ANNUAL SEPARATE REPORT ON THE ACTIVITY

SOFIYSKA VODA AD

31 DECEMBER 2017

Financial Review:

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

In 2017 company's revenue from main charges amounted to BGN 148.9 M, which is 12.63% higher than the revenue from main charges in the same period of the previous year – BGN 132.2 M. The main reason is the update of the number of active customer accounts, the increased consumption as compared to 2016 and the increase in the price as of 1 April 2017 by 18%. The Company's total revenue for 2017 amounted to BGN 188.1 M (BGN 170 M in the same period of 2016). The revenue from construction in 2017 amounted to BGN 39.2 M (BGN 37.9 M in the same period of 2016). The breakdown of revenues by types of services is presented in Note 5 of the financial statements.

The cogeneration installation, commissioned at Kubratovo WWTP at the end of 2009, ensured as a priority in 2017 the addressing of the plant's power supply needs.

The Company's operating costs in 2017 amounted to BGN 149.6 M (2016 – BGN 136.6 M). This amount includes BGN 39.2 M of construction costs, which result from the application of IFRIC 12 and these costs offset the construction revenue above.

The depreciation and amortization costs in 2017 amounted to BGN 36.8 M. The value is higher than the one reported in 2016 (BGN 32 M), which is mainly due to the higher number of commissioned assets and the depreciation of the "Concession Right" asset until the end of the concession, whose period shortens each year.

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

The net financial costs for 2017 were lower by BGN 365 k than the ones reported for the same period of 2016, which is mainly due to the effect of the lower interest rates under the long-term financial liabilities of the Company.

As result of the above factors, the profit after tax for 2017 was BGN 29.97 M as compared to BGN 25.05 M in the same period of 2016.

The management of the financial risk and the exposition of Sofiyska Voda in terms of the price, credit and liquidity risks and the risk of the cash flow are presented in detail in Note 24 Financial instruments to the separate financial statements.

Signed significant contracts:

№	Description	Contractor	Start date	End Date	Cost, VAT excl.
7231	Emergency maintenance, civil works, repair and installation works for around 30% of the water network on the territory of the Municipality of Sofia	Galchev Engineering EOOD	25.01.2017	25.03.2019	12 000 000.00
7327	Non-cash purchase of fuel from a chain of petrol stations	Shell Bulgaria EAD	03.04.2017	03.04.2019	2 500 000.00
7440	Delivery of ferric chloride for physical-chemical phosphorus removal at SWWTP Kubratovo	Kontinvest ООД	28.06.2017	14.09.2019	1 820 000.00
7471	Meter reading on the territory of MoS	Brunata OOD	16.08.2017	15.08.2019	3 855 000.00
7505	Delivery and maintenance of a new sewer cleaning vehicle with continuous cycle of water recycling	I.W.S. Limited	08.08.2017	23.02.2023	1 125 000.00
7595	Delivery of reagents (flocculants-polyelectrolytes)	DZZD Katra Nutra /Nutra BG OOD and Katra/	28.10.2017	28.10.2019	1 252 800.00
7601	Issuing, loading and providing documents for the use of all kinds of transport and public transport services on the territory of the Municipality of Sofia	Urban Mobility Center EAD	24.10.2017	24.10.2022	1 570 000.00
7658	Granting rights of use of **Microsoft** software products	Kontrax AD	01.02.2018	01.02.2021	1 247 718.57

Signed related party transactions:

On April 27th, 2017 Sofiyska Voda AD signed an annex to the subordinated loan agreement with Veolia Voda Sofia B.V. on the extension of the validity of the agreement till January 31st, 2018.

On 30 January 2018 an annex was signed to the subordinated debt agreement between Sofiyska Voda and Veolia Voda Sofia B.V., the shareholder and creditor of the company. The purpose of the annex is to extend the term of the loan until 31.03.2018 pending the signature of the amended Concession Agreement and the contract for refinancing of the company.

A contract was signed in 2017 for servicing burners and boilers at PWTP Bistritsa, PWTP Pancharevo and WWTP Kubratovo, including preventive maintenance, adjusting and repair of gas installations, burners and boilers, as well as performance of emergency activities with contractor Veolia Energy Varna EAD.

Information about events and indicators of nature unusual for the issuer, which have a substantial impact on its activity, the revenues generated and costs incurred by it; assessment of their impact on the results in the current year:

There are no such events and indicators of nature unusual for the issuer with substantial impact on its activity.

Information about off-balance sheet transactions – nature and business objective, specifying the financial impact of the transactions on the activity if the risk and benefits of these transactions are material for the issuer and if the disclosure of this information is substantial for the financial position of the issuer:

As at the date of the preparation of this report the Company maintains the following bank guarantees:

- Performance security for the obligations of Sofiyska Voda AD under the Concession Agreement with number PEBPRT593268, issued by HSBC France, to the amount of 750,000 USD, and validity till December 15th, 2018;
- Performance security for the obligations of Sofiyska Voda AD under the Contract No.РД-568-68/10.08.2011 with the Municipality of Sofia for the repair of defects and damages that occurred in municipal areas where Sofiyska Voda AD performs construction works, with No 799 L/11.12.2017, issued by Societe Generale Expressbank, to the amount of 400,000 BGN, and validity till December 31st, 2018;
- Performance security for the obligations of Sofiyska Voda JSC under the Contract for access to the electricity grid with the Electricity System Operator EAD (ESO), No. 800 L/11.12.2017, issued by Societe Generale Expressbank, to the amount of 10,397 BGN, and validity till January 31st, 2019.

Information about shareholdings of the issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real estates), as well as investments in equity securities beyond its business group and the sources/ways of funding:

Sofiyska Voda holds 100% of the share capital of Water Industry Support and Education EOOD (2015: 100%). The capital of Water Industry Support and Education EOOD is at the amount of 5,000 BGN, divided into 500 shares (BGN 10 per share).

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

As at 31.12.2017 the Company has two loans: Loan "A" from the European Bank for Reconstruction and Development (EBRD) and Loan "B" (subordinated loan) from a company from the Veolia Group, Veolia Sofia B.V. – shareholder in Sofiyska Voda AD. Loans are carried at amortized cost.

Terms and Repayment Schedule

In k BGN	Currency	Nominal Interest Rate	Year of maturity	31 December 2017 Nominal value	31 December 2017 Carrying amount	31 December 2016 Nominal value	31 December 2016 Carrying amount
Loan "A"	EUR	1.35% + 6-month EURIBOR *	2020	27,203	26,920	36,266	35,748
Loan "B", Subordinated and unsecured loan from a related party	EUR	5.20% + 6-month EURIBOR	2018	71,117	71,631	71,117	71,407
Liabilities under a financial lease				2,288	2,288	3,163	3,163
				100,608	100,839	110,546	110,318

On April 27th, 2017 Sofiyska Voda AD signed an Annex to the Subordinated Loan Agreement with Veolia Voda Sofia B.V. on the extension of the validity of the agreement till January 31st, 2018.

On 30 January 2018 an annex was signed to the subordinated debt agreement between Sofiyska Voda and Veolia Voda Sofia B.V., the shareholder and creditor of the company. The purpose of the annex is to extend the term of the loan until 31.03.2018 pending the signature of the amended Concession Agreement and the contract for refinancing of the company.

The approved by the Regulator Business plan 2017 – 2021 (see note 28 below) setting up the tariffs for a 5-year term and respectively makes the company's financial resources more predictable and stable. In May 2017 based on the approved Business Plan 2017 -2021 the refinancing process for the existing loans and credits started by preparation of request for proposals from financing institutions.

In October 2017 Sofiyska Voda started exclusive contract negotiations with the selected consortium of banks.

The refinancing of the concession is an integrated part of the Concession contract. That is why each amendment in the terms and the conditions of the financing lead to amendments of the Concession contract. The parties to the Concession agreement (Sofiyska Voda and Municipality of Sofia) shall approve the refinancing and the refinancing agreement, which has to be reflected in an amended Concession contract;

Information about the loan agreements signed by the issuer, respectively the person under § 1e of the additional provisions of the Law on Public Offering of Securities, by its subsidiary or parent company in their capacity as borrowers, including provision of guarantees of any kind, including to related parties, as the terms under them are specified, including the deadlines for repayment and the objective for which they have been granted:

As at 31.12.2017 Veolia Voda Sofia B.V., the majority shareholder in Sofiyska Voda AD, is a creditor under a short-term loan of Sofiyska Voda AD at the amount of 36,362 k Euro or 71,117 k BGN in nominal value. The deadline for the repayment of the loan is March 30th, 2018. The nominal interest rate is 6-month EURIBOR plus add-on at the amount of 5.20%.

Terms and Repayment Schedule

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				71,117	71,631	71,117	71,407

Analysis of the relationship between the achieved financial results reflected in the financial statements for the financial year and the forecasts for these results published earlier:

Sofiyska Voda AD has no published forecasts for the expected financial results in the year.

Analysis and assessment of the policy on financial resource management and specifying the capacity to service the liabilities, the possible threats and measures which the issuer, respectively the person under § 1e of the additional provisions of the Law on Public Offering of Securities, has applied or intends to apply in view of their elimination:

The financial statement was prepared on the basis of the assumption that the Company is a going concern and it will continue its activity in the foreseeable future.

As at December 31st, 2017 the current liabilities of the Company exceeded the current assets by 53,655 k BGN (31 December 2016: increase by 65,986 k BGN) because the intragroup loan agreement (subordinated debt) ended in April 2017 and the obligations under the loan are presented as short-term liabilities.

The management of the Company is in a process of renegotiation of further extension of the term of the subordinated debt with a company from Veolia Group and expects a positive result. The Company has the support of the Veolia Group, demonstrated through the letter of comfort issued on behalf of the Veolia Voda CEE, the sole owner of Veolia Voda (Sofia) B.V., the direct parent company of Sofiyska Voda AD, which has expressed its intention not to require the repayment of the debts of Sofiyska Voda AD to it or its subsidiaries within at least 12 months after the maturity date.

Therefore, the risk of non-repayment of the intragroup subordinated debt in case it becomes payable within the next financial year, which in its turn will result in a failure to comply with Loan A, granted by an international financial institution, is considered low.

Moreover, as described above in May 2017 the company started refinancing process for the existing loans and credits by preparation of request for proposals from financing institutions and in October 2017 Sofiyska Voda started exclusive contract negotiations with the selected consortium of banks.

Throughout the year the Company continued to generate net income after taxes, which reached 29,971 k BGN in 2017 (2016: 25,052 k BGN). The cash and cash equivalents increased by 8,443 k BGN as compared to 2016 and they were 25,662 k BGN. Throughout the year the Company serviced on a regular basis its liabilities to suppliers, excluding the principal under the subordinated debt. There are no arrears to third parties.

In view of the above the management has the justified expectation to believe that the available capital resources and sources of funding (cash flows from the operational activity) will be enough to enable the Company to cover its liquidity needs within 2018.

Assessment of the capacity to implement the investment intentions and specifying the amount of the available resources and reflecting the possible changes in the funding structure for this activity:

The investment intentions of the Company are described in detail in the paragraph below for the Business Plan of the Company for the period 2017 – 2021. The implementation of the investment program in the

Business Plan is fully funded with own resources, i.e. from the revenues of the Company generated from the foreseen prices for the provision of WSS services.

Information about changes that occurred during the reported period in the main governance principles of the issuer and its business group:

No changes in the main governance principles of the issuer and its business group have occurred.

Information about the main characteristics of the internal control system and risk management system applied by the issuer, respectively the person under §1e of the additional provisions of the Law on Public Offering of Securities, in the process of preparing the financial statements.

Sofiyska Voda AD has developed its internal control system based on best accounting practice and COSO model (COSO - Committee of Sponsoring Organizations of the Treadway Commission). The five components of internal control according to the model are:

i. Control Environment;
ii. Risk Assessment (Process of Enterprise Risk Assessment);
iii. Information and Communication (Information system, included the related to its business processes referring to financial reporting and communications);
iv. Control Activities; and
v. Monitoring (Ongoing monitoring of the controls).

These components are also set out in the International Standard on Auditing (ISA) 315, Appendix 1 – Internal Control Components.

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

Main policies and procedures ensuring the control environment are:

- Ethics and Code of Conduct of Veolia Group (adopted by Sofiyska Voda AD in 2014)
- Internal Regulations of Sofiyska Voda AD
- Disclosure Policy in compliance with the User Charter for the ethics alert process within Veolia Group
- Policy on Gifts (the so-called "Hospitality")
- Conflicts of Interest Policy
- Anti-Fraud Policy, which is supported by
  - → Fraud Investigation Procedure
  - → Anti-Corruption telephone line (+359 2 8122 521, published on Sofiyska Voda AD official website www.sofiyskavoda.bg)
- Accounting Policy
- Procedure on accounting closing
- Procedure on receiving and posting invoices from suppliers
- Policy for purchasing, stocktaking, sale and writing off of assets, etc.

Sofiyska Voda like every entity faces a variety of risks from external and internal sources that should be assessed. A precondition to risk assessment is setting of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks endangering the achievement of the objectives, which forms a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with the changes.

The risk management process in Sofiyska Voda is regulated by a Risk Management Policy and supported by Risk Management Procedure, which describes the methodological approach for the identification, measuring, controlling and subsequent monitoring of these circumstances, events and actions that may have an impact on the achievement of the business objectives of the company.

All personnel are given a clear message from top management that control responsibilities should be taken seriously and responsibly. The employees must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. Effective communication with external parties, e.g. customers, suppliers, regulators and shareholders should be also in place.

Sofiyska Voda's Communications Department ensures the focus on internal as well as external exchange of information with the stakeholders. In addition, the company's Regulation and Concession Compliance Department is in charge of information exchange with the Municipality of Sofia, EWRC and other institutions. The relations with the customers are managed by the teams in Customer Service Directorate.

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

The control activities are in line with the policies of Sofiyska Voda and result from the procedures of the company that helps to ensure that management directives are carried out. They ensure that necessary actions are taken to address the risks related to the achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all units. They include a range of activities as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

All effective policies, procedures and instructions on the specific work processes are published on Sofiyska Voda's intranet, which is accessible to all employees.

Monitoring – the internal control systems need to be monitored - a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions taken by employees in performing their duties. The scope and frequency of separate evaluations depend primarily on the assessment of risks and the efficiency of ongoing monitoring procedures.

The management is primarily responsible for the internal control system and the chief executive officer is assumed to be "owner" of the system. Management is accountable to the Board of Directors, which provides corporate governance, guidance and supervision.

The audit committee of Sofiyska Voda is created and operates (including by implementing its obligations for monitoring regarding financial reporting) under the Independent Financial Audit Act.

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of its organizational position and authority in the company, the internal audit unit often plays a significant monitoring role.

The weaknesses of internal control, identified during internal audits, inspections and monitoring are reported to the managers and the most serious matters are referred to the senior management and the Board of Directors.

Internal control is, to some degree, the responsibility of everyone in the organization and therefore should be stated in the requirements of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control.

External parties also carry out monitoring over the activity of Sofiyska Voda and these are the regulatory bodies (Energy and Water Regulatory Commission), the Grantor (Municipality of Sofia), state institutions (tax authorities, ministries, etc.) and external auditors.

Information about pending court, administrative or arbitration proceedings concerning liabilities or receivables of the issuer at the amount of at least 10% of its equity; if the total value of the liabilities or receivables of the issuer under all commenced proceedings exceeds 10% of its equity, information is provided for each individual procedure:

One of the most important pending cases of the Company is the lawsuit related to the penalty imposed by the Competition Protection Commission (CPC). With the ruling No. 370/19.03.2014, on the grounds of art.74, para.1, item 3 of the Competition Protection Act (CPA), the CPC claimed that Sofiyska Voda had committed an abuse of dominant position by charging default interest on debts based on estimated readings for a service used within the meaning of art. 21, item 1 of the CPA. The imposed penalty is 4,800 k BGN and it was calculated on the basis of 0.5% of the Company's income in 2013 as a debt ratio 8 was applied as well. The Company took actions to appeal the imposed penalty in compliance with the applicable legislation.

On 11.01.2016 the SAC approved partially the appeal of Sofiyska Voda against the decision of the CPC and decreased the amount of the imposed penalty from 4,800 k BGN to 2,400 k BGN. The decision was appealed before a 5-member jury of the SAC both by Sofiyska Voda and the CPC. Regarding the appeals filed by both parties, the lawsuit No. 3161/2016 was initiated, as the hearing was scheduled for April 7th, 2016. The court decision is expected.

Risks and uncertainties:

One of the main risks, which the Company is exposed to, is the possible payment of the penalty imposed by the CPC. With the ruling No. 370/19.03.2014, on the grounds of art.74, para.1, item 3 of the Competition Protection Act (CPA), the CPC claimed that Sofiyska Voda had committed an abuse of dominant position by charging default interest on debts based on estimated readings for a service used within the meaning of art. 21, item 1 of the CPA. The imposed penalty is 4,800 k BGN and it was calculated on the basis of 0.5% of the Company's income in 2013 as a debt ratio 8 was applied as well. The Company took actions to appeal the imposed penalty in compliance with the applicable legislation. On 11.01.2016 the SAC approved partially the appeal of Sofiyska Voda against the decision of the CPC and decreased the amount of the imposed penalty from 4,800 k BGN to 2,400 k BGN. The decision was appealed before a 5-member jury of the SAC both by Sofiyska Voda and the CPC. Regarding the appeals filed by both parties, the lawsuit No. 3161/2016 was initiated, as the hearing was scheduled for April 7th, 2016. The court decision is expected.

Renegotiation of the Concession Agreement:

With an order of Sofia Mayor dated 29.03.2016, a new working group was set up with representatives from Sofia Municipality and external experts with the task to continue the renegotiation of the Concession Agreement. The first official meeting between the representatives of the working group and Sofiyska Voda was held on 29.07.2016.

The meetings continued during the rest of the year with regard to the renegotiation of the Concession Agreement, which was also discussed in the context of the approved in March 2017 Business Plan 2017-2021. The main topics, which were discussed during the talks, were connected with the amount of the investment program until the end of the concession, the return on equity, the levels of the KPIs for the WSS services, the possible refinancing of the subordinated debt, etc.

With its letter dated 15.11.2017 Sofiyska Voda submitted a draft annex for the amendment of the Concession Agreement to the workgroup set up for the renegotiation. The proposed amendments are in two fields:

- substantial amendments, reflecting the amendments to the contract discussed between the parties
- Technical amendments, reflecting the envisaged refinancing of the Company

The main proposed substantial amendments are as follows:

- Introducing a commitment for the Concessionaire for a minimum Investment programme to be made until the end of the concession: BGN 209 million for the current regulatory period (2017-2021) and BGN 165 million until the end of the concession in 2025;
- Setting additional investment commitment for the Concessionaire (on top of the Investment Programme) to provide an amount of BGN 1.5 million per annum for funding of specific WSS projects of public interest, specified by MoS..

- The contractual rate of return of 17 % shall no longer be protected by the Price Restriction mechanism, i.e. in case the Regulator approves a lower rate of return, there will not be an Event of Price Restriction as per Clause 22.7. Respectively, for the purposes of formation of Concessionaire's Prices for the WSS services provided, the rate of return determined by the Regulator shall be applied starting as of 2022;
- It is proposed all databases, including the client database, as well as the assets registry and the geographic information system provided to the Concessionaire by the Grantor at the beginning of the concession to remain property of the Grantor. Also, all licenses for the use of intellectual property rights, product or equipment warranties or other rights or contracts in the name of the Concessionaire, shall be assigned or otherwise transferred to the Grantor at the end of the concession. Respectively, they shall be duly returned to MoS after expiry of the concession agreement.

The vote in Sofia Municipal Council on the proposed amendments is expected at the beginning of 2018.

In the reviewed period Sofiyska Voda strictly observed the requirements of the Concession Agreement, signed between the company and Municipality of Sofia, and failures to comply with the requirements set in the Agreement were not found.

General Assembly:

On June 6th, 2017 the regular annual General Shareholders' Meeting of Sofiyska Voda AD was held. The following decisions were made at the General Meeting:

1. The consolidated report on the activity of Sofiyska Voda AD for 2016 and the consolidated annual financial statements of the Company for 2016 were approved;

2. The report on the activity of Sofiyska Voda AD for 2016 and the individual annual financial statements of the Company for 2016 were approved;

3. The report on the activity of the Audit Committee of Sofiyska Voda for 2016 was approved;

4. The members of the Audit Committee of Sofiyska Voda were appointed:

1. Ivan Iliev
2. Petyo Ignatov
3. Fabien Ferrer
4. Tomas Tuma
5. Todor Tabakov

and they were given a mandate of 2 years.

The General Assembly adopted the status of the Audit Committee of Sofiyska Voda AD and determined the remuneration of the Audit Committee members, as follows: for the Chair of the Audit Committee – at the amount of four minimum salaries for the country; for the members who are external and independent of the enterprise within the meaning of art.107, para.4 of the Independent Financial Audit Act – monthly remuneration at the amount of three minimum salaries for the country.

5. The profit of Sofiyska Voda for 2016 would not be distributed and no dividends would be paid to the shareholders for 2016 in view of the provisions of the Loan Agreement between the Company and the EBRD;

6. Sofiyska Voda's Board Members were relieved from liability for their activity in 2016.

Within the statutory deadline the Company disclosed the individual and consolidated financial statements and reports on the activity under its file in the Trade Register with the Registry Agency.

On December 29th, 2017 an extraordinary General Shareholders' Meeting of Sofiyska Voda was held. The following decision was made at it:

1. KPMG Bulgaria Ltd., UIC 040595851, registered under No.45 in the Institute of the Chartered accountants, was appointed as the auditor to verify and certify the individual and consolidated statements of Sofiyska Voda for the financial year 2017.

Board of Directors
In 2017 there was no change of the members of the Board of Directors in the Company. The Board of Directors of Sofiyska Voda consists of 7 members: Mr. Arnaud Philippe François Valleteau de Moulliac, Mr. Frederic Laurent Faroche; Mrs. Mariana Georgieva Iteva, Mr. Ferenc Szucs, Mrs. Milena Staykova Tsenova, Mr. Vladimir Georgiev Stratiev and Mr. Biser Nikolaev Damyanovski. The company is managed and represented individually by Mr. Arnaud Philippe François Valleteau de Moulliac and Mr. Frederic Laurent Faroche.

