



Sofiyska Voda AD

Annual Management Report and Separate Financial Statements

For the year ended 31 December 2022

With independent Auditors' Report thereon

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Annual Management Report

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Independent Auditors' Report

ANNUAL ACTIVITY REPORT

SOFIYSKA VODA AD

31 DECEMBER 2022

Financial review:

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

In 2022, the company's revenue from main charges amounted to BGN 193.7 M, which is by 9.97% lower than the revenue from main charges in the same period of the previous year – BGN 194.3 M. The main reason is a drop in water consumption. The Company's total revenue for 2022 amounted to BGN 212.5 M (BGN 212.05 M in the same period of 2021). The revenue from construction in 2022 amounted to BGN 16.8 M (BGN 16.9 M in 2021). The breakdown of revenues by types of services is presented in Note 4 of the financial statements.

In 2022, the cogeneration installation in Kubratovo WWTP, commissioned at the end of 2009, met predominantly the plant's demands for power supply.

The Company's operating costs in 2022 amounted to BGN 189.5 M (2021 – BGN 167.3 M). This amount includes BGN 16.8 M for construction costs, which resulted from the application of IFRIC 12.

The depreciation and amortization costs in 2022 amounted to BGN 76.7 M. The value is higher than the one reported for 2021 (BGN 66.3 M), which is mainly due to the higher number of commissioned assets and the depreciation of the "Concession Right" asset until the end of the concession, whose period shortens every year.

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

The net financial costs for 2022 were by BGN 161 K less than those reported in the same period of 2021, which is due to annulment by the bank institutions of the fees for excess cash of the company.

As a result of the above factors, the profit after tax for 2022 amounted to BGN 20.1 M as compared to BGN 39.4 M for the same period of 2021.

The management of the financial risk and the exposure of Sofiyska Voda in terms of the price, credit and liquidity risks and the cash flow risk are presented in detail in Note 22 Financial instruments to the separate financial statements.

Signed significant contracts:

Contract No.	Subject	Contractor	Start Date	End Date	Value, VAT excluded	Option value and renewal
9165	Supply of active power - high, medium and low voltage, and inclusion of the sites of Sofiyska Voda AD in a balancing group	CEZ Trade Bulgaria EAD	01.03.2022	01.03.2023	2 850 000.00	1000000
9177	Implementation of investment projects for the water network on the territory of the Municipality of Sofia – Zone 1 LOT 1	Vodoprovodi Sofia 2021 DZZD – Gelak Ltd. and Garantstroy Komplekt AD	16.03.2022	16.03.2025	6 000 000.00	2700000
9178	Implementation of investment projects for the water network on the territory of the Municipality of Sofia – Zone 3 LOT 3	Raicommerce Construction EAD	16.03.2022	16.03.2025	6 000 000.00	1500000+ 1200000
9179	Implementation of investment projects for the water network on the territory of the Municipality of Sofia – Zone 2 LOT 2	Galchev Engineering EOOD	24.03.2022	24.03.2025	6 000 000.00	1500000+ 1200000
9196	Implementation of investment projects for the sewer network, including reconstruction of parts of the water network – South Zone - LOT 1	DZZD Kanali Zona Yug – Gelak OOD, Garantstroy Komplekt AD and Garantstroy 92 EOOD	24.03.2022	24.03.2025	9 000 000.00	2500000+ 1800000
9197	Implementation of investment projects for the sewer network, including reconstruction of parts of the water network – North Zone - LOT 2	Galchev Engineering EOOD	24.03.2022	24.03.2025	9 000 000.00	2500000+ 1800000
9206	Water supply, sewerage and wastewater treatment – for sites under appendix 1	University of Architecture, Civil Engineering and Geodesy	10.03.2022	10.03.2027	1 381 990.00	
9223	Emergency maintenance and civil works of the water network on the territory of the Municipality of Sofia Southwest Zone – LOT1	Raicommerce Construction EAD	23.05.2022	23.09.2024	10 000 000.00	2500000+2000000
9224	Emergency maintenance and civil works of the water network on the territory of the Municipality of Sofia Southeast Zone – LOT2	Galchev Engineering EOOD	23.05.2022	23.09.2024	10 000 000.00	2500000+2000000
9225	Supply of reagents (flocculants-polyelectrolytes)	Continvest Ltd.	21.04.2022	21.04.2024	3 000 000.00	750000+600000
9280	Supply of multi-layer PEHD pipes for open laying without sand embedding	Eurocom 2000 OOD	11.05.2022	11.05.2023	1 550 000.00	775000+310000
9338	Sludge transportation	DLV OOD	27.07.2022	27.07.2024	1 960 000.00	882000
9433	Issuing, loading and providing documents for use of vehicles – subscription cards on soft copy for all types of transport and lines of the public transport on the territory of the Municipality of Sofia	Urban Mobility Center EAD	15.11.2022	15.11.2027	1 600 000.00	

Signed related party transactions:

On 01.06.2022, a rental agreement was signed with Vodosnabdyavane i Kanalizatsia for a property and a terrain within the sanitary restricted area – Seminariyata reservoir, Lozenets region.

On 03.11.2022, two contracts were signed: for the updating of the software system STAR to Hubgrade™ Performance Plant at Kubratovo WWTP, and for upgrading with modules for the hydraulic optimization and

integration with the sewerage system of Sofia, ensuring maintenance subscription and update of the software system STAR to Hubgrade.

Contracts concluded in the year as per art. 240b of the Commerce Act

As per art.240 “b” of the Commerce Act, the Board members are obliged to inform in writing the Board of Directors, respectively the Management Board, when they or their related parties conclude contracts with the company outside the scope of its normal activity or which substantially deviate from the market conditions. In 2022, the Board members did not conclude contracts with the Company under art.240 “b” of the Commerce Act.

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

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

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

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

- Performance guarantee of Sofiyska Voda AD under the Concession Agreement with number 16708/12.21/Oper/NG, issued by BNP Paribas S.A. – Sofia Branch, in the amount of 750,000 dollars and validity until 15 December 2023;
- Performance guarantee of Sofiyska Voda AD under Contract No.ПД-568-68/10.08.2011 with the Municipality of Sofia for repair of defects and damages that have occurred at municipal property sites where Sofiyska Voda AD carries out construction works, with No.MD2135510000, issued by United Bulgarian Bank AD, in the amount of 552,000 BGN and validity until 31 December 2023.

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 in 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:

Information for the ultimate parent company is published on the following website where the consolidated financial statements of Veolia Environnement, France, are:

<https://www.veolia.com/en/veolia-group/finance/financial-information/financial-publications>

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

As at 31 December 2022, Sofiyska Voda AD had no concluded loan agreements as a lender or borrower with companies from the Group.

Information for the ultimate parent company is published on the following website where the consolidated financial statements of Veolia Environnement, France, are:

<https://www.veolia.com/en/veolia-group/finance/financial-information/financial-publications>

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

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

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

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

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

The investment intentions of the Company are described in detail in the paragraph below for the Investments over the period January-December 2022. The implementation of the investment program provided for in the established plan is financed with company's own funds, i.e. from the company revenue generated through the prices determined for the provision of WSS services, as well as with borrowed funds.

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

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

Information about "greenness"

From the beginning of 2022, for the year ended 31.12.2022, the Company has had a requirement to disclose greenness data: % of revenue, capital expenditure, operational costs, imposed by the European Union. In 2022, according to the assessment made and the criteria set, the distribution of the revenues, costs and investments of the Company is as follows:

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

	Thousand BGN
Revenues	146 876
Costs	132 650
Investments	36 115

The technical indicators are:

- Energy used for drinking water abstraction and treatment is less than the upper limit of 0.5 kWh/m³ set and is 0.043 kWh/m³;
 - Total losses are less than the long-term KPI set by the Water and Energy Regulatory Commission of 49%, and constitutes 39.27 %;
- Criteria 1-5.3. Construction, extension and operation of wastewater collection and treatment:

	Thousand BGN
Revenues	65 603
Costs	56 830
Investments	9 752

The technical indicators are:

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

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

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

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

These components are also stated in the International Standard on Auditing 315 (revised 2019), Appendix 3 – Components of the entity's system of internal control).

The control environment sets the tone of the entity, by influencing the control consciousness of people within the organization. It is the foundation for all internal control components, providing discipline and structure. The factors of the control environment comprise: integrity, ethical values and competence of company employees; management's philosophy and operating style; the way management grants powers and responsibilities, and organizes and develops its employees; as well as attention and guidelines, given by the Board of Directors.

Control Environment

The main policies and procedures ensuring the control environment, which are reviewed and updated regularly, are:

- Ethics Guide of Veolia Group – including the Code of Conduct (last updated in 2018) and the Anti-Corruption Code of Conduct (last updated in 2020), as well as the Charter on the use of the right for submission of signals on ethical issues in Veolia;
- Internal Regulations of Sofiyska Voda AD;
- Procedure “Submission, investigation and reporting of fraud and corruption alerts” of Sofiyska Voda with a new version from April 2022, including the previous procedure for disclosure of irregularities;
- Procedure “Conflict of Interest Prevention. Gifts, Hospitality and Donations”, a new version from December 2022;
- Anti-Corruption telephone line (+359 2 8122 521, published on SV official website: www.sofiyskavoda.bg);
- Digital platform Whispli, which facilitates the discussion with the person submitting the alert for violation, administered by the Ethics Committee of Veolia Group based in Paris;
- Procedure “Due Diligence”, which is to regulate the rules and procedure for exercising additional targeted control aiming at corruption risk management and prevention in certain deals, projects, activities, business partners or employees of the company, created in 2020;
- Accounting Policy;
- Accounting Closing Procedure with a new version from November 2022;
- Instruction on receiving, accounting and paying invoices from suppliers with a new version from November 2022;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets with a new version from October 2022;

- Procedure on the employees' administrative service, supplementing and replacing the previous procedure "Conclusion, amendment and termination of the employment contract", with a first version from January 2023;
- Procedure on Employee Performance Management.

Risk Assessment

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

The risk management process in Sofiyska Voda is regulated by the Risk Management Strategy and supported by the Risk Management Procedure, which describes the methodological approach for identification, measuring, controlling and subsequent monitoring of these circumstances, events and actions that may have an impact on the achievement of the business objectives of the company. The procedure is reviewed and updated regularly in order to ensure that the company applies a unified approach in risk assessment and risk management in all fields of its activity.

Information and Communication

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

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

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

Control activities

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

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

Monitoring

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

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

The Audit Committee of Sofiyska Voda was created and operates (including by fulfilling its monitoring obligations regarding financial reporting) under the Independent Financial Audit Act.

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

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

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

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

There were no such proceedings during the reviewed period.

General Meeting:

An extraordinary General Meeting of Sofiyska Voda's shareholders was held on 25 February 2022. A decision was taken at that meeting to appoint KPMG Audit OOD, UIC 040595851, registered under No. 45 at the Institute of Certified Public Accountants in Bulgaria, auditor to review and certify the separate and consolidated financial statements of Sofiyska Voda for the financial years 2021 and 2022.

On 29 September 2022, the Annual General Meeting of the shareholders of Sofiyska Voda AD was conducted. During the general meeting, the following decisions were taken:

1. The consolidated report on the activity of Sofiyska Voda AD for 2021 and the consolidated annual financial statements of the Company for 2021 were approved;
2. The report on the activity of Sofiyska Voda AD for 2021 and the separate annual financial statements of the Company for 2021 were approved;
3. The report on the activity of the Audit Committee of Sofiyska Voda for 2021 was approved;
4. The General Meeting decided for the profit of Sofiyska Voda AD for 2021, in the amount of BGN 39,042,529.17 (after 1% allocation to handback account as per the Concession Agreement), to be distributed between the shareholders of the company in the form of dividends, as the amount of one share is BGN 4.3945;
5. The Board members were released from liability to the company for their activity in 2021, as follows: Mr. Francois Debergh, Ms. Mariana Iteva, Mr. Frederic Faroche, Mr. Vasil Trenev, Mr. Vladimir Stratiev, Mr. Biser Damyanovski and Mr. Georgi Bankov.

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

An extraordinary General Meeting of Sofiyska Voda's shareholders was held on 19 December 2022. The conclusion of the Fourth Amendment Agreement to the Concession Agreement, signed between the Municipality of Sofia and Sofiyska Voda AD, and the draft of that Agreement were approved at the General Meeting. The General Meeting assigned Sofiyska Voda's Executive Board Members to sign on behalf of the Company the Fourth Amendment Agreement to the Concession Agreement.

Board of Directors:

In 2022, there was no change in the Board of Director of the company.

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

Mr. Francois Michel Debergh, Mr. Frederic Laurent Faroche; Mrs. Mariana Georgieva Iteva, Mr. Vasil Borisov Trenev, Mr. Georgi Ivanov Bankov, Mr. Vladimir Georgiev Stratiev, and Mr. Biser Nikolaev Damyanovski.

In 2022, the company was managed and represented individually by Mr. Vasil Borisov Trenev and Mr. Francois Michel Debergh.

The remunerations of the members of the Board of Directors for 2022 were 529,000 BGN (2021: 503,000 BGN), from which the amount unpaid as at the reporting data was 40,000 BGN (31.12.2021: unpaid 39,000 BGN). The income of the Board members in the period is as follows: Member 1: 29,000 BGN, Member 2: 29,000 BGN, Member 3: 62,000 BGN, Member 4: 29,000 BGN, Member 5: 323,000 BGN, Member 6: 29,000 BGN and Member 7: 29,000 BGN.

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

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

In 2022, the Board Members participated in the management of other companies, registered in the Trade Register and the Non-Profit Legal Entities Registry with the Registry Agency or entities, or were commercial proxies, managers or board members of companies, registered in the Trade Register and the Non-Profit Legal Entities Registry with the Registry Agency, or participated as partners with unlimited liability, or held more than 25% of the capital in another entity, as follows:

1. Mariana Georgieva Iteva – participated in the management of: Veolia Voda Bulgaria EOOD, UIC: 201404389; managed and held more than 25% of the capital of MI CONSULT INTERNATIONAL EOOD, UIC: 200981719;
2. Biser Nikolaev Damyanovski – participated in the management and held more than 25% of the capital of INTERTRADE CONSULT EOOD, UIC: 201824172;
3. Vasil Borisov Trenev held more than 25% of the capital of BNKY Ltd., UIC 131467679;
4. Francois Michel Debergh participated in the management of Veolia Solutions Bulgaria EAD, UIC: 130547859, Veolia Services Bulgaria EAD, UIC: 121371700, Veolia Energy Varna, UIC 103195446;
5. Georgi Ivanov Bankov – participated in the management and held more than 25% of the capital of GV Public Partners EOOD, UIC 206041187.

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

Acquired and transferred shares:

In 2022, the Company did not acquire or transfer own shares.

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

As at 31 December 2022, the share capital included 8,884,435 ordinary registered shares (2021: 8,884,435), each having a par value of BGN 1.

As at 31 December 2022, the shareholders in Company's capital are:

- Veolia Central & Eastern Europe – 6,850,000 ordinary registered shares (77.1%);
- Vodosnabdyavane i Kanalizatsia AD - 2,034,435 ordinary registered shares (22.9%).

Research and development

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

Presence of branches of the enterprise:

The Company has no branches.

Business Plan:

In 2022, the Company still did not have an approved Business Plan 2022-2026 due to the fact that the negotiation of the Concession Agreement was under way. The commitments envisaged in the Agreement should be reflected also in the Business Plan 2022-2026, which after that should be submitted to the Municipality of Sofia for consideration and then – to the EWRC for approval.

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

During the reporting period (2022), the company reported good results as regards the main aspects of the activity, as the efforts were directed towards maintaining its operational efficiency and optimizing the business processes. At the end of December 2022, the EWRC published a “Comparative Analysis of the WSS Sector in the Republic of Bulgaria for 2021”. The analysis confirmed the leading position of Sofiyska Voda AD in the WSS sector of the country.

In the period July– August 2022, the EWRC conducted the traditional annual audit of the company. The focus of the audit was on the quality of the provided reporting data for 2021, as well as the fulfilment of the recommendations of the EWRC for the implementation of databases and registers. The report on the conducted audit, prepared by the EWRC, was handed over at the beginning of November. There are no findings in the report about irregularities or non-compliance with the relevant regulatory requirements.

Concession Agreement:

During the reviewed period, the intensive negotiations with the Municipality of Sofia on the extension of the concession term continued. A number of proposals were made on behalf of the Municipality of Sofia concerning an increase in the envisaged investments, trainings of staff from the Municipality prior to the expiry of the concession term, implementation of specific WSS projects, as well as linking the dividend distribution to the amount of the realized investments during the respective year. The proposals were accepted by Sofiyska Voda AD.

As a result of the negotiations conducted between the parties, by its Decision dated 24.11.2022, the Sofia Municipal Council approved the Fourth Amendment Agreement to the Concession Agreement (FAA) thus extending the concession term with the maximum possible period, i.e. until February 2034.

The FAA is expected to be signed at the beginning of 2023 after the receipt of an opinion from the EWRC on the compliance of the proposed Fourth Amendment Agreement to the Concession Agreement with the WSS Services Regulation Act.

Events following the reporting date:

There are no events that have occurred after the balance sheet date, which should be disclosed.

Information about services provided by the independent auditor:

The expenses on the remuneration of the appointed independent auditor amounted to 202 thousand BGN, of which 142 thousand BGN for the statutory independent financial audit.

For the audited period and as at the date of this report, KPMG Audit OOD (former trade name KPMG Bulgaria OOD) provided, or is in the process of providing to the Company, the following services:

- **Statutory financial audit required by law of the Company’s financial statements, prepared for the year ending 31 December 2022 in compliance with the IFRS adopted by the EU;**
- Audit of financial information for consolidation purposes of the Company, prepared as at and for the year ending 31 December 2022, in compliance with the accounting instructions of Veolia Group;

- Limited review of the interim financial information for consolidation purposes of the Company, prepared as at and for the period ending on 30 June 2022, in compliance with the accounting instructions of Veolia Group;
- Reporting for the purposes of the Energy and Water Regulatory Commission (EWRC) in connection with art. 34 (5) of the Ordinance on Regulation of the Prices of Water Supply and Sewerage Services (ORPWSSS) and art. 15 and art. 16 of the Water Supply and Sewerage Services Regulation Act (WSSSRA), and preparation of a report under art. 34 (5) of ORPWSSS for compliance with the rules for accounting under the Unified System for Regulatory Reporting (USRR), pursuant to the published by the EWRC instructions, rules, principles, deadlines, and other documents and reports in the respective required regulatory format, as well as expressing an opinion on other issues, which may be demanded by the EWRC in connection with USRR and art. 15 and art. 16 of the WSSSRA.

Customer Service:

Over the last few years the company has implemented many innovations for convenience of its customers, including a free 24/7 phone line, a possibility for contacting us through the social networks, the mobile application My Water, a new interactive webpage, modern and functional locations of the customer service centers.

In 2022, the increasing trend continued in terms of customers that benefit from requesting online services via the company's website, as well as the registered customers who use actively the mobile application My Water for the submission of self-readings and a check of data for invoices and paid sums. The number of customers who requested the receipt of e-invoices also increased.

In the direction of digitalization of the services provided to our customers, we worked hard to implement also new ways of non-cash payments. In 2022, we implemented an option for paying the water bills directly through the company's webpage via the so-called „open banking”, as well as without needed additional registration. Sofiyiska Voda AD is the first utility company, which introduced that type of payment only by indicating the customer number and selecting one or more accounts, for one or more properties, as well as partial payments to them.

Over the last year, we automated processes such as preparation of letters for changing the way of billing and opening individual accounts and we introduced internal electronic forms for adjustments, which allowed us to shorten the period of processing documents and preparing answers to customers' questions and inquiries, respectively. In addition, we shortened the term for mass opening of individual accounts by 16 days.

At the end of 2022, we launched also a pilot project for changing the account holder in an “outsourced office” at an Easy Pay cash desk office where every customer of Sofiyiska Voda was presented the option to obtain information and/or request changing of ownership.

Our efforts are focused both on the provision of high-quality services and maximum facilitation of our customers while saving their time.

Last but not least, we carried out information campaigns for our customers aimed at providing information about topics, which frequently lead to misunderstanding or cause subsequent inconveniences to customers. The prepared materials were with interactive and video contents in accessible language, as the topics included in the campaign comprised the way of charging the „common needs” in condominiums, clarifications concerning the content of the invoices issued by the company and the way of reading and self-reading water meters.

Throughout the entire 2022, we continued to work towards optimization of the resources and fulfilment of the commitments taken in the Customer Charter in order to offer quality servicing in the shortest possible period. The average response time for requests, applications, complaints etc. was up to 11 calendar days, and the achieved average response time for online inquiries was 17 hours.

Based on prepared monthly analyses of customers' complaints, measures are taken constantly at different levels of the company, aimed at improving the internal processes and enhancing the quality of the provided services.

Individual meetings with customers are initiated for permanent closure of customer cases where the problems are considered and individual approach is applied to find a solution acceptable for both sides. Where necessary, on-site visits are organized in order to find the most appropriate solution for both parties, which complies with the technical possibilities and requirements.

The measure introduced by the company for evaluating the overall "customer experience" in the process of asking questions, making requests, complaints etc. showed very good results. The overall satisfaction rate registered an increase by 2 points, from 90% in 2021 to 92% in 2022.

Evaluation of efforts, or "How difficult it is to work with Sofiyska Voda" – the survey is carried out through phone interviews in a sample of 1,000 customers per quarter.

Evaluation of loyalty, or "How likely are you to recommend Sofiyska Voda" – the indicator is included in the annual customer satisfaction survey carried out by an external supplier.

The "Customer experience" survey aims at showing how our customers perceive the company's products and services through all interactions they have with the company. This is yet another way for us to get feedback from the customers through surveys, complaints and inquiries, which help the company establish and manage the processes.

The professional customer service is of extreme importance for Sofiyska Voda AD. For that reason, the company developed and introduced a unified customer service standard, which is to raise the satisfaction level and the company image.

In 2022 again, the Company continued the campaigns for awarding its loyal customers by organizing monthly raffles with discounts to invoices.

Customer Relations

In 2022, the total number of contacts with customers decreased by 15% in comparison with 2021. The main reason for that is the registered drop in the number of contacts at the Call Center for 2022, 18% in comparison with 2021. The calls directed to IVR have the biggest share of the reported drop, as for 2022, they were by 28.6% less compared to 2021. The reason for that is the registered decrease in the number of calls related to information for submitted self-readings and balances under accounts, which in turn results from the restored regular visits of meter readers and the increased number of customers who have started using actively the webpage and mobile application My Water to submit self-readings in the last 2 years.

The missed calls for the calendar year were 7.1% vs. 10.6% in 2021.

The level of the service "talks with a reply received in less than 30 seconds" was 84%. For the period, the registered average time of the customers' waiting in the queue was 17 seconds.

