BULGARIAN TELECOMMUNICATIONS COMPANY EAD

CONDENSED SEPARATE AND CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH IAS 34
QUARTERLY CONSOLIDATED AND SEPARATE ACTIVITIES REPORT

31 March 2017

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Bulgarian Telecommunications Company EAD

CONSOLIDATED AND SEPARATE ACTIVITIES REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2017

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This document reflects the activity in the reporting period of Bulgarian Telecommunications Company EAD ("VIVACOM" or the "Company") on an individual and consolidated basis.

OVERVIEW OF THE ACTIVITY OF THE COMPANY AND THE GROUP

Bulgarian Telecommunications Company EAD is a single shareholder joint stock company, domiciled in Bulgaria, with its registration address: 115I "Tsarigradsko Shose" blvd., 1784 Sofia. VIVACOM's activities include development, operation and maintenance of national fixed and mobile network and data system for the Republic of Bulgaria.

As at March 31, 2017 the group includes VIVACOM, the subsidiary entities BTC Net EOOD, NURTS Bulgaria EAD and its wholly owned subsidiary NURTS Digital EAD (the "Group" or "VIVACOM Group").

On July 1, 2015 VIVACOM became the sole owner of NURTS Bulgaria EAD and its wholly owned subsidiary NURTS Digital EAD ("NURTS Group" or "NURTS").

NURTS Group is the leading provider of radio and television broadcasting, signal transmission services (both terrestrial and satellite) and colocation services in Bulgaria. The NURTS Group owns and operates a network of over 500 radio and television stations throughout the country. NURTS has invested and successfully completed technical digitalization of terrestrial radio and television broadcasts complying with requirements for broadcasting digital terrestrial signal.

In fulfilment of a long-term plan for optimization and more efficient utilisation of resources as of July 1, 2016 the overall service of the operational activities of NURTS Bulgaria EAD are provided by VIVACOM, based on an agreement between the two companies. As a result, NURTS Bulgaria EAD will be able to concentrate on its core business, reduce its operating expenses and ensure increased network and services quality.

VIVACOM is the leading telecommunications operator in Bulgaria, based on revenue for the three months ended March 31, 2017. We are fully integrated operator that provides mobile, fixed voice, fixed broadband and pay-TV (both DTH and IPTV) services nationwide to both residential and business customers. We provide our fixed line services through our own fixed line network and our mobile services through our own mobile network based on GSM/GPRS/EDGE and UMTS/HSPA+/LTE technologies. VIVACOM owns and operates one of the biggest and most modern facilities for satellite communications in the region – Plana teleport, which features more than 40 transmit and receive antennas able to deliver transmission and connectivity even to the most remote points, including orbital positions in Europe, Africa, Middle East and Asia. As at March 31, 2017, we served 3.088 million mobile subscribers, 894 thousand fixed telephony subscribers, 444 thousand fixed broadband subscribers and 416 thousand fixed pay-TV subscribers. For the three months ended March 31, 2017, we generated total consolidated revenue of BGN 211.1 million and had consolidated Adjusted EBITDA of BGN 77.2 million.

We are currently the third largest mobile operator in Bulgaria, based on number of subscribers, with 3.088 million subscribers as at March 31, 2017, an increase of 2.6% from 3.011 million subscribers as at March 31, 2016. This is primarily due to the implementation of an ongoing successful "value for money" strategy in the mobile market, which has led us to achieve an increase in our mobile market share and to develop a solid market share position. A central part of our strategy has been our focus on features that allow us to differentiate ourselves from our competitors, such as generous tariff plans, flexible bundles, integrated IT systems and our quality mobile network. As at March 31, 2017 our GSM mobile network covered 99.99% of the Bulgarian population, our UMTS mobile network covered 99.98% of the Bulgarian population, and our LTE mobile network is available to 90.18% of the Bulgarian population.

Our revenue share for the mobile services market is approximately 28% for the three months ended March 31, 2017.