The remuneration of the Board of Directors for 2017 ammount to BGN 214 thousand (2016: BGN 212 thousand), of which the unpaid part at the reporting date amount to BGN 8 thousand (31.12.2016: unpaid BGN 8 thousand). This include by individuals: Vladimir Stratiev, Biser Damyanovski and Milena Tsenova – BGN 24 thousand each; Mariana Iteva – BGN 26 thousand and Arnaud Philippe François Valleteau de Moulliac – BGN 116 thousand.

The Board members do not hold, have not acquired and transferred shares and bonds of the Company during the year.

The Board Members have no rights to acquire shares in the Company.

In 2017 the Board Members participated in the management of other companies, registered in the Trade Register with the Registry Agency or entities, or commercial proxies, managers or board members of companies, registered in the Trade Register with the Registry Agency, or participated as partners with unlimited liability, or held more than 25% of the capital in another entity, as follows:

1. Frederic Laurent Faroche – participated in the management of: VEOLIA ENERGY SOLUTIONS BULGARIA, UIC: 130547859; Veolia Energy Bulgaria EAD, UIC: 121371700; VEOLIA ENERGY VARNA EAD, UIC 103195446;
2. Mariana Georgieva Iteva – participated in the management of: Veolia Voda Bulgaria EOOD, UIC: 201404389; managed and held more than 25% of the capital of MI CONSULT INTERNATIONAL EOOD, UIC: 200981719;
3. Bisser Nikolaev Damyanovski – participated in the management of and held more than 25% of the capital of INTERTRADE CONSULT EOOD, UIC: 201824172;
4. Arnaud Philippe Francois Valleteau de Moulliac – participated in the management of Veolia Energy Bulgaria EAD, UIC 121371700

The Board Members did not signed contracts under art.240b of the Commerce Act during the year.

Acquired and transferred shares:
In 2017 the Company did not acquire or transfer own shares.

Research and development
Sofiyska Voda AD does not carry out research and development.

Business Plan:
With its Decision БП-Ц-1/29.03.2017, EWRC approved Business Plan 2017-2021, as well as the respective prices of the WSS services for the 5-year period. In 2017 the implementation of the approved business plan 2017 – 2021 was under way.

The focus of the company during the year was placed on several main aspects:
✓ Implementation of Business Plan 2017-2021;
✓ Finalizing the renegotiation of the Concession Agreement;
✓ Refinancing of the existing loans of Sofiyska Voda AD;
✓ Field work for the purpose of detailed survey and verification of the existing WSS network;
✓ Water losses reduction;
✓ Improvement of the level of operational efficiency and the use of the best engineering practices in the performance of the civil works.

Detailed information in relation to the implementation of the main directions of the Business Plan, such as size of the realized investments in 2017, quality of potable water, commercial and operational issues etc., is presented in the remaining parts of the present report.

In the reviewed period the company reported good results with regard to the main aspects of the activity, as the efforts were focused on finalizing the processes of refinancing of the company's loans and renegotiation of the Concession Agreement.

With its Decision 34/14.12.2017, EWRC approved the new price of the WSS services for 2018, entering into force as of 01.01.2018. The increase in the price of the WSS services for 2018 compared to the prices of the WSS services effective for 2017, is 9%.

The approved by EWRC Business Plan 2017 - 2021 was uploaded on the company's website and can be found at the following electronic address:

https://www.sofiyskavoda.bg/docs.aspx?docs=6

Events after the reporting date:

By virtue of a Decision dated 25 January 2018 the Sofia Municipal Council approves a draft of Third Ammendment Agreement to the Concession Contract in relation to the sewerage and wastewater treatment services in the Municipality of Sofia, as well as contracting a new loan for the purposes of a full refinancing (see below). The Third Ammendment Agreement to the Concession Contract in relation to the sewerage and wastewater treatment services in the Municipality of Sofia, is finaly signed on 23 March 2018.

On 30 January 2018 an Annex to the Subordinated Loan Agreement was signed between Sofiyska Voda AD and the shareholder and creditor of the Group Veolia Voda Sofia BV. The purpose of the Annex is extension of the period of the loan by 31 March 2018 until the signing of the amendment to the concession agreement and the refinancing agreement of the Company.

On 19th of March 2018 Sofiyska Voda AD signed a Loan Agreement with a consorcium between Societe Generale Express bank AD and United Bulgarian Bank AD for extension of a two-tranche loan amounting to EUR 50,270 thousand with the purpose to refinance Company's loans with Veolia Voda Sofia BV and EBRD. The loan's key terms and conditions are as follows:

- Utilization period of the Loan: 24 April 2018.
- Terms for repayment of principal under Tranche 1 – 11 equal instalments, the first falling due at 25 April 2018 followed by 10 equal quarterly installments starting from 25 June 2018 and the last falling due at 25 September 2020.
- Terms for repayment of principal under Tranche 2 – 19 equal instalments, the first falling due at 25 April 2018 followed by 18 equal quarterly installments starting from 25 June 2018 and the last falling due at 25 September 2022.
- Terms for repayment of the interest: on each maturity date for payment of principal.
- Nominal interest: 3M EURIBOR, increased with 1.35%.
- The loan will be subject of a number of collaterals, including registered pledge over aggregate of existing and future Company's assets, registered pledge over the receivables for the positive balance on all accounts of the Company opened with the banks operating in Bulgaria, pledge over all the shares in the Company's capital owned by Veolia Voda Sofia B.V.

Information for services provided by the independent auditor:

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

For the period under the audit and by the date of this letter KPMG Audit OOD (former legal name KPMG Bulgaria OOD) has provided to the Company, or is in a process of providing, the following services:

- **Statutory audit of the financial statements of the Company prepared as of and for the year ended 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the European Union;**
- Audit of the special purpose financial information of the Company prepared as of and for the year ended 31 December 2017 in accordance with the accounting instructions of Veolia Group;
- Limited scope review of the special purpose interim financial information of the Company prepared as of and for the period ended 30 June 2017 in accordance with the accounting instructions of Veolia Group;
- reporting for use by the Energy and Water Regulatory Commission (EWRC) in relation to article 34 (5) of the Ordinance on regulation of prices of water supply and sewerage services (the Ordinance) and article 15 and article 16 of the Law on regulation of water and sewage services (the Law) and issuance of a report under article 34 (5) of the Ordinance on compliance with the rules for maintaining a Unified System of Regulatory Reporting (USRR) in accordance with the guidelines, rules, principles, deadlines and other documents and reports published by the EWRC, as well as an opinion on other matters that may be required by the EWRC in relation to USRR and article 15 and article 16 of the Law.

Customer Service

In 2017 Sofiyska Voda successfully passed the control audit for the ISO 9001:2015 certification of the customer service processes and continued its projects for constant improvement of these processes. Starting from June 2017, Sofiyska Voda became the first WSS company in Bulgaria to provide to its customers a free of charge phone line in the Call Center: 080012121. In November 2017 the company launched the first mobile customer service center in Bulgaria: a van equipped as an office with two workplaces, serving the populated areas around Sofia, based on a schedule agreed with the Municipality. Moreover, in 2017 a complex project for restructuring the customer service centers was implemented, with the closing of 6 existing centers and the opening of 3 new ones (including the refurbished one in the Business Park Sofia), at easily accessible locations, with new technologies and new organization of the front office activities. The new center in Mega Mall, as well as the refurbished one in Business Park Sofia were opened at the beginning of February and the work on the third one in TZUM is about to be finalized.

Relations with customers

In 2017, the total number of customer contacts was trending up, with the exception of the e-mails. The complaints – all channels included - decreased by -2.4%. The total number of calls received in the Call Center was 407,946, which is a 10% increase compared to 2016. Despite the increased number of calls, the KPIs have improved: the abandoned rate was 1.63% compared to 2.16 % in 2016, and the service level (calls answered in less than 30 seconds) was 90%, which is above the 86% achieved in the previous year.

Customer Service Centers

In 2017, Sofiyska Voda implemented a project for restructuring its network of customer service centers. During the year all 8 centers remained unchanged, as the one in Lyulin was closed at the end of December. The total number of visits (except for the payments) in the CSC was 164,451, which is a -3% less compared to the previous year. The number of payments in CSCs decreased by -7% in view of the existing network of various payment channels.

Internet services

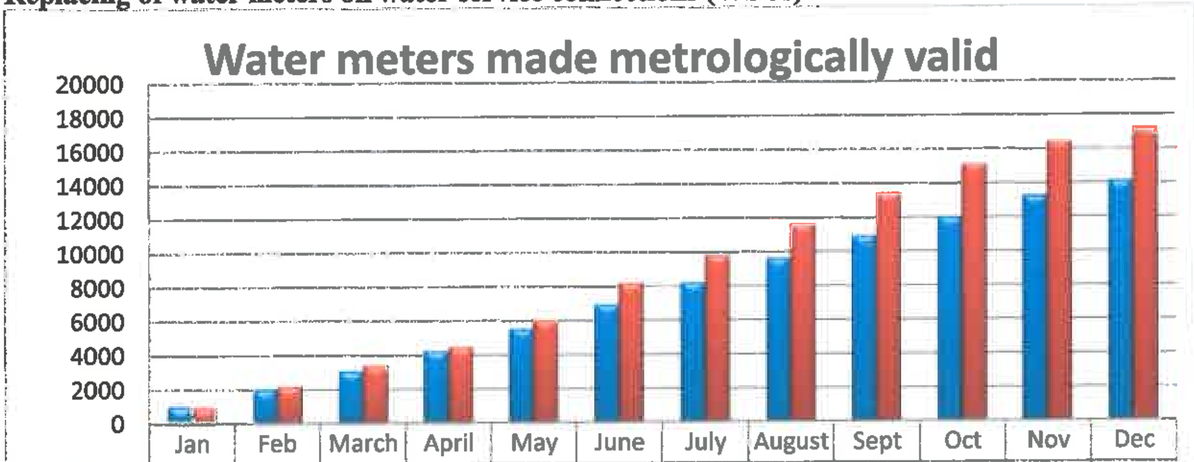
In the period January – December 2017, there were 1,956,215 registered visits to the Company's website. 112,187 self-readings were submitted by customers and for comparison; in 2016 the number was 74,895.

The enquiries received through the website were 6,582 and only 5,875 of them required response, which is by -20% less compared to 2016. All answers were sent within 24 hours from the enquiry registration.

15,791 customers waived off their paper invoice in the period January - December 2017. At the end of December 2017, the number of customers receiving e-invoice was 101,672.

Water meter services, billing and debt collection

Replacing of water meters on water service connections (WSCs)



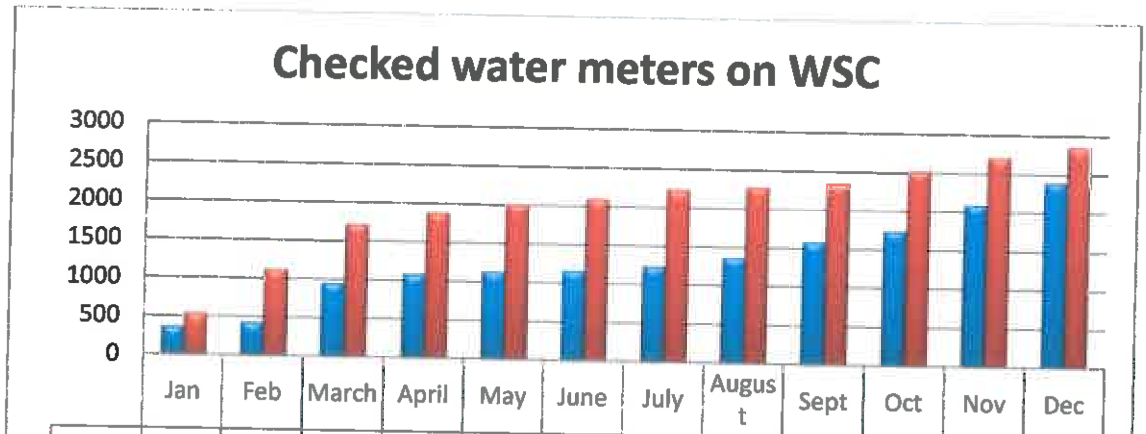
	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec
2016	987	2000	3064	4246	5532	6943	8230	9639	10935	12006	13265	14117
2017	975	2168	3414	4480	6048	8202	9825	11631	13440	15143	16482	17255

Chart 1 Water meters set into metrological validity

In the period January 2017– December 2017 the water meters set in metrological validity by the teams of the company were 17,255, which is 18% more versus 2016.

In addition, 805 water meters on water service connections were replaced by the customers and sealed by the Illegal Connections team – these water meters were frozen, broken or the customer preferred not to pay for the replacement but to install directly a new device, which meets the normative, technical and metrological requirements.

Thus, the total number of the water meters set into metrological validity in 2017 was 18,060.

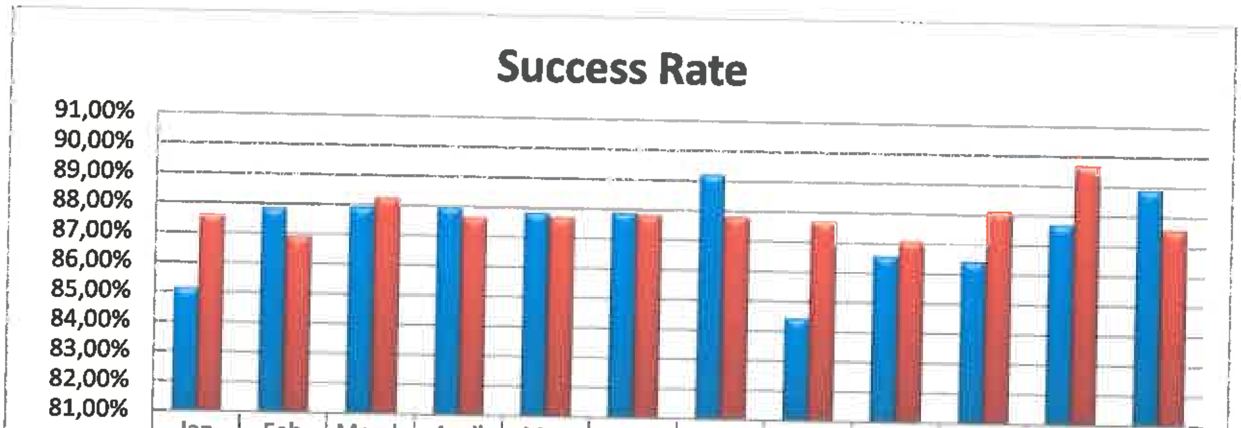


	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec
2016	363	430	950	1081	1136	1159	1237	1364	1585	1741	2096	2397
2017	535	1114	1717	1874	2005	2093	2229	2279	2344	2517	2709	2852

Chart 2 Checked meters

The water meters checked in authorized laboratories for water meters in 2017 was 2,852, which is by 16% more as compared to 2016.
After the check 310 water meters were with the result "does not correspond to assessed compliance".

Meter reading



	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec
2016	85,14%	87,85%	87,92%	87,98%	87,83%	87,87%	89,21%	84,44%	86,57%	86,43%	87,70%	88,92%
2017	87,60%	86,90%	88,26%	87,64%	87,69%	87,81%	87,81%	87,70%	87,08%	88,13%	89,70%	87,57%

Chart 3 Success rate of meter reading activity

In the middle of August 2017 the contractor for the meter reading activity within the concession area was changed and since July the process of transferring the activity and the staff to the new contractor has started, as well as trainings related to different aspects of performance of the activity.

The total success rate regarding the performance of the water meter reading activity in 2017 was 87.83% versus 87.32% in 2016.

Billing

In 2017 the company registered an increase by 0.8% in the billed volumes of potable water on an annual basis, compared to 2016 (80.55 M m^3 in 2017 and 79.91 M m^3 in 2016). The total sum of the billed volumes with VAT for the same period was BGN 168.78 M, which is by 12.9% more compared to 2016 (BGN 149.55 M). The high percentage of increase in the total billed value compared to the billed water volumes is due to the increased tariff of the combined service (potable water supply, sewerage and wastewater treatment) by 18.3% % valid as of 01.04.2017.

Debt Collection

In 2017 the Company continued the successful implementation of the strategy for increase in debt collection from its customers. As a result, the total collected amount at the end of the year was BGN 158.89 M as compared to BGN 142.59 M in 2016, or the registered increase was 11.4% on an annual basis. The annual coefficient of debt collection for 2017 is 94.14% compared to 95.34% in 2016, and the main reason for its lower value is statistical and is due to the considerably higher amount of billed volumes as a result of the new tariffs effective from 01.04.2017, as well as the increased consumption of the commercial customers resulting from the economic growth.

Considerable increase was registered in the reporting period also for the activities of the internal teams for debt collection, and the overall collected amount was BGN 18.49 M compared to BGN 16.55 M in 2016, or the registered annual growth was 11.7%.

For the purpose of the continuous improvement and the quality enhancement of the supplied services and customer satisfaction, the company continued expanding its payment channels where customers could pay their payables. In 2017 two new payment channels were added through the DSK bank (internet payments through DSK Direct and cash desk payments in the offices, or ATM devices of the bank). Also, the Company continued implementing its policy targeting customers with temporary financial difficulties as it offered flexible and individually structured deferred payment agreements.

Non-regulated business

Sofiyska Voda AD continued to develop activities of providing additional services to its customers – installing, testing and sealing of individual meters, as well as small plumbing services. As at December 2017 the activity corresponded to the projections.

OPERATIONS AND MAINTENANCE

Water Resource Management

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

The total water volume abstracted from all potable water sources in the period January – December 2017 was 162,569,957 m^3.

The data from the monitoring in 2017 show that there was an increase in the water volumes used for water supply in 2017. It is due on the one side to the untypically cold winter, which led to increase in the number of the failures, and on the other side - the dry and hot summer, which increased considerably the water consumption.

The raw water abstracted from all water sources over the period January-December 2017 compared to the same period of 2016 increased by 1,535,171 m^3.

Consumption trends

In 2017 the total billed volumes of the company increased by 1.90% compared to 2016, or 1.751 million m^3.

The table below presents the consumption trend evolution by types of customers and types of water supplied (potable, non-potable and supplied raw water):

Water	2016, m^3	2017, m^3	Annual variation (m^3)	Annual variation (%)
Households	61 272 664	60 990 975	-281 689	-0.46%
Budget Customers	4 605 925	4 668 039	62 114	1.35%
Commercial Customers	14 034 489	14 732 939	698 450	4.98%
Non-potable water	4 605 372	4 709 444	104 072	2.26%
Raw Water (Samokov and Bojurishte)	7 817 128	8 824 543	1 007 415	12.89%
Total Potable water, WS Sofia	**79 913 078**	**80 552 189**	**639 111**	**0.80%**
Total billed water for all water supply systems	**92 335 578**	**94 086 176**	**1 750 598**	**1.90%**

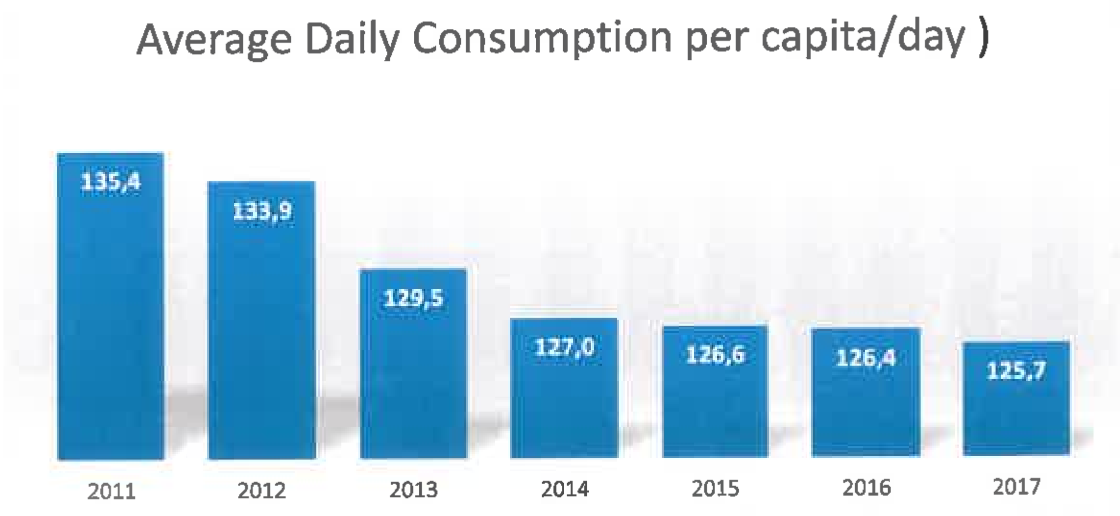
The considerable % of increase in the raw water is due to the fact that the used quantities from the main customer ViK EOOD were dictated by the available reserves of the own drilling wells, which is compensated by the use of raw water supplied by the Company.

Significant increase in the billed volumes was also registered in the potable water for the commercial customers due to the economic growth and the improved macro frame in the country, as a result of which the company's key customers have registered an increase in the production volume (mainly in water consuming production - dairy processing, soft drinks, glass processing) and the provided services (dependent on customer visits - shopping centers, hospitals and hotels).

Consumption of households – analysis of the current trends

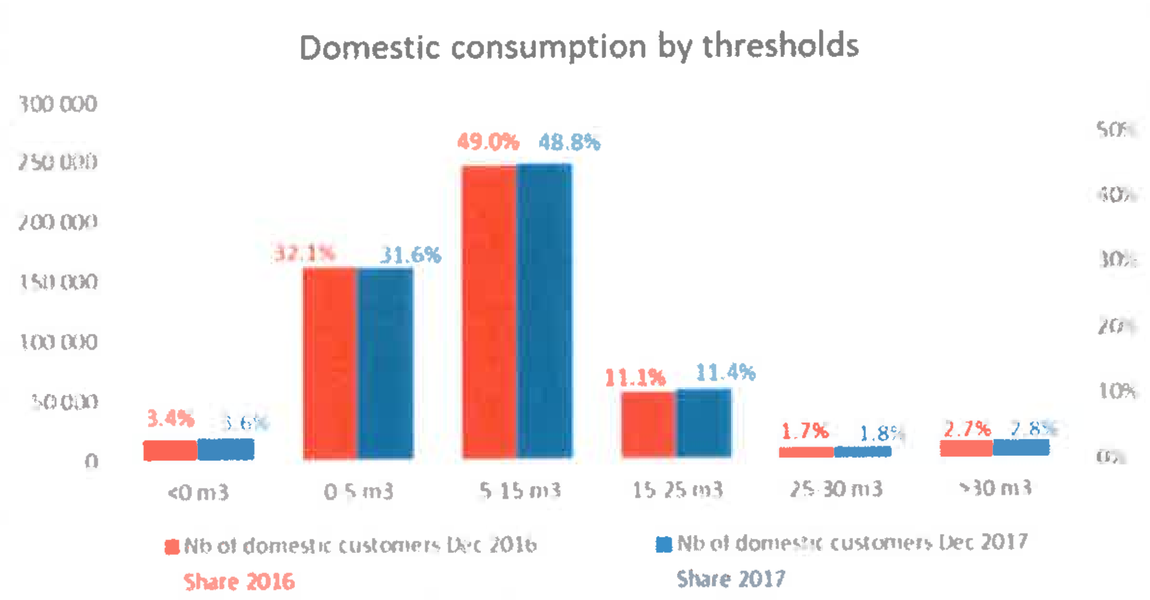
In 2017 the billed water volumes of households are the highest share of 76% in the total billed consumption. The total billed volumes for the households are with 282 K m^3 less compared to 2016, which is due to the enhanced culture of water consumption and the use of more and more water saving domestic electrical appliances and household sanitation.