The number of the complaints from all communication channels decreased by 9%.

Customer Service Centers

In 2022, the number of visits to the Customer Service Centers (CSCs) increased by 7.4% compared to the same period of 2021. One of the main reasons for this is the removal of the restrictive measures related to the pandemic in 2022.

The main reasons due to which our customers visited the Customer Service Centers in 2022 were to receive information, make inquiries regarding customer accounts and make requests for technical services.

Internet Services

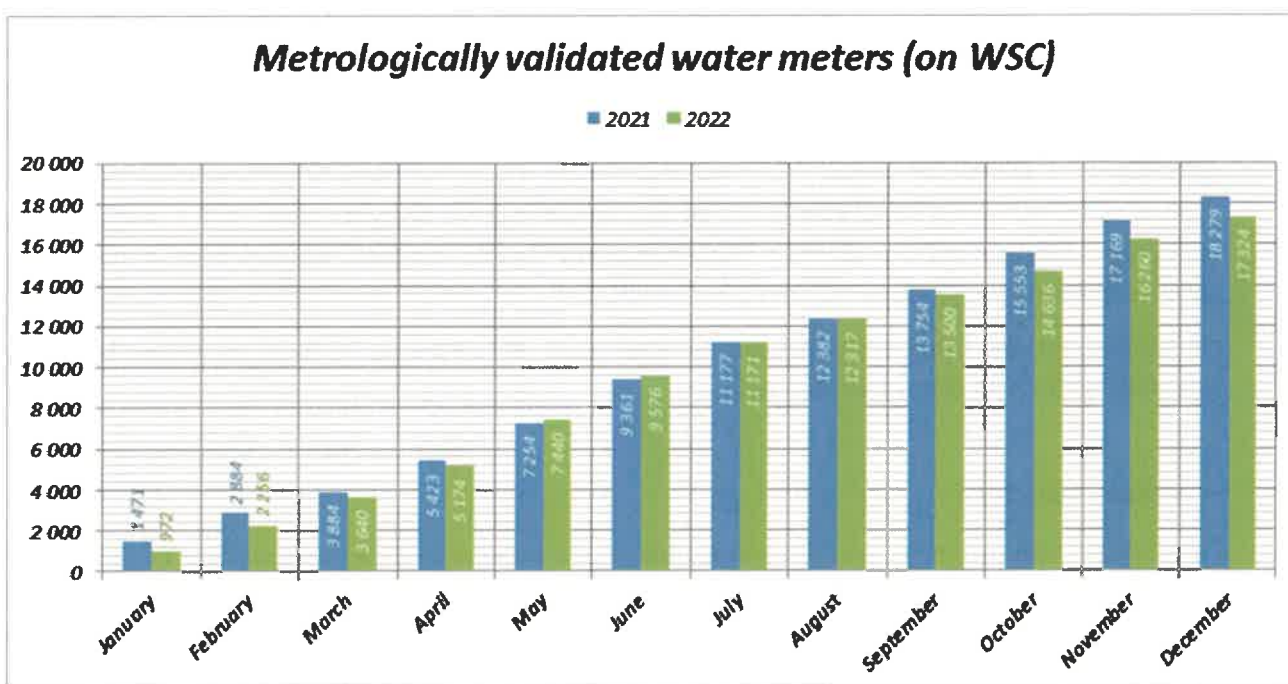
In June 2021, the new website of the company was launched. The new customers registered on the website for 2022 are 18,572. Over the entire calendar year, 676,190 self-readings were submitted by customers, as in 2021, their number was 523,908.

The enquiries received online over the period January - December 2022 were 18,042 and 16,912 required a response. All answers were sent within 24 hours from the receipt of the enquiry.

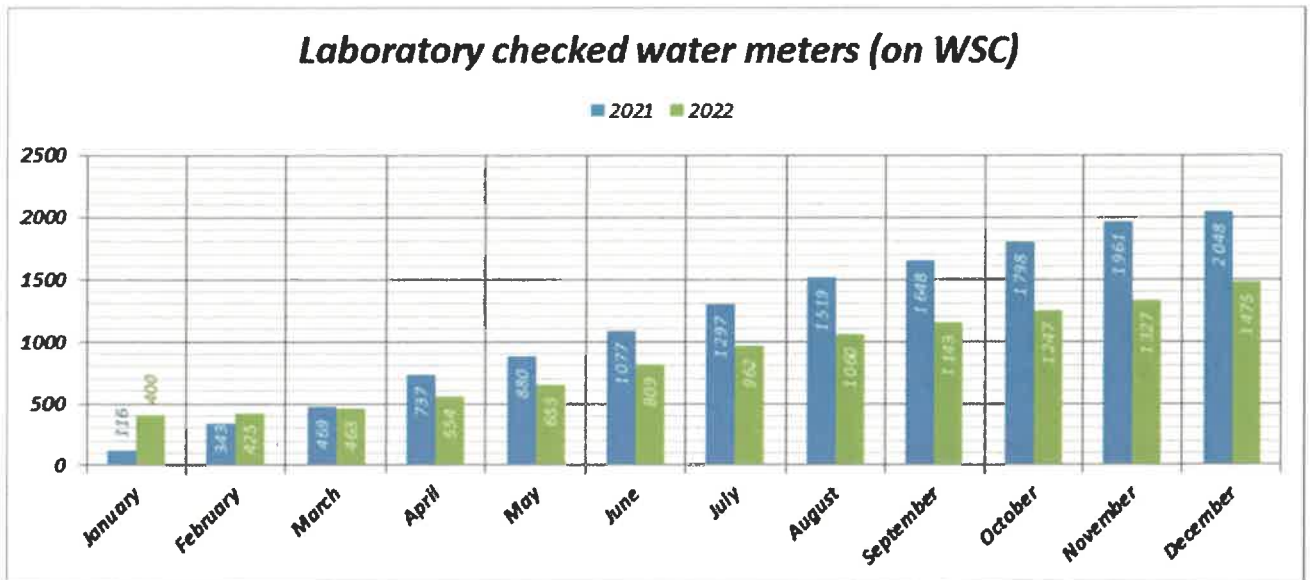
Over the period January – December 2022, another 31,123 customers registered to receive an e-invoice, and their total number at the end of the year reached 221,481.

Water Meter Services, Billing and Debt Collection

Replacement of water meters on water service connections



In 2022, the water meters on water service connections, set in metrological validity, are 17,324, which is by 5.22% less compared to 2021. That is due to the smaller number of water meters with expiring or expired metrological validity in 2022. Regardless of the smaller number of water meters set in metrological validity in 2022, they are 92.25% compared to 91.67% in 2021, or an increase of 0.58% with the level of 92.25% water meters in metrological validity being the highest ever achieved.

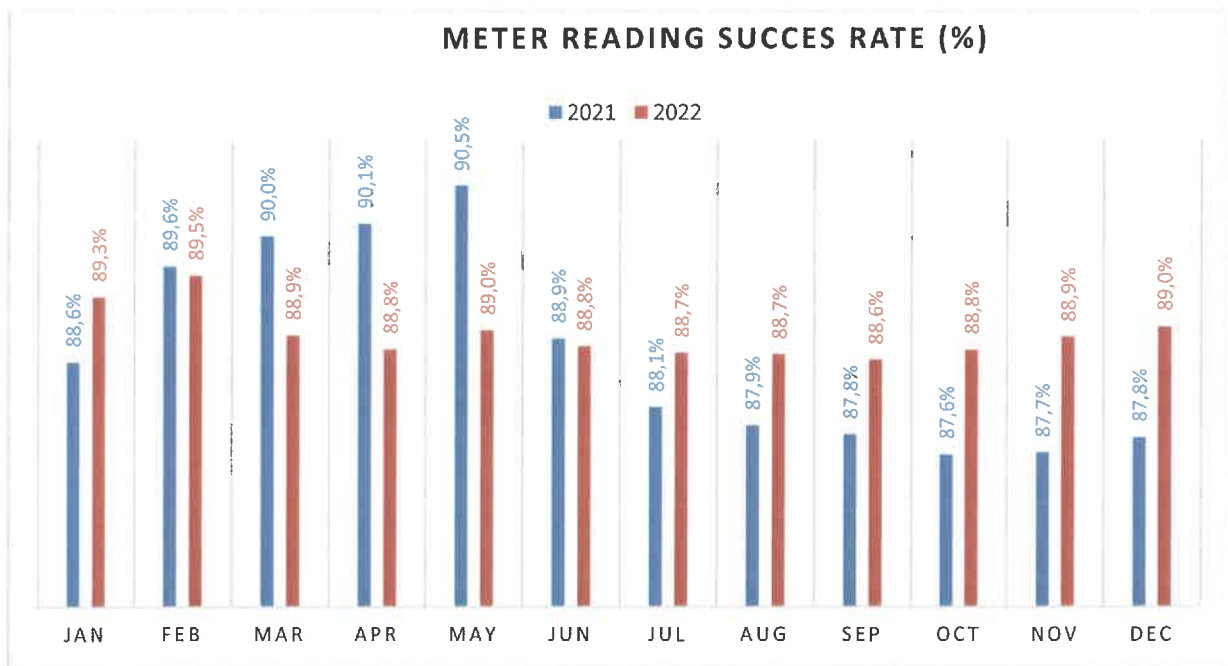


In 2022, the water meters checked in authorized laboratories for water meters were 1,475, which is a nearly 28% decrease compared to the levels in 2021. The downward trend in the testing of water meters is due to the efforts of the company to install new water meters at the account of those dismantled and tested.

Water Meter Reading

In 2022, the total number of water meters, including the individual meters measuring the water consumption in condominiums, read by Sofiyska Voda AD, was 1,493,654, by + 2.8% higher than in 2021.

The meter reading activity is assigned to a contractor whose employees read most of the water meters (mainly those of the population), and the smaller part of the activity is fulfilled by company employees, who read the water meters of big and industrial customers in line with the monthly reading schedule. The overall reading efficiency improved considerably in 2022 and it is presented graphically per months on the following chart:



A rise is recorded for the success rate in the meter reading activity for 2022, and it is 89.00% as compared to 87.81% in 2021.

Billing

In 2022, the decrease compared to 2021 of the volumes of potable water supplied to households (-2.82%) and budget customers (-0.29%) was partially compensated by the 11.56% increase in the consumption of the commercial customers, as the total decrease in the supplied potable water volumes vs. 2021 was below 1%, it is -0.41%. Regarding the supplied non-potable water, the decrease in comparison with the previous year is -12.89%, and regarding the volumes for other WSS operator, the decrease is -2.91%; again as in 2021 – no volumes of potable water were supplied to the city of Pernik; the revenue from these volumes was lower.

In 2022, there was no new tariff determined for the water supply, sewerage and wastewater treatment services. The total amount of the billed volumes in 2022 was 223.50 M BGN, VAT included, which is by 1.91 M BGN less (-0.8%) compared to 2021.

Collection of receivables

In 2022, under the conditions of significant instability in terms of the domestic and international politics, the company continued realizing successfully the strategy for increasing the collection of outstanding receivables from its customers. As a result, the total collected amount as at the end of the year was BGN 222.03 M in comparison with BGN 221.50 M in 2021, or the registered increase was 0,2% on an annual basis. The annual collection rate for 2022 was 99.34% compared to 98.27% in 2021. The main problems in the collection of receivables were connected directly to the international political situation and the economic crisis, which are prerequisites for risk of delayed payment of utility bills. The delay or lack of payments from the budget and institutional customers also had a negative impact.

The total amount collected as a result of the activities of the internal debt collection teams was 23.55 M BGN in comparison with 25.41 M BGN in 2021, or a registered annual drop of -7.3%.

In its constant attempt to improve the quality of the provided services and customer satisfaction, the Company continued expanding the offered payment channels. As of April 2022, it successfully added to its portfolio of digital services the innovative Pay-by-click solution based on open banking through which customers can pay quickly and easily their debts for the consumed WSS services. The company also continued applying the policy aimed at the customers with temporary financial difficulties by offering them flexible and individually structured deferred payment agreements.

BUSINESS DEVELOPMENT

In the period January - December 2022, the revenue resulting from the activity of the Business Development Directorate amounted to BGN 3,467,706.

Public and industrial customers

The main activity of the new Business Development Directorate covers the overall process on deployment and development of services and markets.

Over the period January – December 2022, contracts were concluded at a value of BGN 1,605,984 under projects for industrial and public customers, as well as for laboratory services.

Complex services and non-regulated business

Sofiyska Voda AD continued developing activities related to the provision of additional services for the customers – installation, testing and sealing of individual meters, as well as small plumbing services.

Over the period January - December 2022, the revenue from the service Installing and Testing Individual Water Meters amounted to 1,502,566 BGN, and in the same period of 2021, the revenue was 1,067,778 BGN. Over the period January - December 2022, the revenue from the service Water Meter Sealing amounted to 191,955 BGN, and in the same period of 2021, the revenue was 169,982 BGN. The realized revenue from contractors in 2022 amounted to 167,200 BGN, and in the same period of 2021, it amounted to 112,000 BGN.

Over the period January - December 2022, 1,383 remotely read water meters were installed at both entire buildings and condominiums, new and old buildings, as well as for individual customers in a total amount of

BGN 414,656. Over the same period of 2021, 897 remotely-read water meters were installed in a total amount of BGN 273,997, i.e. the revenue in 2022 is 51% higher.

OPERATIONS AND MAINTENANCE

Water Source Management

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

The total water abstracted from all water sources in the period January – December 2022 was 134,021,571 m³.

The data obtained from the monitoring throughout the year show that the water volumes used for water supply decreased in comparison with 2021. The decrease was mainly due to the efforts of the company to reduce the losses and optimize the functioning of the water network.

The raw water abstracted from all water sources in the period January - December 2022 compared to the same period of 2021 decreased by 2,434,615 m³.

Consumption trends

In 2022, the Company's total billed volumes decreased by -1.46% compared to 2021, which is 1.329 million m³ less.

Regarding the potable water, the registered decrease was by -0.41% or -311,467 thousand m³ less compared to 2021.

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

Water	2021	2022	Annual variation (m ³)	Annual variation (%)
	m ³	m ³		
Households	60 592 261	58 884 472	-1 707 788	-2.82%
Budget Customers	3 589 960	3 579 687	-10 274	-0.29%
Commercial Customers	12 171 307	13 577 902	1 406 595	11.56%
<i>Non-potable water</i>	6 095 438	5 309 681	-785 758	-12.89%
<i>Raw Water (WS Beli Iskar and WS Bozhurishte)</i>	8 851 600	8 619 968	-231 632	-2.62%
<i>Transit water (WS Pernik)</i>	26 944	0	-26 944	-100.00%
Total potable water WS Sofia	76 353 528	76 042 061	-311 467	-0.41%
Total billed water for all water supply systems	91 300 566	89 971 709	-1 328 857	-1.46%

The greatest decrease is observed for the household customers, respectively by -2.82% (-1 708 thousand m³) on an annual basis, due to the decreasing individual consumption per inhabitant, as well as the lower number of the population in the capital. As a result of the pandemic, part of the inhabitants living in the capital preferred to relocate in smaller and calm settlements. This is confirmed also by the data from the national report "Population and Housing Census in the Republic of Bulgaria" published at the end of 2022 where a decrease was recorded in the number of population, as well as the fact that not inconsiderable part of the dwellings in Sofia were uninhabited.

A reduction was registered for raw water, which is due to the decreased billed volumes for Samokov (-228 thousand m³), and for WS Bozhurishte (-4 thousand m³) vs. 2021. The volumes of raw water supplied from the two water systems (WS Beli Iskar and WS Bozhurishte) to the only customer of the company – the state-

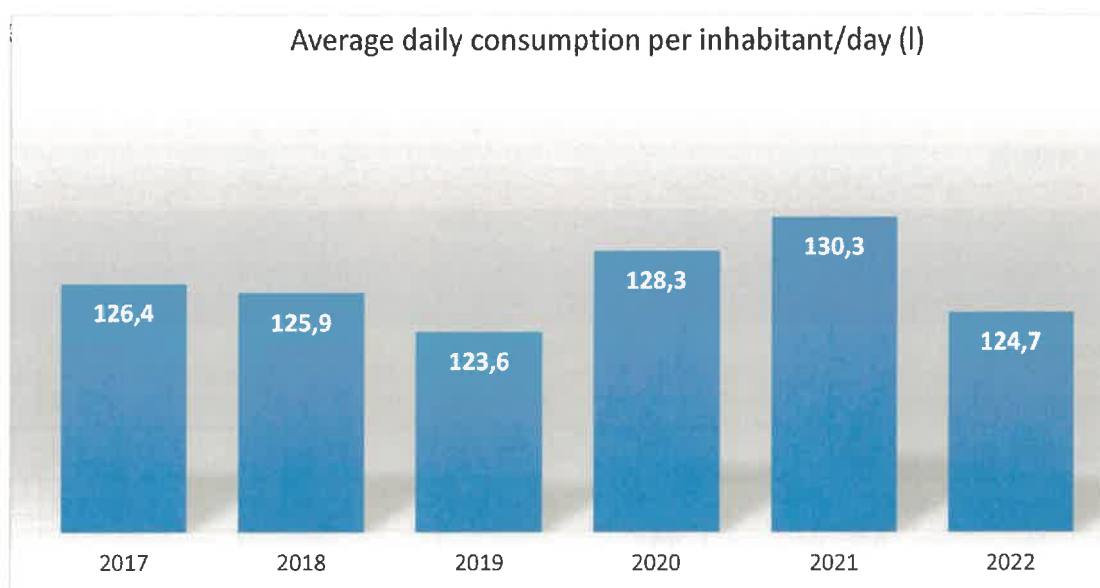
owned Vodosnabdyavane i Kanalizatsia EOOD, depend on the available reserves of its own bored wells. At the end of 2022, Vodosnabdyavane i Kanalizatsia EOOD –Samokov repaired one of its own water sources for the town and uses water from it.

In 2022, the volumes of non-potable water registered a decrease compared to 2021 by -12.89% (-786 thousand m³), as the main customer is Toplofikatsia Sofia EAD.

Consumption of households – analysis of the current trends

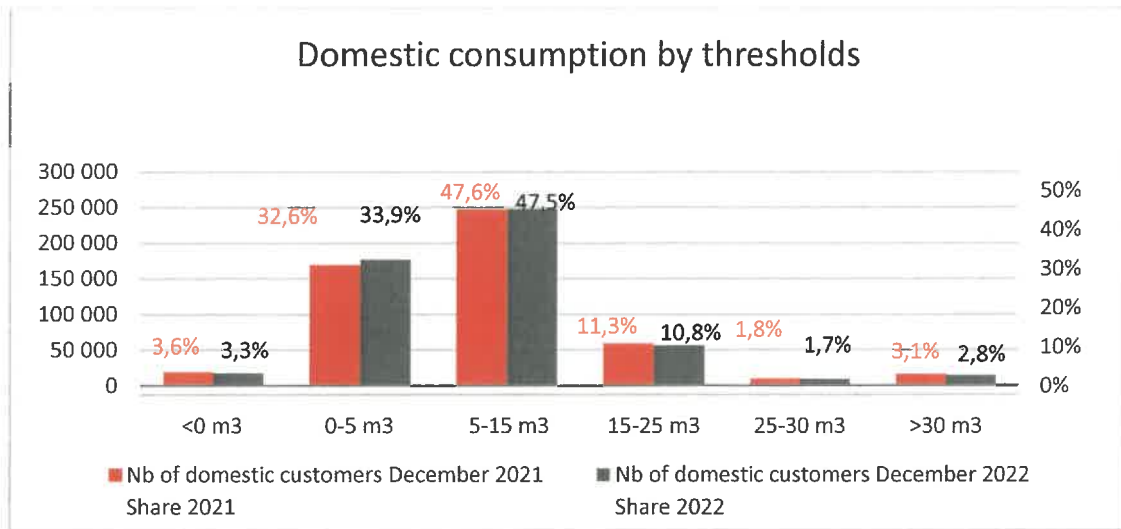
In 2022, the billed volumes of potable water for the households had the highest share of 77% in the total billed consumption as compared to 2021 (79%). The total billed volumes for the households were by -1 708 thousand m³ less compared to 2021, which was mainly due to the decreasing average daily consumption per inhabitant, as well as the lower number of the population within the concession area. The higher prices and the awareness of the need for reasonable use of the water resources lead to reduction in the monthly water consumption.

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



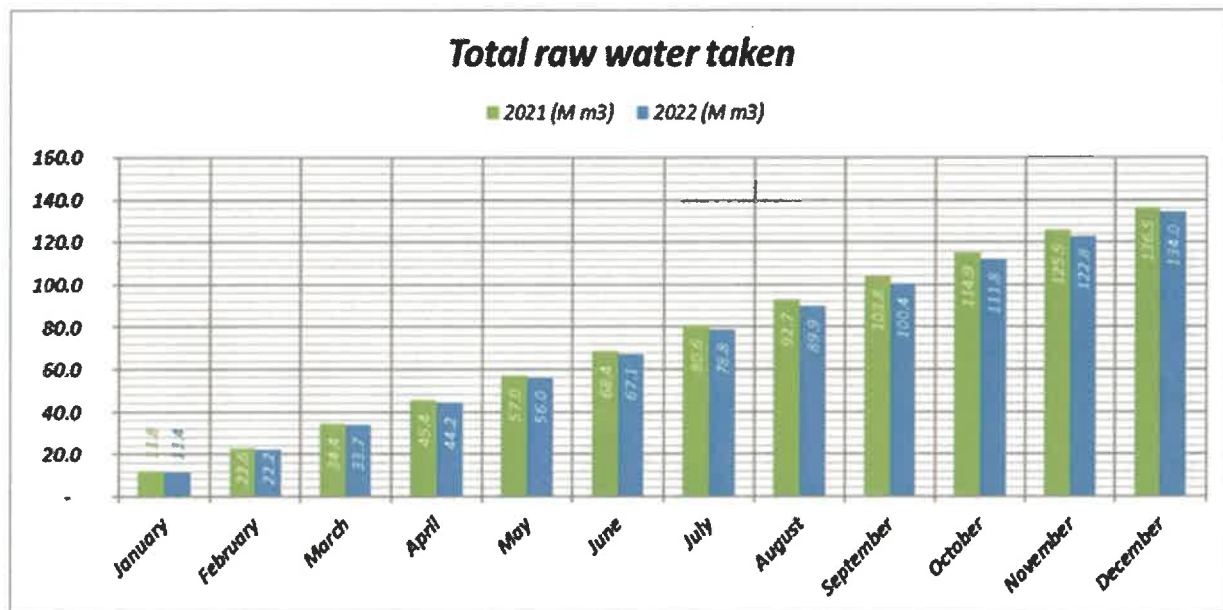
The average daily consumption is calculated as a ratio between the billed annual volumes for households and the number of the population of Sofia city (forecast for 2022 of the National Statistical Institute), divided by 365 days.