We are the incumbent in the fixed voice line market with 82% revenue share as at December 31, 2016 (Source: Analysys Mason’s Telecoms Market Matrix and European Core Forecasts).

As at December 31, 2016 VIVACOM is the largest fixed broadband operator with 26% subscriber market share (Source: Analysys Mason’s Telecoms Market Matrix and European Core Forecasts). Our ongoing FTTx network build out enables us to benefit from the ongoing shift to FTTx from other broadband technologies as customers demand reliable services with higher speed capacity. We began our FTTx roll out in 2011 and we have since achieved significant progress, with 1,095,000 fiber homes passed and 21% take-up rate as at March 31, 2017. We also operate our own scalable fiber backbone network which allows us to deliver complex corporate data solutions to business customers.

As at December 31, 2016, VIVACOM is positioned as the leading IPTV operator with 61% subscriber share (Source: Analysys Mason’s Telecoms Market Matrix and European Core Forecasts), and the third largest pay-TV provider.

We sell our services and products through direct channels, such as VIVACOM owned stores, which are strategically located, and indirect channels, such as a smaller number of third party retail distributors. Our distribution network is further supported by remote channels such as telemarketing. As at March 31, 2017 VIVACOM has 252 owned branded retail locations with an additional 57 alternative sale points.

FINANCIAL CONDITION AND RESULTS OF OPERATION

Total consolidated revenue of the Group decreased by 0.3% year-on-year to BGN 211.1 million for the three months ended March 31, 2017 mainly due to lower NURTS revenue, which is largely offset by increase in mobile, fixed pay-TV and other fixed line revenues. Adjusted EBITDA was negatively impacted by higher interconnect expenses and other operating expenses, decreasing 3.7% year-on-year to BGN 77.2 million for the three months ended March 31, 2017.

The Group finished the three months ended March 31, 2017 with a profit of BGN 8.8 million (the Company - with a profit of BGN 6.6 million), compared to profit of BGN 2.7 million for the three months ended March 31, 2016.

On November 22, 2013 VIVACOM successfully completed its bond offering of EUR 400 (BGN 782.3) million 6⅝% Senior Secured Notes due 2018 (the "Notes"). The maturity date of the Notes is November 15, 2018. The Company will pay interest on the Notes semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2014. In relation to the admission of the Notes, the Company received a credit rating of 'B1' by Moody's Investors Service (Moody’s) and 'BB-' by Standard & Poor’s Ratings Services (Standard & Poor’s). Standard & Poor's lowered the company’s credit rating to 'B' on April 2, 2015 and subsequently to 'B-' on July 8, 2015. On October 22, 2015 Standard & Poor's revised its CreditWatch listing on its 'B-' long-term corporate credit rating of VIVACOM to negative from developing. On December 20, 2015, Moody’s reaffirmed its 'B1' credit rating of the Company with stable outlook. On September 12, 2016, Standard & Poor’s removed its CreditWatch listing and upgraded the long-term credit rating of VIVACOM from 'B-' to 'B+' with stable outlook.

Simultaneously with the Notes offering VIVACOM, as borrower and BTC Net EOOD, as co-debtor have entered into a commitment with Societe Generale Expressbank AD, as lender to provide a Revolving Credit Facility (RCF) with commitment of up to EUR 35 (BGN 68.4) million in aggregate. Loans may be borrowed, repaid and reborrowed at any time up to November 30, 2016. The interest on the principal amounts owed by the Company under the RCF is payable monthly and was initially agreed to be at a rate of 1 month EURIBOR plus a margin of 4% per year. Effective from May 26, 2014 the margin was reduced to 3,75% per year and from November 14, 2016 the margin was further reduced to 1,45% per year while the term was extended up to May 31, 2018.

REVENUES

Our total consolidated revenue was BGN 211.1 million for the three months ended March 31, 2017, a decrease of BGN 0.6 million, or 0.3%, from BGN 211.7 million for the three months ended March 31, 2016.