The graph below represents the trend in the billed consumption per 24 hours per capita in Sofia:



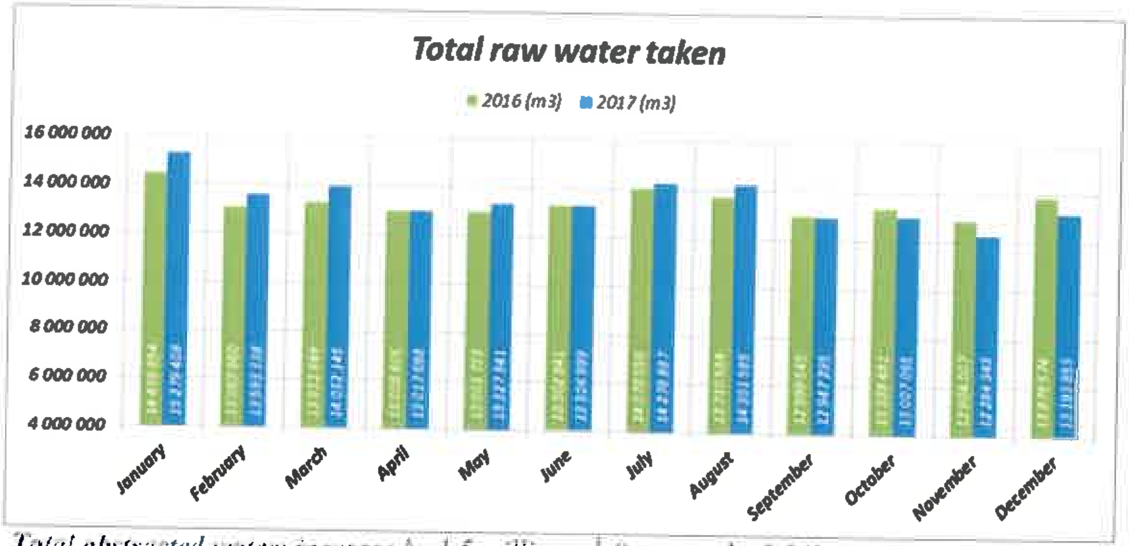
The average daily consumption is calculated as a ratio between the billed annual volumes for households, the number of the population in Sofia (forecast for 2017 of the National Statistical Institute) divided by 365 days.

This trend is related also to the dynamics of the customers from groups with higher water consumption to such with lower water consumption. On a monthly basis the company monitors the number of the domestic customers, whose water consumption is measured by the following monthly consumption: 0-5 m^3, 5-15 m^3, 15-25 m^3, 25-30 m^3, and exceeding 30 m^3/month. In 2017 the highest is the share of the customers with average monthly consumption of 5-15 m^3 (49%) and those with 0-5 m^3 (32%). The decreasing trend of the consumption of the households is presented on the graph below where it is evident that the higher number of customers is shifting to the left, from higher to lower average monthly consumption:

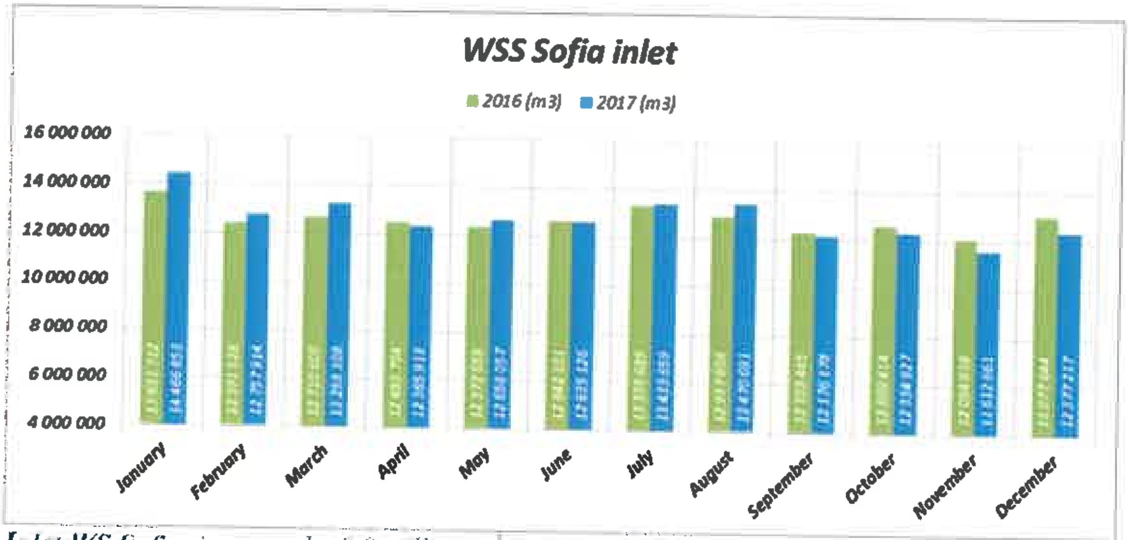


Unaccounted-for Water Reduction

In the period January – December 2017 the following results were achieved:

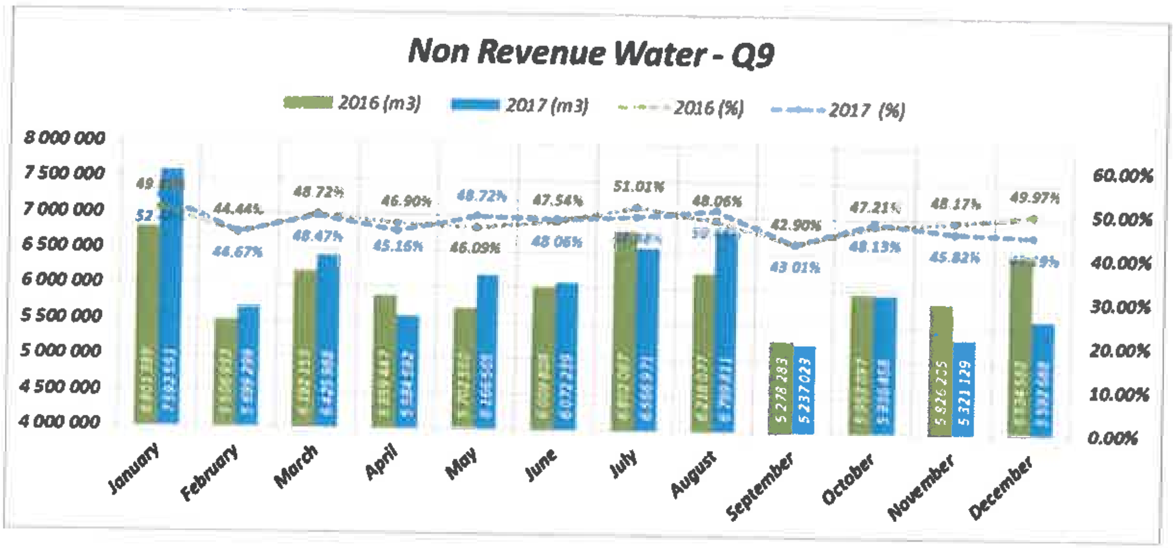


Total abstracted water: increase by 1.5 million m^3 (increase by 0.94%);

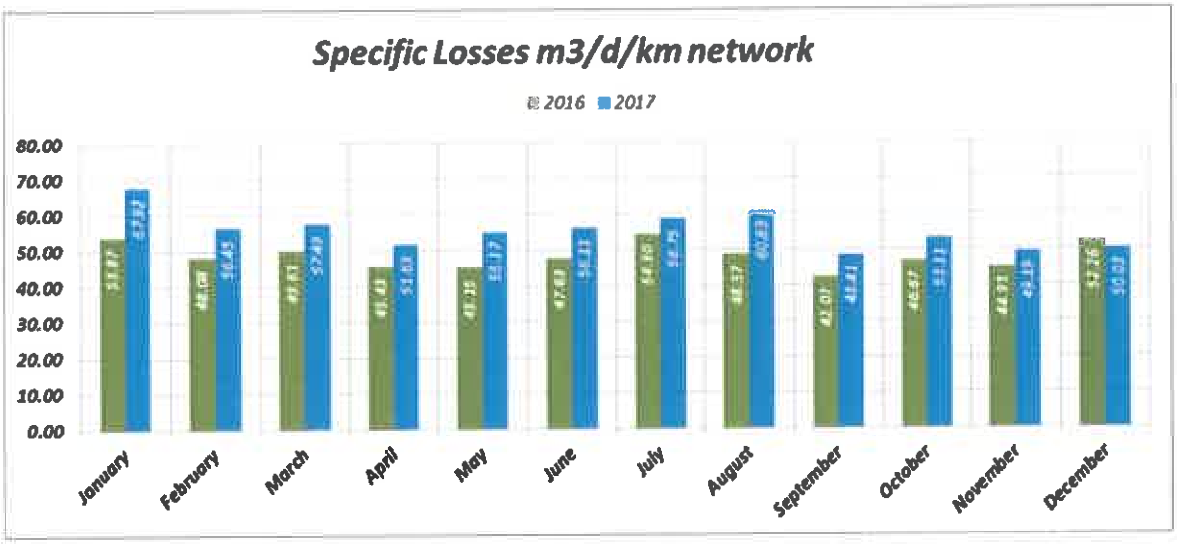


Inlet WS Sofia: increase by 0.9 million m^3 (increase by 0.62%);

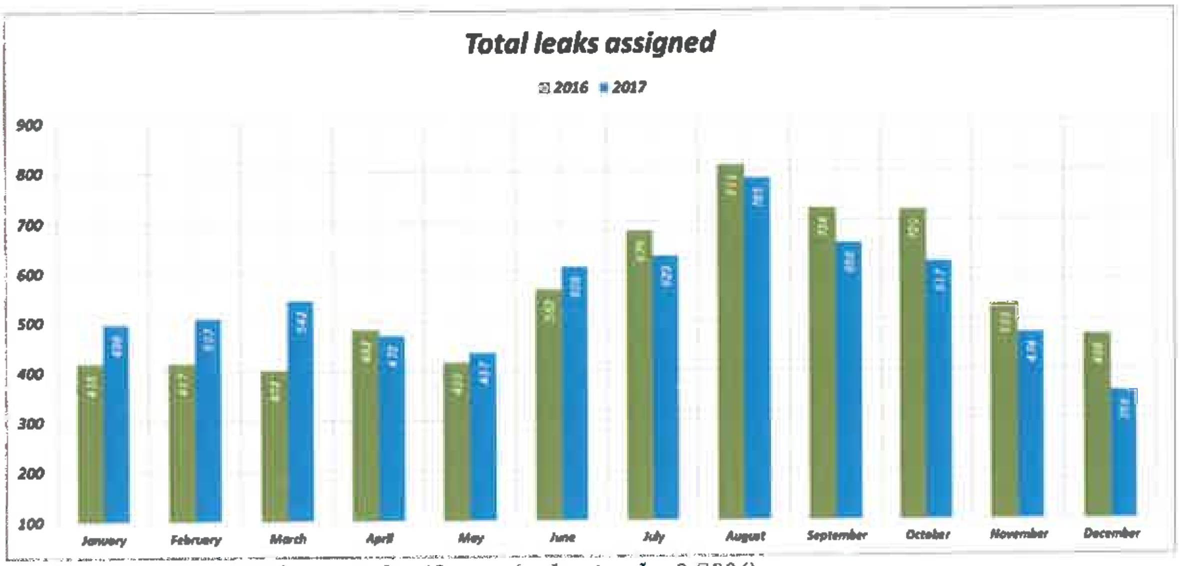
***Billed water volumes Q3**: increase by 0.64 million m^3 (increase by 0.8%)*



***Unaccounted-for water Q9**: increase by 0.3 million m3 (decrease by 0.09%);*



Specific losses: *average increase by 2.11 m^3/day/km of network (increase by 4.33%)*



Total assigned leaks: *decrease by 48 nos. (reduction by 0.72%)*

Quality of the supplied water

The Ordinance on the Regulation of the Quality of the Water Supply and Sewer Services was adopted by Decree No.8 dated 18 January 2016 of the Council of Ministers. The Ordinance is applied for the regulatory period starting 1 January 2017, as well as for the subsequent regulatory periods. In this respect, the reporting of the key performance indicators, as well as the target levels have been changed.

The quality of the potable water is monitored through the indicators with indicative significance, microbiological indicators, physico-chemical indicators and radiological indicators for big and small zones of water supply separately. The fulfilment of the monitoring program is being tracked also per number of water supply zones. The indicators are determined through percentage of compliance with the requirements. The target levels determined in the ordinance are:

- KPI 2a – potable water quality according to the indicators that are monitored pursuant to the requirements of the Ordinance as per art. 135, par. 1, it. 3 of the Water Act in big water supply zones – 99%;

- KPI 2b – potable water quality according to the indicators that are monitored pursuant to the requirements of the Ordinance as per art. 135, par. 1, it. 3 of the Water Act in small water supply zones – 98%;
- KPI 2c – implementation of the monitoring of potable water quality by volume and frequency, determined by the Ordinance as per art. 135, par. 1, it. 3 of the Water Act – 100 %.

For the period January – December 2017 the potable water quality in big water supply zones is 99.89% versus the target level of 99.00%, under the indicators with indicative significance, microbiological, physico-chemical and radiological indicators. For the same period the quality of the potable water in small water supply zones is 98.97% versus the target level of 98.06%, under the indicators with indicative significance, microbiological, physico-chemical and radiological indicators. For 2017 samples were monitored from the points included in all 4 water supply zones, as the frequency required in Ordinance 9 was complied with.

Laboratory Testing Complex

The Laboratory Testing Complex (LTC) of Sofiyska Voda implements the company's plans for monitoring surface and potable water, wastewater and sludge in terms of taking samples from water and sludge and analyzing the microbiological, physical and chemical, and hydro biological parameters.

The activities performed by the LTC in the reporting period are connected mainly to the implementation of the plans for monitoring of potable water, surface water and groundwater, as well as of wastewater and sludge; the maintenance of the accreditation; control over the processes ensuring traceability and transparency of the performed activities; the provision of confidentiality regarding the analytical results from the samples of the customers of the LTC and marketing of the laboratory services.

In 2017, in sector *Potable Waters* of LTC, a total of 8,500 samples were received and approximately 150,000 analyses were made for them, and in sector *Wastewater* - respectively 10,000 samples for a total of approximately 89,000 analyses.

In 2017, the LTC continued servicing successfully its contracts for provision of laboratory services to external customers, under which revenues were realized, and the service level agreements with internal customers. There were no claims made against the laboratory services on behalf of the customers.

The LTC was provided the opportunity to participate in 17 international programs for proficiency testing, including 115 methods. The result of the LTC was 87% success rate. The participations in these programs ensure an independent assessment of the performance of the laboratory and provide an opportunity to compare its efficiency with other equivalent laboratories, frequently world-wide. These participations provide feedback for the quality of the tests and allow the laboratory to find the room for improvement in order to acquire more accurate control on the processes and demonstrate competence before customers, the accreditation authorities and other regulatory bodies.

The LTC successfully passed the monitoring by the Executive Agency "Bulgarian Accreditation Service" in the period 10-12 October 2017 for reaccreditation with expanding of the range with around 50 indicators more. Applying for accreditation were analyses for control of products, used for the treatment of water – iron (III) chloride and active chlorine in bleach, as well as analysis of uranium in the potable water. The monitoring ended with one significant non-conformity, related to the lack of ventilation in the premises for analysis of "taste" and "odor" of the potable water and remoteness of the premises for preparation of samples for those analyses. The non-conformity concerns the methods submitted for expansion ("taste" and "odor") and does not affect those within the scope of the accreditation. The corrective action for removing the nonconformity was duly accomplished - separate new premises for sensor analysis, so that it fully complies with the requirements of EA 4/09 G Accreditation for Sensory Testing Laboratories. The corrective action was approved by the Executive Agency "Bulgarian Accreditation Service". The monitoring by the Executive Agency "Bulgarian Accreditation Service" passed under the supervision of EA ("European Co-operation for Accreditation") and ended up with a positive evaluation.

Each sample received by 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 anonymity, confidentiality and reliability in terms of the results of the samples analyzed upon requests of the internal and external customers.

Water Network Management

The focus of the Company in 2017, like in 2016, was on several main aspects:

- Improving operational customer service, mainly by reducing the response time in case of disruptions in the normal functioning of the water supply network and improving the information which the Company provides to its customers regarding the occurred or future operational events through the Information Center, in which the zones affected by the emergency and planned water supply interruptions are visualized, and through the SMS notification service for the upcoming planned water supply interruptions.
- The total number of the customers who requested the sms notification service for planned water supply interruptions was 21,721, and in the period January - December 2017 a total of 64,236 messages were sent;
- In the period January - December 2017 the ratio of the number of unplanned water supply interruptions with duration below 4 hours and the total number of the unplanned water supply interruptions was 78% on average.
- Improving the interaction among the departments involved in the operational activity and optimizing the information flows within the Company concerning current or planned operational events.

Sewerage

In 2017, we continued the implementation of the program for proactive maintenance of the sewerage network, as a result of which more than 132 km of the network within the Concession Area were proactively cleaned.

In the period January - December 2017 the network surveyed with all cameras of the company was 120 km, which has been the highest achievement so far and is due to the quality check of every preventive activity, as well as to the long sections of surveyed network in streets and boulevards within the program of Municipality of Sofia for major repairs of the road surfaces.

Wastewater treatment

Over the period January – December 2017, Kubratovo Wastewater Treatment Plant (WWTP) treated a total of 132.8 million m^3 of wastewater from the sewerage network of the MoS.

The Wastewater Unit of the Laboratory Testing Complex 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

As per the permit for wastewater discharge, the main indicators are analyzed - biological oxygen demand (BOD5), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all other indicators specified in the discharge permit for treated wastewater at the outlet of WWTP.

In 2017 the statutory number of the samples was taken for the listed above quality indicators of the treated wastewater.

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

Sludge stabilization and utilization

The sludge generated through wastewater treatment is stabilized in four anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a 'sludge cake' with dry matter content of about 20%.

Over the period more than 144,224 tons of sludge from the treatment processes were stabilized and mechanically dewatered, and more than 63,151 tons were utilized in agriculture.

The control on waste produced at WWTP Kubratovo, including the dewatered sludge, is exercised in accordance with the requirements of the Waste Management Act. Sofiyska Voda draws up and submits the required reports to the Ministry of Environment and Water.

INVESTMENTS JANUARY - DECEMBER 2017

2017 is the first year, in which the company implemented its investment program, proposed and approved in the business plan 2017-2021. During the months between the planning of the investments in the BP and the beginning of 2017 some circumstances occurred and required a modification of the investment intentions of the company. The most substantial factors that justify the changes are:

- The instruction not to capitalize the rehabilitated sections from the WSS networks, 2 to 10 m in length;
- Delay in the implementation of projects from our investment program, planned for 2016, for which it was necessary to ensure financing in 2017 in order to complete them;
- Legislative amendments - changes in the Spatial Development Act, which affect the revalidation of the construction permits;
- Administrative procedures with deadlines beyond the control of the company – establishment of rights of way in forest terrains, not accepted urban development designs;
- The occurrence of a need of urgent investments with regard to emergency and other critical situations, which represent a risk to the level of the provided services;

Due to the above reasons the investment program was updated at the beginning of 2017 and its total financial amount was kept.

In 2017 the company made investments in regulated services at the amount of BGN 43.6 M (98.8% of the approved in the BP) and total investments to the amount of 45.3 M BGN.

ENVIRONMETAL PROTECTION AND SUSTAINABLE DEVELOPMENT

Sofiyska Voda has a certified Environmental Management System (EMS) in compliance with the requirements of the international standard ISO 14001 dated 2008. In 2017 the maintenance of the system continued by improving the EMS documentation and conducting internal regular inspections in line with the approved annual schedule. In connection with the integrated Policy on Quality, Environment and Health and Safety in accordance with the requirements of ISO, new procedures and instructions were updated and created, based on the process approach.

In April and October 2017 two combined internal audits were conducted of the EMS and OHSAS. 10 audit teams were set up, and within 3 days they held audits on a process principle covering key processes in the Company. Reports were issued and submitted to the management of the Company.

At the beginning of December 2017, the company successfully passed a recertification audit of the EMS with respect to the new version of ISO 14001:2015, carried out by a third independent party – a certifying body. The audit was concluded with 3 recommendations for improvement concerning the EMS and effective functioning of the system was ascertained.

Environmental incidents

5 cases of sudden pollution at the inlet of Kubratovo SWWTP and 2 other incidents were registered in 2017. The respective procedural measures were taken in due time in order to eliminate the incidents and they did not affect the work of the treatment plant.

Program for achieving the environmental protection goals

The environmental protection goals of the Company are related to introducing best practices of energy efficiency upon operation and maintenance of the water supply and sewerage network, decrease in the water losses along the network, ensuring more and more efficient and high-quality treatment of wastewater by reducing at the same time the use of chemicals and reagents and transferring waste into raw material for the production of energy. The implementation of the objectives for 2017 is satisfactory and leads to improved environmental impact.

Trainings and initiatives

Under the annual program for environmental protection trainings, 5 environmental trainings were held, including work with contractors. Throughout the year more than 10 different internal and external initiatives were implemented, related to environmental protection, including the traditional participation of the company in the *European Week for Waste Reduction* 2017.

Waste management

The Company strictly complies with the Bulgarian waste management legislation. In 2017, the following was submitted for disposal, recovery or recycling:

- 8.767 tons of hazardous waste, including 2.6 tons of asbestos containing materials
- 43,453 tons of non-hazardous waste, which include excavated earth masses and exclude sludge from Sofia WWTP to be utilized on agricultural areas;
- 15,788 tons (dry matter) - sludge from the Sofia WWTP to be utilized on agricultural areas.