This trend is also related to the dynamics of the customer groups with higher water consumption versus those with lower water consumption. On a monthly basis, the company monitors the number of household customers, whose water consumption is measured according to the following monthly consumption: 0-5 m³, 5-15 m³, 15-25 m³, 25-30 m³, exceeding 30 m³/month. In 2022, the highest was the share of the customers with average monthly consumption 5-15 m³ (47.5%) and those with 0-5 m³ (33.9%). The downward consumption trend for the households is presented also on the chart below where it is evident that the higher number of customers shift “to the left”, from higher to lower average monthly consumption, which is in support of the decrease in the consumption:



Reduction of unaccounted-for water

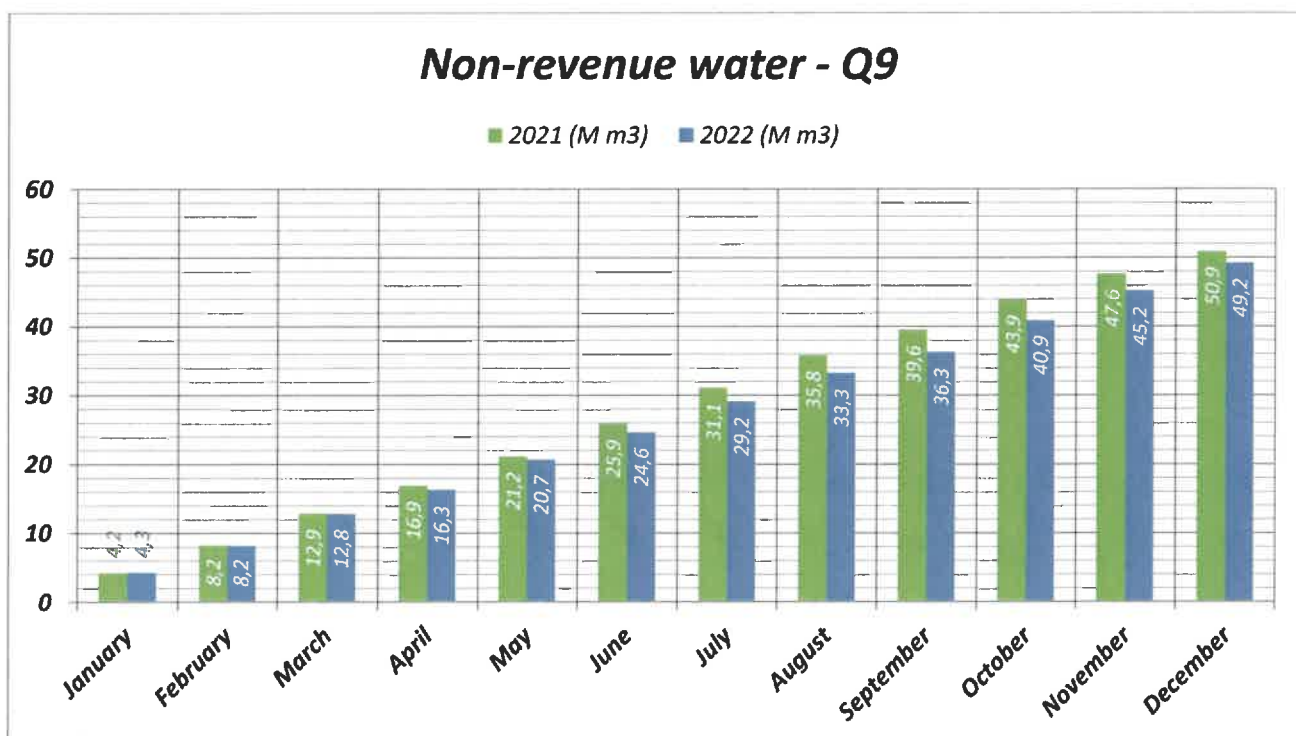
Over the period January – December 2022, the following results were achieved:



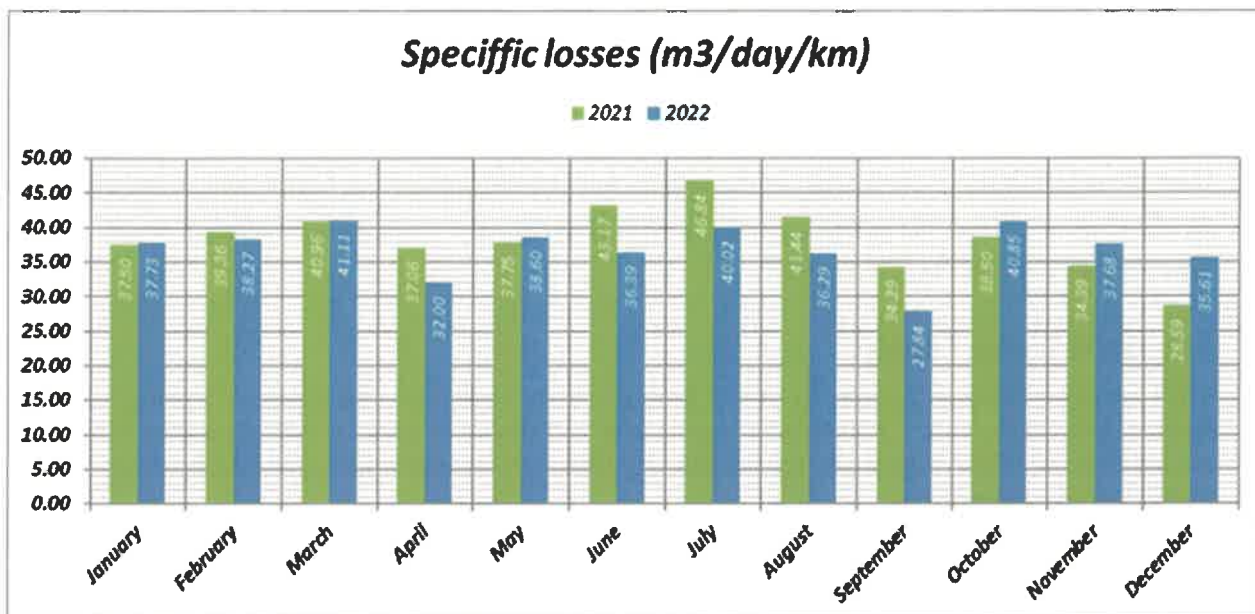
The total abstracted water volumes decreased by 2.43 million m³, or a decrease of 1.78%.



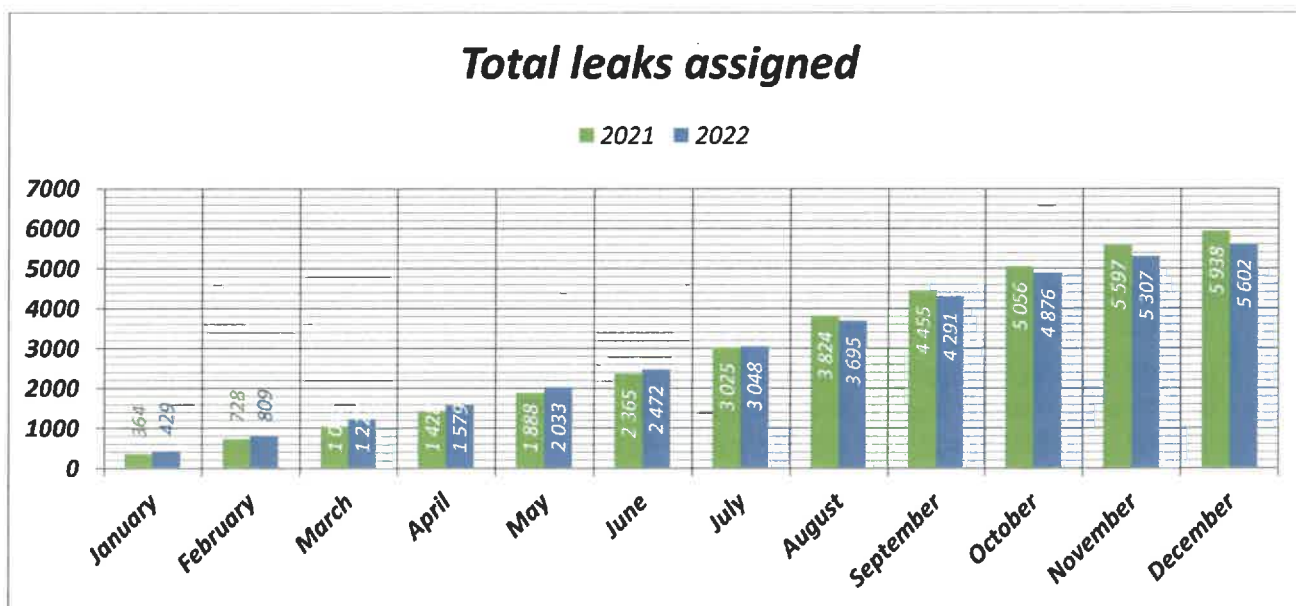
Reduction in the water supplied at the entry of WS Sofia by more than 2.0 million m³ or a decrease by 1.57% in comparison with the same period of 2021.



Non-revenue water (Q9) decreased by nearly 1.7 million m³, or a decrease by 3.33% in comparison with 2021.



The level of the specific losses is marked by a decrease – 1.46 m³/day/km of network on average, or a decrease by 3.80%.



In 2022, the total number of the assigned jobs for fixing leaks on the water network (street water mains, water service connections, fittings, water meter nodes, etc.) decreased by 5.66% or by 336 leaks compared to 2021.

Quality of the Supplied Water

Sofiyska Voda AD certifies through the results of the periodic and control monitoring performed that the measures put in place to control the risks to human health on the entire water supply network are efficient. Microbiological, physico-chemical, organoleptic and radiological indicators are monitored for the large and small water supply zones separately.

According to the requirements of the *Ordinance on the Regulation of the Quality of Water Supply and Sewerage Services* dated 18.01.2016, the fulfilment of the monitoring program is tracked according to the number of the water supply zones. The potable water quality is determined through the rate of compliance with the requirements. The compliance of the potable water supplied to the end customers in the period January - December 2022 was as follows:

KPI2a – compliance rate for large water supply zones - **99.98%**, which exceeds the statutory requirements of 99.16% for the long-term levels of the KPIs;

KPI2b - compliance rate for small water supply zones - **98.75%**, which exceeds the statutory requirements of 98.07% for the long-term levels of the KPIs;

Over the period January-December, no deviations were established posing health risks to the population.

In 2022, samples from the points included in all 6 water supply zones were monitored, which exceeds the frequency required under Ordinance 9.

Laboratory Testing Complex

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

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

In the period January – December 2022, in the Potable Water Unit of LTC, a total of 9,106 samples were received, to which 177,900 analyses were made, and in the Wastewater Unit – 9,610 samples and 83,737 analyses, respectively (737 of them were given to an external accredited laboratory). For comparison, in 2021, a total of 18,424 samples were received, to which 250,000 analyses were made, which shows 5% increase in the number of analyses and 2% increase in the number of the samples in 2022.

Sofiyska Voda AD met the number of samples and analyses set in proportion to the supplied water volumes and with respect to the operated facilities at the monitored sites.

In 2022, the LTC continued the successful fulfilment of its contracts for the provision of laboratory services to external customers, under which revenues were realized, as well as of the service level agreements with internal customers. There were no claims made against the laboratory services on behalf of the customers.

LTC was provided the opportunity to participate in international programs for proficiency testing. In 2022, LTC participated in proficiency tests for 122 analyses, from which the satisfactory results were 106 and the unsatisfactory – 16. The success rate of LTC from all participations in 2022 is 87%. The relevant corrective actions were taken in respect of the unsuccessful results. The participations in these programs ensure an independent assessment of the performance of the laboratory and provide an opportunity to compare its efficiency with other equivalent laboratories, often globally. These participations provide feedback for the quality of the measurements and allow the laboratory to identify areas for improvement in order to obtain more accurate control on the processes and demonstrate competence before the customers, the accreditation authorities and other regulatory units.

The activity of LTC was observed and assessed on site for reaccreditation over the period 16-18 February 2022, combined with an assessment for extending the accreditation under BDS EN ISO/IEC 17025:2018 with new methods. Ascertained were 8 non-conformities – 5 significant and 3 insignificant. Regarding all non-conformities, a report was sent on the implemented corrective measures.

Following the assessment carried out by the Executive Agency “Bulgarian Accreditation Service”, in August 2022, the Laboratory Testing Complex was issued a new accreditation certificate as per the standard BDS EN ISO/IEC 17025:2018 for a period of 4 years – valid until 16.08.2026. The re-accreditation was combined also with extending the scope of accreditation with a few new services:

- Biological analyses for detection of somatic coliphages and Legionella in waters
- Analysis of salmonella in sludge, bio-waste and soil through PCR in real time

- Chemical analyses for Sulfides/hydrogen sulfide, dry residue/dissolved substances in surface, underground water and wastewater
- Chemical analyses for adsorbable organically bound halogens (AOX) in potable water, surface and underground water

A procedure has been opened since 12/12/2022 by the Executive Agency “Bulgarian Accreditation Service” for extending the scope of accreditation. The extension is related to methods that had been removed from the accreditation scope during the last assessment.

Water Network Management

The focus of the Company in 2022, like in 2021, was on several main aspects:

- Improving the operational customer service, mainly by reducing the response time in case of disruptions in the normal functioning of the water network and improving the information, which the Company provides to its customers regarding the occurred or future operational events through an Information Center where the zones affected by the emergency and planned water supply interruptions are visualized, and through the SMS notification service for the upcoming planned and emergency water supply interruptions;
- Upgrade of the Pegasus software system for management of processes for tracking and processing the received signals, which includes new modules for management of the work of the teams of the Unauthorized consumption – Reactive and Proactive Activity, as well as and Leak Detection Unit;
- The total number of customers who requested the SMS notification service for planned water supply interruptions was 44,050, and in the period January - December 2022, a total of 67,415 messages were sent;
- Over the period January - December 2022, 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 79.7% on average.

Sewerage

In 2022, the implementation of the program for proactive maintenance of the sewerage network continued, and as a result of it more than 107 km of the network within the Concession Area were proactively cleaned, which is 3 km less as compared to the work done in 2021. The achieved result is commensurable with that in the previous year in spite of the fewer employees due to vacancies.

In the period January-December 2022, the sewer network surveyed and recorded with all cameras of the company was 70 km, which is 17 km less in comparison with 2021. 12 km of them were surveyed with a robotized camera and coded. The drop is due to the further decreased number of employees in the team conducting CCTV sewer surveys, due to vacancies and long sick leaves.

In addition, 17 km of sewers over Φ 1500 mm were inspected on foot compared to 12 km in 2021.

In 2022, the positive trend of the last years was maintained – towards reduction in the number of emergency signals for the following reasons – sewer clogging, clogging of sewer service connections or structural damage of sewers. The company strives through proper planning of the proactive works along the sewer network to continue reducing the inconvenience to our customers.

In 2022, the implementation of the “Digital Water City” project under the European Horizon 2020 program with a duration of 4 years was completed. It included two lines: proactive cleaning of 10 km of sewers with a provided nozzle, equipped with a camera and an option for video recording during the actual cleaning, and the installation of temperature sensors for monitoring the condition of the overflows by overflowing/not overflowing status.

Wastewater treatment

In the period **January – December 2022**, Sofia Wastewater Treatment Plant (WWTP) treated **110.4 million m³** of wastewater from the sewer network of the Municipality of Sofia.

The Wastewater Unit of the Laboratory Testing Complex at the WWTP in Kubratovo conducts continuous monitoring of the quality indicators of treated wastewater and sludge generated in the treatment process.

Quality of the treated wastewater

According to the wastewater discharge permit, the following main indicators are 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 2022, the fixed statutory number of samples was taken for the above quality indicators of the treated wastewater.

The values of the quality indicators of the samples were below the levels determined in the wastewater discharge permit.

By decision No. 3021/14.07.2020 of the director of Basin Directorate – Danube Region, the validity of the permit No. 13140074/08.08.2008 was extended until 11.08.2030.

Over the year, there was a downward trend of the inflowing volume of wastewater while the level of concentration of carbon pollution from the previous three years increased. The level of nitrogen and phosphorus loads was kept.

Sludge Stabilization and Utilization

The sludge generated through wastewater treatment is stabilized in five anaerobic digesters. The sludge treated in the digesters is mechanically dewatered to produce a “sludge cake” with dry matter content of around 19.64%.

Over the period, 16,005 tons of absolute dry matter sludge from the treatment processes were stabilized and mechanically dewatered, and 11,619 tons of absolute dry matter were utilized in agriculture.

The generated and utilized volumes of sludge were reported in tons of absolute dry matter.

The control over the waste generated at Kubratovo WWTP, including the dewatered sludge, is exercised in accordance with the requirements of the Waste Management Act, and the volumes of waste and sludge are entered in the public register - National Waste Information System to Executive Environment Agency. Sofiyska Voda monitors and submits the required reports to the Ministry of Environment and Water.

INVESTMENTS JANUARY – DECEMBER 2022

In 2022, Sofiyska Voda worked on the implementation of the investment program in the amount of BGN 51.33 M. The planned investments have the following structure:

2022	IP 2022 (BGN)	Implemented investments 2022 (BGN)
Investments in regulated services	48 087 436	44 453 756.04
Investments in non-regulated business	237 900	721 878
Additional investments	3 009 331	994 918.09
Total:	51 334 667	46 170 552

The realized total investments were in the amount of BGN 46.17 M. BGN 44.45 M of them was in regulated services. The realization of the total planned annual investments is 90%. The increasing inflation and the difficulties with the supply of some construction materials had a limiting effect on the realization of the planned investments.

QUALITY MANAGEMENT

In June, Sofiyska Voda AD passed successfully an external audit of the Anti-bribery Management System that confirmed the certification of the System under the standard BDS ISO 37001:2016, part of the Integrated Management System of the company. At the same time, the rest of the systems from Integrated Management System of Sofiyska Voda passed successfully the external audit, which confirmed the certification of the Quality Management System under BDS ISO 9001:2015, the Environmental Management System under BDS EN ISO 14001:2015, and the Occupational Health and Safety Management System under BDS ISO 45001:2018, as well as registration under Regulation 1221/2009 of the Community Eco-Management and Audit Scheme – EMAS.

In the process of the conducted recertification audit of all systems in Sofiyska Voda, a few non-conformities were ascertained, which are not critical and are in a process of resolving.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

Sofiyska Voda has a certified Environmental Management System (EMS) in compliance with the requirements of the international standard ISO 14001:2015. In 2022, the maintenance of the system continued by updating the environmental aspects and conducting regular internal inspections in accordance with the approved annual schedule.

In 2022, Sofiyska Voda renewed its registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS), whose scope includes all treatment plants and the water network.

Environmental incidents

In 2022, the reported cases were as follows: 1 sudden pollution discharge event at the inlet of Kubratovo WWTP, 2 cases of emergency discharge of untreated wastewater in a water body as a result of a disrupted operational process, 2 cases of emergency opening of flood gates due to intensive rainfalls at the inlet of Kubratovo WWTP. The relevant measures to address those incidents were taken in a timely manner and they did not have considerable environmental impact.

Program for the fulfilment of the environmental protection objectives

The environmental protection objectives of the Company are related to introducing best practices for energy efficiency in the operation and maintenance of the water and sewer networks, reducing the water losses on the network, ensuring increasingly efficient and quality treatment of the wastewater by reducing at the same time the use of chemicals and reagents, and transferring waste into raw material for the production of energy. In 2022, the implementation of the planned activities related to preservation of biodiversity at the sites of the company continued, the respective audits were conducted and the respective practices were introduced. The implementation of the objectives for 2022 was satisfactory and led to improved environmental impact.

Trainings and initiatives

The annual environmental training program in 2022 was implemented and all employees of Sofiyska Voda AD passed training in environmental protection. Furthermore, different internal and external initiatives were conducted related to environmental preservation – in June, visits to the waste factory were organized. In

October, 150 kg of caps were handed over in the “Caps for the Future” Campaign. In November, the European Week for Waste Reduction was marked under the slogan “Invisible Waste”.

Waste Management

The Company strictly complies with the Bulgarian waste management legislation. In 2022, the following waste was delivered for disposal, utilization or recycling:

- 7.985 tons of hazardous waste;
- 31,905 tons of nonhazardous waste, which include dug out soil, but does not include sludge from SWWTP for utilization on agricultural areas, and 0.122 t of out-of-use working clothes, delivered for recycling;
- 16,005 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

Green energy production

The generated green energy in the period January – December 2022 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 22,506 MWh. The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2022, the green energy produced in the treatment plant covered more than 116.78% of the electricity needs of the treatment plant, which is a nearly 1% increase in comparison with 2021.

HEALTH AND SAFETY AT WORK

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

The Occupational Health and Safety Management System of Sofiyska Voda AD certified under BDS ISO 45001:2018 is functioning and continues to be maintained and audited.

The applicable legal requirements are complied with and exceeded. The annual program for monitoring and audits on occupational health and safety is implemented. The health and safety risks are assessed and managed systemically. 10 high-risk activities are identified regarding which corporate safety standards are implemented.

Trainings and exchange of information

In 2022, there were 14,561 training hours in occupational health and safety. The number of the employees, who took part in at least one occupational health and safety training during the year, was 1,118. The number of participations in occupational health and safety trainings was 6,953 (there are employees, who took part in more than 1 training).

In September 2022, the corporate H&S week was conducted, focused on the safety of hands with topic “Safety is in our hands!” and a competition “Life-size HiPo-Spotting”.

Since 2022, the corporate software for occupational health and safety management software has been used.

The contractors are monitored and audited systematically for compliance with the applicable H&S requirements. Meetings are held for exchange of information and good practices related to H&S.

Accidents, incidents and near-misses

There were 3 occupational accidents in 2022 as per art.55, par.1 (at work), 6 incidents (without loss of working capacity), 15 near-misses (undesired events without personal injury) and 129 registered damages to company vehicles. All accidents, incidents and near-misses are reported and analyzed immediately.

HUMAN RESOURCE MANAGEMENT

In its policy and practice, Sofiyska Voda AD develops and applies modern forms of human resource management with the understanding that these factors are crucial for the business development and the high performance. The achievement and maintenance of balance between the interests of the employer and the workforce are based on compliance with the legislation, adherence to high budgetary discipline and social partnership with the trade union organizations.

Human resource management is evolving through applying a set of policies and procedures planned in advance, so that the entire management team is involved in this process.

Remuneration and benefits

As of 1 January 2022, the salaries of the employees were increased by 3.3%, which is the official average annual inflation for 2021 as per the data announced by the the National Statistical Institute.

In March 2022, the annual bonuses of the employees for the previous year were paid in line with the approved bonus scheme of the Company, taking into account the fulfilment of the company's business objectives agreed in the previous year.

