401)	-
Balance as at 31 Dec 2011	21,041	14,867	265,694	24,067	123	325,792
Amortization						
Balance as at 1 Jan 2010	(19,232)	(9,282)	(38,017)	-	-	(66,531)
Amortization for the year	(665)	(1,395)	(18,518)	-	-	(20,578)
Balance as at 31 Dec 2010	(19,897)	(10,677)	(56,535)	-	-	(87,109)
Balance as at 1 Jan 2011	(19,897)	(10,677)	(56,535)	-	-	(87,109)
Amortization for the year	(365)	(1,445)	(14,782)	-	-	(16,592)
Balance as at 31 Dec 2011	(20,262)	(12,122)	(71,317)	-	-	(103,701)
Carrying amounts						
At 1 January 2010	1,785	4,664	134,907	25,309	112	166,777
At 31 December 2010	1,144	3,789	161,740	27,999	431	195,103
At 1 January 2011	1,144	3,789	161,740	27,999	431	195,103
At 31 December 2011	779	2,745	194,377	24,067	123	222,091

15. Intangible assets (continued)

Acquired assets

The major acquisitions of intangible assets in 2011 relate to the increase of the value of the Concession right and amount to BGN 47,419 thousand (2010: BGN 45,358 thousand). The main components are listed below:

<i>In thousands of BGN</i>	2011	2010
Water supply network and house connections	20,493	19,214
Water Waste Treatment Plant Koubratovo	1,372	5,318
Sewerage and house connections	17,946	15,252
Hydrants	2,887	2,080
Water meters	1,902	1,773
Leasehold improvements	1,393	1,721
Pumping Stations	1,426	-
	<u>47,419</u>	<u>45,358</u>

Assets under construction

As at 31 Dec 2011 the major intangible assets under construction which relate to concession right amount to BGN 24,067 thousand (2010: BGN 27,999 thousand). The most significant of them and are listed below:

<i>In thousands of BGN</i>	2011	2010
Second stage of strengthening of Beli Iskar Dam	381	381
Waste Water Treatment Plant	132	397
Construction of water main system, water-main net model and DMA zones for reduction of unaccounted for water	13,949	12,614
Chlorinating stations	392	415
Construction of sewerage mains and sewerage model	5,452	10,125
Potable Water Treatment Plants	1,050	734
Impounding Structures	1,863	3,124
Rehabilitation of reservoirs, pumping stations, sanitary protection zones	448	191
Proactive replacement of stop valves, fire hydrants, water connections	284	15
	<u>23,951</u>	<u>27,996</u>

Assets pledged as collateral

The Company has pledged all its present and future non-current assets in respect of secured bank loan "A".

Capitalized borrowing costs

The amount of borrowing costs capitalized during the period is BGN 476,490.64. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 5.44% for the period January-March and 5.04% for the period April-December.

16. Inventories

<i>In thousands of BGN</i>	2011	2010
Spare parts and consumables	2,873	3,165
Impairment to net realizable value	(1,242)	(1,145)
	<u>1,631</u>	<u>2,020</u>

Inventories pledged as collateral

The Company has pledged all its present and future movables in respect of secured bank loan "A", which include raw materials and inventories.

16. Inventories (continued)

Inventory write-down

In thousands of BGN

	2011	2010
Balance at 1 January	1,145	991
Accrual of stock write-down of inventories	97	154
Reversed write-down of wasted inventories	-	-
Reversed write-down of used inventories	-	-
Written off stock provision	-	-
Balance at 31 December	<u>1,242</u>	<u>1,145</u>

17. Trade and other receivables

In thousands of BGN

	<i>Note</i>	2011	2010
Trade and other receivables		65,190	69,233
Impairment losses on trade receivables		(34,787)	(39,193)
Related parties receivables	30	19	26
Court receivables		10,758	3,538
Impairment losses on court receivables		(10,219)	(3,361)
Total trade receivables	25	<u>30,961</u>	<u>30,243</u>
Other receivables		4	763
Prepayments		1,453	1,391
		<u>1,457</u>	<u>2,154</u>
Total trade and other receivables		<u>32,418</u>	<u>32,397</u>
<i>Non-current</i>		257	154
<i>Current</i>		32,161	32,243

In 2011 receivables with 5-year validity period that has expired, amounting to BGN 3,211 thousand. (2010: BGN 2,800 thousand) have been written off. For detailed information about changes in receivables' impairment see note 25 - *Financial Instruments*.

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 bank loan "A".

By a bailment contract signed by the Company in relation to bank loan "C", current and future receivables of the Company amounting at a minimum of EUR 200 thousand have been pledged as collateral.

The Company's exposure to interest rate risk and the sensitivity analysis of all financial assets and liabilities are reported in Note 25 – *Financial Instruments*.

Prepayments include:

In thousands of BGN

	2011	2010
Insurance	1,056	1,125
Licenses	78	101
Subscriptions	29	38
Other	290	127
	<u>1,453</u>	<u>1,391</u>

18. Cash and cash equivalents

<i>In thousands of BGN</i>	<i>Note</i>	2011	2010
Cash on hand		37	47
Local currency		23	31
Foreign currency		14	16
Cash at banks		18,754	17,770
Local currency		18,269	17,455
Foreign currency		485	315
Cash and cash equivalents in the statement of cash flows	25	<u>18,791</u>	<u>17,817</u>

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 insurance 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 25.

19. Capital and reserves

<i>In thousands of shares</i>	Ordinary shares	
	2011	2010
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	<u>8,884</u>	<u>8,884</u>

As at 31 December 2011 the Company's share capital includes 8,884,435 ordinary shares (2010: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Company as at 31 December 2011 are:

Veolia Voda (Sofia) BV – 6,850,000 ordinary shares (77.1 %);

Vodosnabdyavane i kanalizatsia AD - 2,034,435 ordinary shares (22.9 %).

With a 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 are formed based on the requirement of the Bulgarian Commercial Law for transfer of 1/10 of the net profit to Reserves until the amount of 1/10 or more of the registered Company capital is reached.

Hedging Reserves

Hedging reserves includes the effective part of the net change in fair value of instruments used for hedging cash flows related to hedge deals, which have not occurred yet.

20. Interest-bearing loans and borrowings

This note provides information on the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 25.

<i>In thousands of BGN</i>	2011	2010
Non-current liabilities		
Loans at nominal value	143,856	137,087
Amortization	<u>(1,081)</u>	<u>(1,596)</u>
Loans at amortized cost	<u>142,775</u>	<u>135,491</u>
Finance lease liabilities	795	1,035
	<u>143,570</u>	<u>136,526</u>
Current liabilities		
Loans at nominal value	9,497	9,498
Amortization	<u>(498)</u>	<u>(550)</u>
Loans at amortized cost	<u>8,999</u>	<u>8,948</u>
Finance lease liabilities	529	704
	<u>9,528</u>	<u>9,652</u>

In accordance with the loan agreement 'A' the Company has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of 1.3:1. The ADSCR should show that at any Calculation Date (31 December) the Free Cash Flow for the twelve month period immediately preceding such Calculation Date divided by the aggregate amount of principal and interest payments falling due and payable during such period should be 1.3:1.

In accordance with the Amended and Restated Loan Agreement (ARLA) the calculation of the annual debt service coverage ratio is calculated by the bank by the means of a model based on the actual and estimated values as at the date of preparation. As per the latest version of the model the estimated annual ADSCR by the bank for 2011 is 1.94:1, and the internal calculations based on the actual cash flow for 2011 result in an actual ADSCR of 1.91:1.

The Company has the obligation of submitting the verified annual separate financial statements within 120 calendar days of the beginning of the year to the Bank. The Bank updates the calculations of the ratio for the past year in a new version of their model.

Terms and debt repayment schedule

<i>In thousands of BGN</i>	Currency	Nominal interest rate	Year of Maturity	31 December 2011		31 December 2010	
				Face Value	Carrying Amount	Face Value	Carrying Amount
Loan „A”	EUR	1.35 % + 6m EURIBOR*	2023	81,583	80,103	74,381	72,494
Loan „B”	EUR	5.95% + 6m EURIBOR	2015	71,117	71,019	71,117	70,859
Loan „C”	EUR	2.50% + 3m EURIBOR	2013	653	652	1,087	1,086
Finance lease liabilities				1,324	1,324	1,739	1,739
				<u>154,677</u>	<u>153,098</u>	<u>148,324</u>	<u>146,178</u>

20. Interest-bearing loans and borrowings (continued)

*As of April 2011 the margin on Loan A has been reduced in accordance with the EBRD loan contract from 1.75% to 1.35% due to fact the Company has achieved debt service coverage ratio of above 1.41:1 for the previous year.

Finance lease liabilities

The finance lease liabilities are payable as follows:

<i>In thousands of BGN</i>	Future minimum lease payments		Present value of minimum lease payments		Present value of minimum lease payments	
	2011	Interest 2011	2011	Future minimum lease payments 2010	Interest 2010	2010
Less than 1 year	609	80	529	817	113	704
Between 1 and 2 years	514	45	469	666	70	596
2 to 5 years	337	11	326	490	51	439
	1,460	136	1,324	1,973	234	1,739

21. Deferred tax assets and liabilities

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

<i>In thousands of BGN</i>	2011			2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	(1,088)	(1,088)	-	(1,416)	(1,416)
Inventories	124	-	124	114	-	114
Trade receivables	4,501	-	4,501	4,255	-	4,255
Provisions	290	-	290	271	-	271
Accrual for unused paid leave	40	-	40	46	-	46
Non-current personnel income	45	-	45	96	-	96
Current personnel income	197	-	197	156	-	156
Hedging instruments	683	-	683	860	-	860
Financing from EBRD	29	-	29	28	-	28
Trade payables	604	-	604	371	-	371
Deferred tax assets/ (liabilities)	6,513	(1,088)	5,425	6,197	(1,416)	4,781

In determining the current and deferred taxes the Company has adopted as an accounting basis the stated one in Significant accounting policies (Note 3). The deferred tax for 2011 is calculated by using the tax rate applicable to the Company which is the effective income tax rate for 2012 - 10%.