Green energy production

23,169,541 MWh of green energy were produced in the Sofia WWTP in the period January – December 2017. The production is based on a CHP installation for utilization of the biogas, released in the process of sludge treatment in the plant. In 2017 the green energy produced in the treatment plant met 123 % of the energy needs of the treatment plant, which is a record in the site's history.

HEALTH AND SAFETY AT WORK

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

Occupational Health and Safety Management System (OHSAS)

Sofiyska Voda has a certified occupational H&S management system in line with the requirements of the OHSAS 18001 from 2008.

The applicable normative requirements are met and upgraded. The annual program for the audit on occupational health and safety is implemented. The health and safety risks are assessed and managed systemically.

Trainings and exchange of information

The annual schedule for H&S trainings for 2017 was implemented. 825 employees took part in at least one H&S training.

On 28th April 2017 the *Safer Together* project was launched. It aims at increasing the awareness and commitment of the managers to OHS, improving communication, managing risk, monitoring and controlling OHS. In September 2017 a corporate safety week was conducted, focused on the significant risks and the standards for their management: excavation and trenching works, confined spaces, chemicals, hot works, traffic safety, energy safety, work at height, hoisting equipment, electrical safety and high pressure water.

Potential contractors are assessed by competence and performance under H&S. Compliance with H&S rules of contractors is being monitored. Information and good H&S practices are exchanged.

Accidents, incidents and near-miss incidents

In 2017 there were 7 occupational accidents (five as per art.55 para.1– during work and two as per art. 55, para. 2 –on the way to work), 2 incidents (without loss of work capacity), 27 near–miss incidents (adverse events, without personal injury), and 178 traffic accidents with company vehicles without injuries. All accidents, incidents and near- misses were reported and analyzed immediately so that preventive actions could be taken.

HUMAN RESOURCES MANAGEMENT

In its policy and practice Sofiyska Voda AD develops and applies modern forms of human resource management with the awareness that these factors are of vital 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, maintaining high budget discipline and social partnership with the trade unions.

Human resources management is developed by applying a complex of policies and procedures planned in advance so that the entire management team can be involved in the process.

Remuneration and benefits

Valid as of January 1 the salaries of the employees were increased by 0.2%.

In March 2017 the 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 agreed in the previous year.

On July 4th, 2017 the Company signed a new 2-year Collective Labor Agreement with the two trade union organizations, present in the company.

As of 1 July the salaries of the low-paid employees and the high-performing employees were increased on average by 3.27% after consultations held with the trade union organizations, present in the company.

In June a new 1-year contract on Supplementary Voluntary Health Insurance was signed with Insurance Company "Nadezhda" that was terminated in August due to revoking of the license of the company by the Financial Supervision Commission. A new 1-year contract was signed in October with another insurance company. This benefit package aims at providing access to a wide range of health services to the employees.

Sofiyska Voda signed an agreement with Athletic Fitness. The employees could use a wide network of sports halls and clubs at preferential prices.

Training, motivation and development

In 2017, trainings on 97 topics were held with 2,290 participations and 15,695 hours.

Rotation was carried out for 7 employees under the internal rotation program aiming at the development of skills and improvement of the processes.

In the middle of March 2017 Sofiyska Voda AD for the first time took part in the Academy "The Leaders that Build" on the topic "How to Manage". The academic course is with duration - one year and it is organized in order to realize the idea of meeting students with representatives of leading companies from the construction branch. The participation in the Academy aims at expanding the options for searching and attracting young talents.

Sofiyska Voda, together with Veolia Energy Solutions Bulgaria EAD, participated in the Career Days in the National Palace of Culture, organized by Job Tiger.

The forum was held on 14 and 15 March and allowed the young specialists to get acquainted with the job opportunities within the Group of Veolia. More than 300 leading Bulgarian and international companies offering vacant internship and job positions in various business sector participated in it.

The event was held for the 15th consecutive year in 7 cities in Bulgaria. The forum in Sofia this year was visited by more than 7000 students and young specialists.

At the beginning of July Sofiyska Voda launched its summer internship program for the 16th consecutive year. 17 students and young specialists participated in the program in 2017.

Following 2-day induction training, the interns started working in a real working environment. The young people gained practical experience in the following departments: Control Room, Non-regulated Business, LTC, Environmental Services, ICT, Reactive Field Works, Sewer Modelling, Investment and Technical Control, Construction Control, WISE, SWWTP, and GIS. In addition to their daily duties in the departments, the students were also assigned to participate in the generation of new ideas and the implementation of innovative solutions.

So far 4 of them have found career opportunities in the company, in the departments H&S, Technical Maintenance of Water Meters and Sewer Modelling. Two Bulgarian students participated in the Summer Campus of Veolia for 2016 in June. This year for the first time Bulgarian students were given the opportunity to take part in the program. Within a week in Paris, the students were taught theory and were provided with hands-on experience by visiting different sites of the company and participating in discussions with experts in the field of natural resources management. In the campus the students solved also difference cases.

After a conducted course two students were chosen to represent Bulgaria in the annual Veolia Summer School, which was held from 2nd to 7th July in Campus Veolia near Paris.

Career Development meetings were held in October with 5 employees who expressed desire for career meetings in the previous process of Annual Performance Appraisal. The aim of the meetings was to let the employees share their professional plans and receive information about the opportunities and ways to have professional realization within the company.

As an initiative related to the development of employees, an Assessment Center was created in order to measure leadership potential by participation in different activities. Four assessment centers were organized, in which 22 employees participated.

Sofia, 26 March 2018

Anelia Ilieva
/Finance Director/

СОФИЯ
СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Arnaud Philippe Francois Valleteau De Moulliac
/Executive Director/

NON-FINANCIAL INFORMATION TO THE ANNUAL FINANCIAL STATEMENT 2017

SOFIYSKA VODA AD

1. ENVIRONMENTAL MATTERS

1.1. ENVIRONMENTAL PROTECTION IN 2017

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

1.2.ENERGY EFFICIENCY IN 2017

The WSS system of the city of Sofia is designed and manufactured in such a way as to use for the most part the force of gravity to move the water. The water sources are in the mountains, and the pumping stations along the water and sewer systems are a few. Nevertheless, the water supply and treatment are processes, which need energy in the order to be realized. Sofiyska Voda AD has implemented and uses systems for permanent energy consumption monitoring at the big potable and wastewater treatment plants. The most energy-intensive process is the wastewater treatment one and in particular, the aeration process (adding oxygen into the wastewater for the purposes of biological treatment). Since the end of 2016 new air blowers have been in place at SWWTP Kubratovo, which led to 9% (752 MWh) savings for 2017 in terms of the energy consumed for aeration, which is approximately the energy consumed by 180 households per year (or two 8-storey residential buildings).

The total quantity of generated green energy at Sofia Wastewater Treatment Plant Kubratovo (SWWTP) in the period January – December 2017 was 23,169 MWh, which is 10% more versus the energy produced in 2016. The production is based on the cogeneration installation for recovery of biogas, released in the sludge treatment process in the plant. In 2017 the green energy produced in the treatment plant covered 123% the electric power needs of the treatment plant, which is a record in the history of the site.

1.3. EMISSIONS INTO AIR IN 2017

<u>Direct emissions</u>
The company generates direct emissions in the air through the use of the transport vehicles and also the use of energy sources for heating at some of its sites. In 2017 the direct emissions amounted to 2.16 thousand tons of carbon dioxide equivalent (CO_2), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. With regard to the control of these direct emissions, Sofiyska Voda uses a GPS system to monitor the routes, speed, acceleration and idle time of the company vehicles. Also, in the selection of services and goods, the remoteness of the potential suppliers is assessed, whenever possible.

Indirect emissions

The indirect emissions result from the use of energy – electric and thermal. In 2017 our calculations show that the indirect emissions of the company amounted to 3.24 thousand tons of carbon dioxide equivalent (CO_2).

The global reduction in emissions of greenhouse gases in 2017 was 10.6 thousand tons of carbon dioxide equivalent (CO_2), as this is mainly due to the production and use of renewable energy.

1.4. WATER RESOURCE IN 2017

Losses reduction

The constant monitoring of the water volumes supplied to the territory of the concession area forms the basis of the water management implemented by Sofiyska Voda AD.

The total water abstracted from all water sources in the period January – December 2017 was 162,569,957 m^3.

The data obtained from the monitoring shows that the Company achieves actual reduction in the water volumes used for water supply within the concession area, as for the past 7 years (since 2011) it has saved 56 million cubic meters of water. Our commitment is to reduce the water losses by another 25 million cubic m until 2025.

Reduction of the losses in the water network is a priority for the investment program of Sofiyska Voda AD. At present Sofiyska Voda AD invests 15-20 M BGN a year in overcoming the water losses out of total investments in the size of approximately 40 M BGN. In 2017, a total of 37.5 km of the network was rehabilitated and reconstructed, and 18.1 M BGN was invested in activities for the maintenance of the network and water losses reduction.

Potable water quality

Every year Sofiyska Voda AD manages to comply with the statutory standards for potable water quality. Nevertheless, we do not stop to raise higher challenges in order to achieve even better performance. In this respect, in 2017 Sofiyska Voda implemented a project for the rehabilitation of the filter house at PWTP Bistritsa.

Sewerage and wastewater treatment

In 2017 the constructed new sewers were 4.6 km. In the period January – December 2017, a total of 133 million m^3 of wastewater from the sewer network of the Municipality of Sofia was treated. At the end of 2016 a local wastewater treatment plant was commissioned, co-financed with EU funding, for the village of Voynyagovtsi where in 2017 the construction of the sewer network continued.

Quality of the treated wastewater

The Laboratory Testing Complex (LTC), *Wastewater Sector* in Kubratovo SWWTP, performs continuous monitoring of the quality indicators for the treated wastewater and the sludge generated in the treatment process.

Pursuant to the wastewater discharge permit, the analyzed main indicators are biological oxygen demand (BOD5), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all remaining indicators defined in the discharge permit for the treated water at SWWTP outlet.

In 2017 Iskar River was spared the following quantities of pollutants from the wastewater:

- 15,900 t BOD5
- 35,320 t COD
- 2,900 t of nitrogen
- 395 t of phosphorous.

In 2017 the determined statutory number of samples were taken for the mentioned above quality indicators for the treated wastewater. The values of the quality indicators of the samples were below the levels determined in the wastewater discharge permit.

1.5. SOILS

In the wastewater water treatment process the so called "sludge" is separated, which represents a mixture of organic and inorganic matter and water. After passing through a process of stabilization and dewatering, sludge could be used in agriculture for fertilizing crops, which are not designated for consumption by man, as a substitute for chemical fertilizers and as a soil enhancer. The quality of the sludge separated in the wastewater treatment process is tested in consistence with the Ordinance on the terms and conditions for utilization of sludge from wastewater treatment through its use in agriculture. After testing the quality of the sludge, it is transported to the respective agricultural fields. 15,788 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2017 over agricultural areas instead of being deposited in landfills or incinerated, as in this way nature was spared the artificial fertilizers used in production.

1.6. WASTE

Sofiyska Voda AD provides to its employees the possibility to throw their trash separately, aiming at its recycling or direct disposal. Apart from separated collection of waste from packages, spent batteries, toners and electric and electronic equipment are also collected in the Company's offices and handed in. In 2017 we recycled approximately 10 tons of paper. This leads to the saving of around 130 trees, reduction in the use of close to 30 barrels of oil, 300,000 l of water, 40,000 KWh electricity and reduction in the amount of the waste in the urban landfill by approximately 50 m3.

The Company strictly complies with the Bulgarian waste management legislation. In 2017 the following has been conveyed for disposal, utilization or recycling:

- 9 tons of hazardous waste, including 3 tons of asbestos-containing waste;
- 44 tons of nonhazardous waste, which include dug out earth mass and do not include sludge from SWWTP for utilization over agricultural areas.

1.7. BIODIVERSITY

Biodiversity is a priority area for the company in view of the proximity of some sites to nature parks and protected habitats. In 2017, 4 sites were identified (Bistritsa PWTP, Pancharevo, Mala Tsarkva and Kubratovo SWWTP) as sensitive in terms of the diversity of the flora and fauna and their condition was surveyed. Bird feeders were installed on Bistritsa PWTP. In 2018 the activities on the conservation of the biodiversity of these sites will continue.
In 2016 and 2017 a unique for Bulgaria joint project with the University of Sofia was realized. We supported the students from the Faculty of Biology in surveying the biodiversity of upstream Iskar River, including Iskar Dam, which is the main source of the potable water for Sofia. Two species were discovered (Potthastia montium (Edwards, 1929) and Symbiocladius rithromenae (Zavrel, 1924), proving the purity of the water in the river.

1.8. HAZARDOUS SUBSTANCES AND MATERIALS

Various chemical substances and materials are used in the processes of potable and wastewater treatment. The most substantial of them in terms of quantity are chlorine gas for potable water disinfection and ferric trichloride for the removal of phosphorous from the wastewater. The failure to remove the nitrogen and phosphorous leads to anthropogenic pollution (eutrophication) of the rivers. The company sets an objective on an annual basis to decrease the load of these substances for the environment, and in 2017 a 24% decrease was achieved in the quantity of ferric trichloride versus 2016. Also, drills are held on an annual basis with hazardous substances and materials, and means for limiting the spills and emergency alert systems are ensured. Brief information sheets are provided at the places for work and storage of hazardous substances, which contribute for their proper use and treatment as waste.

1.9. OTHER ALTERNATIVES

In the period January – December 2017 more than 15 thousand customers gave up receiving paper invoices. As at the end of December 2017 a total of 102 thousand customers receive e-invoices.

2. *SOCIAL AND STAFF MATTERS*

At 31.12.2017, 1,155 employees are working in Sofiyska Voda AD, of which 90 are occupying managerial positions (44 men and 46 women). In the positions supervisor and technical supervisors – a total of 237 (160 men and 77 women). Office employees – 371 total (52 men and 319 women) and workers –457 total (417 men and 40 women).

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

Recurring every two years a General Meeting of the Workers and Employees is called. Its organization and conducting are in consistence with the terms and procedures described in the Labor Code. The General Meeting is conducted by representatives of the workers and the employees, with 1 representative out of 10 employees is launched. The members of the Labor Conditions Committee are elected at the General Meeting, which include 5 representatives from the employees.

Sofiyska Voda AD has a policy for development of employee competencies developed for the purpose of maintaining a high professional standard and increasing their motivation.
In 2017, 825 company employees participated in different trainings. The average number of training hours of an employee is 13.76 hours.

The training and development programs are directed towards:
· development of professional skills, acquisition and maintaining of professional qualification;
· occupational health and safety;
· increase of the personal potential and development of social and leadership skills;
· digital competencies;
· legal and statutory competencies.

There are options for exchange of experience and internal job rotation for the staff aimed at enhancing the expertize and preparation for taking over another position.

In October 2017 Sofiyska Voda launched a project for cooperation with the non-governmental organization (NGO) HESED.

The main objectives of the project are the change in the mindset of the minorities in terms of the water consumption, as well as support in applying practices, techniques and habits for its saving.
The expertize of Sofiyska Voda AD regarding the water topic is in close cooperation with the knowledge and experience of the respected Bulgarian NGO HESED, whose mission is the durable integration of the Roma community.
The first stage of the project has been established on the principle of upgrade of the knowledge for the origin, treatment, use of water and formation of practices for its saving. The program covers around 60 children aged 3 to 6 years.
The other objectives of the project are the change in the mindset and attitude to water, which will lead to decrease in its waste in the Roma residential areas Filipovtsi and Fakulteta, which are within the Concession area serviced by Sofiyska Voda.

3. HEALTH AND SAFETY AT WORK

In 2017 there are seven occupational accidents (five per art. 55, par. 1 – during work, and two per art. 55, par. 2 – on the way to work), 2 incidents (without loss of working capacity), 27 near-misses (undesired events without personal injury), and 178 road accidents with company vehicles without injuries. All accidents, incidents and near-misses are reported and analyzed immediately for the purpose of taking preventive actions. Of the five occupational accidents at the workplace 3 are with breaking of bones (2 of the lower leg bones and 1 of lumbar vertebra), 1 – with knee trauma, 1 – with a wound (on the head) and one with trauma (of the knee). There were no occupational diseases.

4. PREVENTION OF CORRUPTION AND BRIBERY

The main policies and procedures related to the way in which the Company solves issues and cases of corruption and bribery, are:

- Ethics and Code of Conduct of Veolia Group (adopted by SV in 2014)
- Internal Regulations of Sofiyska Voda AD
- Disclosure Policy in compliance with the User Charter for the ethics alert process within Veolia;
- Policy on Gifts (the so-called "Hospitality")
- Conflicts of Interest Policy;
- Anti-Fraud and Corruption Policy, which is supported by:
    - Procedure for investigation of signals for fraud.

The processes of internal control and the resources intended for corruption and bribery prevention are regulated with the above policies and procedures. The Internal Audit Dept. and Security Directorate have the main role in checking the alerts and complaints, containing information for irregularities/ fraud/ corruption, as they receive them, check with the support of the Legal Dept. and report the results from these checks to the Executive Director and the HR Director for taking follow-up actions in line with the legislation and the Internal regulations of the company.

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

- Submission of a verbal or written signal to the respective director or if it is believed that it would be inappropriate, there is an option for direct contact with the Executive Director, the Internal Audit, Quality Control and Risk Management Director or HR and Administration Director.
- Anti-Corruption telephone line (+359 2 8122 521, published on SV official website: www.sofiyskavoda.bg)
- If there are reasonable doubts that the signal may be adequately resolved at a local level – there is an option to forward it to the Ethics Committee of the Group of Veolia based in Paris.

The risk management process in SV has been regulated in the Risk Management Policy and tailored with a Risk Management Procedure, describing the methodological approach for identification, measurement, control and subsequent monitoring of those circumstances, events and actions, which could influence the achievement of the company's business objectives. The adopted approach for assessment and management of risks is used also for assessment of the risk related to corruption. The applicable criteria refer to assessment of the impact of the risk in financial terms, as well as in areas of goodwill, regulatory etc. impact; assessment of the likelihood of the risk occurring, as well as assessment of the efficiency of the current control, introduced for managing the respective risk. In that evaluation characteristic features of the assessed activity are considered that could have a greater weight, such as direct contact with customers or suppliers, potential conflict of interest due to relatedness between persons (for instance relatives, business partnership etc.) etc.

The internal auditors play an important role in the assessment of the efficiency of the control systems and contribute to the current efficiency. Due to their organizational position and authorities in the company, Internal Audit often have a significant role with regard to identification of the risks related to fraud. The weaknesses of the internal control and possibilities for the commitment of crimes identified in internal audits, checks and observations, are reported to the managers, as the most serious issues are communicated to the upper management and the board of directors. In 2017 there is one case of an employee, punished under disciplinary labor procedures, following investigation of a signal and gathering of evidence for a committed improper action, as the value was completely insignificant.

Separate statement of financial position

In thousands of BGN	*Note*	31 December 2017	31 December 2016
Assets			
Property, plant and equipment	*13*	18,771	17,060
Non-current intangible assets	*14*	295,410	288,677
Investment in subsidiaries		5	5
Deferred tax assets	*20*	6,506	6,625
Other receivables and prepayments	*16*	237	290
Non-current assets		320,929	312,657
Inventories	*15*	1,990	1,064
Trade and other receivables	*16*	36,732	33,553
Income tax receivables		-	76
Related party receivables	*24,30*	11	69
Cash and cash equivalents	*17,24*	25,662	17,219
Current assets		64,395	51,981
Total assets		385,324	364,638
Equity			
Share capital	*18*	8,884	8,884
Reserves	*18*	10,774	10,774
Retained earnings		215,531	185,610
Total equity		235,189	205,268

Separate statement of financial position (continued)

In thousands of BGN	*Note*	31 December 2017	31 December 2016
Liabilities			
Loans and borrowings	*19,24*	18,032	26,931
Finance lease liabilities	*19,24*	1,505	1,880
Employee benefits	*26*	1,350	1,084
Deferred income	*29*	3,408	2,771
Trade and other payables	*21,28*	7,790	8,737
Non-current liabilities		32,085	41,403
Loans and borrowings	*19,24*	80,519	80,224
Finance lease liabilities	*19,24*	783	1,283
Deferred income	*28*	314	200
Income tax liabilities	*23*	605	442
Payables to related parties	*24,30*	3,352	4,786
Trade and other payables	*21*	28,919	27,480
Provisions	*22*	3,154	3,157
Employee benefits	*26*	404	395
Current liabilities		118,050	117,967
Total liabilities		150,135	159,370
Total equity and liabilities		385,324	364,638

The notes on pages 11 to 65 are an integral part of these separate financial statements.

Arnaud Philippe Francois Valleteau De Moulliac
Executive Director

СОФИЙСКА ВОДА
АКЦИОНЕРНО ДРУЖЕСТВО

Anelia Ilieva
Finance Director

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

Dobrina Kaloyanova
Manager

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

Tzvetelinka Koleva
Registered Auditor responsible for the audit

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of BGN	*Note*	2017	2016
Revenue	*4*	145,322	129,800
Other income	*5*	3,540	2,365
Construction revenue	*6*	39,269	37,907
		188,131	170,072
Expenses for materials	*7*	(8,953)	(8,763)
Expenses for hired services	*8*	(27,147)	(25,806)
Depreciation and amortization	*13,14*	(36,847)	(32,038)
Employee benefit expenses	*9*	(20,478)	(18,069)
Social security contributions and other social expenses	*9*	(5,157)	(4,533)
Expenses for impairment of trade receivables	*24*	(8,337)	(8,208)
Other expenses	*10*	(3,443)	(1,299)
Construction expenses	*6*	(39,269)	(37,907)
Operating profit		38,500	33,449
Finance income	*11*	49	74
Finance costs	*11*	(5,160)	(5,550)
Net finance costs		(5,111)	(5,476)
Profit before income tax		33,389	27,973
Income tax expense	*12*	(3,418)	(2,921)
Profit for the year		29,971	25,052

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

For the year ended 31 December

In thousands of BGN	*Note*	2017	2016
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Premeasurements of defined benefit liability	26	(50)	(90)
		(50)	(90)
Other comprehensive income for the year, net of tax		(50)	(90)
Total comprehensive income for the year		29,921	24,962

The notes on pages 11 to 65 are an integral part of these separate financial statements.