As of 1 April, the salaries of the employees were increased by 3.55% on average.

For a fifth consecutive year the employees had the opportunity to take part in two shareholding plans provided by Veolia Environnement, called SEQUOIA, and each employee had the opportunity to participate with up to 25% of his/her gross annual remuneration. One of the plans offers the purchase of shares for up to 5% of the employees' gross annual remuneration as the sum at the amount of EUR 300 is doubled by Veolia Environnement. The second plan offers the purchase of shares with a 20% discount from the market price.

In April 2022, a flexible employee benefits package was launched, as through it the employees can select on their own additional benefits within a certain amount from a list approved in advance.

Training, motivation and development

Trainings

In 2022, in total 1,118 employees were involved in trainings, and there were 12,106 participations. The training hours were 27,430, from which nearly 20,187 hours – in the form of an online training. There were 5,153 participations and 12,869 training hours in trainings for enhancing the professional competences.

The company strictly complies with the requirements for gaining certificates of competence and updating the knowledge in health and safety at work, necessary for carrying out high-risk activities. There were 6,953 participations and 14,561 training hours in mandatory H&S trainings held in 2022.

32 managers participated in the Leadership Academy 2 project in order to enhance their leadership capacity through 360-degree feedback, analysis and subsequent individual coaching for upgrading their leadership skills.

In 2022, the list of key positions in the company was updated. 201 key positions were identified.

In December, Sofiyska Voda was registered in the information database of the employers participating in the dual training system.

Summer Internship Program

In 2022, 10 young specialists and students from different majors joined the summer internship program "Challenge the Future". Two of them continued their career in the company.

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

The joint project between Sofiyska Voda AD and the Sofia High School of Construction, Architecture and Geodesy continued in 2022, as well. The first part of the project included lectures in the high school for the students from the 10th grade, specialty “WSS Construction” and in addition, visits were organized to our plants Bistritsa PWTP and Kubratovo WWTP where the students had the opportunity to see the facilities and the processes of water treatment.

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

In compliance with a framework agreement signed in 2021 with the Private Secondary School “Tsar Simeon the Great” on training of students from the 10th and 11th grade with profile Natural Sciences, in 2022, 11 students visited our plant in Kubratovo and the LTC – Wastewater Unit. Practical trainings are planned in 2023 for familiarization with the work standards and processes performed on the territory of the LTC of Sofiyska Voda AD.

Educational cooperation with Professional School of Ecology and Biotechnology "Prof. Dr. Asen Zlatarov".

In January 2022, a framework agreement was signed with the Professional School of Ecology and Biotechnology "Prof. Dr. Asen Zlatarov" for free educational practice of students from the 10th and 11th grades studying to become Ecologists. The practice includes visits to the treatment plants and familiarization with the technological processes with focus on the environmental aspects that ensure the quality of the services of Sofiyska Voda AD.

Management’s responsibility

In compliance with the legal requirements, the management draws up an annual activity report and financial statements for each financial year, presenting a true and fair view of the financial position of the company for the calendar year, considering the financial performance and the cash flows in conformity with the applicable accounting framework. For the preparation of the financial statements the company applies the rules of the International Financial Reporting Standards (IFRS), applicable both in the European Union and in the Bulgarian accounting legislation.

The management’s responsibility includes: development, deployment and maintenance of an internal control system, ensuring the preparation and fair presentation of the financial statements that are free from material misstatements, deviations and non-conformities, whether due to fraud or error; selecting and applying appropriate accounting policies; preparing accounting estimates, reasonable in the specific circumstances.

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

The management also confirms that in the preparation of this activity report it has provided true and fair presentation of the development and financial performance of the company for the past period, as well as its position and major risks it has faced. The management has approved the issuing of the activity report and the financial statements for 2022.

Sofia, 29 March 2023

Aneliya Ilieva
/Finance Director/

Vasil Trenev
/Executive Director/



Separate statement of financial position

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2022	31 December 2021
Assets			
Property, plant and equipment	12	19,592	19,232
Intangible assets	13	212,949	243,992
Investment in subsidiaries		5	5
Deferred tax assets	19	11,006	10,351
Trade and other receivables	15	2,310	1,926
Total non-current assets		245,862	275,506
Inventories	14	5,774	4,154
Trade and other receivables	15	31,398	32,411
Contract assets	4	12,876	12,154
Related party receivables	26,15	132	132
Income tax receivables		810	321
Cash and cash equivalents	16,22	97,422	78,139
Total current assets		148,412	127,311
Total assets		394,274	402,817
Equity			
Share capital	17	8,884	8,884
Reserves	17	10,774	10,774
Retained earnings		295,396	314,056
Total equity		315,054	333,714


Separate statement of financial position (continued)

<i>In thousands of BGN</i>	<i>Note</i>	31 December 2022	31 December 2021
Liabilities			
Lease liabilities	27,22	338	1,575
Employee benefits	23	1,924	1,880
Trade and other payables	20,26	3,702	5,927
Total non-current liabilities		5,964	9,382
Lease liabilities	27,22	1,333	1,618
Contract liabilities	4	9,532	7,908
Payables to related parties	22,26	3,517	3,075
Trade and other payables	20	54,158	42,996
Provisions	21	3,983	3,571
Employee benefits	23	733	553
Current liabilities		73,256	59,721
Total liabilities		79,220	69,103
Total equity and liabilities		394,274	402,817

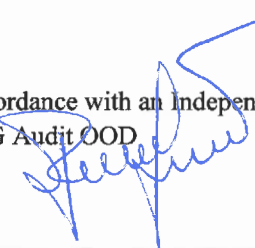
The notes on pages 11 to 68 are an integral part of these separate financial statements.


Vasil Trenev
Executive Director

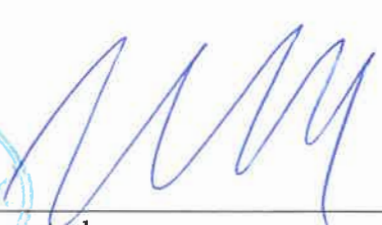



Anelia Ilieva
Finance Director

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


Dobrina Kaloyanova
Authorized representative




Ivan Andonov
Registered auditor,
responsible for the audit

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2022	2021
Revenue	4	193,731	194,289
Construction revenue		16,841	16,889
Other income	5	1,907	872
		<u>212,479</u>	<u>212,050</u>
Expenses for materials	6	(15,991)	(15,432)
Expenses for hired services	7	(48,146)	(40,217)
Depreciation and amortization	12,13	(76,727)	(66,258)
Employee benefit expenses	8	(31,104)	(29,984)
Social security contributions and other social expenses	8	(7,373)	(7,295)
Impairment loss on trade receivables and contract assets	22	(5,553)	(3,000)
Other operating expenses	9	(4,587)	(5,133)
Operating profit		<u>22,998</u>	<u>44,731</u>
Finance income	10	39	2
Finance costs	10	(752)	(876)
Net finance costs		<u>(713)</u>	<u>(874)</u>
Profit before taxes		22,285	43,857
Income tax expenses	11	(2,161)	(4,420)
Profit for the period		<u>20,124</u>	<u>39,437</u>

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

For the year ended 31 December

In thousands of BGN

Note

2022

2021

Other comprehensive income

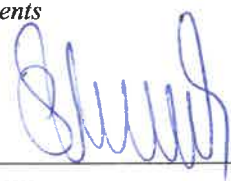
Items that will not be reclassified in profit or loss:

Remeasurement of defined benefit liability	23	259	(44)
		259	(44)
Other comprehensive income for the period, net of tax		259	(44)
Total comprehensive income for the period		20,383	39,393

The notes on pages 11 to 68 are an integral part of these separate financial statements

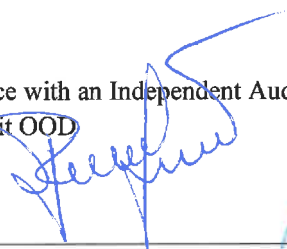


Vasil Trenev
Executive Director




Anelia Ilieva
Finance Director

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



Dobrina Kaloyanova
Authorized representative



Ivan Andonov
Registered auditor,
responsible for the audit

Separate statement of changes in equity
In thousands of BGN

	Note	Share capital	Legal reserve	Retained earnings	Total equity
Balance at 1 January 2021		8,884	10,774	308,858	328,516
Total comprehensive income for the period					
Profit for the period		-	-	39,437	39,437
Other comprehensive income, net of taxes		-	-	(44)	(44)
Total comprehensive income for the period		-	-	39,393	39,393
Transactions with shareholders					
Installments to shareholders					
Dividends	17	-	-	(34,195)	(34,195)
Total installments to shareholders		-	-	(34,195)	(34,195)
Balance at 31 December 2021	17	8,884	10,774	314,056	333,714
Balance at 1 January 2022		8,884	10,774	314,056	333,714
Total comprehensive income for the period					
Profit for the period		-	-	20,124	20,124
Other comprehensive income, net of taxes		-	-	259	259
Total comprehensive income for the period		-	-	20,383	20,383
Transactions with shareholders					
Installments to shareholders					
Dividends	17	-	-	(39,043)	(39,043)
Total installments to shareholders		-	-	(39,043)	(39,043)
Balance at 31 December 2022	17	8,884	10,774	295,396	315,054

The notes on pages 11 to 68 are an integral part of these separate financial statements.

Vasil Trenev
Executive Director



Anelia Ilieva
Finance Director

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

Dobrina Kaloyanova
Authorized representative



Ivan Andonov
Registered auditor,
responsible for the audit

Separate statement of cash flows

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2022	2021
Cash flow from operating activity			
Net profit for the period		20,124	39,437
Adjustments for:			
Depreciation of property, plant and equipment	<i>12</i>	6,211	6,332
Amortisation of intangible assets	<i>13</i>	70,516	59,926
Impairment loss on trade receivables and contract assets	<i>22</i>	5,553	3,000
Write-down of inventories to net realizable value/ (realization)	<i>9</i>	241	102
Scrapping materials	<i>9</i>	21	10
Expenses for scrapping fixed assets	<i>9</i>	8	28
Net finance costs	<i>10</i>	713	874
Gain on sale of property, plant and equipment		(2)	(11)
Tax expense	<i>11</i>	2,161	4,420
		<u>105,546</u>	<u>114,118</u>
Changes in:			
- employee benefits		388	38
- provisions		412	408
- inventories		(1,882)	(906)
- trade and other receivables		(5,374)	(2,267)
- trade and other payables		(10,047)	(41)
- contract assets	<i>4</i>	(722)	(845)
- contract liabilities	<i>4</i>	1,623	886
Cash flow from operating activity		<u>89,944</u>	<u>111,391</u>
Income tax paid		<u>(3,620)</u>	<u>(5,390)</u>
Net cash flow from operating activity		<u>86,324</u>	<u>106,001</u>
Cash flows from investing activity			
Income from sale of property, plant and equipment		2	34
Acquisition of property, plant and equipment		(6,394)	(4,451)
Acquisition of intangible assets		<u>(19,722)</u>	<u>(34,017)</u>
Net cash flow used in investing activity		<u>(26,114)</u>	<u>(38,434)</u>

Separate statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN

	<i>Note</i>	2022	2021
Cash flow from financing activity			
Loans paid	18	-	(22,458)
Payment of lease liabilities	27	(1,882)	(1,824)
Dividends paid	17	(39,043)	(34,195)
Interest paid	18	(2)	(34)
Net cash flow used in financing activity		<u>(40,927)</u>	<u>(58,511)</u>
Net increase in cash and cash equivalents		19,283	9,056
Cash and cash equivalents at 1 January		78,139	69,083
Cash and cash equivalents at 31 December	<i>16,22</i>	<u>97,422</u>	<u>78,139</u>

The notes on pages 11 to 68 are an integral part of these separate financial statements.

 Vasil Trenev

Executive Director



 Anelia Ilieva

Finance Director

In accordance with an Independent Auditors' Report:

KPMG Audit OOD

 Dobrina Kaloyanova

Authorized representative



 Ivan Andonov

*Registered auditor,
 responsible for the audit*

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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 N 16172/1999 / No54111, p.557, registration. 1, page 20 and registered as per the Public Register Act in the Public Register to the Registry Agency under uniform identification code 130175000.

The address of the registered office of the Company is Bulgaria, Sofia, 159 Tsar Boris III street, Business Centre Tsar Boris. The Company is 77.1% owned by Veolia Voda (Sofia) BV and 22.9% owned by Vodosnabdiavane and Kanalizatsia EAD. In regard to the contract for cross-border merger of Veolia Voda (Sofia) B.V. and Veolia Central & Eastern Europe S.A., the transfer of the shares held by Veolia Voda (Sofia) B.V. to Veolia Central & Eastern Europe S.A. was entered in the company Book of Shareholders on 04.02.2022.

The Company's line of business is primarily in the provision of water supply, sewerage and wastewater treatment services in the Municipality of Sofia, including management and maintenance of the public assets, which represent part of the water supply and wastewater treatment system in Sofia, as well as design, construction, financing and managing of new assets.

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

2. Basis of preparation

(a) Basis of accounting

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

These are the 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 2022 were approved for issuance by the Board of Directors on 29 March 2023.

(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 (note 20).

(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.

2. Basis of preparation (continued)

(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. The positive outlook for the Company's operations is supported by the fact that despite the unprecedented international and local situation in 2022 after the start of the war in Ukraine, the Company's business activities were not substantially affected:

- in 2022 with the war between Ukraine and Russia, the management of the company prolonged the additional measures for control over the operating costs within a recovery plan under specific operational projects and at the same time enhanced the ongoing control over cashflow management;
- regarding the investment program of the company, the investments in regulated services on an annual basis in nominal terms exceeded (by +16.5%) those set for 2021;

(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, incomes and expenses. The actual results may differ from these estimates.

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

(i) Judgements

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

- Note 3 (d) (i) – Accounting for intangible assets in accordance with IFRIC 12 Interpretations: Service Concession Arrangements
- Note 3 (d) (iii) – Intangible assets, subsequent costs

(ii) Assumptions and estimation uncertainties

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

- Notes 12 and 13 – Property, plant and equipment and Intangible Assets – main assumptions used in determining the recoverable amount of the cash-generating unit, including especially the option for extension of the concession contract and the return on equity applied to the regulated assets for calculating the prices of regulated services in the period after 2022;
- Note 15 – Trade and other receivables – in the part for impairment of the recoverable amount of the trade receivables from customers;
- Note 19 – Deferred tax assets – regarding recoverability of deferred tax assets;
- Note 21 and Note 25 – Provisions and Contingencies – key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 24 – Employee benefit – measuring the payables under the defined benefit plans and employee benefits

Fair values

A number of the 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 similar services is used to measure fair values, then the financial department assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

2. Basis of preparation (continued)

(e) Use of estimates and judgments

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 levels in a fair value hierarchy based on the inputs in the valuation techniques as follows:

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

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

The 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 22 – Financial instruments

3. Significant accounting policies

3.1. Changes in accounting policies

The following new and amended standards and interpretations are effective from 1 January 2022 but they do not have a material effect on the Company's separate financial statements:

The Company has adopted Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020). This resulted in a change in accounting policy. The Company determined that there is no impact on the opening equity balances as at 1 January 2022 as a result of the change.

(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.

From 1 January 1999 the exchange rate of the Bulgarian lev (BGN) has been fixed against the Euro (EUR). The exchange rate is BGN 1.95583 / EUR 1.0.

3. Significant accounting policies (continued)

(b) Financial Instruments

(i) *Recognition and initial measurement*

Trade receivables are recognized initially when they are originated. All other financial assets and liabilities are recognized initially when the company becomes party under the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) *Classification and subsequent measurement*

Financial assets

On initial recognition the financial asset is classified as measured at: fair value, FVOCI – debt investment, FVOCI – equity investment; or at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial asset is measured at FVICO if it meets at the same time the following two conditions and is not designated under the FVTPL:

- is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and;
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets, which are not classified as measured at amortized cost or at FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. Upon initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company assesses the purposes of the business model, under which a certain financial asset is held at a portfolio level because this best reflects the way in which the business is managed and information is provided to the management. The information, which is taken into account, includes:

- the stated policies and purposes of the portfolio and the efficiency of these policies in practice.
- how the performance of the portfolio is evaluated and reported to the management of the Company;
- the risks that affect the performance of the business model (and the financial assets held within this business model) and how these risks are managed;
- how the business managers are compensated – for example, whether the compensation is based on the fair value of the assets managed or on the collected contractual cash flows; and
- frequency, volume and timing of the sales of the financial assets in previous periods, the reasons for such sales and the expectations for future sales.

3. Significant accounting policies (continued)
(b) Financial Instruments (continued)
(ii) Classification and subsequent measurement (continued)

The transfer of financial assets to third parties in transactions, which do not qualify for derecognition, are not considered for sales for this purpose, in conformity with the continued recognition of the assets by the Company. The financial assets, held for trading or are managed, and whose performance is evaluated on a fair value basis, are measured at FVTPL.

Financial assets – Assessment whether the contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, the “principal” is defined as fair value of the financial asset at initial recognition. The “interest” is defined as consideration for the time value of money and for the credit risk related to the outstanding principal in a certain period of time and for other main risks and credit costs (for example, liquidity risk and administrative expenses), as well as a profit margin.

In assessing whether the contractual cash flows are solely the payments of principal and interests, the Company considers the contractual provisions of the instrument. This includes an assessment whether the financial asset contains a contractual term, which could change the timing or the amount of the contractual cash flows, so that it fails to meet that condition. In that assessment the Company takes into account:

- contingent events, which could change the amount or time of the cash flows;
- conditions, which could adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension feature; and
- terms that limit the claims of the Company to the cash flows from certain assets (for example, characteristics without the right of recourse).

A prepayment feature corresponds to the criteria for payment only of the principal and interests if the prepayment is the outstanding amount of the principal and the interest on the outstanding principal, which may include reasonable additional compensation for early termination of the contract. In addition, a financial asset obtained with discount or premium, up to its contractual nominal amount, an option which allows or requires prepayment in the amount which in essence is the nominal amount, plus accumulated (but unpaid) contractual interest (which may include also reasonable additional compensation for early termination), is considered for corresponding to this criterion if the fair value of the prepayment is insignificant at initial recognition.

Financial assets - Subsequent measurement of financial assets

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss, except for derivatives designated as hedging instruments for which hedge accounting is applied.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

(ii) Classification and subsequent measurement (continued)

Cash and cash equivalents

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

Financial Liabilities – classification, subsequent measurement and gains and losses

The financial liabilities are classified at amortized cost or at FVTPL. The financial liability is classified at FVTPL if it is classified as held for sale, as derivative or designated as such at initial recognition. The financial liabilities under the FVTPL are measured at fair value, and the net profits and losses, including the costs for interest are recognized in the profit or loss. The other financial liabilities are measured subsequently at amortized cost, applying the effective interest method. The costs for interest and exchange rate gains and losses are recognized in profit or loss. Any profit or loss from derecognition are also recognized in the profit and loss.

(iii) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or when the rights to receive contractual cash flows from a transaction are transferred, where substantially all risks and rewards of ownership of the financial asset are transferred or where the Company does not transfer and keep substantially all risks and rewards of ownership, nor it keeps control on the financial asset.

Financial liabilities

The Company derecognises a financial asset when the contractual obligations have been fulfilled, annulled or expired. The Company also derecognises a financial asset when its conditions have changed and the cash flows from the modified liability are materially different, and in this case a new financial liability is recognized under the fair value, based on the changed conditions.

When a financial liability is derecognized, the difference between the carrying amount and the paid remuneration (including all transferred non-cash assets or commitments) is recognized in the profit or loss.

3. Significant accounting policies (continued)

(b) Financial Instruments (continued)

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Share capital

Ordinary share

Ordinary shares are classified as equity. The costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects. The equity of the Company is presented at historical cost as at the date of registration.

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Measurement at recognition and subsequent measurement

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

- cost for materials and direct labour;
- costs directly attributable to bringing the assets to a working condition for their intended use;
- when the company has an obligation to dismantle the asset or restore the site, estimate of the costs for dismantling and restoring the site, on which it is located;
- capitalized interest costs.

Purchased software, that is essential for the functioning of the purchased equipment, is capitalized as part of the equipment.

When parts of an item of property, plant and equipment have different useful life, they are accounted for as separate items.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recognized net in other revenue in profit or loss.

Subsequent measurement

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this reflects the expected pattern of consumption of the future economic benefits of the asset. Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful life of property, plant and equipment for the current and previous period are as follows.

Assets class	2021	2022
Buildings	25 years	25 years
Plant and equipment	5-25 years	5-25 years
Vehicles – automobiles	5-10 years	5-10 years
Vehicles – trucks	10-12.5 years	10-12.5 years
Improvements of leased assets	10 years	10 years

Depreciation methods, useful life and residual values are reviewed at each financial year-end and adjusted if appropriate (refer to Note 12).

3. Significant accounting policies (continued)

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 higher tariffs from users of the network and records revenue as it performs the services for water supply, sewerage and waste water treatment to the customers on the territory of the concession.

The intangible asset “concession right” is recognized at acquisition cost less accumulated amortization and impairment losses (see accounting policy 3 (i)). The intangible asset “concession right” arises in relation to the Concession Agreement, under which Sofiyska Voda is granted special right of use of public assets in order to deliver water supply, sewerage and wastewater treatment services to the customers within the concession area.

The Grantor has the ownership rights on all the existing public assets for the concession period, but the Concessionaire has exclusive and specific right to use the existing public assets. The ownership rights of any new assets are transferred to the Grantor at the time of their acquisition by the Concessionaire or at the beginning of their operation. The Company does not have the right to receive any payments from the Grantor related to the acquisition, construction, installation or creation of any new public assets. The amounts invested by the Company for which it has the right to charge higher tariffs from users of the network are classified as intangible assets “Concession right”.

ii) Other intangible assets

Other intangible assets, that do not relate to the concession infrastructure, acquired by the Company, that have limited useful life, are stated at acquisition cost less accumulated amortization and impairment losses.

(iii) Subsequent expenditure

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

(iv) Amortization

Amortization is charged to the profit or loss on a straight-line basis over the estimated useful life of the intangible assets, apart from the “Concession right” asset, which is depreciated for the remaining term of the concession until 2025, determined from the date of acquisition of any additional concession right.

Other intangible assets:

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

Amortization methods, useful life and residual values are reviewed at each reporting date.

3. Significant accounting policies (continued)

(e) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property and lease liabilities as part of the respective class of the Company's assets.

3. Significant accounting policies (continued)

(e) Leases (continued)

As a lessee (continued)

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

(f) Investments

Investments in subsidiaries

Subsidiaries are the entities 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 policies (continued)

(h) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses, required to carry out the sale.