The table below sets forth our revenue for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

	For the three months ended March 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Recurring charges	99.3	99.6	(0.3)	(0.3)
Outgoing traffic	15.7	21.4	(5.7)	(26.6)
Leased lines and data transmission	26.5	26.9	(0.4)	(1.5)
Interconnect	15.7	12.3	3.4	28.0
Radio and TV broadcasting	6.7	7.8	(1.1)	(13.7)
Other revenue	47.0	43.7	3.4	7.7
Total revenue	**211.1**	**211.7**	**(0.6)**	**(0.3)**

Revenue from recurring charges was BGN 99.3 million for the three months ended March 31, 2017, a decrease of BGN 0.3 million, or 0.3%, from BGN 99.6 million for the three months ended March 31, 2016 primarily due to decrease in monthly charges from fixed telephony services as a result of the competitive pressure from alternative providers with low ARPUs.

Revenue from outgoing traffic was BGN 15.7 million for the three months ended March 31, 2017, a decrease of BGN 5.7 million, or 26.6%, from BGN 21.4 million for the three months ended March 31, 2016 mainly due to competitive pressure leading to decline in prices per minute and less chargeable traffic as a result of the generous offerings with more included minutes in the tariff plans.

Revenue from leased lines and data transmissions was BGN 26.5 million for the three months ended March 31, 2017, a decrease of BGN 0.4 million, or 1.5% from BGN 26.9 for the three months ended March 31, 2016, primarily due to the migration of customers to alternative data solutions where such services are being offered as a low price substitute to the traditional lines. The overall decrease is partially offset by growth in revenues from fiber connections related to the increase of our subscriber base.

Interconnect revenue was BGN 15.7 million for the three months ended March 31, 2017, an increase of BGN 3.4 million, or 28.0%, from BGN 12.3 million for the three months ended March 31, 2016. The increase was primarily due to higher inbound traffic in our mobile network generated by other operators as a results of more calls terminated in our network.

Revenue from radio and TV broadcasting was BGN 6.7 million for the three months ended March 31, 2017, a decrease of BGN 1.1 million, or 13.7% from BGN 7.8 for the three months ended March 31, 2016. The decrease was mainly as a result of lower revenue from digital terrestrial broadcasting of television provided by NURTS.

Other revenue was BGN 47.0 million for the three months ended March 31, 2017 an increase of BGN 3.4 million, or 7.7% from BGN 43.7 million for the three months ended March 31, 2016 mainly due to increased revenue from provision of pay-TV services (both DTH and IPTV) as well as from ducts rental and colocation services.

The following table sets forth a breakdown of our revenue by segment for the three months ended March 31, 2017, as compared to the three months ended March 31, 2016.

	For the three months ended March 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Fixed-line revenue	86.7	82.6	4.1	5.0
Mobile revenue	120.7	120.0	0.7	0.6
NURTS revenue	9.6	11.0	(1.4)	(12.4)
Eliminations	(6.0)	(1.9)	(4.1)	219.4
Total revenue	**211.1**	**211.7**	**(0.6)**	**(0.3)**

Our fixed-line revenue, which is comprised of fixed voice (fixed telephony and other), fixed data (fixed broadband and other), fixed pay-TV and other fixed line services was BGN 86.7 million for the three months ended March 31, 2017, an increase of BGN 4.1 million, or 5.0%, from BGN 82.6 million for the three months ended March 31, 2016. The increase was mainly attributable to the growth in fixed pay-TV and fixed broadband revenues related to the increase of our subscriber base as well as from increase in revenues from other fixed line services.

Our mobile revenue was BGN 120.7 million for the three months ended March 31, 2017, an increase of BGN 0.7 million, or 0.6%, from BGN 120.0 million for the three months ended March 31, 2016. The increase in mobile revenue was primarily due to the growth of our mobile subscriber base and increased data usage, which can be attributed to our competitive offers and the quality of our mobile network.