21. Deferred tax assets and liabilities (continued)

Movements in deferred tax balances during the year

<i>In thousands of BGN</i>	Balance as at 1 January 2010	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2010	Recognized in profit or loss	Recognized in other comprehensive income	Balance as at 31 December 2011
Property, plant and equipment	(1,698)	282	-	(1,416)	328	-	(1,088)
Inventories	99	15	-	114	10	-	124
Trade receivables	3,448	807	-	4,255	246	-	4,501
Provisions	74	197	-	271	19	-	290
Accrual for unused annual paid leave	108	(62)	-	46	(6)	-	40
Non-current personnel income	92	4	-	96	(51)	-	45
Current personnel income	130	26	-	156	41	-	197
Hedging instruments	740	-	120	860	-	(177)	683
Financing from EBRD	-	28	-	28	1	-	29
Trade payables	477	(106)	-	371	233	-	604
Deferred tax assets/ (liabilities)	3,470	1,191	120	4,781	821	(177)	5,425

22. Trade and other payables

<i>In thousands of BGN</i>	2011	2010
Trade payables	20,359	29,605
Guarantees	1,415	1,962
Payables to employees	3,602	3,163
Insurance	597	587
Total trade payables	<u>25,973</u>	<u>35,317</u>
Social security payables	416	387
Trade payables as per Contract with Municipality of Sofia	8,412	7,875
Payables for water usage tax	4,656	4,813
Other payables and accruals	5,382	5,794
	<u>18,866</u>	<u>18,869</u>
Total trade and other payables	<u>44,839</u>	<u>54,186</u>
<i>Non-current</i>	7,115	6,440
<i>Current</i>	37,724	47,746
Other payables and accruals include:		
<i>In thousands of BGN</i>	2011	2010
ISPA	3,363	2,420
Advance payment as per Emissions Reduction Purchase Agreement	97	2,093
Other	1,922	1,281
	<u>5,382</u>	<u>5,794</u>

The Company's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 25 – Financial Instruments.

23. Provisions

<i>In thousands of BGN</i>	2011	2010
Provision for court liabilities	2,522	1,478
Provision for rent of rooms for hydrophores	-	554
Provision for constructive liabilities as per Contract for purchase of carbon credits	-	663
	<u>2,522</u>	<u>2,695</u>

Provision for court liabilities

The provision is based on professional estimates made by the lawyers of the Company on the expected cash outflow in view of the most probable court cases outcomes and based on the related historical data.

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

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

Yet another group form the provisions relate to the imposing of administrative sanctions, mostly due to possible violations connected with the Company's prevailing situation on the market. The most significant amounts for provisions for court liabilities are related to the last group and to a part of the claims for indemnification of damage. Generally it is expected that some of the cases related to the provisions accrued will end by the end of 2012, although there is a possibility that some will continue in the next financial year.

The change in provisions throughout the year is presented below:

<i>In thousands of BGN</i>	Balance at 1 January 2011	Provisions made during the year	Provisions used during the year	Cancelled provisions during the year	Discount effect	Balance at 31 December 2011
Provision for court liabilities	1,478	1,117	(73)	-	-	2,522
Provision for constructive liabilities as per Contract for purchase of carbon credits	663	-	-	(663)	-	-
Provision of rent of rooms for hydrophores	554	-	(554)	-	-	-
	<u>2,695</u>	<u>1,117</u>	<u>(627)</u>	<u>(663)</u>	<u>-</u>	<u>2,522</u>

24. Tax liabilities

<i>In thousands of BGN</i>	2011	2010
Corporate tax liability	781	1,036
Other tax liabilities	119	115
	<u>900</u>	<u>1,151</u>

25. 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 risks listed above, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk Management Framework

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

The 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.

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

Credit Risk

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

Exposure to Credit Risk

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

<i>In thousands of BGN</i>	<i>Note</i>	Carrying amount 31 December 2011	Carrying amount 31 December 2010
Trade and other receivables	17	30,942	30,217
Loans to related parties	17	19	26
Cash and cash equivalents	18	18,791	17,817
		<u>49,752</u>	<u>48,060</u>

25. Financial instruments (continued)
Exposure to credit risk (continued)

Trade and other receivables

The credit risk exposure of the Company results from the individual characteristics of the different clients. This exposure also depends on the risk of nonpayment common to the utilities sector. The Company is a monopolist in rendering its services on the territory of Sofia Municipality and as at 31 December 2011 the active clients of the company are 570,403 (2010 – 562,035). 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 does not require guarantees from its customers in relation to the services rendered, but is currently developing and implementing a policy to increase the debt collection. In 2011 the policy was revised and the internal team has been increased with 5 more employees. In addition, the Company uses external collection agencies in order to take advantage of the expertise and best practices, as well as up-to-date software support.

The Company's efforts are orientated towards demanding active contact, tracing results and using a customers' contacts history database and other operational statistics.

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

The carrying amount of the trade receivables by client type reflects the credit exposure as at the reporting date and amounts to:

<i>In thousands of BGN</i>	Cost	Impair-	Carrying	Cost	Impair-	Carrying
	31 December	ment	amount	31 Decemeber	ment	amount
	2011	2011	2011	2010	2010	2010
State budget organizations	1,629	(170)	1,459	1,136	(148)	988
Commercial customers	10,156	(3,950)	6,206	9,175	(3,885)	5,290
Domestic population	63,079	(40,886)	22,193	60,828	(38,521)	22,307
Other customers	1,084		1,084	1,632		1,632
Related parties	19		19	26		26
	75,967	(45,006)	30,961	72,797	(42,554)	30,243

25. Financial instruments (continued)

The aging of trade receivables of the Company at the reporting date was:

<i>In thousands of BGN</i>	2011	2011	2010	2010
	Cost	Impairment	Cost	Impairment
Not past due	18,183	(208)	16,825	-
Past due 30 days	3,519	(369)	3,532	(382)
Past due from 31 to 120 days	7,391	(1,373)	7,472	(1,231)
Past due from 121 to 210 days	5,734	(2,519)	5,841	(2,396)
Past due from 211 to 270 days	3,191	(2,650)	2,870	(2,360)
Past due from 271 to 360 days	3,916	(3,854)	4,296	(4,224)
Past due more than 1 year	34,033	(34,033)	31,961	(31,961)
	<u>75,967</u>	<u>(45,006)</u>	<u>72,797</u>	<u>(42,554)</u>

Company's receivables impairment at reporting date, including court receivables impairment is:

<i>In thousands of BGN</i>	<i>Note</i>	2011	2010
Balance in the beginning of the period		(42,554)	(35,968)
Accruals during the period	11	(5,663)	(9,387)
Written-off		3,211	2,801
Balance in the end of the period		<u>(45,006)</u>	<u>(42,554)</u>

The quality of the trade and other receivables is assessed based on credit policy prepared by the Risk Management Committee and applied in the Company. The Company's management monitors the customers' credit risk by grouping trade and other receivables by characteristics as in 2011 it continues carrying out analysis of specific customers on the basis of precise proactive actions, working with them and the history of past communication. This is the reason why in 2011 the Company introduces also impairment of undue trade receivables for certain groups of customers.

25. Financial instruments (continued)

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 or damaging the Company's reputation.

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

In relation to that, "Sofiyka Voda" AD submits and justifies annual tariff applications as per the terms and procedures in the regulatory legislation.

As to the cash outflow and the payments to contractors, the Company is seeking the balance between the optimization of the working capital cycle and the provision of adequate working conditions for maintaining viable partnerships.

Usually the company ensures that it has sufficient cash on demand to meet the expected operational expenses for a 60-day period, including the servicing of financial obligations except for the potential impact of extreme circumstances which cannot be envisaged, i.e. natural disasters.

As at 2011 the Company does not maintain credit lines or overdrafts.

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

31 December 2011

In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	Between 1 - 2 years	Between 2 - 5 years	More than 5 years
Non-derivative financial liabilities						
Loan „A” (1.35% + 6 month EURIBOR)	80,103	(93,978)	(11,588)	(22,306)	(21,168)	(38,915)
Loan „B” (5.95% +6 month EURIBOR)	71,019	(88,963)	(5,495)	(45,855)	(37,613)	-
Loan „C” (2.5% + 3 month EURIBOR)	652	(676)	(454)	(222)	1	-
Liabilities to related parties	1,602	(1,602)	(1,602)	-	-	-
Finance lease liabilities	1,324	(1,461)	(633)	(515)	(313)	-
Trade and other payables	25,973	(25,973)	(25,973)	-	-	-
	<u>180,673</u>	<u>(212,653)</u>	<u>(45,745)</u>	<u>(68,898)</u>	<u>(59,093)</u>	<u>(38,915)</u>
Derivative financial liabilities						
Interest rate swaps used for hedging	7,411	(5,694)	(2,938)	(2,756)	-	-
	<u>7,411</u>	<u>(5,694)</u>	<u>(2,938)</u>	<u>(2,756)</u>	<u>-</u>	<u>-</u>

25. Financial instruments (continued)
Liquidity risk (continued)

*As of April 2011 the margin on Loan A has been reduced in accordance with the EBRD loan contract from 1.75% to 1.35% due to fact the Company has achieved debt service coverage ratio of above 1.41:1 for the previous year.

The gross amounts in the preceding table are the contractual undiscounted cash flows on derivative financial liabilities held for risk management purposes, as they usually are not closed before their contractual maturity. This disclosure shows net cash flows of derivatives that are settled net in cash.

As disclosed in Note 20, the Company has secured bank loan "A" with a requirement to comply with certain conditions, as upon breach of any obligation, e.g. failing to maintain debt service coverage ratio over 1.05:1 (see note 21), the Company may fall into default and the outstanding amount of the loan may become past due to the creditor.

The interest payments on loans with floating interest rate in the preceding table reflect the market interest rates as at the end of the period based on EURIBOR and these amounts may vary upon change in the market rate. Future cash flows on derivative instruments may differ from the amounts in the table above since the interest rates vary.