СОФИЯ
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АКЦИОНЕРНО ДРУЖЕСТВО

Arnaud Philippe Francois Valleteau De Moulliac
Executive Director

Anelia Ilieva
Finance Director

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

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

Dobrina Kaloyanova
Manager

Tzvetelinka Koleva
RegisteredAuditor
responsible for the audit

Separate statement of changes in equity

In thousands of BGN	*Note*	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2016		8,884	10,774	160,648	180,306
Total comprehensive income for the period					
Profit		-	-	25,052	25,052
Other comprehensive income, net of taxes		-	-	(90)	(90)
Total comprehensive income for the period		-	-	24,962	24,962
Balance at 31 December 2016	*18*	8,884	10,774	185,610	205,268
Balance at 1 January 2017		8,884	10,774	185,610	205,268
Total comprehensive income for the period					
Profit		-	-	29,971	29,971
Other comprehensive income, net of taxes		-	-	(50)	(50)
Total comprehensive income for the period		-	-	29,921	29,921
Balance at 31 December 2017	*18*	8,884	10,774	215,531	235,189

The notes on pages 11 to 65 are an integral part of these separate financial statements.

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Arnaud Philippe Francois Valleteau De Moulliac
Executive Director

Anelia Ilieva
Finance Director

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ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 045
КПМГ ОДИТ ООД

Dobrina Kaloyanova
Manager

Tzvetelinka Koleva
RegisteredAuditor
responsible for the audit

Separate statement of cash flows

For the year ended 31 December

In thousands of BGN	*Note*	**2017**	**2016**
Cash flow from operating activities			
Net profit for the year		29,971	25,052
Adjustments for:			
Depreciation of property, plant and equipment	*13*	3,870	3,331
Amortisation of intangible assets	*14*	32,977	28,707
Impairment losses on trade receivables	*24*	8,337	8,208
Write-downs of inventory to net realisable value / realization	*10*	(156)	55
Expenses for scrapping of materials	*10*	86	50
Expenses for scrapping of non-current assets	*10*	18	17
Net finance costs	*11*	5,111	5,476
Gain on sale of property, plant and equipment		(36)	(4)
Tax expense	*12*	3,418	2,921
		83,596	73,813
Changes in:			
- employee benefits		197	20
- other provisions		(3)	(2,816)
- inventories		(857)	177
- trade and other receivables		(9,609)	(9,959)
- trade and other payables		(6,673)	(2,422)
- deferred income, including financing		751	955
Cash generated from operating activities		67,402	59,768
Income tax paid		(3,137)	(3,589)
Net cash from operating activities		64,265	56,179
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		38	28
Acquisition of property, plant and equipment		(5,603)	(4,171)
Acquisition of intangible assets		(35,730)	(36,370)
Net cash used in investing activities		(41,295)	(40,513)

Separate statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN	*Note*	2017	2016
Cash flow from financing activities			
Repayment of borrowings		(9,063)	(9,063)
Payment of finance lease liabilities		(1,459)	(1,393)
Interest paid		(3,985)	(4,789)
Other financial payments		(20)	(20)
Net cash used in financing activities		(14,527)	(15,265)
Net increase in cash and cash equivalents		8,443	401
Cash and cash equivalents at 1 January		17,219	16,818
Cash and cash equivalents at 31 December	*17,24*	25,662	17,219

The notes on pages 11 to 65 are an integral part of these separate financial statements.

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СОФИЙСКА ВОДА
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Arnaud Philippe Francois Valleteau De Moulliac
Executive Director

Anelia Ilieva
Finance Director

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KPMG Audit OOD

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София
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КПМГ ОДИТ ООД

Dobrina Kaloyanova
Manager

Tzvetelina Koleva
RegisteredAuditor responsible for the audit

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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 77.1% owned by Veolia Voda (Sofia) BV and 22.9% owned by Vodosnabdiavane and Kanalizatsia EAD.

The Company's business is the provision of water supply, sewerage and wastewater treatment services in the Municipality of Sofia, including management and maintenance of the public assets which represent part of the main water 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) Basis of accounting

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

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

The separate financial statements as of and for the year ended 31 December 2017 were approved for issuance by the Board of Directors on 26 March 2018.

(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:

- the defined benefit liability is recognized at the present value of the defined benefit obligation
- liability under additional Settlement agreement with Municipality of Sofia is recognized at the present value of the expected future cash outflows.

(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 indicated.

(d) Going concern

These separate financial statements have been prepared on the assumption that the Company will continue to operate as a going concern in the foreseeable future.

As at 31 December 2017, its current liabilities exceed its current assets by BGN 53,655 thousand (31 December 2016: exceed by BGN 65,986 thousand) due to the fact the intercompany loan (subordinated loan) contract expires at the end of April 2017 and is presented as short term.

At the reporting date, the management of the Company is in process of negotiation of further extension of the subordinated loan with Veolia Group and expects a positive outcome. (see Note 31 below).

2. Basis of preparation (continued)

(d) Going concern (continued)

The Company has the support from the Group, evidenced with a letter of support issued by the Group on behalf Veolia CEE, the sole owner of Veolia Voda (Sofia) BV – the direct parent company of Sofiyska Voda, which has expressed intention not to request repayment of the liabilities of Sofiyska voda to it or its subsidiaries for the next at least 12 months from the reporting date.

Therefore the risk of not repaying the intragroup subordinated loan, if it becomes due in the following year, which would also incur an event of default for the loan A obtained from an international financial institution, is considered remote.

Apart from that, in May 2017 the company started a process of refinancing process for the existing loans and credits (see note 19 below) by the preparation of request for proposals from financing institutions. In October 2017 Sofiyska Voda started exclusive contract negotiations with the selected consortium of banks.

During the year, the Company continued to generate a net profit after tax, which reached BGN 29,971 thousand in 2017 (2016: BGN 25,052 thousand). Cash and cash equivalents increased with BGN 8,8443 thousand, compared to 2016, thus amounting to BGN 25,662 thousand. During the year, the Company regularly serviced its liabilities to suppliers, excluding subordinated debt principals. There are no overdue liabilities to external parties.

Considering the above, the management has a reasonable expectation to believe that the available capital resources and sources of financing (cash flows from operating activities) will be adequate to meet all other Company's obligations in the course of 2018.

(e) Use of estimates and judgments

In preparing these separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(i) Judgments

Information about critical judgments made in applying accounting policies that have the most significant effect on the amounts recognized in these separate financial statements is included in the following notes:

- Note 3 (d) and Note 3 (k) (ii) – Accounting for intangible assets approach under IFRIC 12, Service Concession Arrangements and related revenue from construction services
- Note 3 (d) (iii) – Intangible assets: Subsequent costs and capitalization

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year is included in the following notes:

- Note 16 – Estimation of the recoverable amount of trade receivables from clients
- Note 26 – Measurement of defined benefit obligations and personnel liabilities
- Note 20 – Deferred tax assets – regarding the regarding recoverability of deferred tax assets;
- Note 21 – Estimation of the liability to Municipality of Sofia as per Settlement Agreement
- Note 22 and Note 27 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources.

2. Basis of preparation (continued)

(e) Use of estimates and judgments (continued)

Fair values

A number of the Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values.

The financial department regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services is used to measure fair values, then the financial department assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Company's Executive Director.

When measuring the fair value of an asset or liability, the Company uses market observable data as far as possible. Fair values are categorized into different level in a fair value hierarchy based on the inputs in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 24 – Financial instruments.

3. Significant accounting polices

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

(a) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognized in OCI:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss); or
- qualifying cash flow hedges to the extent the hedges are effective.

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

(b) Financial Instruments

The Company classifies non-derivative financial assets into the category loans and receivables.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

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

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, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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.

3. Significant accounting polices (continued)

(b) Financial instruments (continued)

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

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.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

(iv) 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.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially measured at cost which includes purchase price, including import duties and non-reimbursable taxes on purchase, as well as all other expenses directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the company has the an obligation to dismantle the asset or restore the site, estimate of the costs of dismantling and restoring the site on which they are located;
- 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 in profit or loss.

Subsequent measurement

After recognition as an asset, an item of property, plant and equipment is measured at its cost less accumulated depreciation and accumulated impairment losses (see Significant accounting policy 3 (h)).

3. Significant accounting polices (continued)

(c) Property, plant and equipment (continued)

(ii) Subsequent costs

Any subsequent expenditures are being capitalized only if it is probable that the future economic benefits embodied within the part will flow to the Company. The costs of the day-to-day servicing of property, plant and equipment are recognized as loss as incurred..

(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 of property, plant and equipment for the current and previous period are as follows

• buildings	25 years
• plant and equipment	5-25 years
• vehicles – automobiles	5-10 years
• vehicles – trucks	10-12,5 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 arrangements

As stated in Note 1 Sofiyska Voda is party under the Concession Agreement with the Municipality of Sofia (Grantor) under which a specific right emerges for the Company to use public assets as well as an exclusive right to render water supply and sewerage services within the concession area – the territory of the Municipality of Sofia.

Taking into account the concession contract with the Municipality of Sofia, the requirements of IFRIC 12 have been applied, and consequently an intangible asset "concession right" has been recognized in the financial statements of the Company. As the concession agreement includes a requirement for the Company to deliver construction services to the grantor in order to enhance the infrastructure, the Company delivers construction services in consideration for an enhancement to its right to collect tariffs from users of the network and records revenue as it performs the services for water supply, sewerage and waste water treatment to the customers on the territory of the concession.

(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.

The Grantor has the ownership rights on all the existing public assets for the concession period, but the Concessionaire has exclusive and specific right to use the existing public assets. The ownership rights of any new assets are transferred to the Grantor at the time of their acquisition by the Concessionaire or at the beginning of their operation. The Company does not have the right to receive any payments from Grantor 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 polices (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.

Based on assessment and expertise of internal experts of the Company, it is considered that when a pipe less than 10 meters long is replaced, it does not increase the life of the conduit and is accounted for as an expense immediately. In contrast, replacement of a pipe with length equal to or more than 10 meters extends the life of the pipeline with more than one year and is capitalized.

(iv) Amortization

Amortization is charged to the profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, apart from the concession asset, which is depreciated for the term of the concession.

• capitalized development costs	6.67 years
• other intangible assets	6.67 years
• software	10 years

Amortization methods, useful lives and residual values are reviewed at each 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 under operating lease assets are not recognized in the Company's statement of financial position.

(f) Investments

Investments in subsidiaries

Subsidiaries are the enterprises controlled by the Company.

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

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

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

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

3. Significant accounting polices (continued)

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle.

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

(i) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

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, indications that a debtor or issuer will enter bankruptcy etc.

Financial assets measured at amortized cost

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Those 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. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

3. Significant accounting polices (continued)

(h) Impairment (continued)

(ii) Non-financial assets

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

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the 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 plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated 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 the regulations of the Collective Labour agreement, 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 seven gross monthly salaries. As at the reporting date the management estimates the amount of such expenses based on a report prepared by a qualified actuary using the projected unit credit method. The estimated amount of the obligation and the main assumptions, on the base of which the estimation of the obligation has been made, are disclosed to the financial statements in Note 26.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and are recognised in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

3. Significant accounting polices (continued)

(и) Employee benefits (continued)

(iii) Short-term personnel benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the 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.

(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 recognized as finance cost.

Legal liabilities provision

Legal liabilities provisions are included in the Company's financial statements as a result of existing legal liabilities on court actions concerning past events. Estimation of the provision is carried out by the legal advisors of the 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.

(k) Revenue

(i) Rendering of 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 analysis of the 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 Energy and Water Regulatory Commission (EWRC).

Revenue from water supply, sewage and waste water treatment is recognized on basis of quantities of water measured through the water measuring devices (WMD).

Key clients (large consumers) are measured and billed monthly of actual consumptions.

For the rest of the clients, as a general rule, actual measurement of clients' devices is performed once every three months. During the other two months, client's consumption is calculated and billed on basis of the average daily consumption from the last actual consumption. When the actual quarterly reading is made, the difference between already invoiced in the previous 2 months and actual reading on the third month is automatically calculated and invoiced in the third month. If it happens that the quantity of actual quarterly reading is lower than the sum of the previous two invoiced quantities, the consumption is adjusted up to the level of the actual reading by issuing of a credit note.

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

3. Significant accounting polices (continued)

(k) Revenue (continued)

(ii) Construction contracts revenues

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

Construction contracts bring revenue 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 EWRC. In this respect the Company recognizes an intangible asset "concession right" against crediting revenue from construction contracts upon termination of the works.

(l) Government grants

The Company recognizes government grants initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Company for expenses incurred are recognized in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognized.

(m) 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 outstanding principal of the liability.

(n) Finance income and finance costs

Finance income comprises interest income and profit from transactions in foreign currencies, recognized in profit or loss. Interest income is recognized as it is accrued using the effective interest method.

Finance expenses comprise interest expense on borrowings, expenses resulting from increase in liabilities due to being one period closer to the date for realizing the provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of an asset, meeting the requirements 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.

3. Significant accounting polices (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current tax

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

Deferred tax

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

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

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

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

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

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3. Significant accounting polices (continued)

(p) New standards and interpretations not yet adopted

The following new standards, changes to the standards and clarifications, approved for application by the EC, are not mandatory for the annual periods starting on or after 1st January 2017 and have not been applied in the preparation of these separate financial statements. The company plans to apply these new or changed standards and clarifications when they enter into force or in an earlier period after the report date (please see below).

Standards, clarifications and changes to standards, which have not been applied earlier - endorsed for application by the EC

(a) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* defines the requirements for recognition and assessment of financial assets, financial liabilities, and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

(i) Classification – financial assets

IFRS 9 contains a new approach for classification and assessment of financial assets, which reflects the business model for managing the assets and the assets' contractual cash flow characteristics.

IFRS 9 includes three main categories for classification of the financial assets: measured at amortized value through fair value through other comprehensive income (FVTOCI) and through fair value through profit or loss (FVTPL). The standard eliminates the existing in IAS 39 categories held to maturity, credits and receivables, and available for sale.

Pursuant to IFRS 9 derivatives embedded in contracts, where the host asset is a financial asset within the scope of the standard, never separate. Instead, the hybrid financial instrument is assessed for classification as a whole.

Based on its assessment, the Company does not consider that the new requirements for classification would have a considerable impact on the financial reporting of the trade and other receivables, loans and cash owned by the Company.

(ii) Impairment – Financial assets and assets according to agreement

IFRS 9 replaces the "incurred loss" model in IAS 39 with the prospectively-oriented model of "expected credit losses" (ECL). This will require a considerable subjective assessment of how changes in the economic factors influence ECL, which will be determined on the basis of analyzing the possibilities for their occurrence.

The new impairment model will be applied for financial assets reported at amortized value or at fair value through other comprehensive income, except for investments in capital instruments and assets under contracts.

According to IFRS 9, the losses from the impairment will be assessed based on one of the following grounds:

- Expected credit losses in the next 12 months. These are losses that result from possible default events within 12 months after the reporting date; and
- Expected credit losses for the entire life of the financial asset. These are losses that result from all possible default events over the expected life of the financial instrument.

The measurement of the expected credit losses for the lifetime of the financial asset is applied if the credit risk has increased considerably from the date of the initial recognition of the asset, and 12-month Expected Credit Losses are applied if the above circumstances have not occurred. The company can determine that the credit risk of a financial asset has not increased considerably if the asset has a comparatively low credit risk as at the date of the statements. Nevertheless, for trade receivables and assets under contracts without a considerable financial component always Expected Credit Losses are assessed for the lifetime of the asset; the Company has elected to apply that policy also for the trade receivables and assets under contracts with a considerable financial component.

3. Significant accounting polices (continued)

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

(a) IFRS 9 Financial Instruments (continued)

The Company considers that the impairment losses are likely to increase and become more volatile for assets falling within the scope of the IFRS 9 impairment model under. Based on the impairment methodology described below, the Company has completed its initial assessment of the potential effect on its separate financial statements from the implementation of the IFRS 9 impairment requirements as at January 1st, 2018, but it still has not completed its detailed assessment. Based on the initial assessments, the Company considers that the IFRS 9 implementation will be reflected in the recognition of further impairment losses to around 5% of the book (gross) value of trade and other receivables. The management continues its work on the assessment and respectively, the specific amount of the expected effect may be changed.

Trade and other receivables, including assets under contracts

The estimation of the expected credit losses has been calculated on the basis of the actual credit loss experience during the last 31 months. The Company has calculated the expected credit losses separately for the sub-categories of customers: Population, Commercial enterprises and Budget organizations as they are exposed to a similar credit risk.

The exposures within each group are split on the basis of the observation of the contractual payment terms.

The factual data for the credit losses are adjusted with quantifiable factors, which reflect the differences in the economic conditions during the period, in which the historical data was collected, the current conditions and the understanding of the Company for the economic conditions during the expected life of the receivables. The quantifiable factors are based on the average interest rates of the bank loans for enterprises and households, as well as unemployment level.

The Company has estimated that the implementation of the IFRS 9 impairment requirements will lead to an increase in the impairment as at January 1st, 2018 above the one recognized under IAS 39 to the amount of around 5% of the book (gross) value of trade and other receivables.

Cash and cash equivalents

Based on the ratings as at 31 December 2017 of (rating agency S&P) the main part of the carrying amount of the cash and cash equivalent is kept in banks and financial institutions with A+ rating.

The estimated impairment of cash and cash equivalent is calculated on the basis of the 12-month expected loss and takes into account the short maturity of the exposures. The Company considers that its cash and cash equivalent have low credit risk based on the external credit ratings.

The Company has assessed that the implementation of the IFRS 9 impairment requirements as at January 1st, 2018 would not lead to substantial effects for the separate financial statements of the Company.

(iii) Classification – financial liabilities

IFRS 9 keeps to a great extent the requirements existing in IAS 39 in terms of the classification of the financial liabilities.

However, under the IAS 39 all changes in the fair values of the liabilities, measured under the FVTPL, are reported as gains and losses while under the IFRS 9, the changes in the fair value are mainly presented as follows:

- The change in the fair value, which results from the changes in the credit risk of the liability, is reported in other comprehensive income; and
- Any other change in the fair value is reported in gains and losses.

3. Significant accounting polices (continued)

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

(a) IFRS 9 Financial Instruments (continued)

The Company has not determined financial liabilities under FVTPL and does not intend to do it at present. The assessment of the Company does not show any substantial change in terms of the classification of the financial liabilities as at January 1st, 2018.

(iv) Hedge accounting

The Company has no hedge accounting and does not intend to do it at present.

(v) Disclosure

IFRS 9 requires extensive new disclosures, in particular for the hedge accounting, credit risk and expected credit losses.

(vi) Transition

Changes in accounting policies from the implementation of IFRS 9 will be mainly applied retrospectively, with the following exceptions:

- The Company will use the permitted exception not to restate comparative information for previous periods in terms of the changes in the classification and assessment (including the impairment). The variances in the carrying amounts of the financial assets and financial liabilities as a result of the implementation of IFRS 9 will be mainly recognized in the retained earnings as at January 1st 2018.
- The determination of the business model, in which the financial asset is held, is assessed on the basis of the facts and circumstances, which exist as at the date the standard is initially applied.

(b) IFRS 15 Revenue from contracts with customers

IFRS 15 creates a comprehensive framework for determining whether, how much and when revenues are recognized. This standard replaces the existing directions in the current standards for revenue recognition, including IAS 18 *Revenue*, IAS 11 *Contracts for construction* and IFRIC 13 *Customer loyalty programs*, IFRIC 15 *Agreements for the Construction of Real Estate* and IFRIC 18 *Transfer of assets from customers,* as well as SIC 31 *Revenue — barter transactions involving advertising services.*

(i) Provision of services

The Company provides water supply, treatment and sewerage services. To date, the revenue is recognized on the basis of the extent of service completion method, based on the volumes of water measured through the water meter readings.

Under IFRS 15, the total amount of the remuneration for services will be allocated for all services on the basis of their individual sales prices. The values of the sales prices will continue to be regulated by EWRC.

Respectively the Company does not expect the implementation of IFRS 15 to have as a result considerable variances at the time of the recognition of the revenue from these services.

(ii) Contracts for construction

The revenue from construction arises in relation to the investments in public assets – improvements and construction of new components from the water supply and sewerage network against the right of recognizing revenues from the completed services through the tariffs approved by EWRC.

The Company has not finalized the analysis for the accounting recognition and assessment of the revenue from investments in concession infrastructure from the point of view of whether they are a separate obligation for fulfilment as per the Concession Agreement and whether it is satisfied over time or at any point in time.

3. Significant accounting polices (continued)

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

(b) IFRS 15 Revenue from contracts with customers (continued)

It is possible as result of the analysis made IFRS 15 in combination with IFRIC 12 Service Concession Arrangements and as result of possible required changes in the model and the renegotiation of the Concession Agreement (see note 28 below), significant changes to be made in the financial statements of the Company as compared to the current accounting approach.

(iii) Transition

The Company intends to adopt IFRS 15 and apply the cumulative effect method, as the effect of the initial applying of this standard will be recognized as at the date of the initial application (this is 1 January 2018). As a result, the Company will not apply the IFRS 15 requirements for the comparable period.

(c) IFRS 16 Leases

IFRS 16 replaces the existing so far guidance on lease accounting, including IAS 17 *Lease*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating lease – Incentives* and SIC-27 *Evaluating the substance of transactions involving the legal form of a lease.*

The standard becomes effective for the reviewed periods, beginning on or after 1 January 2019. The early application is allowed for companies that apply IFRS 15 on or prior to the date of the initial application of IFRS 16.

IFRS 16 introduces a single balance-sheet accounting model for accounting of the lease by the lessees. The lessee recognizes a right-of-use asset, representing its right to use representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are exceptions for recognition for short-term leasing contracts and leases of low value assets. The accounting treatment on behalf of the lessor continues to be similar to the present standard, i.e. lease classification as financial or operative one continues

The Company has completed its initial assessment of the potential impact on its separate financial statements, but it still has not completed its detailed assessment.

To date the most significant impact identified is that the Company will recognize new assets and liabilities for its operating leasing of the office building – headquarters and leasing of transportation vehicles. At 31 December 2017 the future minimum leasing payments of the Company in the conditions of an operating leasing amount to 2,395 thousand BGN on an undiscounted base (please refer to note 25).

In addition, the essence of the costs related to those leasing contracts will change, as IFRS 16 replaces the linear method of reporting costs under an operating leasing with depreciation allowances for the right of use of the assets and costs of interests under leasing liabilities.