Our NURTS revenue was BGN 9.6 million for the three months ended March 31, 2017, a decrease of BGN 1.4 million, or 12.4% from BGN 9.6 for the three months ended March 31, 2016, mainly attributable to lower revenue from digital terrestrial broadcasting of television provided by NURTS, which is partially offset by increase in revenues from provision of collocation services.

Principal Factors Affecting Mobile Revenues

The table below sets forth selected operational data for our mobile services business for the periods indicated, including a breakdown by type of customer.

	For the three months ended March 31,		Change	
	2017	**2016**	**(amount)**	**(%)**
Number of mobile subscribers at period end (in thousands)	3 088	3 011	77.3	2.6
% post-paid at period end	89	87	1.7	1.9
% pre-paid at period end	11	13	(1.7)	(13.2)
Blended mobile ARPU (BGN)	10.8	11.1	(0.4)	(3.2)
Post-paid ARPU (BGN)	11.8	12.3	(0.5)	(3.9)
Pre-paid ARPU (BGN)	3.4	3.5	(0.1)	(2.2)
AMOU (minutes)	200	169	31.8	18.8

Our mobile subscriber base consists primarily of residential subscribers and, in line with the Bulgarian mobile telecommunications market, the vast majority of our subscribers are post-paid. As at March 31, 2017, 89% of our total mobile subscriber base consisted of post-paid subscribers.

Our mobile subscriber base has increased, from 3.011 million subscribers as at March 31, 2016 to 3.088 million subscribers as at March 31, 2017. We attribute this growth over the periods under review to a number of factors, including the quality of our network, including the launch of LTE services, the ability to offer additional value with wide profile of bundled services, as well as cross-selling and up-selling to existing customers.

Blended mobile ARPU decreased by 3.2% to BGN 10.8 for the three months ended March 31, 2017, from BGN 11.1 for the three months ended March 31, 2016 primarily due to the lower price per minute and less chargeable traffic. This was partially offset by an increase in data usage and, in turn, data share in ARPU as a result of the growing smartphone penetration and share.

Mobile AMOU increased by 18.8% to 200 minutes for the three months ended March 31, 2017, from 169 minutes for the three months ended March 31, 2016 mainly as a result of the higher inbound traffic from other mobile operators as well as from increased outbound calls to other mobile networks.

Principal Factors Affecting Fixed-line Revenue

The table below sets forth selected operational data as at the end of the periods indicated for our fixed-line business broken down by fixed telephony, fixed broadband and fixed pay-TV subscribers.

	For the three months ended March 31,		Change	
	2017	**2016**	**(amount)**	**(%)**
Fixed telephony subscribers at period end (in thousands)	894	1 017	(122.4)	(12.0)
Fixed telephony ARPU (BGN)	10.4	11.1	(0.7)	(6.3)
AMOU (minutes)	103	108	(4.3)	(4.0)
Fixed broadband subscribers at period end (in thousands)	444	400	44.0	11.0
% FTTx at period end	52	46	6.1	13.2
Fixed broadband ARPU (BGN)	9.5	10.2	(0.7)	(6.9)
Number of fiber homes passed (in thousands)	1 095	1 047	47.9	4.6
Fixed pay-TV subscribers at period end (in thousands)	416	379	37.2	9.8
% IPTV at period end	43	39	4.1	10.6
Fixed pay-TV ARPU (BGN)	13.0	12.9	0.1	0.9

Fixed Telephony

Our total fixed telephony subscribers decreased by 12.0% to 894 thousand as at March 31, 2017, from 1.017 million as at March 31, 2016. The decrease in fixed telephony subscribers was primarily due to the strong price competition surrounding fixed telephony services, where such services are being offered as a low price addition to our competitors' mobile, fixed broadband and pay-TV services, as well as the ongoing fixed-to-mobile substitution.