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

31 December 2010

In thousands of BGN

	Carrying Amount	Contracted cash flows	Up to 1 year	Between 1 - 2 years	Between 2 – 5 years	More than 5 years
Non-derivative financial liabilities						
Loan „A” (1.75% +6 month EURIBOR)	72,494	(88,399)	4,722	(22,582)	(21,497)	(49,042)
Loan „B” (5.95% +6 month EURIBOR)	70,859	(92,949)	(5,136)	(10,286)	(77,527)	-
Loan „C” (2.5% +3 month EURIBOR)	1,086	(1,138)	(465)	(673)	-	-
Liabilities to related parties	794	(794)	(794)	-	-	-
Finance lease liabilities	1,739	(1,973)	(817)	(667)	(489)	-
Trade and other payables	35,317	(35,317)	(35,317)	-	-	-
	<u>182,289</u>	<u>(220,570)</u>	<u>(37,807)</u>	<u>(34,208)</u>	<u>(99,513)</u>	<u>(49,042)</u>
Derivative financial liabilities						
Interest rate swaps used for hedging	9,321	(11,089)	(3,806)	(3,759)	(3,524)	-
	<u>9,321</u>	<u>(11,089)</u>	<u>(3,806)</u>	<u>(3,759)</u>	<u>(3,524)</u>	<u>-</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 optimizing the return.

25. Financial instruments (continued)

Market Risk (continued)

Currency risk

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

• **Exposure to currency risk**

<i>In thousands of</i>	31 December 2011			31 December 2010		
	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(3,790)	(1)	(724)	(4,222)	(1)	(653)
Interest-bearing loans and borrowings	(77,601)	-	-	(73,873)	-	-
Interest SWAP	(3,789)	-	-	(4,397)	-	-
Gross Balance Exposure	<u>(85,180)</u>	<u>(1)</u>	<u>(724)</u>	<u>(82,492)</u>	<u>(1)</u>	<u>(653)</u>

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2011	2010	2011	2010
USD 1	1.4065	1.4779	1.51158	1.59386
GBP 1	2.2544	2.2823	2.34147	2.3926

• **Sensitivity Analysis**

A 10 % increase of the exchange rate at 31 December in relation to the currencies shown below would increase (decrease) the capital and profit or losses with amounts written below. The analysis makes the assumptions that all other variables; especially the interest rates are fixed. The analysis for 2010 is done on the same basis.

<i>In thousands of BGN</i>	Statement of comprehensive income	Statement of comprehensive income
	31 December 2011	31 December 2010
USD	(109)	(104)
GBP	-	-

25. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

• Sensitivity analysis of the financial instruments with floating interest rate

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

Interest rate risk

The Company has adopted a policy whereby the approved by the SCEWR levels on the reference interest rates on loan agreements as they participate in the calculation of the cost of capital to company at the beginning of the relevant regulatory period must not be exceeded during the regulatory period to avoid a decrease due to changes in interest rates of the actual rate of return on capital. In compliance with this policy, the Company enters into interest rate swaps at a fixed rate for the loan contracts which are tied to reference interest rates and are treated as cash flow hedge due to the risk of change in interest rates.

Profile

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

<i>In thousands of BGN</i>	Carrying Amount 2011	Carrying Amount 2010
Fixed rate instruments		
Financial assets	18,754	17,770
Financial liabilities	(7,779)	(8,887)
	<u>10,975</u>	<u>8,883</u>
Variable rate instruments		
Financial assets	30,961	30,217
Financial liabilities	(152,730)	(145,890)
	<u>(121,769)</u>	<u>(115,673)</u>

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 Statement of comprehensive income. The Company is a party to financial instruments contracts (Interest swaps) as hedge instruments according the fair value hedging model.

A change of the interest rates by 100 basis points as at the date of financial statements would increase / (decrease) the equity and profit or loss with the amounts shown below. An assumption is made during the analysis that all other variables, especially the currency exchange rates are relatively constant. The analysis for 2010 is made on the same basis.

<i>Effects in thousands of BGN</i>	Profit or loss		Equity	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
31 December 2011				
Financial assets with floating interest rate	310	(310)	-	-
Financial liabilities with floating interest rate	(1,527)	1,527	-	-
Financial instrument hedging the interest rate risk	(1,391)	(4,377)	-	-
Cash flow sensitivity (net)	<u>(2,608)</u>	<u>(3,160)</u>	-	-

25. Financial instruments (continued)

<i>Effects in thousands of BGN</i>	Profit or loss			Equity		
	100 basis increase	points100 basis decrease	points100 basis increase	points100 basis decrease	points	points
31 December 2010						
Financial assets with floating interest rate		301	(301)	-	-	-
Financial liabilities with floating interest rate		(1,507)	1,507	-	-	-
Financial instrument hedging the interest rate risk		(2,277)	(5,371)	-	-	-
Cash flow sensitivity (net)		(3,483)	(4,165)	-	-	-

Capital Management

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

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 nominal return on equity in 2011 is 34.01% (2010: 26.95%).

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

According to the second additional amendment to the Concession contract, signed on 19 March, 2008, the return on capital must be at least 17 %.

During the year there was no change in the approach to the management of the Company's capital.

Accounting classifications and fair values

Fair values versus carrying amounts

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

31 December 2011

In thousands of BGN

		<i>Fair value – hedging instruments</i>	<i>Loans and Receivables</i>	<i>Total Carrying Amount</i>	<i>Fair value</i>
Trade and other receivables	17	-	30,942	30,942	30,942
Receivables from related party	17	-	19	19	19
Cash and cash equivalents	18	-	18,791	18,791	18,791
		-	49,752	49,752	49,752
Loans from related parties	30	-	(71,019)	(71,019)	(71,019)
Loan „A”	20	-	(80,103)	(80,103)	(80,103)
Loan „C”	20	-	(652)	(652)	(652)
Trade and other payables	22	-	(25,973)	(25,973)	(25,973)
Payables to related parties	30	-	(1,602)	(1,602)	(1,602)
Payables on financial lease	20	-	(1,324)	(1,324)	(1,421)
Hedging financial instrument		(7,411)	-	(7,411)	(7,411)
		(7,411)	(180,673)	(188,084)	(188,181)

25. Financial instruments (continued)

Fair values versus carrying amounts (continued)

As at 31 December 2011 the Company has liabilities on loan „A” and loan “B” at an amortized value of BGN 80,103 thousand and BGN 71,019 thousand. With a SWAP transaction letter agreement from 12 November 2008 the Company fixed its exposure to the six-month EURIBOR for the previously stated loans, as concerning loan “A” the fixed interest rate is 3.694%, and concerning loan “B” the fixed interest rate is 3.650% until 2013 (for the period of the approved Business Plan 2009-2013). Both contracts are for a 5-years period.

31 December 2010

In thousands of BGN

		<i>Fair value – hedging instruments</i>	<i>Loans and Receivables</i>	<i>Total Carrying Amount</i>	<i>Fair value</i>
Trade and other receivables	17	-	30,217	30,217	30,217
Receivables from related party	17	-	26	26	26
Cash and cash equivalents	18	-	17,817	17,817	17,817
		-	48,060	48,060	48,060
Loans from related parties	30	-	(70,859)	(70,859)	(70,859)
Loan „A”	20	-	(72,494)	(72,494)	(72,494)
Loan „C”	20	-	(1,086)	(1,086)	(1,086)
Trade and other payables	22	-	(36,039)	(36,039)	(36,039)
Payables to related parties	30	-	(794)	(794)	(794)
Payables on financial lease	20	-	(1,739)	(1,739)	(1,886)
Hedging financial instrument		(9,321)	-	(9,321)	(9,321)
		(9,321)	(183,011)	(192,332)	(192,479)

Interest rates used to determine the fair values

The interest rates used for discounting the forecasted cash flows, whenever applicable, are based on the 6m EURIBOR + fixed margin.

	2011	2010
Derivatives	1.78%	3.7%
Loans and borrowings	3.5% – 7.8%	3.5% – 7.4%
Leases	3.5% – 7.8%	3.5% – 7.4%

25. Financial instruments (continued)

Fair value hierarchy

The table below analyzes the financial instruments carried at fair value, by valuation method. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for similar assets or liabilities
- Level 2: input data, other than quoted prices included in Level 1, which are observed for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: input data for the asset or the liability, which are not based on available market information (unavailable input data)

<i>In thousands of BGN</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2011	-	-	-	-
Total assets	-	-	-	-
Interest rate swaps used for hedging	-	(7,411)	-	(7,411)
Total liabilities	-	(7,411)	-	(7,411)
31 December 2010	-	-	-	-
Total assets	-	-	-	-
Interest rate swaps used for hedging	-	(9,321)	-	(9,321)
Total liabilities	-	(9,321)	-	(9,321)

26. Operating leases

Leases as lessee

Non-cancellable rental payments under operating leases are payable as follows:

<i>In thousands of BGN</i>	2011	2010
Less than 1 year	994	988
Between 1 and 5 years	1,922	2,995
More than 5 years	-	-
	2,916	3,983

Leases as lesser

The Company leases out its investment property (see note 14).

<i>In thousands of BGN</i>	2011	2010
Less than 1 year	33	71
Between 1 and 5 years	1	71
More than 5 years	-	-
	34	142

27. Employee benefits

Present value of the liability for payment of defined benefit scheme for retirement

<i>In thousands of BGN</i>	2011	2010
Present value of the liability on 1 January	955	922
Interest expense	47	54
Current labour cost	103	117
Actuarial loss	19	112
Restructuring effect	-	-
Paid compensations to retired employees	(299)	(250)
Present value of the liability on 31 December	<u>825</u>	<u>955</u>

Liability recognized in the Statement of financial position as at 31

December, including:	825	955
Short – term liabilities for retirement compensation	372	183
Long – term liabilities for retirement compensation	453	772

Expenses recognized in the income statement

<i>In thousands of BGN</i>	2011	2010
Current labor cost	103	117
Interest expense	47	54
Actuarial loss	19	112

Actuarial assumptions

	2011	2010
Discount rate at 31 December	5.30%	5.74%
Salary increase (annual for 10 years)	3%	3%
Employee turnover	11%	12.5%

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 $i = 5.30\%$ is used. This rate is based on analysis of the offered long-term investment instruments on the Bulgarian stock market (securities, municipality bonds, etc.).