(i) Impairment

(i) *Non-derivative financial assets*

Financial instruments and contract assets

The company recognizes loss allowances for the expected credit losses (ECL) for;

- financial assets measured at amortized cost, and
- contract assets

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs of the financial instrument. For other financial assets, ECLs are measured base on a 12-month ECLs, unless there has been a significant increase in credit risk, in which case ECLs are measured based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The company assumes that the credit risk for a given financial asset has increased considerably if the delay is more than 30 days.

The company considers a financial asset to be in default when:

- is unlikely the borrower to pay the loan commitments to the Company to the full amount without requiring actions on behalf of the Company such as use of guarantee (if any) or
- the financial asset is more than 90 days past due for residential commercial and budget clients.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Regarding trade receivables and contract assets the Company applies a simplified approach by using provision matrix. The provision matrix is updated on an annual basis.

As for overdue receivables the Company charges interest in the size of the base rate +10%, in determining the amount of the impairment for each of the categories the management has analysed actually collected interest for overdue payments and has respectively adjusted the impairment for each of the categories.

The management of the Company considers that the unemployment rate for the individual customers is the indicator, which gives information about the trends in debt collection; nevertheless, the management considers that the unemployment rate has an impact on debt collection in changes of that indicator by over 3%, based on the official information of the Bulgarian National Statistical Institute (NSI).

Taking into account the unemployment rate in 2022, the forecast levels for this indicator for 2023 are not expected to change by more than 3% compared to 2022. Other factors, which the management considers to have an impact on the debt collection rates, are inflation and demographic changes.

3. Significant accounting policies (continued)

(i) Impairment (continued)

Measurement of ECLs (continued)

Credit-impaired financial assets

At each reporting date the Company measures whether the financial assets accounted for at amortized cost and assets under contracts are with credit impairment. The financial asset is credit-impaired when one or more events that have occurred and have a significant impact on the estimated future cash flows of the financial asset. Evidence that the financial asset is credit-impaired includes the following observable data:

- considerable financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past-due event above 180 days for residential clients and above 90 days for commercial and budget clients.
- restructuring a Company's trade receivable under conditions which the Company would not otherwise review
- it becoming probable that the borrower will enter bankruptcy/ becomes insolvent for individuals or other financial reorganisation;

Presenting impairment loss for the expected credit losses in the statement of financial position

Impairment loss of the financial assets, measured at depreciated value, are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is derecognized, when the Company does not have reasonable expectations for recovery of a financial asset in its entirety or part of it or when specific receivables are appealed by individual customers and the proceedings regarding them is terminated (invalidated) by the court.

For individual customers, the Company has a policy for derecognition of the gross carrying amount, when the financial asset is overdue by 3 years on the basis of the historical experience related to the recovery of similar assets. For corporate customers, the Company makes individual measurement regarding the time and the size of the derecognition on the basis of whether there is reasonable expectation for recovery. The company does not expect considerable recovery of the sum that is derecognized. The financial assets, which however are derecognized, can still be a subject of an action for enforcement in order to comply with the procedures of the Company for recovery of the amounts due.

3. Significant accounting policies (continued)

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

The recoverable amount of an asset or a cash-generating unit (CGU) is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of cash-generating units are allocated in such a way as to reduce the book values of the assets in the CGU on a *pro rata* basis.

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

(j) Employee benefits

(i) *Defined contribution plan*

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

(ii) *Defined benefit plan*

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

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labour Code. According to 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 23.

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

3. Significant accounting policies (continued)

(j) Employee benefits (continued)

(iii) Short-term employee benefits

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

(iv) Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights (SARs), which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the fair value of the liability are recognized as employee benefit expenses in profit or loss.

(k) Provisions

A provision is recognized if, as a result of a past event, the 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 provision

Legal 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 favour.

(l) Revenue

Information about the Company's accounting policies relating to contracts with customers is provided in Note 4.

(m) 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 on a systematic basis in the same periods in which the expenses are recognized.

3. Significant accounting policies (continued)

(o) Finance income and finance costs

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

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

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

(p) Income tax

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

Interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

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

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

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

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

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

In determining the amount of current and deferred tax, the 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 policies (continued)
New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations, endorsed by the EC, are not yet mandatorily effective for annual periods beginning on or after 1 January 2022, and have not been applied in preparing these separate financial statements. The Company plans to adopt these pronouncements when they become effective.

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

(a) IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020)

The standard is effective for annual periods beginning on or after 1 January 2023 and early application is permitted. The Company expects that the standard, when initially applied, will not have a material impact on the presentation of the separate financial statements of the Company because the Company does not issue insurance or reinsurance contracts, does not hold reinsurance contracts and does not issue investment contracts with discretionary participation features.

(b) Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

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

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

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

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

(c) Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021), effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

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

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

3. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continue)

- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

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

(d) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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

(e) Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021)

IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023.

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

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

Standards and interpretations not yet endorsed by the EC

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

The following amendments and improvements to standards are not expected to have a material impact on the separate financial statements of the Company.

- *Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022);*
- *Amendments to IAS 1 Presentation of Financial Statements;*
- *Classification of Liabilities as Current or Non-current Date (issued on 23 January 2020);*
- *Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 15 July 2020); and Non-current Liabilities with Covenants (issued on 31 October 2022).*

4. Revenue

A. Categories of revenues and breakdown of the revenues under contracts with customers

The Company generates revenues mainly from the sale of services related to the supply, sewerage and treatment of water and construction services related to the concession agreement of the Company. The other sources of revenues have been listed in Note 5.

<i>In thousands of BGN</i>	Note	2022	2021
Revenues from contracts with customers			
<i>Revenues related to water supply and sewerage</i>			
Revenue from water supply		122,443	123,652
Revenue from sewerage		36,808	37,043
Revenue from wastewater treatment		25,749	25,399
Interest income from overdue receivables		3,325	3,494
Revenue invoiced to customers, which offsets the consideration for the new water and sewerage infrastructure financed by the Municipality of Sofia's budget		(238)	(218)
Penalties for industrial discharges of water with excessive concentration of pollutants		504	720
		<u>188,591</u>	<u>190,090</u>
Revenues from non-regulated services			
Revenues from sale of services		<u>3,628</u>	<u>3,417</u>
Revenues from the sale of green energy			
Revenues from green energy		<u>1,512</u>	<u>782</u>
Total revenues from sales of services and green energy		<u>193,731</u>	<u>194,289</u>
<i>Revenues from construction services</i>			
Water supply		9,528	7,395
Potable water treatment		291	530
Sewerage		2,563	4,799
Wastewater treatment		655	613
Water service connections and water meters		3,804	3,552
		<u>16,841</u>	<u>16,889</u>
Total revenues from contracts with customers		<u>210,572</u>	<u>211,178</u>

4. Revenue (continued)

According to an agreement dated 22 June 2007 between Sofiyska Voda AD and Sofia Municipality (MoS), and in relation to Financial Memorandum ISPA 2000 BG 16 P PE 001, signed between the European Commission and the Republic of Bulgaria, the 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 by the Municipality of Sofia from the European Investment Bank (EIB). The end beneficiary of the loan from the European Investment Bank was the Municipality of Sofia.

With a letter of the Ministry of Environment and Water dated 29.03.2016 the Municipality of Sofia and Sofiyska Voda AD were notified about changes to the repayment schedule related to the recovery (at the end of 2015) on the account of EIB of unspent amount under the loan.

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

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

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

Having received notices from the Municipality of Sofia in 2022, the Company transferred two instalments for a total amount of BGN 778 thousand to the bank account indicated by the Municipality of Sofia, to service the loan from EIB. These instalments decrease the amount of ISPA payables (refer to Note 20).

The portion of billed revenue in 2022, set aside for servicing and repayment of the EIB loan, based on the price component included into the WSS services tariff, amounts to BGN 859 thousand (2021: BGN 862 thousand), presented above as a reduction of the Company's yearly revenue for each water supply and sewerage type of services listed above and with the same amounts ISPA payable has been increased in 2022 and 2021 (refer to Note 20)

B. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers

	31 December	1 January
	2022	2022
Receivables, which are included in 'trade and other receivables'	32,167	33,200
Contract assets– unbilled receivables	12,876	12,154
Contract liabilities	<u>(9,532)</u>	<u>(7,908)</u>
Total	<u>35,511</u>	<u>37,446</u>

Contract assets – unbilled receivables

Contract assets refer to the rights of the Company to receive remuneration for provided WSS services pursuant to the Concession Agreement (water supply, sewerage and wastewater treatment), not billed to the reporting date, but which are billed or will be billed after the end of the reporting period, but concern consumption within the reporting period.

Contract assets are transferred into receivables, when the rights over them become unconditional. That usually happens when the Company issues an invoice to the customer.

4. Revenue (continued)

Contract liabilities

Contract liabilities are mainly related to advance payment received (surplus payment) for WSS services or as a result of adjustments of the balances of customer receivables leading to negative net amounts of their open positions in the Company's billing system.

As at 31 December 2022 the Company has contract liabilities at the amount of BGN 9,532 thousand (2021: BGN 7,908 thousand).

The amount of BGN 3,539 thousand recognized as contract assets at the beginning of the period was recognized as income during the period ending on 31 December 2022.

No information is provided on the remaining performance obligations as at 31 December 2022, which initially had an expected duration of one year or less, as permitted under IFRS 15.

C. Performance obligations and policies for revenue recognition

a) Revenue related to the provision of WSS services

Nature and timing of satisfaction of performance obligations, including significant payment terms

Revenues from WSS services (water supply, sewerage and wastewater treatment) are generated by the Company pursuant to the Concession Agreement and the effective legislation.

Revenues from WSS services are recognized on the basis of the quantities of water measured through the readings of water meters.

Key accounts (large customers) are measured and billed monthly on the basis of actual consumption.

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

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

Invoices are issued monthly with a payment term of 30 days after the date of the invoice issuance.

Revenue recognition

Revenue is recognized over time, when the services are provided. The stage of completion for determining the amount of the revenue, which is to be recognized, is measured on the basis of the analysis of the work performed. The work performed is estimated based on the measurement of the quantities of water supplied as at the date of measurement, when physical measurement is performed or based on the calculated consumption of water if the measurement of the quantities supplied is based on the average consumption in previous periods.

The company has identified one performance obligation in compliance with the requirements of the IFRS 15 in the arrangements with its customers, which include three separate components – water supply, sewerage and wastewater treatment. The three components cannot be separated as separate obligations as per the IFRS 15 due to their characteristics.

b) Revenue from construction contracts

Nature and timing of satisfaction of performance obligations, including significant payment terms

Construction contracts bring revenue related to the investments in public assets made by the Company in accordance with the Concession agreement. In line with the requirements of the Concession agreement, public assets built by the Company are owned by the Grantor. They include improvement of existing assets and construction of new components of the water supply and sewerage system.

The Company recognizes an intangible asset – concession right. In accordance with the Concession agreement, the Company doesn't receive cash consideration from the Grantor for the investments made, but the right to invoice and charge the customers for the service at the prices approved by EWRC.

4. Revenue (continued)

In this respect, the Company recognizes an intangible asset “Concession right” against revenue from construction contracts. The revenues are recognized over time, during which the construction services are delivered. The stage of completion for determining the revenue recognized is measured on the basis of analysis of the reported expenses. The Company usually engages sub-contractors for construction works and respectively the stage of completion is determined based on the expenses incurred as at the reporting date by the sub-contractors compared to the total expenses expected to be incurred for the respective assets.

The revenue recognized is limited to fair value of the consideration received (i.e. the amount expected to be realized as incremental revenue as a result of the separate construction service provided). If the costs of the additions or improvements exceed the fair value of the consideration received, the additional amounts invested are recognized as an increase of the intangible asset – Concession right, since these investments are necessary for the Company to be able to continue to charge users in the future under the terms of the contract.

The company has identified one performance obligation in line with the requirements of the IFRS 15 under the Concession Agreement.

c) Provision of other non-regulated services

Essence and time parameters of satisfaction of the performance obligations, including significant payment conditions

Based on approved commercial pricelists the Company provides services such as: technical, engineering, additional sewer services, treatment of specific pollutant loads, laboratory services, small plumbing services, including the installation of individual water meters etc.

Revenue recognition under IFRS 15

For most of them the customer takes the control over the services at a certain point of time, when the service is completed and accepted by the client and revenue is recognized in full at that time.

d) Sale of electricity from cogeneration

Nature and timing of satisfaction of performance obligations, including significant payment terms

In accordance with the prices for the relevant period, approved by the EWRC, for the relevant type of electricity production, the company sells to the National Electricity Company (NEC) the green energy that it generates from the natural gas captured during wastewater treatment.

Revenue recognition

The control on the services is transferred over time.
The invoices to NEC are issued on a monthly basis.

5. Other income

<i>In thousands of BGN</i>	2022	2021
Penalties to contractors	554	112
Gain on sale of inventories to subcontractors for construction works	130	169
Gain on sale of Property, plant and equipment	2	11
Income from financing	90	142
Income from sale of carbon emissions	847	200
Other	284	238
	<u>1 907</u>	<u>872</u>

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

	2022	2021
Revenue from sale of vehicles	3	34
NBV of sold vehicles	<u>(1)</u>	<u>(23)</u>
	<u>2</u>	<u>11</u>

6. Expenses for materials

<i>In thousands of BGN</i>	2022	2021
Electricity, water, heating	1,989	1,903
Sub-contractors	2,195	4,218
Fuels and lubricants	1,586	1,182
Water for technological needs	1,432	1,472
Chemicals	6,249	4,411
Plumbing materials	682	638
Other	1,858	1,608
	<u>15,991</u>	<u>15,432</u>

7. Expenses for hired services

<i>In thousands of BGN</i>	2022	2021
Construction services provided by sub-contractors	12,643	7,806
Repairs and maintenance of concession infrastructure	8,050	6,181
Insurance	1,384	1,285
Commission for collection of trade receivables	1,701	1,723
Rent	8	8
Security	11,171	10,545
Other expenses for hired services	13,189	12,669
	<u>48,146</u>	<u>40,217</u>

Other expenses for hired services include:

<i>In thousands of BGN</i>	2022	2021
Water meter reading	1,888	1,719
Transportation of sludge	460	1,038
Courier services	427	366
Printing services	528	515
Technical services	1,500	1,494
Consultancy	706	856
Asphalt covering	644	470
EWRC fee	384	387
Disinfection	120	478
Communication	262	367
Annual software licenses	1,432	1,221
Hired transportation	169	180
Water tankers	341	284
Software maintenance and internet	1,647	1,252
Training	232	172
Announcements and communications	231	212
Local taxes and fees	152	139
Cleaning of offices and water tanks	134	133
Fees	76	70
Other	1,856	1,316
	<u>13,189</u>	<u>12,669</u>

The accrued charges on remunerations for the appointed auditor for 2021 BGN 187 thousand and 2022 amount to BGN 202 thousand including the statutory independent financial audit of BGN 142 thousand.

8. Employee benefit expenses

<i>In thousands of BGN</i>	<i>Note</i>	2022	2021
Wages and salaries		30,171	29,251
Compulsory social security and pension contribution		4,809	4,920
Social expenses		108	72
Expenses for additional pension contribution		673	615
Current and past service costs in relation to employee benefits	23	576	425
Voucher expenses		1,892	1,760
Share-based payments		248	236
		<u>38,477</u>	<u>37,279</u>

The salary expenses include an accrual for unused annual paid leave amounting to BGN 1,425 thousand (2021: BGN 1,086 thousand).

The compulsory social security and pension contribution includes an accrual for social and health security on unused annual paid leave for the amount of BGN 277 thousand (2021: BGN 227 thousand).

The average number of the Company's personnel is 1,059 employees (2021: 1,108 employees).

Description of share-based payments transaction

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

In 2018, 2019, 2020, 2021 and 2022 Company employees were granted the opportunity to get included into plans giving rights over the increase in the price of the shares of the mother company Veolia Environnement (France). Description below is applicable for 2018, 2019, 2020, 2021 and 2022 plans.

The Company employees have been granted the opportunities to get included into two plans – *Secure Offer* and *Classic Offer*. When participating in the *Secure Offer* employees invest a certain amount, which is doubled at the expense of Veolia Environnement. The agreed upon term of the plan is 5 years. Following the 5 years, the employees get the nominal value they invested and the amount, which Veolia Environnement invested on their behalf. In addition, if the prices of the shares of Veolia Environnement (France) increase, the employees also obtain the value of the increase in the share prices. If the share prices of Veolia Environnement decrease, the employees get as a minimum the amount of their investment and the invested on their behalf amounts by Veolia Environnement.

When participating in the *Classic Offer* employees invest in shares of Veolia Environnement at their expense. The period of the plan is 5 years. The employees from the company, who participate in this offer, use a discount of 20% on the reference price of Veolia Environnement share. The rights over the price increase of the shares expire at the end of the fifth year after their granting. The sum to be paid is determined on the basis of the increase of the price of a share of the company between the date of granting and the date of maturity.

The mother company Veolia Environnement (France) bills to the Company the costs that Veolia Group incurs in connection with the two programs, provided to the company employees.

The participation in the two program is not bound to terms of service as at the date of inclusion in the program or work experience afterwards. The employees should not be in probation period as at the date of its participation.

The two programs are classified by the Company as equity-settled share-based payments transactions.

As at 31 December 2022 the total invested amount (incl. from the previous year) by the employees under the two programs amounts to BGN 1,936 thousand (BGN 411 thousand for 2018 program, BGN 326 thousand for 2019 program, BGN 330 thousand for 2020 program, BGN 442 thousand for 2021 program and BGN 427 thousand for 2022 program) and the sum invested by Veolia Environnement under the “Secured Offer” amounts to 1154 thousand BGN, which is invoiced by Veolia Environnement to the Company (BGN 280 thousand invoiced and expensed in 2018, BGN 187 thousand invoiced and expensed in 2019, BGN 203 thousand invoiced and expensed in 2020, BGN 236 thousand invoiced and expensed in 2021 and BGN 248 thousand invoiced and expensed in 2022).

9. Other operating expenses

<i>In thousands of BGN</i>	<i>Note</i>	2022	2021
Inventory write-down / (reversal) to net realizable value	14	241	102
One-off taxes		114	165
Provisions for fines and penalties, net		18	97
Scrapping of materials		21	10
Scrapping of non-current assets		8	28
Annual fee - water and sewerage		2,618	2,704
Expenses for provision "Handback Account"	21,25	394	345
Other		1,173	1,682
		<u>4,587</u>	<u>5,133</u>

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

<i>In thousands of BGN</i>	2022	2021
Interest income	3	1
Effect from guarantee discounts	20	-
Interest income from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	15	-
Revenue from foreign currency transaction, net	1	1
Financial income	<u>39</u>	<u>2</u>
Interest expenses for Loan "C"	-	(120)
Interest expenses for financial lease contracts	(2)	(8)
Interest expenses on employee benefits	(95)	(21)
Effect from guarantee discounts	(10)	(2)
Interest expenses from discounting trade payables as per agreement between Sofiyska Voda and Municipality of Sofia	-	(5)
Other finance costs	(638)	(704)
Loss from foreign currency exchange differences, net	(7)	(16)
Finance costs	<u>(752)</u>	<u>(876)</u>
Finance costs (net)	<u>(713)</u>	<u>(874)</u>

11. Tax expenses

<i>In thousands of BGN</i>	<i>Note</i>	2022	2021
Current tax expense			
Income tax for current year		(2 816)	(5,007)
Income tax for previous periods		-	-
Deferred tax expense			
Origination and reversal of temporary differences	19	655	587
Total tax expense		<u>(2,161)</u>	<u>(4,420)</u>

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	2022		2021	
<i>In thousands of BGN</i>				
Profit for the year		20,124		39,437
Total tax expenses		<u>2,161</u>		<u>4,420</u>
Profit before tax		<u>22,286</u>		<u>43,857</u>
Income tax based on the Company's domestic tax rate	10%	(2,229)	10%	(4,386)
Non-deductible expenses	0.10%	(19)	0.20%	(88)
Correction of deferred tax assets from prior periods	0.39%	87	-	-
Other		-	0.12%	54
Net current income tax expense	9.7%	<u>(2,161)</u>	10.08%	<u>(4,420)</u>

12. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Vehicles	Leasehold improvements	Assets under construction	Total
Cost						
Balance at 1 January 2021	8,749	39,217	19,943	2,114	-	70,023
Additions	377	-	-	-	4,451	4,828
Disposals	(2,866)	(735)	(180)	-	-	(3,781)
Transfers	-	1,852	1,883	716	(4,451)	-
Balance at 31 December 2021	6,260	40,334	21,646	2,830	-	71,070
Balance at 1 January 2022	6,260	40,334	21,646	2,830	-	71,070
Additions	158	-	-	-	6,394	6,552
Disposals	-	(938)	-	-	-	(938)
Transfers	-	5,043	1,163	188	(6,394)	-
Balance at 31 December 2022	6,418	44,439	22,809	3,018	-	76,684
Depreciation						
Depreciation as at 1 January 2021	(4,644)	(30,260)	(12,968)	(1,372)	-	(49,244)
Depreciation charge for the year	(1,423)	(3,065)	(1,704)	(140)	-	(6,332)
Depreciation on disposals	2,866	715	157	-	-	3,738
Balance at 31 December 2021	(3,201)	(32,610)	(14,515)	(1,512)	-	(51,838)
Balance at 1 January 2022	(3,201)	(32,610)	(14,515)	(1,512)	-	(51,838)
Depreciation charge for the year	(1,429)	(2,947)	(1,654)	(181)	-	(6,211)
Depreciation on disposals	27	929	1	-	-	957
Balance at 31 December 2022	(4,603)	(34,628)	(16,168)	(1,693)	-	(57,092)
Carrying amounts						
At 1 January 2021	4,105	8,957	6,975	742	-	20,779
At 31 December 2021	3,059	7,724	7,131	1,318	-	19,232
At 1 January 2022	3,059	7,724	7,131	1,318	-	19,232
At 31 December 2022	1,815	9,811	6,641	1,325	-	19,592

12. Property, plant and equipment (continued)

Acquisitions

The most significant tangible assets, newly acquired in 2022, amount to BGN 6,207 thousand (2021: BGN 3,735 thousand) and are listed below:

<i>In thousands of BGN</i>	2022	2021
Cogenerator	683	76
Vehicles and mechanization	1,673	2,090
Laboratory equipment	360	327
Computer equipment	2733	461
CCTV	-	25
Telescopic camera	-	6
Diesel aggregate and pumps	-	-
Gardening equipment	43	26
Welding systems, grinders	26	13
Devices for geodetic measurements and leak detection	-	15
Other equipment	690	696
	<u>6,207</u>	<u>3,735</u>

Assets pledged as collateral

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

Assets pledged as collateral under lease contracts

As of the date of this report, the company is not a party to active contracts for the financing of the purchase of means of transport, from which an obligation for collateral arises .