(i) Determining whether a given contract contains a leasing

The Management considers for the contracts existing at 31 December 2017 that no difference would ensue in the classification of contracts as containing a leasing, pursuant to the definition of IAS 17 and IFRIC 4, as well as accordance to the definition of IFRS 16.

(ii) Transition

As a lessee, the Company can apply the standard by using:

- the retrospective approach; or
- a modified retrospective approach using certain practical means by choice.

The lessee applies the chosen consecutively in all of its leasing contracts.

3. Significant accounting polices (continued)

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

(c) *IFRS 16 Lease (continued)*

The company plans to apply IFRS 16 earlier - from 1 January 2018 by using the full retrospective approach. Respectively, the cumulative effect of the application of IFRS 16 will be recognized in the separate financial statements of the Company for 2018 as a correction in the opening balance of the undistributed profit at 1 January 2017 with recalculation of the relevant information for 2017.

The Company has finalized its initial assessment of the potential effect on its separate financial statements, but has not finalized its detailed assessement yet. It is not expected the effect of the implementation of the standard to exceed 1% of the total non-current assets upwards.

It is not required by the Company to do any corrections to the leases, where it is a lessor, except in the cases when it is an intermediate lessor in a sublease.

(d) Amendments to IFRS 4: Application of IFRS 9 Financial Instruments and IFRS 4: Insurance Contracts

The Company does not provide insurance contracts and for that reason it does not expect any considerable impact from that amendment on its separate financial statements.

(e) Other changes

It is not expected for the following changes and improvements of standards to have a significant impact on the Company's separate financial statements.

- Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions

- The annual improvements to IFRSs 2014-2016 cycle

Standards and interpretations which still have not been approved for application by the EC

The Management considers that it is appropriate to be disclosed that the following new or revised standards, new interpretations and amendments to existing standards, which as at the report date have already been issued by the International Accounting Standards Board (IASB), still have not been approved for application by the EC and, respectively, have not been taken into consideration in the preparation of that separate financial statements. The dates of their entering into force will depend on the decision for approval for application of the EC.

(a) IFRS 17 Insurance Contracts

The Company expects that these amendments when they are applied for the first time would not have a considerable impact on the presentation in the separate financial statements of the Company, as the Company does not issue insurance or reinsurance contracts, it does not hold reinsurance contracts and does not issue investment contracts with additional non-guaranteed revenues.

(b) Other amendments

It is not expected for the following amendments to have a considerable impact on the Company's separate financial statements.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

- IFRIC 23 Uncertainty over Income Tax Treatments

- Amendments to IAS 40 Transfers of Investment Property

- Amendments to IFRS 9 Prepayment Features with Negative Compensation

- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

- Annual Improvements to the IFRS 2015-2017 Cycle

- Amendments to IAS 19: Plan Amendments, Curtailments or Settlements

- Amendments to IFRS 10 and IAS 28 Sales or Contributions of Assets Between an Investor and Its Associate/Joint Venture

4. Revenue

In thousands of BGN	Note	2017	2016
Income from water supply		95,485	86,286
Income from sewerage		23,573	17,428
Income from waste water treatment		21,023	20,713
Interest income from overdue receivables		3,869	4,366
Income from service sales		2,442	2,147
Revenue invoiced to customers, which is to be transferred to meet the obligations regarding the financial memorandum ISPA*		(985)	(1,081)
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget	*27(6)*	(85)	(59)
		145,322	129,800

*According to an agreement dated 22 June 2007 between Sofiyska Voda AD and Sofia Municipality (MoS), and in relation to Financial Memorandum ISPA 2000 BG 16 P PE 001, signed between European Commission and Republic of Bulgaria, the Company is obliged to include in its price for water supply, sewerage and treatment of waste waters an adjustment, allowing it to accumulate the necessary annual funds for repayment of the Financial Memorandum loan that was received from the European Investment Bank (EIB). The total expected amount to be serviced by Sofiyska Voda was approximately EUR 8,775 thousand representing 15% of the project value. The end beneficiary of the loan from the European Investment Bank is the Municipality of Sofia.

On basis of received attachments to MoEW letters from 7 November 2011 and 30 January 2012, it became known that respectively on 3 October 2011 and 13 January 2012, EIB disbursed two tranches of the agreed loan amounting to EUR 7,086 thousand. At the end, it became the final amount, because of expiry of the period of availability of the funds and no new utilizations could be made.

The payment started from the beginning of 2012 and will last until year 2030. Interest and principle are due to EIB on each 10th March and 10th September.

The Energy and Water Regulatory Commission, on basis of an indicative repayment schedule, approved a tariff adjustment, though the inclusion in the tariff of a certain amount for servicing and repayment of the EIB financing.

The Agreement stated above, specifies that upon the receipt of the relevant notices, the collected amounts from the clients of the Company as a result of the approved by the EWRC price component, should be transferred to the Ministry of Environment and Waters (MoEW) in a specially opened to service the loan bank account.

Having received a notice from the Municipality of Sofia in 2017, the Company transferred two instalments for a total amount of BGN 900 thousand to the bank account indicated by the Municipality of Sofia, to service the loan from EIB.

The portion of billed revenue in 2017, set aside for servicing and repayment of the EIB loan, based on the price component in the tariff, amounts to BGN 985 thousand (2016: BGN 1,081 thousand), presented above as a reduction of the Company's yearly revenue.

5. Other income

In thousands of BGN	2017	2016
Penalties of contractors	490	235
Penalties for industrial discharges of water with excessive concentration of pollutants	983	613
Gain on sale of inventories to subcontractors for construction works	208	133
Green energy income	586	365
Income from rent	7	41
Gain on sale of Property, plant and equipment	36	4
Revenue from financing	365	228
Other	865	746
	3,540	2,365

The gain on sale of non-current assets is realized from the sale of a vehicle as follows:

	2017	2016
Revenue from sale of vehicles	38	28
NCA of sold vehicles	(2)	(24)
	36	4

6. Construction revenue and expenses

In thousands of BGN		2017			2016		
Project	**Note**	**Revenues**	**Expenses**	**Recognized profits**	**Revenues**	**Expenses**	**Recognized profits**
Water supply		15,565	15,565	-	15,890	15,890	-
Potable water treatment		2,998	2,998	-	2,215	2,215	-
Sewerage		12,173	12,173	-	9,715	9,715	-
Waste water treatment		1,839	1,839	-	4,296	4,296	-
House connections and meters		6,694	6,694	-	5,791	5,791	-
Total	*14*	39,269	39,269	-	37,907	37,907	-

7. Expenses for materials

In thousands of BGN	2017	2016
Electricity, water, heating	1,200	1,303
Fuels and lubricants	1,193	1,121
Water for technological needs	1,492	1,500
Chemicals	2,513	2,735
Plumbing materials	728	694
Other	1,827	1,410
	8,953	8,763

8. Expenses for hired services

In thousands of BGN	2017	2016
Annual water tax	4,050	3,992
Repairs and maintenance of concession infrastructure	4,958	4,920
Insurance	1,219	1,214
Rent	1,152	1,082
Security	6,057	5,631
Other services	9,711	8,967
	27,147	25,806

8. Expenses for hired services (continued)

Other expenses for hired services include:

In thousands of BGN	2017	2016
Water – meters reading	1,677	1,878
Courier services	341	364
Printing services	440	476
Technical services	1,496	1,496
Consultancy	1,033	519
Asphalt covering	449	350
EWRC fee	402	399
Disinfection	24	20
Communication	235	156
Annual software licenses	759	742
Collection of receivables	56	133
Hired transportation	147	212
Water tankers	154	170
Software maintenance and internet	556	539
Training	154	100
Announcements and communications	132	102
Local taxes and fees	129	95
Cleaning of offices and water tanks	67	64
Fees	33	30
Other	1,427	1,122
	9,711	8,967

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

9. Employee benefit expenses

In thousands of BGN	*Note*	2017	2016
Wages and salaries		20,053	17,827
Compulsory social security contribution		3,152	2,649
Social expenses		62	115
Expenses for additional pension contribution		513	463
Current and past service costs in relation to employee benefits	26	363	177
Voucher expenses		1,492	1,371
		25,635	22,602

The salary expenses include an accrual for unused annual paid leave amounting to BGN 659 thousand (2016: BGN 541 thousand).

The compulsory social security contribution includes an accrual for social and health security on unused annual paid leave for the amount of BGN 123 thousand (2016: BGN 94 thousand).

The average number of Company's personnel is 1,134 employees (2016: 1,142 employees).

10. Other operating expenses

In thousands of BGN	*Note*	2017	2016
Reduction of inventories to net realizable value / (realization)	15	(156)	55
One-off taxes		182	145
Commission for collection of trade receivables		1,245	1,275
Provisions for fines and penalties, net		38	(2,359)
Scrapping of materials		86	50
Scrapping of non-current assets		18	17
Others		2,030	2,116
		3,443	1,299

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

In thousands of BGN	2017	2016
Interest income	24	23
Effect from guarantee discounts	3	51
Revenue from foreign currency transaction, net	22	-
Financial income	49	74
Interest expenses for Loan "A"	(645)	(844)
Interest expenses for Loan "B"	(3,757)	(4,239)
Finance charges on finance leases	(63)	(74)
Interest expenses on employee benefits	(28)	(17)
Effect from guarantee discounts	(61)	(31)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	(548)	(262)
Other finance costs	(58)	(40)
Loss from foreign currency exchange differences, net	-	(43)
Finance costs	(5,160)	(5,550)
Finance costs (net)	(5,111)	(5,476)

The financial income and expenses listed above include interest income and expenses on assets (liabilities) that are not recognised at fair value in profit and loss:

	2017	2016
Total interest income on financial assets	49	74
Total interest expense on financial liabilities	(4,465)	(5,157)

12. Tax expenses

In thousands of BGN	*Note*	**2017**	**2016**
Current tax expense			
Income tax for current year		(3,299)	(3,371)
Deferred tax expense			
Origination and reversal of temporary differences	*20*	(119)	450
Total tax expense		(3,418)	(2,921)

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.

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

Reconciliation of effective tax rate *In thousands of BGN*		**2017**		**2016**
Profit for the year		29,971		25,052
Total tax expenses		3,418		2,921
Profit before tax		33,389		27,973
Income tax based on the Company's domestic tax rate	10%	(3,339)	10%	(2,797)
Non-deductible expenses	0.16%	(52)	0.40%	(112)
Effects of write off of deferred tax	0.08%	(27)	0.04%	(12)
Net current income tax (expense)/income	10.24%	(3,418)	10.44%	(2,921)

13. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Vehicles	Leasehold improve-ments	Assets under construc-tion	Total
Cost						
Balance at 1 January 2016	710	27,731	13,832	1,170	-	43,443
Additions	-	-	-	-	4,171	4,171
Disposals	-	(273)	(835)	-	-	(1,108)
Transfers	-	2,208	1,948	15	(4,171)	-
Transfers to intangible assets	-	-	-	-	-	-
Balance at 31 December 2016	710	29,666	14,945	1,185	-	46,506
Balance at 1 January 2017	710	29,666	14,945	1,185	-	46,506
Additions	-	-	-	-	5,603	5,603
Disposals	-	(244)	(858)	-	-	(1,102)
Transfers	-	4,543	764	296	(5,603)	-
Transfers to intangible assets	-	-	-	-	-	-
Balance at 31 December 2017	710	33,965	14,851	1,481	-	51,007
Depreciation						
Depreciation as at 1 January 2016	(175)	(17,289)	(8,683)	(1,035)	-	(27,182)
Depreciation charge for the year	(20)	(2,227)	(1,057)	(27)	-	(3,331)
Depreciation on disposals	-	259	808	-	-	1,067
Balance at 31 December 2016	(195)	(19,257)	(8,932)	(1,062)	-	(29,446)
Depreciation as at 1 January 2017	(195)	(19,257)	(8,932)	(1,062)	-	(29,446)
Depreciation charge for the year	(22)	(2,458)	(1,357)	(33)	-	(3,870)
Depreciation on disposals	-	229	851	-	-	1,080
Balance at 31 December 2017	(217)	(21,486)	(9,438)	(1,095)	-	(32,236)
Carrying amounts						
At 1 January 2016	535	10,442	5,149	135	-	16,261
At 31 December 2016	515	10,409	6,013	123	-	17,060
At 1 January 2017	515	10,409	6,013	123	-	17,060
At 31 December 2017	493	12,479	5,413	386	-	18,771

13. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2017 amount to BGN 5,307 thousand (2016: BGN 4,156 thousand) and are listed below:

In thousands of BGN	**2017**	**2016**
Cogenerator	374	170
Vehicles and mechanization	2,036	2,199
Laboratory equipment	702	77
Computer equipment	1,017	1,184
CCTV	196	3
Modular trench shielding	28	20
Portable gas analyzer	66	3
Shack mower BCS 615	-	4
Automatic titrator with 2 burettes	-	7
Electromagnetic probes	-	42
Gasoline pumps Honda	13	-
Garden equipment	65	-
Professional laundries	5	-
Hardware package for upgrade	-	38
RD8100 10 Locator	-	25
Welding systems, grinders	102	-
Personal Protective Equipment	39	
Drons	-	10
Devices for geodetic measurements and detection	234	49
Compressor with container	44	-
Oxygen self-contained breathing apparatus OXY	14	-
Telephone exchange AASTRA AXS	2	-
Other equipment	370	325
	5,307	4,156

Assets pledged as collateral

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

Assets pledged as collateral under finance lease contract

In relation to the valid finance lease contracts, the value of registered to the account of the Company non-current assets (motor vehicles and construction machinery) according to the Central Pledge Registry is BGN 496 thousand.

14. Intangible assets

In thousands of BGN	Development costs	Software	Concession right	Assets under construction – Concession right	Assets under construction – other	Total
Cost						
Balance at 1 January 2016	21,041	19,624	419,838	12,517	-	473,020
Additions	-	-	-	37,907	461	38,368
Disposals	-	-	-	-	-	-
Transfers		461	37,222	(37,222)	(461)	-
Transfers to intangible assets	-	-	-	-	-	-
Balance at 31 December 2016	21,041	20,085	457,060	13,202	-	511,388
Balance at 1 January 2017	21,041	20,085	457,060	13,202	-	511,388
Additions	-	-	-	39,269	441	39,710
Disposals	-	-	-	-	-	-
Transfers	-	411	30,611	(30,611)	(411)	-
Balance at 31 December 2017	21,041	20,496	487,671	21,860	30	551,098
Depreciation						
Balance at 1 January 2016	(21,006)	(14,636)	(158,362)	-	-	(194,004)
Depreciation for the year	(31)	(667)	(28,009)	-	-	(28,707)
Disposals						
Balance at 31 December 2016	(21,037)	(15,303)	(186,371)	-	-	(222,711)
Balance at 1 January 2017	(21,037)	(15,303)	(186,371)	-	-	(222,711)
Depreciation for the year	-	(667)	(32,310)	-	-	(32,977)
Disposals			-			-
Balance at 31 December 2017	(21,037)	(15,970)	(218,681)	-	-	(255,688)
Carrying amounts						
At 1 January2016	35	4,988	261,476	12,517	-	279,016
At 31 December 2016	4	4,782	270,689	13,202	-	288,677
At 1 January2017	4	4,782	270,689	13,202	-	288,677
At 31 December 2017	4	4,526	268,990	21,860	30	295,410

14. Intangible assets (continued)

Acquired assets

The most significant acquisitions of new intangible assets in 2017 are related to the increase of the value of the Concession right and amount to BGN 30,611 thousand (2016: BGN 37,222 thousand). The main components are listed below:

In thousands of BGN	2017	2016
Water supply network and house connections	14,478	16,506
Wastewater Treatment Plant Kubratovo	2,075	3,343
Sewerage and house connections	6,939	10,185
Hydrants and cranes	2,361	1,800
Water meters	2,239	2,053
Leasehold improvements	2,413	1,765
Pumping Stations	106	1,570
	30,611	37,222

Assets under construction

The intangible assets under construction which relate to *Concession Right* intangible asset amount to BGN 21,861 thousand (2016: BGN 13,202 thousand). The most significant of them are listed below:

In thousands of BGN	2017	2016
Second stage of strengthening of Beli Iskar Dam	1,015	1,015
Wastewater Treatment Plant	546	1,006
Construction of water mains, hydraulic model and DMA zones for reduction of UFW	7,445	3,730
Chlorinating stations	3	-
Construction of sewers and sewer model	7,950	2,717
Potable Water Treatment Plants	2,426	920
Impounding Structures	386	2,451
Rehabilitation of reservoirs, pumping stations, sanitary restricted areas	2,045	1,274
Proactive replacement of stop valves, fire hydrants, WSC	45	89
	21,861	13,202

Assets pledged as collateral

The Company has pledged all its present and future non-current assets in respect of secured bank loan "A", except for assets that are public municipal property.

15. Inventories

In thousands of BGN	**2017**	**2016**
Spare parts and consumables	1,990	1,064
	1,990	1,064

The balance of stock write down as at 31 December 2017 amounts to BGN 1,307 thousand (2016: BGN 1,463 thousand).

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. Trade and other receivables

In thousands of BGN	**Note**	**2017**	**2016**
Trade and other receivables		68,472	79,655
Impairment losses on trade receivables		(33,150)	(47,696)
Court receivables		31,677	28,590
Impairment losses on court receivables		(31,677)	(28,590)
Total trade receivables	*24*	35,322	31,959
Other receivables and prepayments		1,647	1,884
		1,647	1,884
Total trade and other receivables		36,969	33,843
Non-current		237	290
Current		36,732	33,553

In 2017 impairment losses on trade receivables amounting to BGN 19,796 thousand have been written off (2016: BGN 561 thousand).

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".

The Company's exposure to interest rate risk and the sensitivity analysis of all financial assets and liabilities are reported in Note 24 – *Financial Instruments*.

Other receivables and prepayments:

In thousands of BGN	**2017**	**2016**
Insurance	907	870
Licenses	68	82
Subscriptions	365	364
Advances for DMA	253	463
Other	54	105
	1,647	1,884

17. Cash and cash equivalents

In thousands of BGN	Note	2017	2016
Cash on hand		73	39
Local currency		54	26
Foreign currency		19	13
Cash at banks	24	25,589	17,180
Local currency		25,353	16,979
Foreign currency		236	201
Cash and cash equivalents in the statement of cash flows	24	25,662	17,219

Cash at banks pledged as collateral:

The Company has pledged all its bank accounts under the requirements of a bank loan "A".

The Company's exposure to Interest rate risk and the sensitivity analysis of all financial assets and liabilities are stated in Note 24.

18. Capital and reserves

In thousands of shares	Ordinary shares 2017	2016
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	8,884	8,884

As at 31 December 2017 the Company's share capital includes 8,884,435 ordinary shares (2016: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Company as at 31 December 2017 are:

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

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

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 at least until the amount of 1/10 or more of the registered Company capital is reached.

19. 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 24, *Financial instruments*.

In thousands of BGN	**2017**	**2016**
Non-current liabilities		
Loans at nominal value	18,139	27,203
Amortization	(107)	(272)
Loans at amortized cost	18,032	26,931
Finance lease liabilities	1,505	1,880
	19,537	28,811
Current liabilities		
Loans at nominal value	80,181	80,181
Amortization	338	43
Loans at amortized cost	80,519	80,224
Finance lease liabilities	783	1,283
	81,302	81,507
Total loans and borrowings	100,839	110,318

In accordance with the loan agreement 'A' the Company has the obligation to maintain an Annual Debt Service Coverage Ratio (ADSCR) of at least 1.3:1. The ADSCR should show that at any Calculation Date (ending on 31 December) the ratio of Free Cash Flow for the preceding 12-month period to the aggregate amount of principal and interest payments falling due and payable during such period should be at least 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 internal calculations based on the actual cash flow for 2017 the actual ADSCR is 2.84:1. The Company has the obligation of submitting the verified annual 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

				31 December 2017		31 December 2016	
In thousands of BGN	Currency	Nominal interest rate	Year of Maturity	Face Value	Carrying Amount	Face Value	Carrying Amount
Loan „A"	EUR	1.35 % plus 6 month EURIBOR*	2020	27,203	26,920	36,266	35,748
Loan „B", subordinated and unsecured, from related party	EUR	5.95% plus 6 month EURIBOR	2018	71,117	71,631	71,117	71,407
Finance lease liabilities				2,288	2,288	3,163	3,163
				100,608	100,839	110,546	110,318

19. 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.

The approved by the Regulator Business plan 2017 – 2021 (see note 28 below) setting up the tariffs for a 5-year term and respectively makes the company's financial resources more predictable and stable. In May 2017 based on the approved Business Plan 2017 -2021 the refinancing process for the existing loans and credits started by preparation of request for proposals from financing institutions.

In October 2017 Sofiyska Voda started exclusive contract negotiations with the selected consortium of banks.

The refinancing of the concession is an integrated part of the Concession contract. That is why each amendment in the terms and the conditions of the financing lead to amendments of the Concession contract. The parties to the Concession agreement (Sofiyska Voda and Municipality of Sofia) shall approve the refinancing and the refinancing agreement, which has to be reflected in an amended Concession contract (see note 28 below).

Finance lease liabilities

The finance lease liabilities are payable as follows:

In thousands of BGN	Future minimum lease payments 2017	Interest 2017	Present value of minimum lease payments 2017	Future minimum lease payments 2016	Interest 2016	Present value of minimum lease payments 2016
Less than 1 year	825	42	783	1,346	63	1,283
Between 1 and 2 years	1,408	31	1,377	1,485	55	1,430
2 to 5 years	129	1	128	455	5	450
	2,362	74	2,288	3,286	123	3,163

Reconciliation of the liabilities from financial activities

Loans and credits

In thousands of BGN	2017	2016
Balance at 1 January (according to the amortized value)	107,155	115,870
Revenues	-	-
Payments	(9,063)	(9,063)
Accrued interest rates	4,401	5,083
Paid interest rates	(3,942)	(4,735)
Effects from exchange rates	-	-
Balance at 31 December (according to the amortized value)	98,551	107,155

19. Loans and credits (continued)

Finance lease

In thousand BGN	2017	2016
Balance at 1 January (according to the amortized value)	3,163	2,646
Revenues	584	1,909
Payments	(1,459)	(1,392)
Accrued interest rates	63	74
Paid interest rates	(63)	(74)
Effects from exchange rates	-	-
Balance at 31 December (according to the amortized value)	2,288	3,163

20. Deferred tax assets and liabilities

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

In thousands of BGN	Assets 2017	Liabilities 2017	Net 2017	Assets 2016	Liabilities 2016	Net 2016
Property, plant and equipment	-	(1,041)	(1,041)	-	(994)	(994)
Inventories	131	-	131	146	-	146
Trade receivables	6,483	-	6,483	6,541	-	6,541
Provisions	353	-	353	455	-	455
Accrual for unused paid leave and bonus	354	-	354	267	-	267
Payables as per defined benefit plan	140	-	140	117	-	117
Financing from EBRD	19	-	19	26	-	26
Trade payables	67	-	67	67	-	67
Deferred tax assets/ (liabilities)	7,547	(1,041)	6,506	7,619	(994)	6,625

In determining the current and deferred taxes the Company has adopted as an accounting basis the one stated in significant accounting policies (Note 3). The deferred tax for 2017 is calculated by using the tax rate applicable to the Company which is the legally set for now income tax rate for 2018 – 10%.