27. Employee benefits (continued)

Actuarial assumptions

<i>In thousands of BGN</i>	25 basis points increase of salaries growth	25 basis points decrease of salaries growth	
Effect on the liability for retirement compensation		5	(5)
<i>In thousands of BGN</i>	25 basis points increase of interest growth	25 basis points decrease of interest growth	
Effect on the liability for retirement compensation		(5)	5
<i>In thousands of BGN</i>	1000 basis points increase of employee turnover	1000 basis points decrease of employee turnover	
Effect on the liability for retirement compensation		(8)	8
<i>In thousands of BGN</i>	3000 basis points increase of mortality rate	3000 basis points decrease of mortality rate	
Effect on the liability for retirement compensation		(7)	7

28. Contingencies

(a) Bank guarantees and promissory notes

On 16.11.2011 a performance bank guarantee No.02502-1063911PEE was issued to Sofiyska Voda AD under the Concession Contract, at the amount of \$ 750 000, issued by Societe Generale S.A., Paris, and valid until 15.12.2012.

In relation to Contract No. ПД-568-68/10.08.2011 between Sofiyska Voda AD and the Municipality of Sofia, related to the Company's obligation to remove defects and damages in areas that are property of the Municipality of Sofia and where Sofiyska Voda AD has carried out construction works, on 22 August 2011 a performance bank guarantee at the value up to BGN 400 thousand and valid until 31 December 2011 has been issued. On 1 December 2011 the term of the guarantee was extended until 31 December 2012, the value remains unchanged.

On 26.01.2012 a bank guarantee in favor of the National Electric Company EAD (NEC), at the amount of BGN 19 000 was renewed. Its amount is subject to annual recalculation based on the previous year's consumption. The change is effective as of 30.01.2012 and the guarantee's validity is extended until 29.01.2013.

In relation to a Contract for access to the electricity grid with Electricity System Operator EAD (ESO), on 01.02.2012 a bank guarantee No GI12.032.0014 at the amount of BGN 21,739 was issued, and it is valid until 31.01.2013.

In relation to a Contract for balancing energy with Electricity System Operator EAD (ESO), on 08.02.2012 a tripartite Agreement was signed by Sofiyska Voda AD, ESO and Allianz Bank Bulgaria, regarding the closure of the special account, servicing the contract deposit. On 17.02.2012 a bank guarantee No GI12.048.0018 at the amount of BGN 34,815.90 was issued, and it is valid until 31.01.2013. The balance of the special account in Allianz Bank Bulgaria as at 31 December 2011. Equals to BGN 8,963.

In relation to a Contract for sale of electricity to a privileged consumer under condition No 5012/2007 between Sofiyska Voda AD and NEC AD, the Company has issued a promissory note in favor of NEC at the amount of BGN 170 thousand.

28. Contingencies (continued)

(b) Infrastructure

In accordance with a contract dated 08 July 2005 between the 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) on the other side, the State will finance the construction and rehabilitation of elements of the technical infrastructure within the boundaries of "Sofia Park" project. In accordance with this contract Business Park Sofia EOOD and Lindner AG, Germany made 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 on Protection of Competition from October 2005 states that the State financial obligations will not represent state aid if within three months from the construction of the new water main infrastructure, the Concession Agreement is annexed with the aim to recover the amount of the water main infrastructure expenditure from "Sofiyska Voda" AD to the National Budget.

Sofiyska Voda AD has made an appeal 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.

As per Appendix 1 to Decision No.620 of the Sofia City Council (SCC) on Protocol No.22/09.10.2008 and the text of Annex 1 to Second Additional Agreement to the Concession Contract for delivery of water supply and sewerage services on the territory of Municipality of Sofia (MoS) (Annex) and in pursuance of the aforementioned decision of the Supreme Court, Article 2 of the Annex states a procedure and a formula for the calculation of the annual amount of the consideration that will provide equivalence and reimbursement of the value of the W&S facilities is described. As per Art.2.1. of the Annex "the amount of the consideration is different in the different years and depends on the annual expenditure of the Concessionaire, realized through or in relation to commissioning of the new assets." In Art. 3 of the Annex it is stated that the Monitoring Unit of the Concession of the MoS and Sofiyska Voda AD will meet and define the absolute value of the amount of consideration due for the previous year no later than on 30th June in the next calendar year, after the relevant financial year is over. Until 2011 the Company was not provided with the necessary documentation needed for the purposes of calculation of the consideration as per Art.2 of the Annex. After the necessary documents were provided, Sofiyska Voda AD calculated internally the relevant revenues generated as a result of putting into operation the new assets, the relevant expenses and the other elements in accordance with the formula in Art.2.2 of the Annex, and based on that the consideration amounts are the following:

<i>In thousands of BGN</i>	2009	2010	2011	Total
Water Supply	(11.4)	(28.5)	(30)	(70.0)
Sewerage	(0.3)	(1.1)	(0.2)	(1.6)
Waste Water Treatment	(0.3)	(1.4)	(0.3)	(2.0)
Total:	(12.0)	(31.0)	(30.5)	(73.6)

Based on those calculations, the revenue stated in Note 5 has been respectively decreased regarding the three types of services – water supply, sewerage and waste water treatment – by the total amounts stated above for the three years since putting the new assets into operation and a liability to Municipality of Sofia has been presented.

29. Obligations for the acquisition of property, plant and equipment

As per the Concession Agreement with Sofia Municipality on 23 December 1999, the Company must implement a minimum capital investment during the first 15 years, as of the date of this contract – amounting to not less than 150 million USD, based on the investment plan for the Concession period. Non-fulfilment 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 the Concession Agreement by the Grantor.

This article from the contract has been amended with a Second additional annex to the Concession Agreement, signed on 19 January 2009. According to this additional annex to the Concession Agreement, a precondition for termination is a 75% non-fulfilment of the projected and approved investments by the State Commission for Energy and Water Regulation, in two consecutive years, during the same regulatory period and provided that the prices to allow for those investments have been approved by the Regulator.

In its decision Nr: BP-008/ 09.10.2008 the State Commission for Energy and Water Regulation approved the Business Plan of Sofiyska Voda for the second regulatory period 2009 – 2013. This decision also approved the proposed Investment programme of Sofiyska Voda AD amounting to BGN 240 million.

The investment obligations of Sofiyska Voda AD are presented below:

<i>In thousands of BGN</i>	2011	2012	2013	Total
Business Plan obligations	41,676	43,028	51,052	135,756

The above investment commitment considerably exceeds the Company's obligations as per the Concession Agreement amended by First and Second Additional Agreements, which obligations are shown in the table below. It has to be noted that the obligations under the Concession Agreement stated below are included in the amounts of the obligations as per the approved Business Plan.

	2011	2012	2013	Total
<i>Concession Agreement obligations, included in the Business Plan obligations</i>	13,550	10,775	11,419	35,744

The Investment Program of Sofiyska Voda AD has been prepared in compliance with the Business Plan technical parameters, including: the forecasted consumption volumes, the unaccounted-for-water (UFW) reduction programme, capital maintenance and reconstruction of the water mains need, construction of new service connections, aimed at achieving the long-term key performance indicators for the water and sewerage service levels. The implementation of the Investment Program will be financed by bank credit, ISPA financing and own funds.

The implementation of the above mentioned investments is dependent on the prices of the services, rendered by the Company. In the Business Plan, approved by SCEWR, there is an assumption for the period 2010-2013 of annual water supply service price increase by 10% and annual sewerage and waste water treatment services price increase by 15%, or an annual 11.5% increase of the complex service price on average. Sofiyska Voda AD can implement the full capacity of its investment program only if the above mentioned projected increases are approved by SCEWR.

As of 01 February 2011 the Company is already applying new complex price with increase from the previous year of 9.4%. Owing to circumstances beyond Sofiyska Voda's control, for the first time within the period of Business Plan 2009-2013, the tariff increase was adopted with a month's delay.

In relation to the following price period, at the time of the preparation of the current financial statements, SCEWR has not published a Decision or a Project of a decision for increase of the tariff in 2012. This, despite realizing investments for 2011 of amount greater than the amount provided in the Business Plan, brings uncertainty related to the possibility of securing enough funds by revenues of W&S services for the full implementation of the investment obligations in 2012 and 2013.

30. Related parties

The Company has a related party relationship with its parent company – “Veolia Voda (Sofia) B.V.”, which holds 77.10% of the Company’s shares, as well as with the other companies in the Group.

The ultimate parent company is Veolia Voda S.A.

The following transactions have taken place during 2011

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2011	
			Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of “Sofiyska Voda” AD	Loan provided - Accrued interest 5,464 Other		71,019 Liability for loan received at amortized cost 44 Other trade payables
Veolia Voda S.A.	Veolia Voda (Sofia) BV	Technical services rendered 1,496		1,496
Water Industry Support and Education AD	100% subsidiary of Sofiyska Voda AD	Revenue from services provided by Sofiyska Voda AD 5 Project Management services provided to the Company 374 Recharges to “Sofiyska Voda” AD 249 Income from rent 51 Income from provided administrative services 12	14 5	62
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rent 8		
		Total:	19	72,621

30. Related parties (continued)

During 2010 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 2010

Related party <i>In thousands of BGN</i>	Relation	Transactions during the year	Balance as at 31 December 2010	
			Receivables	Payables
United Utilities UU (Sofia) BV	Controls 77.10% of the shares of “Sofiyska Voda” AD	Loan provided		70,859
		-		Liability for loan
		Accrued interest		received at
		5,087		amortized cost
		Other		44
				Other trade payables
Veolia Voda S.A.	United Utilities UU (Sofia) BV	Technical services rendered		669
		669		
Water Industry Support and Education AD	100% subsidiary of Sofiyska Voda AD	Proceeds on a loan provided by Sofiyska Voda AD		80
		13		
		Project Management services provided to Sofiyska Voda AD		
		407		
		Reinvoiced expenses to Sofiyska voda AD		
		219		
		Investor’s control provided to the Company		19
		33		
		Income from rent		7
		57		
Income from administrative services				
18				
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rent	-	1
		16		
		Total:	<u>26</u>	<u>71,653</u>

30. Related parties (continued)

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:

In thousands of BGN	2011	2010
Remuneration of the Board of Directors	<u>50</u>	<u>72</u>
	50	72

31. Concession contract

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

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

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

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

There is no contractual payment for the 25-year period of the concession.