Total fixed telephony ARPU decreased by 6.3% to BGN 10.4 for the three months ended March 31, 2017, from BGN 11.1 for the three months ended March 31, 2016. The decrease in total fixed telephony ARPU was primarily due to a decrease in the chargeable outgoing traffic volume as well as the lower monthly recurring fees.

Fixed telephony AMOU decreased by 4.0% to 103 minutes for the three months ended March 31, 2017, from 108 minutes for the three months ended March 31, 2016. The decrease was primarily due to ongoing fixed-to-mobile substitution, which resulted in a decrease in outgoing volume of calls made by our customers.

Fixed Broadband

Our total fixed broadband subscribers increased by 11.0% to 444 thousand as at March 31, 2017, from 400 thousand as at March 31, 2016. The increase was due to the increase in FTTx connections driven by the growing demand for high speed bandwidth capacity and reliable broadband service.

Total fixed broadband ARPU decreased by 6.9% to BGN 9.5 for the three months ended March 31, 2017, from BGN 10.2 for the three months ended March 31, 2016. The decrease was primarily due to bundling discounts and intense price competition from other alternative operators.

Fixed Pay-TV

Our total fixed pay-TV subscribers increased by 9.8% to 416 thousand as at March 31, 2017, from 379 thousand as at March 31, 2016. This was mainly due to the increased demand for high quality services with superior user experience, rich content and high-definition (HD) channels.

Total fixed pay-TV ARPU increased by 0.9% to BGN 13.0 for the three months ended March 31, 2017, from BGN 12.9 for the three months ended March 31, 2016. The increase was mainly attributable to the growing share of tariffs with higher monthly recurring fees and additional packages with rich content.

EXPENSES

Interconnect Expense

Our interconnect expense was BGN 16.2 million for the three months ended March 31, 2017, an increase of BGN 3.0 million, or 23.0%, from BGN 13.2 million for the three months ended March 31, 2016. This was mainly due to increase in mobile outbound traffic to other national mobile operators, resulted from more calls made by our subscribers to other networks.

Other Operating Expenses

Our other operating expenses were BGN 52.8 million for the three months ended March 31, 2017, an increase of BGN 3.3 million, or 6.6%, from BGN 49.5 million for the three months ended March 31, 2016.

The table below sets forth our other operating expenses for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

	For the three months ended March 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Leased lines and data transmission	1.7	1.9	(0.2)	(12.8)
Maintenance and repairs	6.6	8.6	(2.0)	(23.0)
License fees	4.2	3.8	0.4	10.4
Facilities	10.3	10.1	0.3	2.9
Professional fees	1.6	0.5	1.1	246.3
Vehicles and transports	2.4	2.4	(0.0)	(1.3)
Administration expenses	2.0	2.1	(0.1)	(2.8)
Advertising, customer service, billing & collection	17.3	15.9	1.5	9.3
Other	6.6	4.3	2.3	52.7
Total operating expenses	**52.8**	**49.5**	**3.3**	**6.6**

Increase in other operating expenses was mainly as a result from higher advertising, customer service, billing and collection expenses as well as from higher professional fees and other expenses. Overall increase was also driven by higher facilities and licenses fees. These were partially offset by lower expenses for maintenance and repairs, leased lines and data transmission and administration expenses.

Advertising, customer service, billing and collection expenses increase was mainly related with promotions, advertising activities and higher expenses for television rights driven by growth in the subscriber base. Professional fees increase resulted from higher expenses for hired services, while other expenses carry a one-off effect related to impairment of receivables.

Decrease in maintenance and repairs expenses was driven by the optimization of our mobile network, including the deployment of SRAN technology. Leased lines and data transmission decrease was primarily due to lower expenses related to the satellite transmission business of NURTS.

Materials and Consumables Expenses

Our materials and consumables expenses were BGN 36.1 million for the three months ended March 31, 2017, a decrease of BGN 2.0 million, or 5.3%, from BGN 38.2 million for the three months ended March 31, 2016 mainly from lower utilities expenses related to the optimization of our network infrastructure.