20. Deferred tax assets and liabilities (continued)

Changes in temporary differences during the year:

In thousands of BGN	Balance as at 1 January 2016	Recognized in profit or loss	Recognized in OCI	Balance as at 31 December 2016	Recognized in profit or loss	Recognized in OCI	Balance as at 31 December 2017
Property, plant and equipment	(925)	(69)	-	(994)	(47)	-	(1,041)
Inventories	141	5	-	146	(15)	-	131
Trade receivables	5,565	976	-	6,541	(58)	-	6,483
Provisions	945	(490)	-	455	(102)	-	353
Accrual for unused annual paid leave and bonus	243	24	-	267	87	-	354
Liabilities under a defined benefit plan	113	4	-	117	23	-	140
Financing from EBRD	26	-	-	26	(7)	-	19
Trade payables	67	-	-	67	-	-	67
Deferred tax assets/ (liabilities)	6,175	450	-	6,625	(119)	-	6,506

21. Trade and other payables

In thousands of BGN	*Note*	2017	2016
Trade payables		10,723	10,325
Guarantees		2,670	2,427
Payables to employees		4,886	3,833
Insurance		851	852
Pollution		-	1,061
ISPA payable		4,190	4,085
Total trade payables	24	23,320	22,583
Social security payables		736	644
Payable as per Settlement Agreement between the Municipality of Sofia and SV		7,425	7,942
Payables for water usage tax		4,044	3,992
VAT payable		138	-
Other taxes payable		316	282
Other payables and accruals		730	774
		13,389	13,634
Total trade and other payables		36,709	36,217
Incl. Non-current		7,790	8,737
Incl. Current		28,919	27,480

22. Provisions

In thousands of BGN	2017	2016
Provision for court liabilities	3,154	3,157
	3,154	3,157

Provision for court liabilities

The provision is calculated on basis of estimation of the most likely outcome and historical evidence by the Company's internal lawyers.

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.

In a separate group are the provisions in relation to the imposing of administrative sanctions, mostly due to findings for possible abuse of a dominant position. The most significant amount in the current financial period is due to provisions from this group. In accordance with order №370/19.03.2014 on the basis of art. 74, par. 1, it.3 from Act for Protection of Competition (APC), the Commission for Protection of Competition initiated proceedings that Sofiyska Voda used its dominant position on the market in relation to charging interest for delayed payments on estimated bills for provided services under art. 21, it.1 from APC. The sanction amounts to BGN 4,800 thousand and is calculated based on 0.5% of Sofiyska Voda 2013 revenue, applying leverage ratio 8. The Company has undertaken measures to appeal the penalty imposed in compliance with the applicable legislation. On 11 January 2016, the Supreme Administrative Court (SAC) issued a decision regarding CPC case. In the decision, the penalty was decreased up to BGN 2,400 thousand from BGN 4,800 thousand. Sofiyska voda objected the decision at the next instance as well as the CPC. Court case 3161/2016 is open and the hearing was on 7 April 2016. The case is announced for resolution (still pending).

22. Provisions (continued)

The change in provisions throughout the year is presented below:

In thousands of BGN	Balance at 1 January 2017	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2011
Provision for court liabilities	3,157	85	-	(88)	-	3,154
	3,157	85	-	(88)	-	3,154

23. Income tax liabilities

In thousands of BGN	**2017**	**2016**
Income tax	605	442
	605	442

24. 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 the Committee 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. Credit risk arises from the Company's receivables from customers and investments in financial instruments.

24. Financial instruments (continued)

Exposure to Credit Risk

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

In thousands of BGN	*Note*	**Carrying amount 2017**	**Carrying amount 2016**
Trade and other receivables	*16*	35,322	31,959
Receivables from related parties	*30*	11	69
Cash and cash equivalents (at banks)	*17*	25,589	17,180
		60,922	49,208

Trade and other receivables

The credit risk exposure of the Company results from the individual characteristics of the separate customers. The exposure also depends on the risk of non-payment 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 2017 the active customers of the Company are 647,104 (2016: 632,550). 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 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 with customers, tracing results and using a customers' contacts history database and other operational statistics.

In view of the credit risk it can be said that the 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 to the fact that the majority of uncollected trade receivables are owed by individual customers (households) and not institutional customers.

The carrying amount of trade receivables by type of customers represents the credit exposure at the reporting date of the Company and it is as follows:

In thousands of BGN	**Cost 31 December 2017**	**Impairment 2017**	**Carrying amount 31 December 2017**	**Cost 31 December 2016**	**Impairment 2016**	**Carrying amount 31 December 2016**
State budget organizations	2,050	(339)	1,711	1,677	(472)	1,205
Commercial customers	11,476	(4,565)	6,911	11,231	(5,726)	5,505
Domestic population	85,710	(59,923)	25,787	94,503	(70,088)	24,415
Other customers	913	-	913	834	-	834
Related parties	11	-	11	69	-	69
	100,160	(64,827)	35,333	108,314	(76,286)	32,028

24. Financial instruments (continued)

Exposure to credit risk (continued)

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

In thousands of BGN	**2017** *Cost*	**2017** *Impairment*	**2016** *Cost*	**2016** *Impairment*
Not past due	22,326	(88)	19,721	(60)
Past due 30 days	3,631	(246)	2,859	(216)
Past due 31-120 days	6,568	(987)	6,084	(875)
Past due 121-210 days	5,125	(1,976)	5,011	(1,933)
Past due 211-270 days	2,891	(2,396)	2,870	(2,372)
Past due 271-360 days	3,711	(3,648)	3,832	(3,773)
Past due more than 1 year	55,897	(55,486)	67,868	(67,057)
	100,149	(64,827)	108,245	(76,286)

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

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

In thousands of BGN	*Note*	**2017**	**2016**
Balance at the beginning of the period		(76,286)	(68,539)
Accruals during the period	*24*	(8,337)	(8,208)
Reintegrated impairment	*10*	-	-
Written-off		19,796	461
Balance at the end of the period		(64,827)	(76,286)

The quality of the trade and other receivables is assessed based on credit policy prepared by the Risk Management Committee and applied by the Company. The Company's management monitors the customers' credit risk by grouping trade and other receivables by characteristics as in 2017 it continues to carry out analysis of specific customers on the basis of precise proactive actions, working with them and the history of past communication. As of 2011 the Company has also introduced impairment of undue trade receivables for certain groups of customers, while as of 2015 the balances of customers with deferred payment agreements, which are not violated are excluded from the calculation of the impairment.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations relating to financial liabilities, meant to be met by cash or other financial asset. 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 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, Sofiyska Voda AD submits and justifies annual tariff applications as per the terms and procedures in the regulatory legislation.

24. Financial instruments (continued)

Liquidity risk (continued)

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 2017 the Company does not maintain overdrafts.

As disclosed in Note 2 (d), as at 31 December 2017, the Company's current liabilities exceed its current assets by BGN 53,655 thousand due to the fact the intercompany loan (subordinated loan) contract expires at the end of 31 March 2018 and is presented as short-term.

The management of the Company is in process of negotiation of further extension of the subordinated loan with the related company from Veolia Group and expects a positive outcome. The Company has the support from the Group.

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

31 December 2017
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"	26,920	(27,781)	(9,355)	(9,256)	(9,170)	-
Loan „B"	71,631	(71,942)	(71,942)	-	-	-
Liabilities to related parties	3,352	(3,352)	(3,352)	-	-	-
Finance lease liabilities	2,288	(2,362)	(825)	(1,408)	(129)	-
Trade and other payables	23,320	(23,320)	(23,320)	-	-	-
	127,511	(128,757)	(108,794)	(10,664)	(9,299)	-

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

As disclosed in Note 19, 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 under 1.3:1 (see note 19) – the Company may fall into default and the outstanding amount of the loan may become due to the creditor. The interest payments on loans with floating interest rate in the preceding table reflect the market interest rates as at the end of the period based on EURIBOR and these amounts may vary upon change in the market rate.

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

24. Financial instruments (continued)

Liquidity risk (continued)

31 December 2016

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"	35,747	(37,293)	(9,478)	(9,373)	(18,442)	-
Loan „B"	71,407	(72,822)	(72,822)	-	-	
Liabilities to related parties	4,786	(4,786)	(4,786)	-	-	
Finance lease liabilities	3,163	(3,286)	(1,346)	(1,485)	(455)	-
Trade and other payables	22,583	(22,583)	(22,583)	-	-	
	137,686	(140,770)	(111,015)	(10,858)	(18,897)	

Market Risk

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

Currency risk

The 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 (CZK). Since 1999 the exchange rate of the Bulgarian lev (BGN) is fixed to the euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0. Significant part of the transactions made in currency other than the local are in EUR and therefore the Company's exposure to currency risk is minimal.

- ***Exposure to currency risk***

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2017				**31 December 2016**			
In thousands of	EUR	GBP	USD	CZK	EUR	GBP	USD	CZK
Trade payables	(1,292)	(1)	(326)	-	(2,103)	(1)	(326)	-
Interest-bearing loans and borrowings	(50,388)	-	-	-	(54,787)	-	-	-
Gross Balance Exposure	(51,680)	(1)	(326)	-	(56,890)	(1)	(326)	-

The following significant exchange rates are applied during the period:

	Average period FX rate		**FX rate at reporting date**	
	2017	**2016**	**2017**	**2016**
USD 1	1.7348	1.7683	1.6308	1.8555
GBP 1	2.2318	2.3925	2.2044	2.2844
CZK 100	7.4334	7.2346	7,6594	7.2382

24. Financial instruments (continued)

Market risk (continued)

Currency risk (continued)

- ***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 2016 is done on the same basis.

In thousands of BGN	**Statement of comprehensive income**	**Statement of comprehensive income**
	31 December 2017	**31 December 2016**
USD	(53)	(59)

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

- ***Profile***

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

In thousands of BGN	**2017**	**2016**
Fixed rate instruments		
Financial assets	25,589	17,180
Financial liabilities	-	-
	25,589	17,180
Variable rate instruments		
Financial assets		-
Financial liabilities	(100,839)	(110,318)
	(100,839)	(110,318)

24. Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

- ***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.
A change of the interest rates by 25 basis points as at the date of financial statements would increase / (decrease) the equity and profit or loss with the amounts shown below. An assumption is made during the analysis that all other variables, especially the currency exchange rates are relatively constant. The analysis for 2017 is made on the same basis.

Effects in thousands of BGN	**Profit or loss**		**Equity**	
	25 basis points increase	**25 basis points decrease**	**25 basis points increase**	**25 basis points decrease**
31 December 2017				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(252)	252	-	-
Cash flow sensitivity (net)	(252)	252	-	-
31 December 2016				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(276)	276	-	-
Cash flow sensitivity (net)	(276)	276	-	-

Capital Management

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

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

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

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

24. Financial instruments (continued)

Accounting classifications and fair values

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

31 December 2017		Carrying amount								Fair value			
In thousands of BGN	*Note*	Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	*16*	-	-	-	-	35,322	-	-	35,322				
Receivables from related party	*30*	-	-	-	-	11	-	-	11				
Cash and cash equivalents	*17*	-	-	-	-	25,622	-	-	25,622				
		-	-	-	-	60,955	-	-	60,955				
Financial liabilities, not measured at fair value													
Loans from related parties – Loan "B"	*19*	-	-	-	-	-	-	(71,631)	(71,631)				
Loan „A"	*19*	-	-	-	-	-	-	(26,920)	(26,920)			(27,098)	(27,098)
Trade and other payables	*21*	-	-	-	-	-	-	(23,320)	(23,320)				
Payables to related parties	*30*	-	-	-	-	-	-	(3,352)	(3,352)				
Payables on financial lease	*19*	-	-	-	-	-	-	(2,288)	(2,288)				
		-	-	-	-	-	-	(127,511)	(127,511)				

24. Financial instruments (continued)

Accounting classifications and fair values (continued)

31 December 2016

In thousand BGN	*Note*	Carrying amount: Held for sale	Defined at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Fair value: Level 1	Level 2	Level 3	Total
Financial assets, not measured at fair value													
Trade and other receivables	*16*	-	-	-	-	31,959	-	-	31,959				
Receivables from related party	*30*	-	-	-	-	69	-	-	69				
Cash and cash equivalents	*17*	-	-	-	-	17,219	-	-	17,219				
		-	-	-	-	49,247	-	-	49,247				
Financial liabilities, not measured at fair value													
Loans from related parties – Loan "B"	*19*	-	-	-	-	-	-	(71,407)	(71,407)				
Loan „A"	*19*	-	-	-	-	-	-	(35,747)	(35,747)			(36,117)	(36,117)
Trade and other payables	*21*	-	-	-	-	-	-	(22,583)	(22,583)				
Payables to related parties	*30*	-	-	-	-	-	-	(4,786)	(4,786)				
Payables on financial lease	*19*	-	-	-	-	-	-	(3,163)	(3,163)				
		-	-	-	-	-	-	(137,686)	(137,686)				

24. Financial instruments (continued)

Measurement of fair value

(i) Valuation technique and significant unobservable inputs

Below are the valuation techniques used in the measuring the fair value of Level 2 and Level 3, as well as the significant unobservable inputs used.

Financial instruments not measured at fair value

Other financial liabilities*, are valued on basis of discounted cash flows. As significant unobservable inputs have been used the discount rate, adjusted by the Company, taking into account the specifics of the company and the sector in which it operates. The amount of the reduction is 3% below the annual average rates for commercial loans of similar size and maturity granted in Bulgaria, according to interest rate statistics of the Central Bank for 2017.

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

25. Operating leases

Leases as lessee

Rental payments under operating leases are payable as follows:

In thousands of BGN	**2017**	**2016**
Less than 1 year	1,042	1,030
Between 1 and 5 years	1,353	2,172
More than 5 years	-	-
	2,395	3,202

Leases as lessor

In thousands of BGN	**2017**	**2016**
Less than 1 year	3	7
Between 1 and 5 years	-	3
	3	10

26. Employee benefits

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

In thousands of BGN	2017	2016
Present value of the liability on 1 January	1,480	1,352
Interest expense	28	17
Current service cost	363	253
Past service cost	-	(76)
Actuarial loss	50	90
Paid compensations to retired employees	(167)	(157)
Present value of the liability on 31 December	1,754	1,479

Liability recognized in the statement of financial position as at 31 December, including:	1,754	1,479
Short – term liabilities for retirement compensation	404	395
Long – term liabilities for retirement compensation	1,350	1,084

Expenses recognized in the statement of comprehensive income

In thousands of BGN	2017	2016
Current service cost	363	253
Last service cost	-	(76)
Interest expense	28	17

Actuarial assumptions

	2017	2016
Discount rate at 31 December	1.75%	1.2%
Salary increase (annual for 10 years)	2.50%	2.50%
Employee turnover	6%	7%

The actuarial assumptions for death rates are based on the National Statistics Institute's population mortality tables. For the purposes of the discounting effective annual interest rate i = 1.75% is used. This rate is based on analysis of the offered long-term investment instruments on the Bulgarian stock market (government securities, municipality bonds, etc.).

26. Employee benefits (continued)

Actuarial assumptions

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

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

In thousands of BGN	**10 basis points increase of employee turnover**	**10 basis points decrease of employee turnover**
Effect on the liability for retirement compensation	(97)	97

In thousands of BGN	**25 basis points increase of mortality rate**	**25 basis points decrease of mortality rate**
Effect on the liability for retirement compensation	(14)	14

27. Contingencies

(a) Bank guarantees

As at the date of the preparation of this report the Company maintains the following bank guarantees:

- Performance security for the obligations of Sofiyska Voda AD under the Concession Agreement with number PEBPRT593268, issued by HSBC France, to the amount of 750,000 USD, and validity till December 15th, 2018;
- Performance security for the obligations of Sofiyska Voda AD under the Contract No.РД-568-68/10.08.2011 with the Municipality of Sofia for the repair of defects and damages that occurred in municipal areas where Sofiyska Voda AD performs construction works, with No 799 L/11.12.2017, issued by Societe Generale Expressbank, to the amount of 400,000 BGN, and validity till December 31st, 2018;
- Performance security for the obligations of Sofiyska Voda JSC under the Contract for access to the electricity grid with the Electricity System Operator EAD (ESO), No. 800 L/11.12.2017, issued by Societe Generale Expressbank, to the amount of 10,397 BGN, and validity till January 31st, 2019;

(b) Infrastructure

In accordance with a contract dated 8 July 2005 between the Republic of Bulgaria, presented by the Minister of the Economy and Energy on the one side and Business Park Sofia EOOD and Lindner AG, Germany on the other side, the State has financed the construction and rehabilitation of elements of the technical infrastructure within the boundaries of "Sofia Park" project – buildings, roads and technical infrastructure. In compliance with a decision of the Supreme Administrative Court dated 07.06.2007 and the preceding decision of the Commission on Protection of Competition from October 2005, Sofiyska Voda AD and Sofia Municipality signed an annex to Second Additional Agreement to the Concession Contract, stated in Annex 1 to Decision No.620 of Sofia Municipal Council under Protocol No.22/09.10.2008.

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 WSS facilities in such a pattern that the granted State capitals will not be considered State aid. As per Art.2.1. of the Annex "the amount of the consideration is different in the different years and depends on the annual incomes and expenditure of the Concessionaire, realized through or in relation to commissioning of the new assets. As per protocol by the Municipality of Sofia (MoS) and Sofiyska Voda AD dated 28 June 2017 the calculated amount for 2016 of BGN 56 thousand is confirmed. For 2017 the calculation as per the calculation model is stated below:

In thousands of BGN	**Total in 2017**	**Total in 2016**	**Additional amount as per MoS protocol on 12.07.2016**	**Accrual for 2016 confirmed as per MoS protocol 28.06.2017**
Water Supply	60.6	46.7	2.1	44.6
Sewerage	13.1	5.6	0.4	5.2
Wastewater Treatment	11.8	6.9	0.6	6.3
Total:	85.4	59.2	3.1	56.0

Based on those calculations, the revenue for 2017 stated in Note 4 has been reduced by BGN 85.4 thousand respectively and by the total amounts stated above a liability to Municipality of Sofia has been presented.

28. Commitments

Concession agreement

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

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

- a specific right to use public assets;

- an exclusive right to render water supply, sewerage and wastewater treatment services within the concession area.

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

The term of the concession contract is 25 years. The contract does not define any concession fees to be paid.

As per Annex 5 to the Initial Concession Agreement during the first 15 years Sofiyska Voda AD 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 Water Supply and Sewerage Services Regulation Act became effective in 2006, Sofiyska Voda's operations are directly regulated by the Energy and Water Regulatory Commission (EWRC, the Commission).

Key powers of the Commission in regulating the activities in the water supply and sewerage (WSS) services sector are as follows:

- Regulates the quality of WSS services;
- Carries out price regulation of the WSS services;
- Handles complaints of customers against WSS operators;
- Approves the general terms and conditions of contracts for the provision of WSS services to customers;
- Exercises control and imposes sanctions;
- Keeps a register of WSS services assignment contracts;
- Approves proposed by the W&S operators business plans;
- Carries out preliminary control, delivers an opinion on the compliance of concession and other types of WSS system managing contracts in the process of their preparing and the regulations for its implementation.

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

In that relation, in January 2009 the renegotiations for amendments in the concession contract aiming to harmonize it with the requirements of the new regulations, were finalized. According to the amendments to the concession agreement, the levels of investments were to be set in the business plans, which had to be preliminarily coordinated with the Municipality of Sofia.

28. Commitments (continued)
Concession agreement (continued)

Business plan 2006-2008 was approved in 2007. At the end of October 2008 Business plan 2009-2013 was approved, which envisaged achieving of the compulsory levels of services and an investment program of BGN 240 million for the 5-year period. Failure to achieve at least 75% of the total of investments set in the Business plan for two consecutive years with approved prices of services or double failure to meet the levels of services, acknowledged by a penalty decree issued by EWRC and accompanied by a proposal to Municipality of Sofia (MoS) would be legal grounds for the initiation of a concession termination procedure by MoS.

Although the fact that the regulatory period 2009-2013 has been extended twice in the following years as per decision of the Commission, initially until 2015 and subsequently until 2016 (see note *Commitments*, below), for the original regulatory period 2009-2013, the company has performed BGN 241.6 million of investments, which fulfills the company's obligation to perform investments for BGN 240 million.

On 29 March 2017 the company received approval of Business Plan 2017-2021 and for new price increase of the WSS services valid as of 1 April 2017. On 18 January 2016 the Council of Ministers approved the ordinances on the regulation of the prices and the quality of the WSS services as result of which the business plans of the company and the changes in the prices are approved at the same time starting from 2017. Due to this circumstance it might be expected that the company will rely on a contracted tariff schedule for the current 5-year regulatory period until 2021. As of 1 January 2018 the company was given the second increase of the prices of the WSS services for the new regulatory period in compliance with the approved price elements of business plan 2017-2021.

According to the concession agreement, a special Concession Monitoring Unit (the "CMU") was established by the Grantor (MoS) for the purposes of monitoring and ensuring compliance by the Concessionaire with the provisions of this Concession Agreement. The Company has obligations to cooperate with the CMU to facilitate the monitoring of the performance and the delivery of services, prepare and submit to CMU various reports and accounts etc.

Between the 54th and 48th months before the expected expiration date of the Concession Sofiyska Voda AD and the Municipality of Sofia are due to commit to a mutual verification of the public assets. No later than 24 months before that date the parties agree on the way of handing back of the assets and the operations.

As of the 15th Contractual year until the end of the period of the concession contract, Sofiyska Voda AD is due to transfer 1% of its annual distributable profit to a special "handback account". The financial result for the year ending on 31 December 2015 was the first annual profit from which the Company was distribute 1% to the special account in 2016. The money from the Handback Account may be used before the Expiry Date during the last Regulatory Period to pay for construction works only. Such works shall be identified in the Handback Schedule established in accordance with the concession contract, but may not be part of the last Business plan. The Handback Account shall be transferred to "Vodosnabdiyavane I Kanalizaciq" EAD on the Expiry Date by the Concessionaire on receipt of a handback certificate issued by the Grantor to the Concessionaire. The accumulated in the special account amount covers completely Sofiyska Voda AD's liabilities with regards to Handback obligations.