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

After the Law for Regulating the Water and Sewerage Services became effective in 2006, Sofiyska Voda's operations are directly regulated by the State Commission for Energy and Water Regulation (SCEWR). More precisely, what is under regulation is the prices of the services and their quality, assessed by the so-called "key-point indicators" (KPI). In order to reach the level of services, 5-year business plans are prepared (after the 3-year one for the period 2006-2008), and they bind the price of the services, the investment program and the KPIs by issued by SCEWR Ordinances and Instructions.

In relation to that the process of renegotiation of the Concession Contract aiming to harmonize it with the new legislation starts. The negotiations end in January 2009 and in compliance with the amendments in the Concession Contract, the levels of investments are set in the business plans, which are preliminarily coordinated with the Municipality of Sofia.

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

For the period since the beginning of the Concession until the end of 2011 the amount of investments made is BGN 344,019 thousand. For 2011 the implementation of the business plan is amounting to BGN 45,778 thousand (2010: 52,579 thousand), of which BGN 43,487 thousand (2010: BGN 44,048 thousand) represent investments in improvements on old public assets or acquiring new ones, which leads to recognizing revenue from construction (see Note 7).

31. Concession contract (continued)

Among 54 and 18 months before the expected expiration date of the Concession Contract Sofiyska Voda AD and the Municipality of Sofia are due to commit a mutual verification of the public assets. No later than 24 months before that date the parties agree on the way of handing in the assets and the operations.

As of the 15th Contractual year until the end of the period Sofiyska Voda AD is due to transfer 1% of its annual distributable profit to a special account. The amount accumulated in that account is transferred to the Municipality of Sofia on the date of the expiration of the Concession Contract in return for a "certificate of transfer back" in form additionally agreed between the parties. The accumulated in the special account amount covers completely Sofiyska Voda AD's liabilities.

Regarding the special right to use public assets and to render services of water supply, sewerage and waste water treatment to the consumers within the concession territory, a intangible asset called concession right has been recognized, and as at 31 December 2011 its book value amounts to BGN 194,377 thousand (2010: BGN 161,740 thousand). In 2011 within the value of the intangible asset concession right interest expenses amounting to BGN 334 thousand (2010: BGN 23 thousand) have been capitalized.

32. Subsequent events

On 30th of January SV received a Penal Ruling issued by SCEWR with fine amounting to BGN 200K for wrong categorization of one customer as a Level one polluter. SV prepared and filed an appeal in due seven-day term. A scheduling of court hearing is expected. The amount of BGN 200K, however, is provisioned in the present Separate financial statements of "Sofiyska voda" AD for the year ended 31 December 2011.

ANNUAL REPORT

SOFIYSKA VODA JSC

2011

FINANCIAL REVIEW

FINANCIAL REVIEW

In financial aspect 2011 was a successful year for Sofiyska Voda JSC. The profit from the operating activities for the year is BGN 44.0 M (as compared to BGN 30.0 M for 2010).

The revenue for 2011 from main charges amounts to BGN 124.4 M, which is 5.4 % higher above the figure for the previous year – BGN 118 M. The main reason for that is the tariff increase, effective as of February 1st 2011. The Company's total revenue for 2011 amounts to BGN 171.9 M. The revenue from construction in 2011 is BGN 43.5 M (BGN 48 M in 2010).

In accordance with the Agreement signed on September 21st, 2007 between Sofiyska Voda JSC and the Carbon Fund established with the EBRD for sale of reduced carbon emissions in 2011 based on the prepared monitoring reports, an income amounting to BGN 1.6 M as well as additional income from previous period at the amount of BGN 0.4 M was recognized. For 2010 the sum amounts to BGN 1.5 M.

The co-generation station commissioned in the end of 2009 at Kubratovo WWTP was used in 2011 mainly to meet the demands for power supply internally in the plant. This decreased considerably the high voltage electricity purchased for the period as compared to the previous year (BGN 0.5 M) – even taking into consideration the newly commissioned in the middle of 2011 new facilities for removal of phosphorus and nitrogen.

The operating costs of the Company for 2011 amount to BGN 128 M (2010 – BGN 141 M). The specified sum includes construction costs at the amount of BGN 43.5 M resulting from the application of IFRIC 12. These costs offset the construction revenue specified above.

In 2011 there is a 37% decrease in the other operating costs specified in detail in Note 11 of the separate financial statements. The main reason for it is the lower value in 2011 of the impairment of receivables due to the good results of debt collection from debtors.

The 2011 depreciation and amortization costs are BGN 19.8 M. The value is lower than the reported in 2010 (23.7), which are mainly due to the accelerated depreciation of the goodwill applied in 2010.

The interest charges throughout the year are in line with the budgeted, as a result of the signed in 2008 interest rate SWAP contracts for fixing the six-month Euribor exposure under the two main loan agreements.

The financial revenue in 2011 is BGN 162 K higher than the reported in 2010, which is mainly due to the effect of the discounting of guarantees as well as to the net effect of exchange rate differences which were negative in 2010.

As result of the above factors the Profit after taxes for 2011 marks a considerable growth of more than BGN 14 M as compared to 2010.

FINANCIAL INSTRUMENTS

The Company's policy regarding financial risk, as well as its exposure to tariff, credit and liquidity risk are described in detail in the notes to the 2011 Financial Statements.

The Company has used derivative financial instruments in order to hedge its interest rate risk exposure. Via the SWAP contracts dated 12.11.2008 the Company executed two interest rate hedges:

Contract with ING Bank was signed to fix the six-month Euribor under the Senior loan with EBRD of 3.694% for a 5-year period ending in 2013.

Contract with Citiban was signed to fix the six-month Euribor under the Subordinate loan of 3.650% for a 5-year period ending in 2013.

In order to report the two contracts in the financial statements, hedge accounting is applied. After their impairment, the effect in the 2011 financial statements is a financial liability amounting to BGN 7.4 M.

EVENTS FOLLOWING THE BALANCE SHEET DATE

All significant events after the Balance Sheet date and their effects on the Company's activity are listed in Note 32 to the 2011 Separate Financial Statements.

CUSTOMER SERVICE

The application of best practices and new technological solutions in Sofiyska Voda JSC impacts customer satisfaction with the entire activity of the Company. A relatively high rate of 72.9% customer satisfaction was measured in 2011, which is by 15.4 % below the level from the previous year. The decrease in customer satisfaction in 2011 can be explained by the fact that the sample of interviewed customers was from Simeonovo residential quarter and from the town of Novi Iskar and coincided with the implemented in 2011 project under ISPA on the rehabilitation of the Rila Main, which led to planned water supply interruptions every Tuesday during the summer season in Simeonovo residential quarter.

Customer relations

The 24/7 Call Centre of Sofiyska Voda AD has 16 lines, on which operators receive 1,327 calls on average per day. In 2011 the incoming calls are about 1% less than the ones in 2010. 484,211 incoming calls were answered in 2011.

Customer Service Centers

There are eight Customer Service Centers (CSC) of Sofiyska Voda AD located in various parts of the city. In 2011 a total of 439,617 customers visited the CSCs, 255,885 of them paid their water bills. Compared to the previous year the number of the cash payments in the CSCs continues to decrease, due to the increased number of the payment options and points of payment, but as a whole the number of the visits to the CSCs remains stable.

Internet services

In 2011 there were more than 1,400,000 registered visits to the webpage of the Company. 51,501 water meter self-readings were submitted by customers online, which is a growth by 83% as compared to 2010. 9 038 were the inquiries sent via the website, 8 430, of them requiring a reply. All replies were sent within 1 business day.

An innovation was introduced on the webpage of the Company, which gives the customers the opportunity to request e-invoice on the site. This option was used by 7,943 customers by the end of 2011.

Water meter services, billing and debt collection

Water meter replacement

The accurate metering of the water supplied to customers is of key importance both for ensuring the Company revenue and for the good service as a whole. In 2011, 11,001 revenue water meters were put in good technical order as follows:

	2011	2010	2011 as compared to 2010 B %
Total in good technical condition	11 001	9 918	10.92%
Installed	9 446	8 169	15.63%
Tested	1 555	1 749	-11.09%

The water meters installed in blocks of flats with regime of condominium, which were without revenue water meters, i.e. without distribution of 'common needs' are 992 read 130 771 m³ (9.36% of the total consumption metered as per them, billed water volumes as 'common needs').

The volume metered according to the replaced water meters (difference before and after the installation) is 83,765 m³ or 3.08 % more than the metered prior to their replacement.

Water Meter Reading

The water meter reading model from previous years was used in 2011 – reading of the individual water meters and revenue water meters in blocks of flats on a quarterly basis, and the revenue water meters of the commercial and administrative customers – on a monthly basis. The customers receive information about the period of the visit of the meter readers from notices put up at a visible place in the condominium, the customer service centers, the Company web-page and the Call Centre in order to be able to ensure access for inspection of the water meters. In 2011, 83.62% of the water meters subject to reading were read as compared to 82.04% in 2010. The success rate in the extra-urban area for 2011 is 72.67% as compared to 70.27% in 2010. In terms of the large consumers read by the meter readers of Sofiyska Voda JSC the success rate is 95.50% as compared to 93.96% for the previous year. The success rate for reading of revenue water meters in blocks of flats in regime of condominium is 95.12%.

	2011	2010	2011 as compared to 2010
Total;	83.62%	82.30%	1.60%
Urban area	83.64%	82.25%	1.69%
Rural areal	72.67%	70.27%	3.42%
Key accounts	95.50%	93.96%	1.64%
Blocks of flats	95.12%	89.18%	6.66%

Billing

6,620,533 invoices were issued over the reporting period, which is 4.08% more as compared to 2010. The invoices issued after actual reading of the water meters were more than 2,824,900.

Debt collection

Sofiyska Voda JSC puts great efforts in enhancing cash collection by offering various ways for bill payment by customers or deferred payment schemes for accumulated debts. The cases referred for settlement by the court increased many times and the Company continued to use the services of two companies specialized in debt collection. During the year a number of campaigns were implemented in order to increase debt collection, including sending letters to the debtors, negotiations via the phone, visits at addresses, as well as campaigns related to disconnection of the water supply to physical and legal entities. As a result the collection rate (revenue compared to billed volumes) has risen from 93.72% in 2010 to 96.06% in 2011.