Staff Costs

Our staff costs were BGN 32.9 million for the three months ended March 31, 2017, an increase of BGN 0.9 million, or 2.7%, from BGN 32.0 million for the three months ended March 31, 2016, mainly as a result of the average salary increase.

Depreciation and Amortization

Our depreciation and amortization costs were BGN 50.8 million for the three months ended March 31, 2017, a decrease of 14.0 million, or 21.6%, from BGN 64.8 million for the three months ended March 31, 2016. The increased depreciation and amortisation in 2016 was due to accelerated depreciation of certain mobile assets subject to swap.

Finance Costs

Our finance costs were BGN 14.4 million for the three months ended March 31, 2017, a decrease of BGN 0.2 million, or 1.0%, from BGN 14.6 million for the three months ended March 31, 2016, primarily as a result of performed foreign currency transactions.

Finance Income

Our finance income was BGN 1.5 million for the three months ended March 31, 2017, a decrease of BGN 0.2 million, or 10.5%, from BGN 1.6 million for the three months ended March 31, 2016, mainly attributable to lower other finance income from assignments of receivables.

Other gains, net

Other gains, net were BGN 0.3 million for the three months ended March 31, 2017, a decrease of BGN 1.4 million, or 83.4%, from BGN 1.7 million for the three months ended March 31, 2016, mainly as a result from lower gains from sale of non-operating fixed assets.

Income Tax Expenses

The following table sets forth our income tax expense for the three months ended March 31, 2017 as compared to the three months ended March 31, 2016.

	For the three months ended March 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Current income tax charge	0.8	2.3	(1.5)	(65.4)
Deferred tax credit to comprehensive income	0.1	(2.1)	2.2	(106.2)
Income tax expense/(benefit)	**0.9**	**0.3**	**0.7**	**271.7**

Income tax expense was BGN 0.9 million for the three months ended March 31, 2017, an increase of BGN 0.7 million, from income tax expense of BGN 0.3 million for the three months ended March 31, 2016, primarily driven differences in the deferred tax credit.

ADJUSTED EBITDA AND PROFIT FOR THE PERIOD

As a result of the foregoing, we have accounted a profit of BGN 8.8 million for the year ended March 31, 2017, an increase of BGN 6.1 million compared to a profit of BGN 2.7 million for the three months ended March 31, 2016.

The following table presents a reconciliation of EBITDA and Adjusted EBITDA from our profit/(loss) for the periods presented.

	For the three months ended March 31,		Change	
(BGN in millions)	**2017**	**2016**	**(amount)**	**(%)**
Profit / (loss) for the period	**8.8**	**2.7**	**6.1**	**227.4**
Income tax expense	0.9	0.3	0.7	273.1
Finance expenses, net	12.9	12.9	0.0	0.1
Depreciation and amortization	50.8	64.8	(14.0)	(21.6)
EBITDA	**73.4**	**80.6**	**(7.2)**	**(8.9)**
Other gains, net	(0.3)	(1.7)	1.4	(83.5)
Asset impairment and write off	3.3	1.0	2.2	213.4
Provisions and penalties	(0.1)	(0.0)	(0.1)	604.5
Other exceptional items	0.9	0.2	0.7	339.0
Adjusted EBITDA	**77.2**	**80.1**	**(2.9)**	**(3.7)**

CASH FLOW

The following table summarizes the principal components of our consolidated cash flows for the periods presented.

	For the three months ended March 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Net cash from operating activities	99.1	65.6	33.6	51.2
Net cash used in investing activities	(97.5)	(42.2)	(55.3)	131.3
Net cash used in financing activities	(0.8)	(10.9)	10.1	(93.0)
Net increase / (decrease) in cash and cash equivalents	**0.9**	**12.5**	**(11.6)**	**(93.0)**

Net Cash from Operating Activities

For the three months ended March 31, 2017, net cash flows from operating activities increased by BGN 33.6 million to BGN 99.1 million, compared to BGN 65.6 million for the three months ended March 31, 2016 mainly due to less cash tied up in inventory and settlement of discounts receivable from roaming partners.