13. Intangible assets

In thousands of BGN

	Development costs	Software	Concession right	Assets under construction – other	Total
Cost					
Balance at 1 January 2021	21,041	24,141	617,786	1	662,969
Additions	-	-	34,956	719	35,675
Disposals	-	-	-	-	-
Transfers		719	-	(719)	-
Balance at 31 December 2021	21,041	24,860	652,742	1	698,644
Balance at 1 January 2022	21,041	24,860	652,742	1	698,644
Additions	-	-	38,762	711	39,473
Disposals	-	-	-	-	-
Transfers		711	-	(711)	-
Balance at 31 December 2022	21,041	25,571	691,504	1	738,117
Depreciation					
Balance at 1 January 2021	(21,037)	(18,200)	(355,489)	-	(394,726)
Depreciation for the year	(1)	(962)	(58,963)	-	(59,926)
Disposals	-	-	-	-	-
Balance at 31 December 2021	(21,038)	(19,162)	(414,452)	-	(454,652)
Balance at 1 January 2022	(21,038)	(19,162)	(414,452)	-	(454,652)
Depreciation for the year		(983)	(69,533)	-	(70,516)
Disposals	-	-	-	-	-
Balance at 31 December 2022	(21,038)	(20,145)	(483,985)	-	(525,168)
Carrying amounts					
At 1 January 2021	4	5 941	262,297	1	268,243
At 31 December 2021	3	5,698	226,900	1	243,992
At 1 January 2022	3	5 698	238,290	1	243,992
At 31 December 2022	3	5,426	207,519	1	212,949

13. Intangible assets (continued)

Determination of recoverable amount

The Third Amendment Agreement to the Concession Agreement with the Municipality of Sofia was signed in March 2018. One of the main changes introduced with the signed amendment agreement was that the agreed 17% rate of return on equity used as one of the components in determination of the selling prices of the services the Company provides to clients should no longer be protected by the price restriction mechanism pursuant to the Concession Agreement. In case of approval by the Regulator of a lower rate of return, no price restriction will be present within the meaning of art. 22.7 of the Concession Agreement. Respectively, for the purposes of formation of the prices of WSS services provided by the Company, as of 2022 the rate of return of equity, which is to be used as a component in determination of the selling prices will be applied as determined by EWRC without reference to the conditions agreed in the Concession Agreement. The return on equity is an indicator that is used in determining the weighted-average cost of capital, which measure is applied by the Regulator in determining the prices of the WSS services provided by the Company. The indicator weighted-average cost of capital is applied to the regulatory value of the assets constructed by the Company (owned assets and those which are subject to transfer to the Municipality of Sofia) and has a considerable weight in determining the values of the prices of the WSS services provided by the Company (for more information about the rate of return of equity and its effect on determination of the selling prices see below).

As a result of the above-mentioned additional agreement to the Concession Agreement in combination with the approaching end of the term of the concession contract, the Company has made an analysis for indications for impairment of fixed tangible and intangible assets as at 31 December 2022 pursuant to the requirements of IAS 36 *Impairment of Assets*. The intangible assets of the Company, the greatest part of which is the "Concession right", as well as the tangible assets owned by the Company are considered as one 'cash-generating unit' (CGU) for the purposes of the impairment test. The recoverable amount of the CGU is determined based on fair value less cost to disposal, calculated based on discounted cash flows. The measurement of fair value is categorized as such by level 3 on the basis of the input data used in the valuation technique.

On November 24, 2022, the Metropolitan Municipal Council decided to extend the term of the Concession Agreement until 2034 (see note 25 "Commitments for the acquisition of property, machinery, plant and equipment". The additional agreement to extend the term of the concessionaire The Concession Agreement has not been formally signed as of the date of approval of this financial statement.

Key assumption in the impairment test prepared by the management is the extension of the concession contract within the limits allowed by the law.

The impairment test prepared by Management includes after tax cash flows for a period of 11 years after the reporting date: including 8.3 years extension after October 2025 under the assumption of an extension of the Concession Agreement after October, 2025 until 2033. A subsequent period of 3 more years after 2033 r. has been assumed for the collection of outstanding receivables and settlement of payables. The management considers the extension of the concession contract with one third of the original concession contract term highly probable. The management assessment for the probability of extension is based on the analysis of the applicable legislation, based on the performance of the Company under the active concession contract and the undertaken preliminary steps in initiating the process of negotiation with the Grantor.

Based on the analysis made, the Management considers that in addition to the assumption for extension of the Concession contract another significant assumption in determination of the recoverable amount of the CGU is the indicator "Sales prices of the services related to water supply and sewerage". In turn the sale prices are impacted mostly by the return on equity, used by the EWRC when determining the prices of the services, applicable for the Company.

As at the end of 2022, based on the impairment test prepared by the Management, it was concluded that the determined recoverable amount is higher than the carrying amount of the CGU and that no impairment should be recorded as at 31 December 2022.

The underlying assumptions used in determining the fair value less costs to sell are as follows:

- Revenues from sales based on the volumes and sales prices are determined as follows:

13. Intangible assets (continued)

- Volumes – according to the most recent long-term forecast of the Company of the billed consumption for the years 2023-2034;
 - Service prices – for the forthcoming regulatory period 2023-2026 through pricing in accordance with the recent published price models in conformity with the effective legislation and the conservative adjustments in the regulatory recognized costs in the pricing models for the years 2027-2034; For 2023, the Company has envisaged prices as those effective in 2021 and 2022 because the Company's Business Plan for 2022-2026 has not been approved by the EWRC yet.
 - The prices of the services are calculated while taking into account the Company's operating costs and the return on the regulatory base of assets, which participate in the provision of the WSS services to the customers. The return determined for the regulatory asset base is calculated by using the regulatory formula for the weighted average cost of capital, in which elements are the return on equity and debt capital.
 - The prices of the services are calculated while taking into account the Company's operating costs and the return on the regulatory base of assets, which participate in the provision of the WSS services to the customers. The return determined for the regulatory asset base is calculated by using the regulatory formula for the weighted average cost of capital, in which elements are the return on equity and debt capital.
 - The prices of the services are calculated while taking into account the Company's operating costs and the return on the regulatory base of assets, which participate in the provision of the WSS services to the customers. The return determined for the regulatory asset base is calculated by using the regulatory formula for the weighted average cost of capital, in which elements are the return on equity and debt capital.
- In determining the revenues and operating costs (except for depreciation), inflation adjustment has been also applied in the respective years, based on the expectations for the rates of inflation.
 - Discount inflation rate after tax – 8.0%.

The management believes that if the assumptions for the extension of the Concession Agreement and for the change in the rate of return for regulatory purposes based on the values set in the additional agreement for the extension of the Concession Agreement are met, a reasonable change in all other assumptions used in the model would not result in an impairment in the value of the fixed assets of the Company as at 31 December 2022. If the extension of the Concession Agreement fails, that would lead to a material impairment loss for the fixed assets as at 31 December 2022 amounting to approximately 97.8 M BGN.

The management expects that the investments made by the Company in the period 2000 – 2025 (the initial Concession term) will be included in the regulatory asset base in 2025 if an agreement is reached on the extension of the Concession Agreement and they will be used by the Regulator as a price element in determining the prices of the water supply and sewerage services.

Determining the useful life of Concession right asset

As at 31 December 2022, the useful life of the Concession right asset is determined based on the Concession Agreement and the appendices thereto effective as at that date. As indicated in the Note 25 "Commitments for acquisition of property, plant and equipment", on 24 November 2022, the Sofia Municipal Council took a decision on the extension of the Concession term until 2034. As at the date of the approval of the financial statements, the Additional Agreement on the extension of the Concession Agreement has not been finalized and signed, and the useful life of the Concession right asset has not been adjusted respectively. The management plans to change the remaining useful life of the Concession right asset after the official conclusion of the Additional Agreement and its entry into force.

14. Inventories

<i>In thousands of BGN</i>	2022	2021
Spare parts and consumables	5,774	4,154
	<u>5,774</u>	<u>4,154</u>

As at 31 December 2022 the cumulative inventory write-down to net realizable value amounts to BGN 2,404 thousand (2021: BGN 2,163 thousand).

15. Trade and other receivables

<i>In thousands of BGN</i>	Note	2022	2021
Trade and other receivables		61,358	64,748
Impairment losses on trade receivables		(29,191)	(31,548)
Total trade receivables	22	<u>32,167</u>	<u>33,200</u>
Other receivables and prepayments		1,673	1,269
		<u>1,673</u>	<u>1,269</u>
Total trade and other receivables		<u>33,840</u>	<u>34,469</u>
<i>Non-current</i>		2,310	1,926
<i>Current</i>		31,530	32,543

In 2022 impairment losses on trade receivables amounting to BGN 2,180 thousand have been written off (2021: BGN 1,617 thousand).

The Company's exposure to interest rate risks and the sensitivity analysis of all financial assets and liabilities are reported in Note 22 – *Financial Instruments*

Other receivables and prepayments:

<i>In thousands of BGN</i>	2022	2021
Insurance	680	521
Licenses	489	302
Subscriptions	173	177
Advances for non-current assets	289	224
Other	42	45
	<u>1,673</u>	<u>1,269</u>

16. Cash and cash equivalents

<i>In thousands of BGN</i>	Note	2022	2021
Cash on hand		5	62
Local currency		1	48
Foreign currency		4	14
Cash at banks	22	<u>97,417</u>	<u>78,077</u>
Local currency		96,476	77,329
Foreign currency		941	748
Cash and cash equivalents in the statement of cash flows	22	<u>97,422</u>	<u>78,139</u>

17. Capital and reserves

<i>In thousands of shares</i>	Ordinary shares	
	2022	2021
On issue at 1 January	8,884	8,884
On issue as at 31 December – fully paid	<u>8,884</u>	<u>8,884</u>

As at 31 December 2022 the Company's share capital includes 8,884,435 ordinary shares (2021: 8,884,435). All shares have a nominal value of BGN 1. Shareholders in the Company as at 31 December 2022 are:

- Veolia Voda (Sofia) BV – 6,850,000 ordinary shares (77.1%);
- Vodospobdyavane 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 14 May 2018 in favor of the bank which provided secured bank loan "C", with consortium Expressbank and UBB AD, 6,850,000 ordinary shares have been pledged and this fact is inscribed in the shareholders' book based on a contract for pledge of shares.

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

Dividends

By Decision of the Company's General Meeting of Shareholders dated 29 September 2022, the company profit for 2021, in the amount of 39,043 thousand BGN, is distributed in the form of dividends, as the size of the dividend for 1 share is BGN 4.3945. The dividends were fully paid in 2022.

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.

18. 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 22, *Financial instruments*.

<i>In thousands of BGN</i>	2022	2021
Non-current liabilities		
Lease liabilities	338	1,575
	<u>338</u>	<u>1,575</u>
Current liabilities		
Lease liabilities	1,333	1,618
	<u>1,333</u>	<u>1,618</u>
Total loans and borrowings	<u>1,671</u>	<u>3,193</u>

18. Loans and borrowings (continued)

Reconciliation of the liabilities from financial activities

In thousands of BGN

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

In thousands of BGN

	Loans and borrowings	Leases	Others	Total
<i>Changes in cash flows from financial activities</i>				
Balance at 1 January 2022	-	3,193	-	3,193
Paid dividends	-	-	(39,043)	(39,043)
Repaid from loan and borrowings	-	-	-	-
Payments on lease liabilities	-	(1,882)	-	(1,882)
Total changes in cash flows from financial activities	-	1,311	(39,043)	(37,732)
Changes related to the liability				
New lease	-	360	-	360
Accrued interests	-	2	-	2
Paid dividends	-	-	39,043	39,043
Paid interests	-	(2)	-	(2)
Total changes related to the liability	-	360	39,043	39,403
Balance at 31 December 2022	-	1,671	-	1,671

19. Deferred tax assets and liabilities

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

	Assets 2022	Liabilities 2022	Net 2022	Assets 2021	Liabilities 2021	Net 2021
<i>In thousands of BGN</i>						
Property, plant and equipment	864	-	864	442	-	442
Inventories	240	-	240	216	-	216
Trade receivables	8,536	-	8,536	8,529	-	8,529
Provisions	591	-	591	442	-	442
Accrual for unused paid leave and bonuses	514	-	514	500	-	500
Payables as per defined benefit plan	232	-	232	184	-	184
Financing	29	-	29	38	-	38
Deferred tax assets/ (liabilities)	11,006	-	11,006	10,351	-	10,351

19. Deferred tax assets and liabilities (continued)

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 2022 is calculated by using the tax rate applicable to the Company, which is the legally set for now income tax rate for 2022 – 10%.

Changes in temporary differences during the year:

<i>In thousands of BGN</i>	Balance as at 1 January 2021	Recogni zed in profit or loss	Balance as at 31 Decemb er 2021	Recognized in profit or loss	Recogni zed in equity	Balance as at 31 Decemb er 2022
Property, plant and equipment	100	342	442	422	-	864
Inventories	206	10	216	24	-	240
Trade receivables	8,391	138	8,529	7	-	8,536
Provisions	359	83	442	149	-	591
Accrual for unused annual paid leave and bonuses	489	11	500	14	-	514
Liabilities under a defined benefit plan	178	6	184	48	-	232
Financing	40	(2)	38	(9)	-	29
Deferred tax assets/ (liabilities)	9,763	588	10,351	655	-	11,006

20. Trade and other payables

<i>In thousands of BGN</i>	<i>Note</i>	2022	2021
Trade payables		26,419	22,720
Retentions payable to subcontractors		2,785	3,022
Payables to employees		7,887	7,742
Insurance		607	494
ISPA payable		4,460	4,379
<i>Incl. long term part of ISPA</i>		3,702	3,601
<i>Incl. short term part of ISPA</i>		758	778
Total trade payables		<u>42,158</u>	<u>38,357</u>
Social security payables		1,224	1,191
Payable as per Settlement Agreement between the Municipality of Sofia and SV		3,186	3,504
<i>Incl. long term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda</i>		-	2,326
<i>Incl. short term part of Settlement agreement between the Municipality of Sofia and Sofiyska voda</i>		3,186	1,178
Payables for water usage tax		2,618	2,704
VAT payable		1,004	1,478
Other taxes payable		126	248
Other payables and accruals		7,529	1,441
		<u>15,687</u>	<u>10,566</u>
Total trade and other payables		<u>57,860</u>	<u>48,923</u>
<i>Incl. Non-current</i>		3,702	5,927
<i>Incl. Current</i>		54,158	42,996

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 at that time. Both sides mutually relieved each other from pretended payment of interest on amounts claimed, as Sofiyska voda accepted the obligation for investments in the period 2009-2023 in addition to already existing approved by the Regulator investment obligations in the Business plan as follows: BGN 2.5 million for the period 2009-2013, according to Art.5.1.(iii) from the Settlement agreement, BGN 5 million in the period 2014-2018 according to Art 6.1.(i) from the Settlement agreement and BGN 4.7 million in the period 2020-2023 according to Art. 6.1.(ii) from the Settlement agreement.

The obligation of BGN 2.5 million over the period 2009-2013 was fulfilled at the end of February 2014. The obligations for the next two periods are to be fulfilled in the period 2016-2023. The investments in the years 2016, 2017, 2018, 2019, 2020 and 2021 are - BGN 1.16 million, BGN 1.06 million, BGN 2.14 million, BGN 0.9 million, BGN 0.9 million, 2021 – BGN 0.9 million and 2022 – BGN 0.3 million respectively. The final BGN 3.2 million will be invested over the period 2023. As the above amounts from the Settlement Agreement are outside the investments set in the Company's business plans and are on the account of Sofiyska voda, they were accounted initially as expense and liability. Subsequently, the liability is decreased with the amount invested for all new assets constructed in accordance with the agreement.

21. Provisions

<i>In thousands of BGN</i>	2022	2021
Provision for court liabilities	686	668
Provision for interest	1,104	1,104
Provision “Handback Account” (note 25)	2,193	1,799
	<u>3,983</u>	<u>3,571</u>

Provision for court liabilities

The provision is calculated on the basis of estimation of the most likely outcome and historical evidence by the Company’s 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, as well as a provision for potential future payments for interests.

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 prior financial periods is due to provisions from this group. In accordance with order №370/19.03.2014 on the grounds of art. 74, par. 1, it.3 of the Act for Protection of Competition (APC), the Commission for Protection of Competition initiated proceedings that Sofiyska Voda used its dominant position on the market in relation to charging interest for delayed payments on estimated bills for provided services under art. 21, it.1 from APC. The sanction amounts to BGN 4,800 thousand and was calculated based on 0.5% of Sofiyska Voda 2013 revenue, applying leverage ratio 8.

The Company has undertaken measures to appeal the penalty imposed in compliance with the applicable legislation. On 11 January 2016 the Supreme Administrative Court (SAC) partially respected the appeal of SV against the decision of the Commission for Protection of Competition and reduced the imposed penalty from BGN 4,800 thousand to BGN 2,400 thousand. Both SV and CPC appealed the decision before a 5-member jury of SAC.

Court case 3161/2016 was commenced and the hearing was on 7 April 2016.

With the final decision of the Supreme Administrative Court of 25 May 2018 the Company was imposed a penalty of BGN 1,920 thousand under the above proceedings. In that reference an analysis was made by the Management and provisions were accrued for interests paid by customers of the Company for delay of estimated debts in prior periods. As of the date of this report no claims have been initiated by customers.

Based on the professional advice of the legal advisers of the Company the management considers that the Company is not exposed to risk for additional penalties for the period 2013 -2018, since after the final decision of the court the in May 2018 all the prescribed changes were introduced by the management.

21. Provisions (continued)

Changes in the provisions' balances over the year is presented below:

<i>In thousands of BGN</i>	Balance at 1 January 2022	Provisions made during the year	Provisions used during the year	Reversed provisions during the year	Discount effect	Balance at 31 December 2022
Provision for court liabilities	667	309	-	(290)	-	686
Provision for interests	1 104	-	-	-	-	1,104
Provision "Handback Account"	1 799	394	-	-	-	2,193
	<u>3 570</u>	<u>703</u>	<u>-</u>	<u>(290)</u>	<u>-</u>	<u>3,983</u>

22. 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. 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. These 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 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.

22. Financial instruments (continued)

Exposure to Credit Risk

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

<i>In thousands of BGN</i>		Carrying amount 2022	Carrying amount 2021
	<i>Note</i>		
Trade and other receivables	15	32,035	33,068
Contract assets	4	12,876	12,154
Receivables from related parties	15,26	132	132
Cash and cash equivalents (at banks)	16	97,417	78,077
		<u>142,460</u>	<u>123,431</u>

Trade and other receivables and contract assets

The credit risk exposure of the Company results from the individual characteristics of the individual customers. The exposure also depends on the risk of non-payment common to the utility sector. The Company provides WSS services on the territory of Sofia Municipality and as at 31 December 2022 the active customers of the Company are 713,177 (2021: 698,285). Based on the analyses of the Company, the services rendered have low price elasticity. The prices are regulated by the Energy and Water Regulation Commission (EWRC). 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' behaviour is limited due to the legal framework and the complications at interruption of the consumption for individuals, as well as to the fact that the majority of uncollected trade receivables are owed by individual customers (households) and not institutional customers.

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

<i>In thousands of BGN</i>	Book value 31 December 2022	Impair- ment 2022	Carrying amount 31 December 2022	Book value 31 December 2021	Impair- ment 2021	Carrying amount 31 December 2021
Government/municipality controlled entities	2,799	(1,169)	1,630	4,797	(1,519)	3,278
Legal entities	9,898	(1,999)	7,899	8,714	(2,564)	6,150
Domestic population	55,163	(25,645)	29,518	58,076	(27,068)	31,008
Other customers	6,242	(398)	5,864	5,183	(397)	4,786
Related parties	132	-	132	132	-	132
	<u>74,234</u>	<u>(29, 191)</u>	<u>45,043</u>	<u>76,902</u>	<u>(31, 548)</u>	<u>45,354</u>

22. Financial instruments (continued)

Expected measurement of credit losses for the individual customers as at 1 January and 31 December 2022

The Company uses a provision matrix for measuring ECL (expected credit losses) on trade receivables.

For the purposes of the analysis the Company has grouped the customers into three categories:

- individual customers
- legal entities
- budgetary customers

For the three categories of customers the company has performed an analysis of debt collection based on historical data.

In determining the impairments as at 31 December 2022 and 31 December 2021, based on the analyzed above historical data for the collection for each of the categories, the Company has developed a model of the expected evolution of the receivables for each of the categories under “Current” (not overdue) per age groups as per the tables below. In determining the impairment as at 31 December 2022, based on the so received data, the Company has applied discounting of the sums for each of the categories (without the receivables at the age over 3 years) as at the reporting date, and a discount rate has been applied based on the interest statistics of BNB for 2022 for the consumer credits in BGN for households in Bulgaria, and namely – the average annual percentage of 7.59% (7,57% in 2021), and 2.65% (2,71% in 2021)) has been used for the balances of the receivables from budget and commercial customers, which is the average percentage for credits for the non-financial corporations sector.

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

Despite the complex geopolitical and economic situation in the past year, the company reported excellent collection of receivables. With regard to employment, according to NSI data, unemployment reported at the end of 2022 (3.9%) is lower than that reported at the end of 2021 (4.5%). Expectations for price levels in 2023 are also improving. Based on this information as well as the experience of the previous year, the company's management does not consider that there are grounds for a more conservative adjustment of the assumptions in the matrix for the impairment of trade receivables.

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

<i>In thousands of BGN</i>	2022	2022	
	Book	Impairment	Credit
	Value		impairment
Not past due	25,330	(908)	No
Past due 30 days	3,078	(605)	No
Past due 31-60 days	2,284	(710)	No
Past due 61-90 days	2,050	(750)	No
Past due 91-180 days	4,947	(2,094)	No
Past due 181-360 days	8,671	(4,995)	No
Past due 361-720 days	13,087	(8,433)	Yes
Past due 721-1080 days	14,787	(10,696)	Yes
	<u>74,234</u>	<u>(29,191)</u>	

22. Financial instruments (continued)

In thousands of BGN

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

Impairment of not past due receivables is related to the Company's assessment of the risk of non-collectability 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:

<i>In thousands of BGN</i>	2022	2021
Balance at the beginning of the period	(31,548)	(36,320)
Accruals during the period	(5,553)	(3,000)
Written-off	2,180	1,617
Written- off for purpose of IFRS 9	5,729	6,155
	<u>(29,191)</u>	<u>(31,548)</u>
Balance at the end of the period		

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 2022 it continues to carry out analysis of specific customers on the basis of precise proactive actions, working with them and the history of past communication. The Company has also introduced impairment of undue trade receivables and outstanding balances for court fees and legal remuneration related to the debt collection and litigation activities.

22. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will face difficulties to meet its obligations relating to financial liabilities, meant to be met by cash or another 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 pursuant to the loan agreement for the Loan "B" facility regarding the debt service coverage ratio and the equity to total assets ratio.