Non-regulated business

Sofiyska Voda JSC has continued to successfully develop its activity for providing additional services to its customers. In 2011 the total number of the installed water meters was 21,911, and the tested water meters – 4,511. The revenue from non-regulated water meter services (individual water meter testing and installation) was BGN 1,206,747 which is by 6.6% higher compared to the previous 2010. The total revenue from advertising amounted to BGN 67, 706.

OPERATIONS AND MAINTENANCE

Water Resource Management

The constant monitoring of the water volumes supplied to the Concession area is the basis for the water management realized by Sofiyska Voda JSC.

Water supplied in 2011 is as follows:

Total water volume abstracted from all potable water sources – 212,160,528 m³

Including to the Municipality of Samokov – 7,060,830 m³

To the Municipality of Sofia – 206,180, 736 m³

Industrial water – 9,388,583 m³

The monitoring data show that as compared to 2000 the Company has achieved an actual reduction in the water volumes used for water supply to the Concession area.

The raw water abstracted from water sources in 2011 has decreased as compared to 2010 by 7,752,023 m³

The water volumes supplied to the Concession area in 2011 have decreased as compared to 2010 by 7,876,812m³.

Unaccounted-for water reduction

In 2011 the total losses reduction of about 7.6 million m³ was reported for the water supply system Sofia compared to 2010, which is a reduction from 57.04% to 55.55%. For the reporting period there is a minimum increase in the billed potable water by 73,846 m³. There is a considerable decrease in the volumes reported for technological purposes (part of the legal consumption) by 395,880 m³ due to the lower consumption of backwash in the PWTP.

The reduction of the unaccounted-for water (UFW) remains one of the main priorities of Sofiyska Voda AD, as it contributes to the preservation of water resources. In the past 2011 the Company managed to keep and further improve the progress achieved in 2010 in a wide range of activities related to the reduction of UFW.

- **Constant monitoring of the supplied water volumes**

The program for constant monitoring of the DMZ/DMA zones has continued. The water network was split into 29 zones for management of the water demand (DMZs) and one zone - the impounding structures. The DMZs were then split into smaller water metering areas – total 195 DMA with consumers, 82 DMAs with strategic water mains and 50 with reservoirs. The DMAs are separated with 580 boundary stop valves. A total of 407 metering devices were installed across the network and they are connected with the SCADA system (data supervision, management, control and collection) and/or the telemetry system.

- **DMA program**

The DMA program encompasses constant monitoring of the water metering zones – boundaries, metering, improvement and optimization of the zones, monitoring and management of the metering devices and data loggers, maintenance of the telemetry system. About 96% were established and metering is done. In 2011, 7 % of the DMAs were tested (13 DMAs out of 195) from all DMA zones in the concession area. In addition, another 18 zones were tested without water interruption of the whole zone. 5 new zones were established. The boundaries of every DMA zone were regulated by accurate metering of the water volume and pressure.

- **Water demand survey**

In 2011 Sofiyska Voda JSC continued the project for water demand survey, renewed in 2010 though studying the profile of the demand of the different types of customers – large industrial enterprises and different types of residential buildings. Within the frames of the survey the consumption at the sites is registered through data loggers for a period of one week. In 2011, a total of 353 sites were surveyed, among which 262 residential buildings, 47 industrial and commercial sites and 44 administrative buildings.

- **Pressure management**

The activity that most seriously influences the decrease in both the number of the registered leaks across the network and the physical potable water losses is the pressure reduction project. 37 new reducing valves were installed in 2011 and 5 of the existing ones were replaced with PRVs with modified parameters.

21 new hydrophores were installed in 2011 under the pressure reduction program.

- **Leak detection**

The leak detection activities continued and in 2011, 2,550 hidden leaks were detected and repaired– reactively and 31 proactively.

- **Implementation of investment projects for replacement of water mains, house water connections and stop valves and other elements on the network**

In 2011 Sofiyska Voda JSC reconstructed a total of 53 256 meters of water distribution network. During the same year projects on reconstruction of impounding structures were also implemented as the total length of the reconstructions was 823 m. The projects include both water mains and sewers and rehabilitation of sections of the impounding water mains under the Relining technology.

Over the reporting period a total of 2 373 of the existing house water connections (HWCs) were replaced and 299 new ones were constructed, 1570 stop valves and 187 fire hydrants were installed and 2 pumping stations were fully reconstructed.

Revenue water meter replacement and installation

In 2011, 9446 revenue water meters were installed. In order of priority water meters were installed in blocks of flats, key accounts and public buildings. 1 002 water meters were installed in blocks of flats with opened individual customer accounts which at the time were without distribution of 'common needs'. 3 081 of the installed water meters are with diameter exceeding 40 mm.

Quality of the water supplied

The reports for 2011 of the Sofia Regional Inspection on Public Health Protection and Control (SRIPHPC), which conducts an independent supervision on the water quality, show that the quality of the potable water in Sofia meets the requirements of the Bulgarian legislation which is harmonized with the Potable Water European Directive.

During the implementation of the program for monitoring the quality of potable water in 2011, the percentage compliance of the samples taken across the water system is 98.2% under physical and chemical parameters and 97.6 % compliance for the samples under micro-biological parameters.

A large amount of activity was performed in 2011 for the maintenance of the quality parameters of the filtered water, among them mechanical treatment and disinfection of the facilities along the route of the water in PWTP

Bistritsa and PWTP Pancharevo, preventative program for mechanical treatment and maintenance of the service reservoirs, automation and modernization of the of potable water disinfection plants and on-line monitoring of the quality parameters in the reservoirs on the territory of the Concession area.

Procedures were developed for action in case the ascertained transitory deviations from the quality characteristics of potable water, including monitoring, proving and recording the reasons for the deviations.

A number of surveys and upgrades of the technological processes in Bistritsa PWTP were carried out in order to improve the efficiency and the efficacy of the treatment processes. New treatment facilities were commissioned for the Rila water supply system at the village of Mala Tsarkva and the local treatment plant for potable water at the village of Passarel.

The ascertained deviations in the quality of potable water are due to:

- Worsened condition of the water supply installation in the buildings at some of the points for monitoring of the water supply network (the legal requirement is to take sample 'from the valve at the customer');
- Adverse impact of the water supply interruptions on the quality indicators after its restoration (such as turbidity, iron, and total number of coli form bacteria). This effect is also due to the age of some water mains and the natural processes of corrosions and biofilm formation;
- The water standing in sections of the water distribution network as result of low consumption;
- Seasonal fluctuations in the quality of the raw water from Iskar Dam (aluminum content);

In the period 01.01.2011-31.12.2011, 2011 annual program for monitoring the quality of potable water supplied to customers in a scope and volume that complies with the legal requirements was implemented. It was approved agreed by the Sofia Regional Health Inspectorate (SRHI). The monitoring program was implemented by the accredited Laboratory Testing Complex (LTC) at Sofiyska Voda JSC. LTC has accreditation to test potable water, including to take water samples (certificate, issued by the BAS on the basis of the requirements of BDS EN ISO/IEC 17025:2006, registration No. 50 – JИИ/09.02.2010, valid until 28.02.2014).

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of Sofiyska Voda AD implements the Company plans for monitoring of surface and potable water, wastewater and sludge in terms of taking samples from water and sludge and analyzing the microbiological, physical, chemical and hydro-biological parameters. Over the reporting period the LTC successfully took part in 26 international programs for inter-laboratory comparative tests for microbiological, physical and chemical parameters, which is an independent confirmation of the accuracy and reliability of the test methods used in the LTC and the high qualification and competence of the employees.

The activities implemented by the LTC in 2011 are mainly connected with the fulfillment of the plans for monitoring of potable and ground water as well as wastewaters and sludge; obtaining and maintenance of accreditation; development of new methods for analysis of pesticides and halogenized hydrocarbons in the potable water; development of methods for continuous flow analysis for determination of phosphates, nitrates, nitrites and ammonium ions in wastewater; process control, improving the traceability and transparency of the activities performed and ensuring confidentiality of the analytical results regarding the samples of internal and external customers of the LTC; development and improvement of the implemented system for quality management based on the BDS EN ISO 17025.

In 2011, 7 752 potable water samples were analyzed by Potable Water Section of the LTC under 142 698 parameters, respectively 13 889 wastewater samples were analyzed in Wastewater Section of the LTC under 169 915 parameters.

Over the reporting period the LTC developed new methods for determining the contents of potential organic pollutants in the potable water - pesticides and halogenized hydrocarbons, development of methods for

continuous flow analysis for determination of phosphates, nitrates, nitrites and ammonium ions in wastewater, as well as methods for precise determination of elements in the sludge samples.

In 2011 two internal audits were held of the quality management system in the LTC, and auditors certified under BDS EN ISO 19011 and BDS EN ISO 17025. No quality deviations and non-compliances regarding the activities performed in the LTC were found.

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

Water Supply

Water Network Management

In 2011 the Company strongly focused on preventive activities related to network inspection and installation of stop valves in order to reduce the areas of water supply interruptions and improve the water network operation.

These activities, as well as the whole strategy for reduction of unaccounted-for water, led to a certain reduction of emergency activities – 6 125 failures on water distribution mains. The repair of these failures led to 4 334 single cases of water supply interruption

A major part of the emergency activity over the last years is the objective to reduce the leak removal time. For the past year we achieved a level of 2.6 days on average for all failures. The stated period includes the time from the receipt of each separate signal until the removal of the specific leak. The level achieved is a considerable improvement of the indicator as compared to 2010, when the same period was 3.1 days.

Regarding the repair works after repair of a failure, a considerable decrease was achieved in the number of road covers which are not reinstated at the end of the year, immediately after the start of the winter period – at the end of 2011, the road covers not reinstated on the territory of the concession area were 243, which is a decrease by more than 40% in the number of the road covers, which are not reinstated, as compared to the same period in 2010.

Emergency water supply interruptions in 2011.

6 125 failures and 4 334 water supply interruptions.

Planned water supply interruptions in 2011.

285 planned interruptions, 780 960 affected households

Sewerage

The sewerage network on the territory of the Municipality of Sofia includes 1,554 km of public assets and more than 500 km of assets with unclear status (as per the TDA of 2003). The majority of the surrounding territories of Sofia, as well as some areas in the city, do not have a central sewerage network. Implementing the Business Plan 2009-2013 Sofiyska Voda JSC observes the priorities of the Municipality of Sofia for the construction of sewers. The projects for the extension of the sewerage network over the last two years are one of the focuses of the company's investment program. In 2011, 10 984 m of new sewerage system were constructed and 1 531 m of the existing one were reconstructed.