Regarding the special right to use public assets and to render services of water supply, sewerage and wastewater treatment to the customers within the concession territory (service commitment), an intangible asset named "concession right" has been recognized. The carrying amount of the concession right as at 31 December 2017 is BGN 268,990 thousand (2016: BGN 270,689 thousand).

For 2017 the investments amounted to BGN 45,313 thousand (2016: 42,539 thousand), of which BGN 39,269 thousand (2016: BGN 37,907 thousand) represented investments in improvements and new public assets, which led to recognizing revenue from construction (see Note 6).

For the period since the beginning of the Concession until the end of 2017 the amount of investments made is BGN 617,480 thousand.

28 Commitments (continued)

Concession agreement (continued)

With an order of Sofia Mayor dated 29.03.2016, a new working group was set up for renegotiation of the Concession Agreement. On the basis of the conducted meetings with the MoS on 15.11.2017 Sofiyska Voda submitted a draft amendment to the Concession Agreement. The proposed amendments are in two fields:

- substantial amendments, reflecting the amendments to the contract discussed between the parties
- technical amendments, reflecting the envisaged refinancing of the Company

The main proposed substantial amendments are as follows:

- Introducing a commitment for the Concessionaire for a minimum Investment Programme to be made until the end of the concession: BGN 209 million for the current regulatory period (2017-2021) and BGN 165 million until the end of the concession in 2025;
- Setting additional investment commitment for the Concessionaire (on top of the Investment Programme) to provide an amount of BGN 1.5 million per annum for funding of specific WSS projects of public interest, specified by MoS.
- The contractual rate of return of 17 % shall no longer be protected by the Price Restriction mechanism, i.e. in case the Regulator approves a lower rate of return, there will not be an Event of Price Restriction as per Clause 22.7. Respectively, for the purposes of formation of Concessionaire's Prices for the WSS services provided, the rate of return determined by the Regulator shall be applied starting as of 2022;
- It is proposed all databases, including the customer database, as well as the assets registry and the geographic information system provided to the Concessionaire by the Grantor at the beginning of the concession to remain property of the Grantor. Also, all licenses for the use of intellectual property rights, product or equipment warranties or other rights or contracts in the name of the Concessionaire, shall be assigned or otherwise transferred to the Grantor at the end of the concession. Respectively, they shall be duly returned to MoS after expiry of the concession agreement.

28. Commitments (continued)

Investment commitments

Complying with Art. 14, para 3 and 4 of the transitional and final provisions of the Water Act, on 4 March 2014 Sofiyska Voda AD submitted an extension of the Business Plan 2009-2013 until 2015. Concurrently, an application for approval of prices for 2014 was submitted. Subsequently, following the written instructions of the Commission for amendments to the submitted business plan for the extended period, on 31 July 2014 the Company submitted a revised Business Plan 2009-2015. The investments planned for the period 2014-2015 for regulatory purposes exceed BGN 87.6 million. The 2009-2015 Business Plan was approved by the Regulator with a decision № БП – 57 dated 6 August 2015.

In compliance with the amendments to the Water Act, paragraph 60 promulgated in the Stated Gazette issue 58/2015 on 2 November 2015 Sofiyska Voda AD submitted and extended the aforementioned Business Plan until the end of 2016. After the revisions made in compliance with regulatory decision № БП-76/22.12.2015, the revised Business Plan 2014-2016 was submitted on 8 Jan 2016, which was consequently approved on 12 February 2016.

The approved investments for regulatory purposes for the 2014-2016 period are as follows: BGN 68,447 thousand for 2014-2015 and BGN 57,469 thousand for 2016. The prices for regulated services remain unchanged until Decision of the Energy and Water Regulatory Commission № Ц-8 of 28.04.2016, which approved the first increase of the combined price of water and sewerage services valid as of 01.05.2016 (3.4% for household and equivalent customers) from their latest update in effect from 1 July 2012.

In compliance with the legislative changes in 2016 in the regulation of the WSS services and in particular the adopted ordinances and instructions on the prices and quality of the WSS services – in 2016 the Company filed a new 5-year Business plan for the period 2017-2021, which was finally approved with the Decision of the EWRC No. БП-Ц-1/ 29.03.2017. The total investments provided for in the new regulatory period amount to BGN 209 thousand with corresponding annual changes in the service tariffs in line with the Ordinance on the prices. The first price increase was approved by EWRC in the decision on the approval of the Business Plan 2017-2021, and the second increase became effective on 1 January 2018 in line with the decision of the EWRC No. Ц-34/ 15.12.2017.

29. Deferred income

On 16 January 2009, the Company signed a Settlement agreement with the Municipality of Sofia (MoS). With this agreement, both sides agreed fully and finally on all existing mutual claims against each other with relation to the Concession agreement. Both sides mutually relief each other from pretended payment of interest on amounts claimed, as Sofiyska voda accepted the obligation for investments in the period 2009-2023 in addition to already existing approved by the Regulator investment obligations in the Business plan as follows: BGN 2.5 million for the period 2009-2013, according to Art.5.1.(iii) from the Settlement agreement, BGN 5 million in the period 2014-2018 according to Art 6.1.(i) from the Settlement agreement and BGN 4.7 million in the period 2019-2023 according to Art. 6.1.(ii) from the Settlement agreement.

The obligation of BGN 2.5 M over the period 2009-2013 was fulfilled at the end of February 2014. The second and third obligations are to be fulfilled in the period 2016-2023. In 2016 investments were made to the amount of BGN 1,16 million and in 2017 – BGN 1.06 M. Over the period 2018-2021 the obligation amounts to BGN 5.47 M. The final BGN 2 M will be invested over the period 2022-2023.

As the above amounts from the Settlement Agreement are outside the investments set in the Business plan and are on the account of Sofiyska voda, they have been accounted initially as expense and liability. After which the liability is decreased with the amount invested for all assets constructed and put into use, which amount is presented as deferred income. Thereafter, deferred income is decreased proportionately to the depreciation expense of the constructed assets.

30. Related parties

The Company has a related party relationship with its parent company – "Veolia Voda (Sofia) B.V." (77.10% of the shares of Sofiyska Voda AD), as well as with the companies within Veolia Group and with its minority shareholder- Vodosnabdyavane i kanalizatsiya EAD (ViK) (22.9%). The ultimate parent company is Veolia Environnement S.A., France.

The related parties of the Company are the ultimate parent company and all companies under common control and key management personnel. As the minority shareholder ViK is solely owned by Sofia Municipality (MoS), thus being government-related entity, related parties are also companies, which are under the control of the same government.

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

- Construction revenue and expenses with MoS (disclosed in Note 6);
- Green energy income with National Electricity Company EAD-state owned (disclosed in Note 5);
- Under a contract signed with NEC EAD, the latter has invoiced to Sofiyska Voda BGN 1,215 thousand (without VAT) for water that Sofiyska Voda has purchased and has run through NEK's plants in order for the water to reach the suburban area of Sofia. The expense is recognized in Expenses for materials – Electricity, water, heating. On the other hand, Sofiyska Voda has invoiced to NEC BGN 1,215 thousand (without VAT) due to the fact that NEC has generated electricity from the water running through their plants. The revenue has been recognized in Revenue from water supply.

The subsidiary in the financial statements of Sofiyska Voda AD is Water Industry Support and Education EOOD, where Sofiyska Voda AD owns 100% of the capital (2015: 100%).

30. Related parties (continued)

The following transactions have taken place during 2017:

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2017** Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided -	-	71,631
		Accrued interest 3,757	-	Liability for loan received at amortized cost
		Other -	-	44 Other trade payables
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK	Company under common control	-	-	1,495
Veolia Campus	Company under common control	Trainings 4	-	4
Compagnie Générale des Eaux	Company under common control	Mediation for issuing a bank guarantee 9	-	9
Water Industry Support and Education EOOD	Sofiyska Voda AD controls 100% of the shares of the company	Rental income 4	-	-
		Other costs 13	-	1
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental cost 5	-	1
		Costs for local taxes and fees 1	-	1
		Rental income 5	1	-
Veolia Energy Solutions Bulgaria EAD	Company under common control	Leak repair -	2	-
		Reinvoicing costs 4	-	-
		Physical and chemical analysis	-	2
		Purchase of air-conditioners 10	-	-
		Prepare expert opinion 12	1	
		Maintenance of air-conditioners 10		-
		Maintenance of gas installations and boilers 2	-	-
		Reinvoicing airplane tickets 1	-	-
			-	-

30. Related parties (continued)

The following transactions have taken place during 2017:

Related parties *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2017** Receivables	Payables
Veolia Energy Varna EAD	Company under common control	Training on OHS 5	-	1
		Guarantees under contracts -	-	3
Veolia Energy Bulgaria EAD	Company under common control	Income from reinvoicing 123	4	-
SAD S.A. - KLON BALGARIYA KCHT	Company under common control	Repair work on the WSS network In Sofia city 234	1	24
		Guarantees under contracts 1	2	13
		Reinvoicing airplane tickets and sale of materials 1	-	-
DZZD Zona 2015	SAD S.A.-KLON BALGARIYA KCHT controls 50% of the shares of the company	Repair work on the WSS network In Sofia city 1,884	-	258
			-	-
		Sale of materials 2	-	-
		Total	11	74,983

30 Related parties (continued)

The following transactions have taken place during 2016:

Related party *In thousands of BGN*	**Relation**	**Transactions during the year**	**Balance as at 31 December 2016** Receivables	Payables
Veolia Voda (Sofia) BV	Controls 77.10% of the shares of Sofiyska Voda AD	Loan provided -	-	71,407 Liability for loan received at amortized cost
		Accrued interest 4,239	-	
		Other -	-	44 Other trade payables
Veolia Voda CEE	Veolia Voda (Sofia) BV	Technical services provided 1,496	-	1,496
Veolia Voda UK		-	-	3,146
Veolia Campus Water Industry Support and Education EOOD	Sofiyska Voda AD controls 100% of the shares of the company	Trainings	-	8
		Services for project management 535		
		Prepaid services	44	89
		Rental income 35	8	
		Income from administrative services 18	3	
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental Income 7	-	
		Rental Cost 7	-	
Veolia Energy Solutions Bulgaria EAD		Purchase and maintenance of air-conditioners 22	-	-
		Preparation of expert opinion 2	-	-
		Maintenance of access control systems 2	-	-
		Maintenance of gas boilers -	13	
Veolia Energy Vrana EAD		Servicing burners 3	-	-
		Technological upgrade of CHP 1	-	-
		Servicing gas installations and boilers 17	-	-
		Provided guarantees 3	-	3
		Income from reinvoicing 1	1	-
Veolia Energy Bulgaria EAD		Income from reinvoicing 113	-	-
		Other income 2	-	-
		Total	69	76,193

30. Related parties (continued)

Transactions with directors and officers on key management 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	**2017**	**2016**
Remuneration of the Board of Directors, incl. Executive Director	214	212
As at 31 December	8	8

In 2017 the Company has incurred expenses amounting to BGN 1,496 thousand for technical services (2016: BGN 1,496 thousand) which include remuneration for key management personnel provided. The services are rendered by Veolia Voda CEE and the expenses are disclosed as part of the transactions with this related party in the information above.

31. Subsequent events

By virtue of a Decision dated 25 January 2018 the Sofia Municipal Council approves a draft of Third Amendment Agreement to the Concession Contract in relation to the sewerage and wastewater treatment services in the Municipality of Sofia, as well as contracting a new loan for the purposes of a full refinancing (see below).

On 30 January 2018 an Annex to the Subordinated Loan Agreement was signed between Sofiyska Voda AD and the shareholder and creditor of the company Veolia Voda Sofia BV. The purpose of the Annex is extension of the period of the loan by 31 March 2018 until the signing of the amendment to the concession agreement and the refinancing agreement of the Company.

On 19 of March 2018 Sofiyska Voda AD signed a Loan Agreement with a consorcium between Societe Generale Express bank AD and United Bulgarian Bank AD for extension of a two-tranche loan amounting to EUR 50,270 thousand with the purpose to refinance Company's loans with Veolia Voda Sofia BV and EBRD. The loan's key terms and conditions are as follows:

- Utilization period of the Loan: 24 April 2018.
- Terms for repayment of principal under Tranche 1 – 11 equal instalments, the first falling due at 25 April 2018 followed by 10 equal quarterly installments starting from 25 June 2018 and the last falling due at 25 September 2020.
- Terms for repayment of principal under Tranche 2 – 19 equal instalments, the first falling due at 25 April 2018 followed by 18 equal quarterly installments starting from 25 June 2018 and the last falling due at 25 September 2022.
- Terms for repayment of the interest: on each maturity date for payment of principal.
- Nominal interest: 3M EURIBOR, increased with 1.35%.
- The loan will be subject of a number of collaterals, including registered pledge over aggregate of existing and future Company's assets, registered pledge over the receivables for the positive balance on all accounts of the Company opened with the banks operating in Bulgaria, pledge over all the shares in the Company's capital owned by Veolia Voda Sofia B.V.

On 23 March 2018 Sofiyska Voda AD and the Municipality of Sofia signed Third Amendment Agreement to the Concession Contract for delivery of water and wastewater services on the territory of Municipality of Sofia. It introduces minimum levels of capital expenditure to be achieved by the Concessionaire for the period until the concession expiry date and other changes (refer to Note 28 above).

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sofiyska Voda AD

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Sofiyska Voda AD (the Company) as set out on pages 3 to 65, which comprise the separate statement of financial position as at 31 December 2017, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2017, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Separate Financial Statements' section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue from water supply, sewerage and waste water treatment services

Revenue from water supply, sewerage and waste water treatment services in profit or loss for the year ended 31 December 2017: BGN 140,081 thousand (2016: BGN 124,427 thousand)

See Note 3.(k) *Significant accounting policies – Revenue* and Note 4 *Revenue* to the separate financial statements.

Key Audit Matter	How the matter was addressed in our audit
The Company's core revenue streams relate to water supply, sewerage and waste water treatment services. The Company recognized BGN 140,081 thousand as revenue from these sources for the year ended 31 December 2017. Recognition and measurement of revenue is an inherent industry risk due to the high volume of transactions and the resulting necessity to maintain a complex operating system for processing customer data and billings. The system processes large volume of customer data coupled with a combination of different tariffs applicable to different consumer groups. There is a multilevel step process that is followed in the measurement, processing, billing and accounting for revenue transactions with some manual input of data. Further, establishing proper accruals for unbilled services at the reporting date is a matter of management's significant judgment, in particular as it relates to estimating volumes consumed for unbilled services. For the above reasons, we considered this area to be our key audit matter.	Our audit procedures in the area included, among others: — Updating our understanding of the revenue recognition process by means of inquiries of the Chief Financial Officer and the Financial Controller, as well as performing a walkthrough of the process, and evaluating the design and implementation of controls over revenue recognition and measurement, such as those over new customers accounts, changes to customer files, authorization of tariff changes and reconciliation of tariffs in the billing system to those set by the regulator. — Assisted by our own IT specialists, evaluating relevant IT systems and testing the design, implementation and operating effectiveness of controls over capturing and recording of revenue transactions, authorisation and input of information changes to the systems and calculation of the amounts billed to customers. — Performing an independent reconciliation of the accounting revenue for the year to the billing system and, on a sample basis, of the measurement data between the billing system and primary

Key Audit Matter	How the matter was addressed in our audit
	information sourced from the personal digital assistant devices. — Tracing accruals for unbilled services at the reporting date to supporting documentation and evaluating related management assumptions, mainly those in respect of volumes consumed by customer type. — Investigating significant unusual relationships identified between the expected effects of the volume and price changes during the year on the revenue amounts and actual revenue recognized. — Considering the completeness and accuracy of the Company's disclosures in the separate financial statements in respect of revenue recognition policy and revenue by service type.

Service concession arrangement: compliance

See Note 28 *Commitments* to the separate financial statements.

Key Audit Matter	How the matter was addressed in our audit
As stated in Note 1 and Note 28, the Company is a party to a concession contract with the Municipality of Sofia ("the Grantor"), whereby it has been granted the right to use public assets, such as water supply and water treatment infrastructure. The contract also gives the Company an exclusive right to render water supply and sewerage services within the concession area – the territory of the Municipality of Sofia. The said service concession and related regulatory arrangements, impose on the Company an obligation to implement specific investment projects through an approved business plan, as also discussed in Note 28, as well as to achieve certain key performance	Our audit procedures in the area included, among others: — Updating our understanding of the regulation and concession compliance process, and evaluating management review controls over the compliance with the relevant requirements of the service concession arrangement with the Grantor and the Commission's standards. This included, but was not limited to, testing the Board of Directors' controls over monitoring and reporting of the key performance indicators imposed by the above parties. — Evaluating the design, implementation and operating

Key Audit Matter	How the matter was addressed in our audit
indicators related to continuous improvement and quality enhancement of the supplied services. The enhancements include, among other things, water losses reduction rate, quality of potable water and continuity of water supply. Further, the Company's operations are regulated by the Energy and Water Regulatory Commission ("the Commission"), which establishes standards relating to the quality of water supply and sewerage services, and also regulates price tariffs. Due to the fact that any non-compliance with the relevant conditions included within the service concession arrangement and the related regulatory regime may have a pervasive effect on the Company's operations, including its financial position and financial results, we considered this area to be our key audit matter.	effectiveness of controls over the transactions related to the investment and maintenance projects laid down in the Company's business plan. — Testing, on a sample basis, of capital expenditure and maintenance expenditure made during the year, and tracing the amounts to supporting documentation and payments, in order to verify their existence and accuracy of measurement. Also seeking explanations from managers in the Investment and Technical Control and Construction Control departments, as well as the Board of Directors, about any significant deviations between the approved investment plan and actual amounts invested. — Examining the Company's reporting to and communication with the Grantor and the Commission, including any examination reports issued by the Grantor and the Commission during the year in respect of the regulated activities subject of their monitoring. — Examining minutes of meetings of the Company's decision making and supervisory bodies, specifically focused on the investment projects' progress and approval of the Company's business plan. — Inquiring of the Company's legal advisors and reading their report, with an aim to identify any contingent liabilities (e.g. penalties) arising from service concession arrangements at the reporting date. — Evaluating the completeness and accuracy of disclosures in the separate financial statements in respect of commitments and contingencies.

Going concern basis of accounting

See Note 2.(d) *Basis of preparation – Going concern*, Note 19 *Interest-bearing loans and borrowings* and Note 31 *Subsequent events* to the separate financial statements.

Key Audit Matter	How the matter was addressed in our audit
The Company's separate financial statements are prepared on a going concern basis. As stated in Note 19, the Company has a subordinated loan from a related party, Veolia Voda Sofia BV ("Veolia"), with an outstanding short-term balance of BGN 71,631 thousand as at 31 December 2017 (31 December 2016: BGN 71,407 thousand). As a consequence of the above indebtedness, as at 31 December 2017, the Company's current liabilities exceeded its current assets by BGN 53,655 thousand. The said loan was due on 31 January 2018, with its maturity extended to 31 March 2018, subsequent to the reporting date. Inability to refinance, which itself required the Grantor's pre-approval, or to further extend the maturity of the loan would represent an event of default under a loan agreement with the European Bank for Reconstruction and Development ("EBRD"), which might in turn result in Company's inability to service its other liabilities when due. While the above factors were identified by the management as events and conditions that may cast significant doubt on its ability to continue as a going concern, its going concern assessment was based on the assumption that Veolia would not withdraw its support and would not request repayment until the Company finalizes its negotiations with a selected consortium of banks (initiated in October 2017) and signs a refinancing contract. The Board of Directors concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to a material uncertainty that may cast significant doubt on the Company's ability to	Our audit procedures in the area included, among others: — Analyzing the Company's net working capital position as at 31 December 2017 to assess the availability of liquid funds to settle short-term financial obligations. — Inspecting relevant loan agreements with Veolia and EBRD, and related annexes, and tracing contract terms to accounting records and disclosures in the separate financial statements. — Making inquiries of the Board of Directors about the progress of the refinancing arrangements and seeking corroborative information, as applicable, primarily by means of reading correspondence with Veolia, EBRD and the Sofia Municipal Council, as well as through inspection of minutes of meetings of the Board of Directors. — Considering whether any additional facts or information have become available since the date on which the Company's management made its going concern assessment. — Examination of the Company's communications with the Grantor relating to the refinancing pre-approval process status. — Obtaining a written confirmation from the Company's parent (Veolia) confirming their intention to provide financial support to the Company for a period of at least 12 months from the reporting date, in the form of a formal letter.

Key Audit Matter	How the matter was addressed in our audit
continue as a going concern. Note 2.(d) further explains how the judgment was formed by the Board of Directors. As disclosed in Note 31, on 19 March 2018, the Company signed a Loan Agreement with a consortium of banks for the extension of a two-tranche loan amounting to EUR 50,270 thousand with the purpose to refinance Company's loans from Veolia and EBRD. The Company's use of the going concern basis of accounting was determined by us to be a key audit matter due to the degree of uncertainty associated with the outcome of the refinancing process still ongoing at the reporting date as well as the increased audit attention required to satisfy ourselves regarding the Board of Directors' key assumptions applied in its assessment of the Company's ability to continue as a going concern.	— Assessing the accuracy and completeness of the Company's going concern and subsequent events related disclosures in the separate financial statements.

Information Other than the Separate Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the separate management report and the non-financial statement, prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the separate management report and the non-financial statement, we have also performed the procedures added to those required under ISAs in accordance with the New and enhanced auditor's reports and auditor's communication Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the separate management report for the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

b) The separate management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7(2) of the Public Offering of Securities Act.

c) The non-financial statement referring to the financial year for which the separate financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS as adopted by the EU 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.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- KPMG Audit OOD was appointed as a statutory auditor of the separate financial statements of Sofiyska Voda AD for the year ended 31 December 2017 by the extraordinary general meeting of shareholders held on 29 December 2017 for a period of one year.
- The audit of the separate financial statements of the Company for the year ended 31 December 2017 represents eighteenth total uninterrupted statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Company.

KPMG Audit OOD

Одиторско дружество София Рег. № 045 КПМГ Одит ООД

Dobrina Kaloyanova
Authorised representative

Tzvetelinka Koleva
Registered auditor, responsible for the audit

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria

27 March 2018