The agreed maturity for the financial liabilities is given below, including the expected payments of interests as the impact of the agreed offsetting reciprocal commitments is excluded:

31 December 2022 r.

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						
Liabilities to related parties	3,532	(3,532)	(3,532)	-	-	-
Lease liabilities	1,671	(1,674)	(1,335)	(258)	(81)	-
Trade payables	42,158	(42,158)	(42,158)	-	-	-
	47,361	(47,364)	(47,025)	(258)	(81)	-

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

The interest payments on loans with floating interest rate in the preceding table reflect the market interest rates as at the end of the period based on EURIBOR and these amounts may vary upon change in the market rate.

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

31 December 2021

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						
Liabilities to related parties	3,075	(3,075)	(3,075)	-	-	-
Finance lease liabilities	3,193	(3,196)	(1,621)	(1,267)	(308)	-
Trade and other payables	38,357	(38,357)	(38,357)	-	-	-
	44,625	(44,628)	(43,053)	(1,267)	(308)	-

22. Financial instruments (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates or equity prices will affect the 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). 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:

In thousands of	31 December 2022			31 December 2021		
	EUR	GBP	USD	EUR	GBP	USD
Trade payables	(1,587)	1	-	(1,515)	(1)	1
Interest-bearing loans and borrowings	-	-	-	-	-	-
Total	(1,587)	1	-	(1,515)	(1)	1

The following significant exchange rates are applied during the period:

	Average period FX rate		FX rate at reporting date	
	2022	2021	2022	2021
USD 1	1.861	1.655	1.834	1.727
GBP 1	2.295	2.276	2.205	2.328

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	2022	2021
Fixed rate instruments		
Financial assets	97,417	78,077
Financial liabilities	-	-
	<u>97,417</u>	<u>78,077</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(1,671)	(3,193)
	<u>(1,671)</u>	<u>(3,193)</u>

- **Analysis of the sensitivity versus 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 2020 is made on the same basis.

22. Financial instruments (continued)

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 2022				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(8)	8	-	-
Cash flow sensitivity (net)	(8)	8	-	-
31 December 2021				
Financial assets with floating interest rate	-	-	-	-
Financial liabilities with floating interest rate	(8)	8	-	-
Cash flow sensitivity (net)	(8)	8	-	-

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.

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

Notes to the separate financial statements

22. Financial instruments (continued)

Accounting classifications and fair values

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

	31 December 2022	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	15	-	-	-	-	-	32,035	-	-	-	-	-	-	-	32,035
Receivables from related party	26	-	-	-	-	-	132	-	-	-	-	-	-	-	132
Cash and cash equivalents	16	-	-	-	-	-	97,417	-	-	-	-	-	-	-	97,417
		-	-	-	-	-	129,584	-	-	-	-	-	-	-	129,584
Financial liabilities, not measured at fair value															
Loans	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trade and other payables	20	-	-	-	-	-	-	-	(42,158)	-	-	-	-	-	(42,158)
Payables to related parties	26	-	-	-	-	-	-	-	(3,517)	-	-	-	-	-	(3,517)
Lease liabilities	27	-	-	-	-	-	-	-	(1,671)	-	-	-	-	-	(1,671)
		-	-	-	-	-	-	-	(47,346)	-	-	-	-	-	(47,346)

22. Financial instruments (continued)

Accounting classifications and fair values (continued)

		31 December 2021							Fair value				
		Carrying amount							Level 1	Level 2	Level 3	Total	
<i>In thousands of BGN</i>	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				
Financial assets, not measured at fair value													
Trade and other receivables	15	-	-	-	-	33,068	-	-	33,068				
Receivables from related party	26	-	-	-	-	132	-	-	132				
Cash and cash equivalents	16	-	-	-	-	78,077	-	-	78,077				
		-	-	-	-	111,277	-	-	111,277				
Financial liabilities, not measured at fair value													
Loans	18	-	-	-	-	-	-	-	-				
Trade and other payables	20	-	-	-	-	-	-	(38,357)	(38,357)				
Payables to related parties	26	-	-	-	-	-	-	(3,075)	(3,075)				
Payables on financial lease	27	-	-	-	-	-	-	(3,193)	(3,193)				
		-	-	-	-	-	-	(44,625)	(44,625)				

22. Financial instruments (continued)

Measurement of fair value

(i) Valuation technique and significant unobservable inputs

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

Financial instruments not measured at fair value

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

23. Employee benefits

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

<i>In thousands of BGN</i>	2022	2021
Present value of the liability on 1 January	2,433	2,329
Interest expense	95	22
Current service cost	576	425
Actuarial loss (profit)	(259)	44
Paid compensations to retired employees	(188)	(387)
Present value of the liability on 31 December	<u>2,657</u>	<u>2,433</u>

Liability recognized in the statement of financial position as at 31 December, including:	2,657	2,433
<i>Short-term liabilities for retirement compensation</i>	733	553
<i>Long-term liabilities for retirement compensation</i>	1,924	1,880

Expenses recognized in the statement of comprehensive income

<i>In thousands of BGN</i>	2022	2021
Current service cost	576	425
Past service cost	-	-
Interest expense	95	21

Actuarial assumptions

	2022	2021
Discount rate at 31 December	3.75%	0.90%
Salary increase (annual for 10 years)	3.00%	2.50%
Employee turnover	5.75%	5.4%

The actuarial assumptions for death rates are based on the National Statistics Institute's population mortality tables. For the purposes of the discounting effective annual interest rate $i = 0.90\%$ is used. The selected discount rate is based on analysis of the offered long-term investment instruments on the Bulgarian financial market (government securities, municipality bonds, etc.).

23. Employee benefits (continued)

Actuarial assumptions

<i>In thousands of BGN</i>	25 basis points increase of salaries growth	25 basis points decrease of salaries growth
Effect on the liability for retirement compensation	34	(34)
<i>In thousands of BGN</i>	25 basis points increase of interest growth	25 basis points decrease of interest growth
Effect on the liability for retirement compensation	(31)	31
<i>In thousands of BGN</i>	10 basis points increase of employee turnover	10 basis points decrease of employee turnover
Effect on the liability for retirement compensation	(138)	138
<i>In thousands of BGN</i>	25 basis points increase of mortality rate	25 basis points decrease of mortality rate
Effect on the liability for retirement compensation	(23)	23

24. Contingencies

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 16708/12.21/Oper/NG, issued by BNP Paribas S.A. – Sofia Branch, to the amount of 750,000 USD, and validity till December 15th, 2023;
- Performance security for the obligations of Sofiyska Voda AD under the Contract No. ПД-568-68/10.08.2011 with the Municipality of Sofia for the repair of defects and damages that occurred in municipal areas where Sofiyska Voda AD performs construction works, with No MD213551000, issued by “United Bulgarian Bank” AD, to the amount of 552,000 BGN, and validity till December 31st, 2023;

25. Commitments for acquisition of property, plant and equipment

Concession agreement

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

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

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

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

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

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

After the Water Supply and Sewerage Services Regulation Act became effective in 2006, Sofiyska Voda's operations are directly regulated by the Energy and Water Regulatory Commission (EWRC, the Commission).

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

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

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

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

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

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

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

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 2020 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 and consequently as of 1 January 2021 the third price increase was approved.

According to the concession agreement, a special Concession Monitoring Unit (the “CMU”) was established by the Grantor (MoS) for the purposes of monitoring and ensuring compliance by the Concessionaire with the provisions of this Concession Agreement. The Company cooperates with the CMU to facilitate the monitoring of the performance and the delivery of services, and prepares and submits to CMU various reports and accounts etc.

Between 54 and 48 months prior to the expected date of expire of the concession Sofiyska Voda and the Municipality of Sofia should make a joint audit of the public assets. Not later than 24 months prior to the date in question, the parties agree for the way of hand over of the assets and the activity.

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

Regarding the special right to use public assets and to render services of water supply, sewerage and wastewater treatment to the customers within the concession territory (service commitment), an intangible asset named “concession right” has been recognized. The carrying amount of the concession right as at 31 December 2022 is BGN 207,520 thousand (2021: BGN 238,291 thousand).

For 2022 the investments amounted to BGN 45,867 thousand (2021: 40,126 thousand), of which BGN 38,762 thousand (2021: 34,957 thousand) represented investments in improvements and new public assets, of which 16,841 (2021: 16,889) are recognized as revenue from construction.

For the period since the beginning of the Concession until the end of 2022 the amount of investments made by the Company into the concession infrastructure is BGN 835,941 thousand.

Comparison between committed investments in the approved business plan for the period 2017 – 2022 and actual ones is disclosed in the table below:

	2017	2018	2019	2020	2021	2022
	(in mln. BGN)	(in mln. BGN)	(in mln. BGN)	(in mln. BGN)	(in mln. BGN)	(in mln. BGN)
Investments in regulated services						
Committed investments in accordance with approved Business plan 2017- 2022	44.2	44.4	38.7	33.8	33.0	47.4
Actual investments	43.6	40.8	43.8	38.0	38.2	44.5

Investments in regulated services, according to the latest forecasts for the first year of the next regulatory period (2023), amount to BGN 50.1 million.

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

Concession agreement (continued)

The Third Amendment Agreement to the Concession Agreement was signed in March 2018 with Municipality of Sofia. The main proposed substantial amendments are as follows:

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

At the end of September 2021, an official letter was sent, by which Sofiyska Voda AD and Veolia proposed the extension of the Concession Agreement (CA) due to the distorted economic balance of the concession. Following numerous working meetings and negotiations held between the parties, on 24 November 2022, the Sofia Municipal Council decided to extend the validity of the Concession Agreement until 2034 via the Fourth Amendment Agreement (FAA) to the CA. The Municipality of Sofia submitted the FAA to the CA for an opinion to the Energy and Water Regulatory Commission (EWRC) in connection with the powers of the Regulator under the Water Supply and Sewerage Services Regulation Act. On 09.01.2023, the EWRC published its opinion on the proposed FAA. All legal requirements related to the signing of the FAA were met, and the agreement on the extension of the CA is to be signed.

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

Business Plan 2022 – 2026

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

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

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

Court case 6374/2021 is commenced at the Administrative Court of Sofia in regard to the appeal filed by Sofiyska Voda against a decision of the Regulator, setting up the target levels of the KPIs for the regulatory period 2022-2026. The first court hearing was held on 14.09.2021. With its ruling dated 21.09.2021, the Administrative Court left without consideration the appeal of Sofiyska Voda AD in the part against item 2 of decision PK-1/28.05.2021, by which the Commission set estimated specific targets for the quality indicators of the water supply and sewerage services. The ruling was appealed by Sofiyska Voda before the Supreme Administrative Court (SAC) where court case 10769/2021 was commenced. By its decision dated 08.12.2021, the Supreme Administrative Court (SAC) revoked the decision of the Administrative Court of Sofia and referred the lawsuit back for reconsideration under item 2 as well. The issuing of a technical-economic expert opinion demanded by the Company was allowed. By its decision dated 08.12.2022, the Administrative Court of Sofia revoked Decision No. PK-1/ 28.05.2021 of the EWRC, appealed by Sofiyska Voda, in its parts under items 1 and 2. The decision is subject to appeal. The EWRC appealed the decision and the administrative case 872/203 was commenced in the SAC, scheduled for consideration on 23.03.2023.

Court case 6373/2021 is commenced at the Administrative Court of Sofia in regard to the appeal filed by Sofiyska Voda against a decision of the Regulator, setting up the company's rate of return on equity and the external financing for the regulatory period 2022-2026. The first court hearing was scheduled for 23.11.2021 where the hearing of a court economic expert opinion was admitted. The prepared court economic expert opinion was presented and it had to be supplemented. By its decision dated 30.11.2022, the court revoked the Decision HB-1/28.05.2021 of the EWRC in its parts under items 1, 1.1. and 1.2., and referred the case as an administrative file back to the EWRC for a new decision in compliance with the instructions in the court decision on the interpretation and application of the law. The decision is subject to appeal. The EWRC appealed the decision and the administrative case 932/2023 was commenced in the Supreme Administrative Court, scheduled for consideration on 04.05.2023.

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

26. Related parties

The 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- Vodospobnyavane 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
- Green energy income with National Electricity Company EAD – state-owned (disclosed in Note 4);
- Under a contract signed with NEC EAD, the latter has invoiced to Sofiyska Voda BGN 1,215 thousand (without VAT) for water that Sofiyska Voda has purchased and has run through NEK’s plants in order for the water to reach the suburban area of Sofia. The expense is recognized in Expenses for materials – Electricity, water, heating. On the other hand, Sofiyska Voda has invoiced to NEC BGN 1,215 thousand (without VAT) due to the fact that NEC has generated electricity from the water running through their plants. The revenue has been recognized in Revenue from water supply.

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 (2020: 100%).

26. Related parties (continued)

The following transactions took place in 2022:

Related party	Relation	Transactions during the year	Balance as at 31 December 2022	
			Receivables	Payables
<i>In thousands of BGN</i>				
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,500	-	2,996
Veolia Campus	Company under common control	Trainings 66	-	50
Veolia Environnement SA, France	Company under common control	Discount 3 Sequoia shares 236 Google workplace 129 Cyber security 20 Software for HR 37	1 - - - -	- - 118 20 13
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 61 Water meter testing costs 1 Sales of materials 1 Garbage fee 1	- - 5 -	12 - - 1
Veolia Service Bulgaria EOOD		Re-invoicing of costs 1	1	-
Veolia Energy Varna Bulgaria EAD	Company under common control	Re-invoicing of costs 1 Income from re-invoicing of costs 2	- 3	1 -
Veolia Energy Solutions Bulgaria EAD	Company under common control	Maintenance of air-conditioners 14 Installation of cooling system 7 Purchase of air-conditioners 14 SCADA monitoring 3 Re-invoicing of costs 13 Installation and dismantling of heat and cold meters 5 Work clothes 1 Cost of design 2 Income from design 55	- - - 1 13 - - - - 66	12 - 17 - - - - - -
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Re-invoicing of costs 30	36	-
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Sale of materials - Re-invoicing of costs 1	5 1	- -
INSTITUT SLUZEB	ENVIR	Trainings 2	-	-
VEOLIA POLSKA S.A.	ENERGIA	License 6	-	-
KRUGER S/A		Hubgreat update 272	-	272
Total:			132	3,512

26. Related parties (continued)

The following transactions took place in 2021:

Related party	Relation	Transactions during the year	Balance as at 31 December 2021	
			Receivables	Payables
<i>In thousands of BGN</i>				
Veolia Voda CEE	Controls 100% of the shares of Veolia Voda (Sofia) BV	Technical services provided 1,496	-	2,994
Veolia Romania Soluti Integrate SA Finance	Company under common control	Operational guaranty fees 21	-	21
Veolia Campus	Company under common control	Trainings -	-	2
Veolia Environnement SA, France	Company under common control	Discount -	67	-
Vodosnabdyavane i Kanalizatsia EAD	Controls 22.90% of the shares of Sofiyska Voda AD	Rental costs 56 Metering 1 Sales of materials 1 Garbage fee 2 Deposit 1	- - 5 - -	12 - - 1 1
Veolia Energy Solutions Bulgaria EAD	Company under common control	Laboratory analysis 8 Maintenance of air-conditioners 21 Installation of cooling system 24 Purchase of air-conditioners 45 Guarantees under contracts - Consulting services 20 SCADA monitoring 15 WWTP inspection 4 Measurement campaign 2 Technological assistance 1 Flow measurement, data processing and reporting 4	10 - - - - 24 4 - 3 1 -	- 16 - 13 3 - - - - - -
SAD S.A. - KLON BALGARIA KCHT	Company under common control	Repair works on the WSS network in Sofia 4 Guarantees under contracts - Sale of materials - Re-invoicing of costs 7	- - 3 9	- 12 - -
DZZ Zona 2015	SAD S.A. - KLON BALGARIA KCHT owns 50% of the capital of the company	Sale of materials -	6	-

26. Related parties (continued)

The following transactions took place in 2021:

Related party	Relation	Transactions during the year	Balance as at 31 December 2021	
			Receivables	Payables
<i>In thousands of BGN</i>				
Partnership "Kubratovo 2018" DZZD	SAD S.A. - KLON BALGARIA KCHT owns 95% of the capital of the company	Repair works on the WSS network in Sofia 61	-	-
Total:			132	3,075

Transactions with directors and officers on key management personnel:

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:

The remunerations for the key managers consist of:

<i>In thousands of BGN</i>	2022	2021
Short-term employee benefits	529	503
Share-based payment	-	-
	529	503
<i>In thousands of BGN</i>		
Of which on balance sheet short-term income as at 31 December	40	39

In 2022 the Company has incurred expenses amounting to BGN 1,500 thousand for technical services (2021: BGN 1,496 thousand), which include also the remunerations for key management personnel provided. The services are rendered by Veolia Voda CEE and the expenses are disclosed as part of the transactions with this related party in the information above.

27. Leases

(a) Leases as lessee (IFRS 16)

The Company leases buildings, office space and warehouses, IT server locations, vehicles and other equipment. The leases typically run for several years, and some have an option to renew the lease with one year after the end date. Some leases provide for additional rent payments that are based on changes in local price indices.

The Company leases IT equipment with contract terms of one year. These leases are short-term and/or leases of low-value items. The Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

See accounting policy in Note 3.

Information about leases for which the Company is a lessee is presented below.

(i) Right-of-use assets

Right-of-use assets related to equipment and leased properties that do not meet the definition of investment property are presented below:

<i>In thousands of BGN</i>	Office rent and other	Vehicles	Total
2022			
Balance at 1 January 2022	2,797	1,069	3,866
Depreciation charge for the year	(1,409)	(424)	(1,833)
Depreciation on disposals	321	-	321
Disposals	(136)	-	(136)
Balance at 31 December	1,573	645	2,219

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

(ii) Lease liabilities

<i>In thousands of BGN</i>	2022	2021
Maturity analysis – contractual undiscounted cash flows		
Less than one year	1,335	1,621
One to five years	339	1,575
More than five years	-	-
Total undiscounted lease liabilities at 31 December	1,674	3,195
Lease liabilities included in the statement of financial position at 31 December	1,671	3,193
Current	1,333	1,618
Non-current	338	1,575

27. Leases (continue)

(iii) Amounts recognised in profit or loss

In thousands of BGN

	Note	2022	2021
2021 – Leases under IFRS 16			
Interest on lease liabilities		2	8
Expenses relating to short-term leases	7	2	8

(iv) Amounts recognised in statement of cash flows

In thousands of BGN

	2022	2021
Total cash outflow for leases	1,882	1,824

(v) Extension options

Some leases contracts contain extension options exercisable by the Company. In such cases, for contracts which expire within one year of the reporting date, the Company has assumed an extension of up to one year. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

28. Subsequent events

There are no events occurring after the date of the reporting period, which require adjustments to the annual financial statements.

NON-FINANCIAL STATEMENT TO THE ANNUAL REPORT 2022

SOFIYSKA VODA AD

1. ENVIRONMENTAL MATTERS

1.1. ENVIRONMENTAL PROTECTION IN 2022

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

We are loyal to our mission: RESOURCING THE WORLD.

Sofiyska Voda AD has a certified environmental management system (EMS) corresponding to the requirements of the international standard ISO 14001:2015. The maintenance of the system continued in 2022 by updating environmental aspects and conducting internal regular checks in line with the approved annual schedule.

In 2022, Sofiyska Voda AD renewed its registration from the Ministry of Environment and Water under the EU Eco-Management and Audit Scheme (EMAS) with a scope covering all treatment plants and the water network.

1.2. ENERGY EFFICIENCY IN 2022

The WSS system of the city of Sofia is designed and constructed in such a way as to use for the most part the force of gravity to move the water. The water sources are in the mountains, and the pumping stations along the water and sewer systems are a few. Nevertheless, the water supply and treatment are processes, which need energy in the order to be realized. Sofiyska Voda AD has implemented and uses systems for permanent energy consumption monitoring at the big potable and wastewater treatment plants.

The generated green energy in the period January – December 2022 at Sofia Wastewater Treatment Plant Kubratovo (WWTP) was 22,506 MWh. The production is based on the cogeneration facility for the recovery of the biogas released in the sludge treatment process at the plant. In 2022, the green energy produced in the treatment plant covered more than 116.78% the electricity needs of the treatment plant, which is a nearly 1% increase in comparison with 2021.

1.3. EMISSIONS INTO AIR IN 2022

Direct emissions

The company generates direct emissions in the air through the use of transport vehicles and also the use of energy sources for heating some of its sites. In 2022, the direct emissions amounted to 1.66 thousand tons of carbon dioxide (CO₂), which does not include the activities outsourced to suppliers of Sofiyska Voda AD. There was a decrease by 7.47% versus 2021. With regard to the control of

these direct emissions, Sofiyska Voda uses a GPS system to monitor the routes, speed, acceleration and idle time of the company vehicles. Also, where possible, the remoteness of the potential suppliers is assessed in the selection of services and goods.

Indirect emissions

The indirect emissions result from the use of energy – electric and heat. In 2022, the data shows that the indirect emissions of the company amounted to 2.62 thousand tons of carbon dioxide (CO₂), which is 25.96% higher than the previous year. The increase is due to the added energy consumed in the use of the hydrophores for maintaining the pressure in the water network.

The greenhouse gas emissions saved in 2022 were 1.56 thousand tons of carbon dioxide equivalent (CO₂), as that was mainly due to the production and use of renewable energy.

1.4. WATER RESOURCES IN 2022

Losses reduction

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

The total water abstracted from all water sources in the period January – December 2022 was 134,021,571 m³.

The data obtained from the monitoring throughout the year shows that the water volumes used for water supply decreased in comparison with 2021. The decrease was mainly due to the efforts of the company to reduce the losses and optimize the operation of the water network.

The raw water abstracted from all water sources in the period January - December 2022 compared to the same period of 2021 decreased by 2,434,615 m³.

Water losses reduction is a priority in the investment program of Sofiyska Voda AD. The realized total investments were to the amount of BGN 46.17 M. Of those, BGN 44.45 M was for regulated services. The realization of the planned total annual investments is 90%. The rising inflation and the difficulties in the delivery of some building materials had a restrictive effect on the implementation of the planned investments.

Potable water quality

Every year Sofiyska Voda AD manages to comply with the statutory standards for potable water quality. Nevertheless, we do not stop setting ourselves even higher challenges in order to achieve even better performance. In 2022, the monitored samples were from the points included in all 6 water supply zones, as the frequency required as per *Ordinance 9 on the quality of water intended for domestic purposes dated 16.01.2018* was exceeded.

Sewerage and wastewater treatment

The program for proactive maintenance of the sewerage network continued in 2022, and as a result of it more than 107 km of the network within the concession area were cleaned proactively, which is by 3 km less compared to 2021. The result achieved is measurable with the preceding year despite the fewer staff due to vacant posts.