The organization and the maintenance of the sewerage network is carried out through proactive methods - video diagnostics of sites and preventive cleaning, as well as reactive activities - cleaning, repair works and rehabilitation of pipelines.

Operation and maintenance activities on the sewerage system

Activity	Measure	Performance 2009	Performance 2010	Performance 2011
Cleaning of street sewers	meters	341,225	214,343	155,743
Cleaning of gullies	number	31,415	320	1,647
Cleaning of manholes	number	4,747	2,827	2,376
Installation of grids (covers)	number	1,104	968	950
Unclogged service connections	number	1,988	1,802	1,776
Unclogged service connections	meters	40,019	36,596	38,653
Sludge transportation	cubic meters	4,079	1,302	1,823

In 2011 the implementation of the updated program for proactive maintenance of the sewerage network, as the focus was on the preventive maintenance of sections with worse operational parameters. As a result of it, a part of the activities for cleaning street sewers was optimized as this change led to the decrease in the number of the blocked house connections during the year. The data for enhanced efficiency during proactive works is confirmed also by the increased volume of transported sludge, which in 2011 increases as compared to the previous period.

Wastewater treatment

In 2011, a total of 147.9 million m³ of wastewater from the sewerage network of Sofia was treated in Kubratovo Wastewater Treatment Plant (WWTP). The treated volume of wastewater is about 84% of the average daily capacity of the plant (480,000 m³/day). With the implementation of the investment projects for expansion of the sewerage network of the capital city, it is expected that in the coming four years the treatment plant's capacity will be close to the designed one.

Over the reporting period, Sofiyaska Voda AD optimized the control on work processes and strictly followed all legislative requirements related to wastewater treatment. In line with the requirements of the Surface Water Discharge permit, issued by the Danube Region Water Basin Directorate, and the Concession Agreement, the Laboratory Testing Complex, the Wastewater Sector at Kubratovo WWTP conducts continuous monitoring of the quality indicators of treated wastewater and sludge generated in the treatment process.

Quality of the treated wastewater

On a daily basis, analysis is carried out of the indicators Biological Oxygen Demand (BOD₅), Chemical Oxygen Demand (COD) and Suspended Solids (SS) of the treated wastewater at the outlet of WWTP.

In 2011 a total of 1,095 samples were taken for analysis of treated wastewater. The limit values of water quality as per the requirements of the Discharge permit are as follows:

BOD₅ – 25 mg O₂/l
COD – 125 mg O₂/l
SS – 35 mg/l

The average values of the samples are below the levels recommended of the emissions for quality of discharged water as the annual compliance level achieved is 97.9%

Sludge Treatment and Utilization

The sludge produced from wastewater treatment is stabilized in four anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a 'sludge cake' with dry solids content of about 25%.

In 2011 Sofiyska Voda JSC continued to provide the stabilized sludge to be used in agriculture for soil fertilization. The Company has all permits required for the sludge utilization on agricultural lands.

Sludge from WWTP Kubratovo	2008	2009	2010	2011
Produced	73,402 t	76,130 t	89,383 t	101,513 t
Used in agriculture	49,635 t	68,029 t	54,577 t	70,243 t

The control of waste produced in WWTP Kubratovo, including the dewatered sludge, is carried out in accordance with the requirements of the Waste Management Act. Sofiyska Voda JSC inspects and submits the reports required to the Ministry of Environment and Water.

Electrical and Mechanical Maintenance

In 2011 „Sofiyska Voda JSC successfully implemented the annual plan for preventive maintenance of the Company's facilities, as a result of which the time ratio for emergency works versus general works remained within 10% in December 2011.

During the year the project on the reconstruction of the water line in Sofia wastewater treatment plant was completed. By it the volume of treated wastewater and sludge was increased considerable and the facilities in the treatment plant function at full load. This change is concerned also with bigger challenges for the teams, which ensure the electrical and mechanical maintenance of the site and at present the reliable work of the treatment processes is ensured by preventative and emergency repair works.

Reduced Carbon Emission Sales Agreement

According to the agreement concluded on September 21st, 2007 between Sofiyska Voda AD and the Carbon Fund established with the EBRD the project for selling reduced carbon emissions continued in 2011. Over the period 119,000 tones CO₂ equivalent reduced emissions were generated and it is expected that they would be transferred to the buyer in May 2012.

INVESTMENTS 2011

The actual amount of investments in 2011 was a total of BGN 45.8 M. The 2011 capital expenditure falls into the following categories:

- Water supply – BGN 21.3 M.
- Potable water treatment – BGN 0.8 M.
- Sewerage – BGN 14.7 M.
- Wastewater treatment – BGN 1.8 M.
- Service connections, water meters – BGN 6.3 M.
- Customer service – BGN 0.9 M.

The main projects implemented in 2011:

Pancharevo	Bistritsa	'N. Krushkin – Cholaka' st	Tzar Ivan Assenov Pat to St. Stambolov	2 009
Krasna Polyana	Krasna Polyana	Vazkresenie blvd, Dobrotich st. And Nikola Mushanov blvd	from Nikola Mushanov blvd to Dobrotich st, from Vazkresenie blvd to Nikola Mushanov blvd and from Dobrotich st. to Rishki Prohod st.	1 886
Pancharevo	Bistritsa	'N. Krushkin – Cholaka' st	Tzar Ivan Assenov Pat to St. Stambolov	1 507

- Reconstruction of water main along Samokovsko Shosse, Zheleznitsa, MoS-Pancharevo Region (2009 m)
- Reconstruction of water main along 'N. Krushkin – Cholakov' St, Bistritsa, MoS- Pancharevo Region (1886 m)
- Reconstruction of water main along Vazkresenie blvd, Dobrotich St and Nikola Mushanov blvd, Krasna Polyana residential quarter , MoS-Krasna Polyana Region;
- Construction of a separate sewerage system with a sewer pumping station and water main in Benkovski R.Q.;
- Construction of a separate sewerage system with a sewer pumping station and water main in Iliantzi residential quarter.
- Construction of main sewer branches I and II and water mains in Simeonovo residential quarter;
- Construction of sewerage and reconstruction of water main in Slivnitsa area, MoS-Lulin Region – I stage.
- Construction of sewerage and reconstruction of water main in Nadezhda IV residential quarter.
- Chlorination installation in Konyavitza reservoir and other projects on improvement of the quality of potable water;
- Energy efficiency projects.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

As a Company providing water supply and sewerage services on the territory of the Municipality of Sofia, the activity of Sofiyiska Voda JSC is closely linked to ecology and environmental protection. Sustainable development principles are founding for each aspect of the Company's operation. The achievement of balance between economic growth, environmental protection and improvement and social development is an inseparable part of Sofiyiska Voda's business strategy.

The preventative and long-term protection of natural resources, energy saving, harmful emission reduction as well as optimization of the use of raw materials and fuels are key Company tasks. The implementation of a result-orientated ecological policy is accompanied by a number of benefits: cleaner water, protection of the surface and ground water, better public health, safe and responsible waste management, less harm to forests, fields, water basins and parks.

The investments in ecology and modern technologies improve the economic efficiency and increase the Company's productivity. The regulation and management of water and water resources and the activities across the water supply network result in water loss reduction and hence in saving this valuable natural resource. The introduction of best practices in the sewerage network operation and maintenance, the construction of new sewers and the provision of ever more efficient and high-quality wastewater treatment is the Company's priority. The more efficient waste management results in savings, and better quality of water means lower operating costs. Raising the awareness of Sofia's residents regarding efficient water use is a crucial aspect of the Company's work towards applying the sustainable development principles.

The policy of Sofiyiska Voda JSC on environmental protection shows the awareness of its main ecological responsibilities, definition of the ecological objectives and planning of the activities connected with environmental protection and improvement. The ecological objectives of the Company are as follows: to provide

high-quality water supply and sewerage services in order to protect the health of our customers, to use water resources responsibly and economically, to prevent pollution and to continuously improve our environmental protection activities, to meet all sectoral legislative and other requirements which the Company has voluntarily assumed, to save the energy, fuel and other resources which it uses, to reduce the losses of potable water in the water supply network, to reduce the waste generated through the Company's activity and to promote initiatives for recycling and reusing materials when possible, to minimize the harmful impact on the environment resulting from pollution of air, water and soils, to integrate environmental, economic and social responsibility into our business.

In order to achieve its ecological objectives, Sofiyska Voda JSC made an environmental impact assessment regarding all current and future activities of the Company. The potentially important aspects and environmental impacts were identified, and procedures for prevention and mitigation of the environmental impact were developed.

Sanitary Restricted Areas (SRAs) around the water sources

In compliance with the requirements of the normative documents, in 2011 Sofiyska Voda JSC continued to work for establishment and construction of Sanitary Restricted Areas (SRAs) around the water sources. The fulfillment of the obligations under Order № ПД-577/08.09.2008 of the Minister of Environment and Water continued. An Act №07726 /18.05.2011 was issued, stating that belt I of SRA of Iskar Dam is public state property. The water boundary of belt I of the SRA of Iskar Dam was constructed; signs were put, restricting the access to belt II of SRA of Iskar Dam from the side of the Sofia – Samokov road. The water boundary of belt II of SRA of Iskar Dam was also marked.

An application to the Ministry of Environment and Water (MoEW), SV Ref. 1405/ 15.04.2009 and MoEW Ref. 26-00-1056/16.04.2009, based on article 151 para 2, it.2, letter "s-cc" of the Water Act and in relation to the transitional and final provisions of Ordinance №3 (SG, issue 88 dated 27.10.2000), opened a procedure for establishment of SRA at Kokalyane Weir in line with the requirements of Ordinance №3 (SG, issue 88 dated 27.10.2000). The procedure has not been finalized yet.

The Danube Region Water Basin Directorate issued to the Company Decisions for prolongation of terms of the Water Abstraction Permits for six groundwater sources (Catchments).