Net Cash Used in Investing Activities

For the three months ended March 31, 2017, net cash flows used in investing activities increased by BGN 55.3 million to BGN 97.5 million, from BGN 42.2 million, driven mainly by the acquisition of shares in Viva Telecom Bulgaria EOOD.

Net Cash Used in Financing Activities

For the three months ended March 31, 2017, net cash flows used in financing activities decreased by BGN 10.1 million to 0.8 million, from BGN 10.9 million for the three months ended March 31, 2016, mainly due to unused revolving credit facility during the current period.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements arise primarily from the need to fund capital expenditures for the expansion and maintenance of our network operations, both in terms of quality of services and innovative technologies, for working capital and to repay debt.

During the period under review, VIVACOM maintained a structure of assets and liabilities that allowed its smooth operation. In order to control the threat of liquidity risk, the Company applied planning techniques, including daily liquidity reports, short-term and medium-term cash flow forecasts.

We maintain cash and cash equivalents to fund the day to day requirements of our business. We hold cash primarily in BGN and EUR.

CAPITAL EXPENDITURES AND INVESTMENTS

Our investments mainly relate to the build out and enhancement of our fixed (particularly in respect of fiber roll-out) and mobile network (particularly in respect of 3G and 4G technology) as well as deployment of fixed and mobile network backup solutions and spectrum acquisition. Our capital expenditures also include information technology investments aimed at supporting network development, commercial products and services and overall customer management, as well as commercial and other capital expenditures for structural support to the build out and maintenance of consumer points of sale (such as refurbishing and furniture) and for customer equipment such as set-top boxes and optical network terminals. Our capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions and the cost and availability of funds.

The following table shows our historical capital expenditures for the periods indicated:

	For the three months ended March 31,	
(BGN in millions)	**2017**	**2016**
Network	30.4	22.9
IT	1.7	1.0
Commercial and other	8.4	8.1
Licenses	-	-
NURTS	0.1	0.0
Eliminations	-	-
Total capital expenditures	**40.5**	**32.1**

For the three months ended March 31, 2017, our capital expenditures amounted to BGN 40.5 million, which consisted of:

- BGN 30.4 million of capital expenditures relating to network activities, mainly for investment in our mobile radio access network (LTE and SRAN), fixed core network and FTTx roll-out projects;
- BGN 1.7 million of capital expenditures relating to IT activities, mainly related to infrastructure acquisition and enterprise management systems;
- BGN 8.4 million of capital expenditures relating to commercial and other activities, mainly for CPEs to support our growing pay-TV and fiber subscriber base, as well as sales commissions related to long-term contracts;
- BGN 0.1 million of capital expenditures relating to maintenance of NURTS infrastructure.

MAIN RISKS

Investment in securities involves different types of risks, including the risks described below and elsewhere in this report. The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also materially and adversely affect our business, results of operations or financial condition.
This document contains certain projections and estimates which refer to future uncertain events. The projections are made on the basis of the current information available to the authors of this document and on the estimates they consider justifiable. Actual results may differ, even materially, from the estimates stated in this document, as they depend on a number of risk factors described in the paragraphs below. Not all risk factors can be predicted or described and some of these risk factors are outside the abilities of the issuer to counteract.

The main risk factors that could affect the Company's activity and results are described below.

General risk

General risk is considered in the broadest economic and political context in which the Company operates (e.g. risk related to the development of the global economy, the development of the local economy, inflation risk, general political risks, domestic policy, foreign policy and general trends). Therefore, some of these risks are not subject to management or mitigation by the Company's management. They affect VIVACOM's activity with different weight and emerge in different, usually unpredictable patterns.