Quality of the treated wastewater

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

Pursuant to the wastewater discharge permit, the analyzed main indicators are biological oxygen demand (BOD₅), chemical oxygen demand (COD) and suspended solids (SS), total nitrogen, total phosphorus and all remaining indicators defined in the discharge permit for the treated wastewater at SWWTP outlet. In 2022, Iskar River was spared the following quantities of pollutants from the wastewater:

- 17,299 t BOD₅
- 35,989 t COD
- 2,716 t of nitrogen
- 387 t of phosphorous.

In 2022, the determined statutory number of samples was taken for the mentioned above quality indicators for the treated wastewater.

The values of the qualitative indicators of the samples are below the levels fixed in the wastewater discharge permit.

1.5. SOILS

In the wastewater treatment process the so-called “sludge” is separated, which is a mixture of organic and inorganic matter and water. After passing through a process of stabilization and dewatering, sludge could be used in agriculture for fertilizing crops, which are not designated for human consumption. The quality of the sludge separated in the wastewater treatment process is tested in conformity with the Ordinance on the terms and conditions for utilization of sludge from wastewater treatment through its use in agriculture.

16,005 tons of sludge (dry matter) from Kubratovo SWWTP were utilized in 2022 over agricultural areas instead of being deposited in landfills or incinerated, thus nature was spared the artificial fertilizers used in the production.

1.6. WASTE

Sofiyska Voda provides to its employees the possibility to throw their rubbish separately, aiming at its recycling or proper disposal in conformity with the waste management legislation of the Republic of Bulgaria. Apart from the separated collection of waste from packages, spent batteries, toners and electric and electronic equipment are also collected at the company’s sites and handed in.

Metal waste, glass, waste oils, tires, used disposable clothing, and other types of waste are collected at the different sites. Sofiyska Voda has participated in the “Caps for Future” campaign since 2018. There are cardboard boxes at all company sites and the employees actively participate in the collection of caps. Thus, the commitment is linked not only to the idea of the campaign but also to plastic waste reduction and recycling and to the reduction of environmental pollution. In 2022, the company participated in the delivery of the collected plastic caps, their total amount being around 150 kg.

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

The Company strictly complies with the Bulgarian waste management legislation. In 2022, the following has been delivered for disposal, utilization or recycling:

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- 7.985 tons of hazardous waste;
- 31,905 tons of nonhazardous waste, which include dug out soil and 0.122 t of end-of-life clothes, delivered for recycling but do not include sludge from SWWTP for utilization on agricultural areas;
- 16,005 tons (dry matter) – sludge from SWWTP Kubratovo for utilization on agricultural areas.

1.7. BIODIVERSITY

Preservation of biodiversity and ensuring favorable conditions for the ecosystems is a priority for the Group of Veolia and one of the commitments for sustainable development.

In 2021, 3 of the sites of Sofiyska Voda AD were identified as *sensitive* according to the criteria set by the Group. These are: Bistritsa PWTP; Pancharevo PWTP and Mala tsarkva PWTP. In 2022, SWWTP Kubratovo was added, as it was identified as a non-sensitive site for biodiversity survey.

In fact, the project was started in 2019 together with the biologists from the National Research Center at SU “Sv. Kliment Ohridski” and it was divided into two phases:

- phase I /2019/ – a biodiversity survey at Bistritsa PWTP and Pancharevo PWTP;
- phase II /2020/ – a biodiversity survey at Kubratovo WWTP and Mala tsarkva PWTP.

Over the next years – 2021 and 2022, the conduct of the so-called biodiversity audits” continued, and the results from them were reported to the Group.

Accordingly, in 2022, as part of the implementation of the measures from the Reports, the establishment of educational paths was done on the territories of Mala tsarkva PWTP and Kubratovo WWTP (such were established in the previous year 2021 on the territories of Bistritsa PWTP and Pancharevo PWTP).

During the summer of 2022 audits – monitoring of the three sensitive sites and of Kubratovo WWTP, added as a non-sensitive site, were conducted together with representatives of SV and the biologists from Sofia University “St. Kliment Ohridski” following a methodology defined by the Group. The practices established from the previous years for biodiversity preservation were reported and an action plan was prepared for introducing additional measures to be implemented in the period 2022-2023.

1.8. HAZARDOUS CHEMICAL SUBSTANCES AND MIXTURES

Various chemical substances and mixtures, hazardous to the environment, are used in the processes of potable and wastewater treatment. The most substantial of them in terms of quantity are chlorine gas and bleach for potable water disinfection and ferric chloride for the removal of phosphorous from the wastewater. The failure to remove the nitrogen and phosphorous leads to anthropogenic pollution (eutrophication) of the rivers. The company sets an objective on an annual basis to decrease the load of these products for the environment. Also, drills are held on an annual basis with hazardous chemical substances and mixtures, and means for limiting the spills are ensured. Emergency signaling systems are in place. Short safety leaflets were disseminated at the places of work and storage of hazardous chemical substances and mixtures, compatibility assessment was made for the storage of hazardous chemical substances and mixtures, and personal protective equipment was ensured as all that contributes to their proper storage, use and treatment of the waste from them.

1.9. OTHER ALTERNATIVES

In 2022, the increasing trend continued for the number of customers that benefited from requesting services online through the company’s webpage, as well as for the registered customers who

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actively use the mobile app *My Water* to submit self-readings and check the data for invoices and paid sums. The number of customers who requested the receipt of e-invoices also increased. In the direction of digitalization of the services provided to our customers, we worked hard also to implement new ways of non-cash payments. In 2022, we introduced an option for paying water bills directly through the company's webpage via the so-called "open banking" without the need of additional registration. Sofiyska Voda AD is the first utility company that introduced that payment method only through specifying the customer number and selecting one or more bills, for one or more properties, as well as partial payments for them.

2. SOCIAL AND STAFF MATTERS

As at 31.12.2022, the employees of Sofiyska Voda were 1,054, as 106 of them – at managerial positions (47 men and 59 women); at supervisor and technical staff positions – 217 (130 men and 87 women); office employees – 333 (56 men and 277 women), and workers – 398 (367 men and 31 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 a signed collective labor agreement.

Training, motivation and development

Trainings

Sofiyska Voda AD has a policy for development of employee competencies, which is to maintain a high professional standard and increase their motivation.

Various approaches and forms are employed in the development of professional competences, such as in-person and online training and seminars conducted by external suppliers or internal trainers with specific expert skills. Also, the practice has been introduced for temporary job rotation, which allows the opportunity for development of practical knowledge and skills and broader understanding of the activities and processes in the company.

The training and development programs are focused on:

- development of professional skills, acquisition and maintaining of professional skills;
- occupational health and safety;
- increase of the personal potential and development of social and leadership skills;
- digital competence;
- legal and statutory competencies.

In 2022, 1,118 employees were involved in trainings, and there were 12,106 participations. The training hours were 27,430, from which nearly 20,187 hours – in the form of an online training.

There were 5,153 participations and 12,869 training hours in trainings for enhancing the professional competences.

The company strictly complies with the requirements for gaining certificates of competence and updating the knowledge in health and safety at work, necessary for carrying out specific activities. There were 6,953 participations and 14,561 training hours in mandatory H&S trainings held in 2022.

32 managers participated in the Leadership Academy 2 project in order to enhance their leadership capacity through 360-degree feedback, analysis and subsequent individual coaching for upgrading their leadership skills.

In 2022, the list of key positions in the company was updated. 201 key positions were identified.

In December, Sofiyska Voda was registered in the information database of the employers participating in the dual training system.

3. HEALTH AND SAFETY AT WORK

There were three occupational accidents in 2022 (as per art. 55, par. 1 – at work), 6 incidents (without loss of working capacity), 15 near-misses (undesired events without personal injury) and 129 registered damages to company vehicles. All accidents, incidents and near-misses are reported and analyzed immediately.

4. PREVENTION OF CORRUPTION AND BRIBERY

The main policies and procedures related to the way in which the company resolves the matters and cases of bribery and corruption are:

- Manuals and guidelines for ethical conduct of Veolia Group – including the Code of Ethics (last updated in 2018) and the Code of Anti-Corruption Code of Conduct (last updated in 2020), as well as the Charter on the use of the right for submission of signals for ethical issues in Veolia;
- Internal Regulations of Sofiyska Voda AD;
- Procedure “Submission, investigation and reporting of fraud and corruption alerts“ of Sofiyska Voda with a new version from April 2022, including the previous procedure for disclosure of irregularities;
- Procedure “Conflict of Interest Prevention. Gifts, Hospitality, and Donations”, a new version from December 2022;
- Anti-Corruption telephone line (+359 2 8122 521, published on SV official website: www.sofiyskavoda.bg);
- Digital platform Whispli, which facilitates the discussion with the person submitting the alert for violation, administered by the Ethic Committee of Veolia Group based in Paris;
- Procedure “Due Diligence”, which is to regulate the rules and procedure for exercising additional targeted control aiming at corruption risk management and prevention in certain deals, projects, activities, business partners or employees of the company, created in 2020;
- Accounting Policy;
- Procedure on closure of accounts with a new version from November 2022;
- Instruction on receiving, accounting and paying invoices from suppliers with a new version from November 2022;
- Procedure on purchasing, stocktaking, sale and writing off of fixed assets with a new version from October 2022;
- Procedure on the employees’ administrative service, supplementing and replacing the previous procedure “Conclusion, amendment and termination of the employment contract”, with first version from January 2023;
- Procedure on Employee Performance Management.

In April 2020, the company was certified under BDS EN ISO 37001:2016 and there has been an implemented and effective Anti-bribery management system in place. The audit of the System of Sofiyska Voda was successfully completed in June 2022, and its certification was confirmed.

The processes of internal control and the resources intended for corruption and bribery prevention are regulated with the above policies and procedures. The Management Systems and Certifications

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Dept., if necessary, with the assistance of the Internal Audit Dept. and Security Team, has the main role in checking the alerts and complaints, containing information for irregularities/ fraud/ corruption, as they receive them, check with the support of the Legal Dept. and report the results from these checks to the Executive Director and the HR and Administration Director for taking follow-up actions in line with the legislation and the Internal Regulations of the company.

The mechanisms used by the company for submission of signals for breaches, corruption, and the relevant instructions to the employees, are as follows:

- To contact and speak with the respective director or contact directly:
 - Executive Director
 - Risk management and Process Optimization Director
 - Compliance Officer
 - HR and Administration Director

- To leave a message on Sofiyska Voda's Anti-Corruption telephone line: 02 8122 521 (ext. 521), Management Systems and Certifications Dept.;
- To submit a signal on paper in the boxes placed in front of the Human Resources Department in the Headquarters on Tsar Boris III Blvd., fl. 3, including anonymous, if you wish so;
- To submit an anonymous signal via the dedicated form Whispli
- To submit a signal to Sofiyska Voda's Ethic Committee on: ethics@sofiyskavoda.bg.

If there are reasonable doubts concerning the possible future actions to be undertaken in relation to your signal, you may contact directly the Ethics Committee of Veolia on the following email address: Ethique.ve@veolia.com.

The risk management process in SV is regulated in the Risk Management Strategy developed in 2022 and tailored with a system-based Risk Management Procedure, describing the methodological approach for identification, measurement, control and subsequent monitoring of those circumstances, events and actions, which could influence the achievement of the company's business objectives. The adopted approach for risk assessment and management is used also for the assessment of the risk related to corruption. For that purpose, in 2020 the system-based instruction "Assessment of the Corruption Risk Occurrence" was implemented as part of the system-based risk management procedure. It was updated in May 2021 and later in November 2022. The applicable criteria refer to assessment of the impact of the risk in financial terms, as well as in areas of goodwill, regulatory etc. impact; assessment of the likelihood of the risk occurrence, as well as assessment of the efficiency of the current control, introduced to counter the respective risk. In that assessment, inherent characteristics of the assessed activity are considered that could have a greater weight, such as direct contact with customers or suppliers, potential conflict of interest due to relatedness between persons (for instance relatives, business partnership etc.), etc. The set of internal rules /documents/ for identification, assessment, and response to the risks (risk management), including bribery risks, is part of the Integrated Management System of the company. It includes the implemented and functioning management systems as per BDS EN ISO: 9001 (Quality Management System), 14001 (Environmental Management System), 45001 (Occupational Health and Safety Management System) and ISO 37001 (Anti-bribery Management System).

The internal auditors play an important role in the assessment of the efficiency of the control systems and contribute to the current efficiency. Due to their organizational position and powers in the company, the Internal Audit Team often has a significant role with regard to the identification of the risks related to fraud. The weaknesses of the internal control and possibilities for the commitment of frauds identified in internal audits, checks and observations, are reported to the managers, as the most serious issues are communicated to the senior management and the Board of Directors.

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

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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 68, which comprise the separate statement of financial position as at 31 December 2022 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, including a summary of significant accounting policies.

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 2022, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with IFRS 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the 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.

We have determined the following key audit matters:

Unbilled revenue from water supply, sewerage and wastewater treatment services	
<p>Revenue from water supply, sewerage and wastewater treatment services for the year ended 31 December 2022: BGN 185,000 thousand (2021: BGN 186,094 thousand); Contract assets - unbilled revenue as at 31 December 2022: BGN 12,876 thousand (31 December 2021: BGN 12,154 thousand).</p> <p>See Note 3 (l) Significant accounting policies – Revenue and Note 4 Revenue for details.</p>	
Key audit matter	How this key audit matter was addressed in our audit
<p>The Company's core revenue streams relate to the water supply, sewerage and wastewater treatment services. The Company recognized BGN 185,000 thousand as revenue from these sources for the year ended 31 December 2022, of which BGN 12,876 thousand, represents unbilled revenue.</p> <p>Revenue is generally recognized based on periodic meter readings. The amount of revenue for the year includes an estimate of consumption for the period between the date of the last meter reading and the reporting date. Developing the estimate of unbilled revenue requires significant management judgment and is based on estimates of daily consumption, mainly based on historical patterns.</p> <p>For the above reasons, we considered the unbilled revenue to be associated with an elevated risk of material misstatement. It required our increased attention in the audit and as such was determined to be our key audit matter.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • Updating our understanding of the revenue recognition process and policies, by means of inquiries of the Chief Financial Officer and the Financial Controller, as well as performing a walkthrough of the process; • Evaluating the design and implementation of selected controls over the estimate of unbilled revenue as at 31 December 2022; • Challenging the Company's estimate of unbilled revenues at the reporting date. The procedure included primarily assessing estimated consumption for the unread period by reference to historical metered consumption data by customer type for the respective months of the year; • Tracing the actual invoiced amounts in January and February 2023 to the amounts of the accrued unbilled revenue as at 31 December 2022; • Considering the completeness and accuracy of the Company's revenue-related disclosures in the separate financial statements.

Service concession arrangement: compliance

Investment commitments according to the approved business plan for the year ended 31 December 2022: BGN 47,4 million (2021: BGN 33 million).

See Note 25 Commitments for investments to the separate financial statements.

See Note 3 (c) Significant accounting policies – Property, Plant and Equipment and Note 3 (d) Significant accounting policies – Intangible assets for details.

Key audit matter	How this key audit matter was addressed in our audit
<p>As stated in Note 1 and Note 25, the Company is a party to a concession contract with the Municipality of Sofia (“the Grantor”), whereby it has been granted the right to use public assets, such as water supply and water treatment infrastructure. The contract also gives the Company an exclusive right to render water supply and sewerage services within the concession area.</p> <p>The said service concession and related regulatory arrangements, impose on the Company an obligation to implement specific investment projects through an approved business plan, as also discussed in Note 25, as well as to achieve certain key performance indicators related to continuous improvement and quality enhancement of the supplied services. The enhancements include, among other things, reducing water losses, and maintaining the quality of potable water and continuity of water supply. Further, the Company’s operations are regulated by the Energy and Water Regulatory Commission (“the Commission”), which establishes standards relating to the quality of water supply and sewerage services, and also regulates price tariffs. Failure to comply with the above obligations may result in reduction of the tariffs approved by the Commission in subsequent periods, withdrawal by the Regulator of the Company’s license for water supply operation or cancellation of the concession contract</p> <p>In addition, in conjunction with the investments, the Company is obliged to apply the requirements of the Law for public tenders, in particular as concerns purchase prices.</p> <p>Due to the fact that any failure to adhere to the relevant conditions included within the service concession arrangement and the related regulatory regime may have a pervasive effect on operations, including the financial position and financial results, assessment of the Company’s compliance with these conditions and regulatory</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • Updating our understanding of the regulatory and concession compliance process; • Evaluating the design and implementation of the selected control over the approval of the Company’s annual investment plan; • On a sample basis, tracing capital expenditure and maintenance expenditure to supporting documents and payments, in order to assess their existence and accuracy. Also, inquiring of the Engineering and Construction Activities personnel and members of the Board of Directors about any significant deviations between the approved investment plan and the current year’s actuals; • Inspecting the Company’s reporting to and communication with the Grantor and the Commission, including any examination reports issued by those parties during the year in respect of the regulated activities subject of their monitoring; • Examining minutes of meetings of the Company’s Board of Directors, specifically focused on the investment projects’ progress and approval of the Company’s business plan; • Inquiring of the Company’s legal advisors and inspecting their formal responses to our audit inquiries, with an aim to identify any contingent liabilities (e.g. penalties) arising from the service concession arrangement at the reporting date; • Evaluating the completeness and accuracy of disclosures in the separate

<p>regime required our increased attention in the audit and was considered by us to be a key audit matter.</p>	<p>financial statements in respect of commitments and contingencies, against the relevant requirements of the financial reporting standards.</p>
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<p>Impairment of non-current assets</p>	
<p>Intangible assets as at 31 December 2022: BGN 212,949 thousand (31 December 2021: BGN 243,992 thousand).</p> <p>Property, plant and equipment (PPE) as at 31 December 2022: BGN 19,592 thousand (31 December 2021: BGN 19,232 thousand).</p> <p>See Note 3 (c) Significant accounting policies – Property, plant and equipment, Note 3 (d) Significant accounting policies – Intangible assets and Note 13 Intangible assets for details.</p>	
<p>Key audit matter</p>	<p>How this key audit matter was addressed in our audit</p>
<p>As described in Note 13, in the current year, the Company identified impairment indicators in respect of its non-current assets, such as, primarily, signing of an amendment to the Concession contract, giving the Commission a right to set lower prices for the Company's services in the following years, with the resulting potentially lower cash inflows in the future.</p> <p>In the wake of the above, as at 31 December 2022, the Company tested its PPE and intangible assets for impairment, as required by the relevant financial reporting standards. The impairment test was performed by reference to the recoverable amount of the Company's sole cash generating unit („CGU"), determined to be the CGU's fair value less cost of disposal estimated under the discounted cash flow method.</p> <p>Determination of the recoverable amount requires making a number of complex assumptions and judgments, in particular those relating to grouping of assets into CGUs, discount rates used and estimated future cash flows, with the key assumption related to the likelihood of extension of the concession contract's term.</p> <p>Due to the above, the impairment assessment required our significant judgment and increased attention in the course of our audit. As a consequence, we consider the area to be our key audit matter.</p>	<p>Our audit procedures in the area, performed with the assistance of our own valuation specialists, included, among others:</p> <ul style="list-style-type: none"> • Evaluating, against the requirements of the relevant financial reporting standards, the Company' accounting policy for identification of impairment, and measurement and recognition of any impairment losses in respect of PPE and intangible assets; • Evaluating the design and implementation of selected internal controls relating to the identification of impairment indicators and to the process of impairment testing, including controls over management review of the impairment test assumptions and the validation of its outcome; • Assessing the Company's discounted cash flow model against the relevant financial reporting standards, market practice and for internal consistency; • Evaluating the quality of the Company's forecasting by comparing historical projections with actual outcomes; • Assessing the appropriateness of asset grouping into CGUs, based on our understanding of the Company's operations and business units;

	<ul style="list-style-type: none"> • Challenging the key assumptions applied in the Company's impairment model, including those in respect of: <ul style="list-style-type: none"> — extension of the concession term - by inspecting the applicable laws, the Management Board's assessment and external data in respect of the Company's service quality; — future prices and expected sales, and operating costs - by reference to the currently effective Regulator-approved business plan, and the Company's internal documents, such as budget and forecasts; — key macroeconomic assumptions, such as discount rates and inflation rates - by reference to publicly available external sources. • Assessing susceptibility of the impairment model and the resulting impairment conclusion to management bias, by challenging the Company's analysis of the model's sensitivity to changes in key underlying assumptions; • Assessing the appropriateness and completeness of impairment-related disclosures in the separate financial statements against the relevant requirements of the financial reporting standards.
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Impairment of trade receivables and contract assets	
<p>Trade receivables as at 31 December 2022 BGN 33,840 thousand (31 December 2021: BGN 34,469 thousand), Contract assets - unbilled revenue at 31 December 2022: BGN 12,876 thousand (31 December 2021: BGN 12,154 thousand).</p> <p>See Note 3.(k) Significant accounting policies – Trade receivables, Note 15 Trade and other receivables and Note 5 Revenue for details.</p>	
Key audit matter	How this key audit matter was addressed in our audit
<p>Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the trade receivables and contract assets at the reporting date. We focused on this area as the determination of the reporting date amounts of ECLs requires significant judgment.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • Inspecting the Company's ECL methods and models, and assessing their compliance with the requirements of the relevant financial reporting standards. As part of the above, we challenged the Management Board on whether the level

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

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

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

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

of the methodology's sophistication is appropriate based on an assessment of the entity-level factors;

- Evaluating the design and implementation of selected internal controls related to the estimation of impairment allowances, including those over the data used therein and validation of the ECL estimation process;
- Obtaining the relevant forward-looking information (FLI) and macroeconomic projections used in the Company's ECL assessment and independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information;
- Challenging the ECL amounts recognized at the reporting date by, among other things:
 - evaluating the appropriateness of the Company's grouping of customers into segments with different credit loss patterns;
 - testing the information used in the ECL estimates for trade receivables and contract assets' age and related historical collectability rates;
 - evaluating any adjustments required to the historical loss rates based on our analysis of the FLI; and
 - testing the mathematical accuracy of the impairment loss model;
- Evaluating the completeness and accuracy of ECL-related disclosures in the separate financial statements against the relevant requirements of the financial reporting standards.

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, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon.

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:

- 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.
- 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.
- 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 of separate financial statements that give a true and fair view in accordance with IFRS Standards 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 the Company for the year ended 31 December 2022 by the general meeting of shareholders held on 25 February 2022 for a period of two years.
- The audit of the separate financial statements of the Company for the year ended 31 December 2022 represents twenty third total uninterrupted statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the 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

45/A Bulgaria Boulevard
Sofia 1404, Bulgaria


Dobrina Kaloyanova
Authorised representative




Ivan Andonov
Registered auditor, responsible for the
audit

Sofia, 30 March 2023