ISO 14001:2005 Standard – Environmental management systems

At the end of 2008, Sofiyska Voda was certified under ISO 14001:2004 (BDS – 2005), an international standard for environmental management system. The maintenance of the system continued in 2011. It ensures performance of activities aimed at minimizing the risk of pollution, efficient use of resources and increase of the efficiency of the Company's work. In November, the audit of the implementation of the system was successfully carried out. The trainings were targeted at the managers of the Company's structural units. The topics of the trainings are related to problems with the maintenance of the Environmental Management System. The Environmental Services Department strives to inform all employees about the environmental management activities.

The environmental protection policy was amended. The policy was revised and improved in line with the one of Veolia in order to provide a better framework for the purposes of the company.

Waste Management Program

In connection with the changes in the permit for management of waste-related activities in 2011, the Waste Management Program of the Company for 2011-2014 had to be updated. The Program covers all kinds of identified waste which can be generated as a result of the activities performed by Sofiyska Voda JSC. It includes the methods of temporary storage, transportation and handover of waste to licensed companies for its further utilization in line with the relevant legislation.

Maintenance and update of acts and permits register

In 2011, the update of the law register continued in compliance with the amendments to the acts and the new legislation in the field of environmental protection. The register of the permits issued to Sofiyska Voda JSC was also maintained in accordance with the ecological legislation. Their update and implementation was ensured.

Separate waste collection – part of the Environmental Management System

In 2011, Sofiyska Voda JSC continuously worked to establish the introduction of a system for separate collection of packaging waste. Containers were provided at all the Company's premises with the respective stickers for each of them. The contract signed with Ecopack AD for collection and transportation of waste paper, plastic and glass ensures conditions for separate transportation of waste. Instructions on separate collection were put on each container in order to remind employees of where to dispose of each kind of waste. The instructions are not only colorful but also contain illustrations in order for them to be remembered more easily and quickly. Special trainings were carried out in several Company departments in order to clarify these instructions.

Green energy production

In 2011, Kubratovo Wastewater Treatment Plant produced 15,287.9 MWh of green energy. The production is based on a co-generation technology for utilization of biogas generated in the process of sludge treatment at the plant. The co-generation installation is a project of Sofiyska Voda JSC at the amount of over BGN 5 million and it was officially commissioned in December 2009. The project is part of the activities for reducing the carbon emissions in line with the Emission Reduction Purchase Agreement between Sofiyska Voda JSC, the Carbon Fund of the European Bank for Reconstruction and Development and the Government of the Netherlands.

Commissioning of two new potable water treatment plants

On 27 September 2011, the constructed potable water treatment plants of Mala Tsarkva and Passarel were accepted and commissioned. The two sites are part of the Integrated Project for the Water Cycle of Sofia City, funded under the ISPA program.

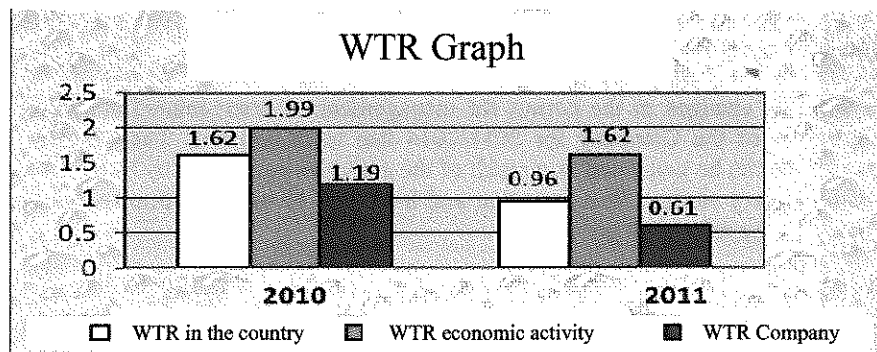
HEALTH AND SAFETY AT WORK

A key factor for Sofiyska Voda's performance is the maintenance and continuous improvement of the Occupational Health and Safety Management System.

In November 2011, a recertification audit of the Occupational Health and Safety Management System (OHSMS) under BS OHSAS 18001:2007 was carried out by the auditors of TUF NORD. The audit was completed without any ascertained non-compliances. A certificate № 44 104 087290 was issued, valid until Nov 2014.

Lost Time Incidents

Four occupational accidents were reported and investigated over the year. Two of the accidents happened while work was carried out, and the other two happened to our employees during their commuting to work and the reasons were the poor meteorological conditions or public transport problems. In 2011, the Company achieved Work-related Traumatism Rate (WTR) lower than the ones officially announced in the country and for the economic activity, which is a very good indicator. The graph below shows a comparison of the Company's WTR with the officially announced WTR in the country and WTR for the economic activity – Water Treatment, Collection and Supply.



Note: WTR is an average of the average accident frequency rate and the occupational accident severity rates for a period of three years.

No Lost Time Incidents

Over the year, the following incidents were reported:

9 nos. near miss incidents without injuries and property damage
6 nos. transport incidents with property damage, without injuries, which were the fault of Company employees
92 nos. transport incidents with property damage, without injuries, which were not the fault of Company employees
2 nos. incidents with property damage, without injuries, caused by external persons

HUMAN RESOURCE MANAGEMENT

In its policy and practice, Sofiyska Voda JSC develops and applies contemporary forms of human resource management with the awareness that these factors are of extreme importance for business development and achievement of high results. The achievement and maintenance of a balance between the interests of the employer and the workforce are based on compliance with the legislation, following high budget discipline and social partnership with the trade unions.

In May 2011, the new Collective Labor Agreement was signed for a term of two years.

Human resource management is developed by applying a complex of policies and procedures planned in advance so that the whole management team is involved in the process.

Remuneration and benefits

In April 2011, annual bonuses were paid to the employees for the previous year in line with the approved bonus scheme of the Company, taking into account the fulfillment of the Company's business objectives and personal ones, agreed in the previous year.

As of 1 April 2011, the salaries of the employees in the Company were increased by 4.6% in accordance with the established practice of the Company for indexation of the basic remuneration with the inflation rate officially announced by the National Statistical Institute.

Training and development

Over the year induction trainings were held for the newly appointed Company employees for the purpose of their quick and easy adaptation to the new environment and getting acquainted with the values, culture and structure of Sofiyska Voda JSC.

In 2011, the Company finalized and reported on the project under the EU Operational Program for Human Resource Development. The Company was granted 60 percent of the value of the project.

The internship program of Sofiyska Voda JSC was held for the tenth successive year. It started on July 1st, 2011 for a period of three months. The program was called "Challenge the Green Future" provided students and young specialists with the opportunity to participate professionally in the work process in different directorates of the Company; the program also provided opportunity to identify future employees, find talented people and generate new ideas. In 2011, the Company accepted 30 students. After the internship program was completed, five interns remained to work in the Company and develop professionally in it.

In line with the policy for awarding individual and team achievements of the employees in Sofiyska Voda JSC, 13 employees and a total of three teams were awarded with the Golden Star award in 2011.

In 2011, the Company developed and implemented the IDEO program for development of the employees' ideas. The program is an opportunity for everyone to share his or her ideas for improvement of the Company activities, to offer technical or technological solutions which could bring better economic or social results and for these ideas to be practically implemented.

The Company, in agreement with its social partners, implements an extensive social program, which has a positive impact on the relations with the employees, their motivation and making them stay in the Company.

RESEARCH AND DEVELOPMENT ACTIVITY

Sofiyska Voda JSC does not carry out such activity.

BOARD OF DIRECTORS

Until 2 Feb 2011 the Board of Directors of Sofiyska Voda JSC had 7 members. After said date Mr. Georgi Takev was delisted from the Board of Directors and since then no replacement from the quota of Vodostnabdyavane I Kanalizatsia EAD was nominated or elected. There are no further changes to the Board of Directors members who presently are: Mr. Etienne Marie Patrice Petit, Mr. Gyorgy Palko, Mr. Bruno Daniel Paul Roche and Mr. Ferenc Szucs, Mr. Nikolay Aleksandrov, Mr. Kamen Manev.

Remuneration to Board of Directors members for 2011 is BGN 50 K (vs. BGN 72 K in 2011) as detailed in Note 30 of the Separate Financial Statements.


None of the new members has ever had shares or options for shares in Sofiyska Voda JSC.

RELATED PARTIES

The Company has a related party relationship with its parent company – Veolia Voda (Sofia) BV, which owns 77.10% of Sofiyska Voda JSC's shares, as well as with the other companies of the economic group. The amount of the transactions and the sum of the receivables and debts to the related parties are announced in Note 30 to the Separate Financial statements of the Company for 2011.

FORECAST FOR 2011 AND BUSINESS PLAN 2009 - 2013

The main challenge before the Company in 2012 is the delay in the annual tariff indexation, which at the time of the completion of this Annual Report has not been granted yet. Sofiyska Voda JSC is in active dialogue with both the State Commission for Energy and Water Regulation and the Municipality of Sofia and any requested additional information is promptly delivered. Some of the discussed topics are the annual amount on projects list of investments for the remaining two years of the current Business Plan. As a result of the completed investments for the period 2009-11, which exceed the specified amounts in the approved Business Plan, the Company has presented an updated investment profile for the remainder of the Business Plan which again reaches a total amount of BGN 240 M. The amount of planned investments for 2012 is BGN 41.3 M. These investments were incorporated in the revised Business Plan 2009-13 of the Company from April 2011 and then updated again in July 2011. To date the Regulator has not published a decision for the revised Business Plan 2009-13 approval.


Miroslav Mitkov
/Commercial Director/

Jean Edmond Henri Salessy
/General Commercial Proxy/



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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") as set out on pages 1 to 57, which comprise the separate statement of financial position as at 31 December 2011, the separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 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 our 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, we consider 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 principles 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 unconsolidated financial position of the Company as at 31 December 2011, and of its unconsolidated financial performance and its unconsolidated 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 separate 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 unconsolidated financial information disclosed in the audited separate financial statements of the Company as of and for the year ended 31 December 2011. Management is responsible for the preparation of the separate annual report of the activities of the Company which was approved by the Board of Directors of the Company on 26 March 2012.

Krassimir Hadjidimov
Director

KPMG Bulgaria OOD

Sofia, 30 March 2012




Antoaneta Boicheva
Registered auditor