Macroeconomic risks

Many European countries have faced or are facing an economic slowdown, which includes a general contraction in consumer spending resulting from, among other factors, reduced consumer confidence, falling gross domestic product, rising unemployment rates and uncertainty in the macroeconomic environment. Although the economic climate in Bulgaria has also been negatively affected by the global economic downturn, keeping unemployment at high levels, the Bulgarian economy has demonstrated some resilience and fiscal stability with low levels of government debt.

On December 12, 2014 Standard & Poor's lowered its long- and short-term foreign and local currency sovereign credit ratings of Bulgaria by one notch to 'BB+/B' from 'BBB-/A-3' with stable outlook. The downgrade reflected the liquidity support to weakened domestic banks which has pushed up Bulgarian government debt. The stable outlook balances the risks from potential vulnerabilities mounting in the financial sector against still-low levels of government indebtedness. On June 12, 2015 Standard & Poor's affirmed its 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings on Bulgaria. The outlook remains stable. On December 11, 2015 and subsequently on June 3, 2016 and December 2, 2016 Standard & Poor's reaffirmed its 'BB+/B' sovereign credit rating on Bulgaria with stable outlook.

We operate in the telecommunications sector, for which underlying customer demand has proven to be less cyclical than other aspects of consumer spending during the ongoing global financial and economic crisis. However, the general macroeconomic environment still has an adverse effect on consumer spending. Consumers could spend less on an incremental basis, such as by placing fewer calls, sending fewer SMS, or opting for flat rate or lower tariff price plans. In poor economic conditions, consumers are likely to delay the replacement of their existing mobile handsets or be more likely to disconnect or cancel their services. Generally, weak economic conditions may deteriorate the growth prospects of the telecommunications market in Bulgaria, which in turn may impact our number of subscribers and ARPU.

Inflation risk

Inflation is a factor determining the actual return on the investment. This means that at a level of inflation exceeding the nominal rate of annual return during the year, the actual rate of return on the investment denominated in the national currency would be negative during the year.

Market risk

The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions.

Political risks

The political process is a significant factor affecting the return on investments. The degree of political risk is associated with the probability of changes in the economic policy pursued by the government, which could lead to negative changes in the investment climate, as well as the probability of emergence of regional or global armed conflicts or terrorism, social unrest or political tension. Apart from this is the probability of adverse changes in the legal regulation of economic activity.

Specific Company risks

Specific Company risks are the risks associated directly with its activity, which is strictly regulated. They include:

Regulatory risk

Regulatory risk exists both in respect of the telecommunications regulation and the general regulation in the area of competition law. The regulatory practice of the Commission for Protection of Competition (CPC) and that of the Communications Regulation Commission (CRC) is not always concerted and can provoke conflicting decisions in the area of electronic communications. This could result in market uncertainty, lack of clear criteria and in many cases could lead to excessive regulation for VIVACOM.

Following market analyses procedures that were carried out by the Communications Regulation Commission, VIVACOM was recognized as a company having significant market power (SMP) on the following markets: termination on fixed network, local access provided at a fixed location, call termination for the mobile voice service. VIVACOM is obliged to have and officially publish standard offers for interconnection, unbundling access to the subscription line and access to ducts.
Fixed Number Portability (FNP) was officially launched in July 2009. In 2012 the CRC made amendments to the fixed portability process. The risk associated with this process is a possible decrease of the number of VIVACOM's subscribers of fixed voice service as well as the possibility of VIVACOM's subscribers to port out their numbers without paying penalties.

Potential risks during the course of the year could be the appeal of VIVACOM's new commercial offers and converged services in the CPC. It should be noted that in case of infringement, CPC has power to stop advertisements which may affect the whole sector. The measures which the CPC may impose could have material weight and in practice could affect seriously not only one company but the whole sector. The maximum amount of pecuniary penalties could reach 10% of a company's turnover.

In February 2013 CRC approved a cost-oriented fixed and mobile termination rates based on a Pure BULRIC models. At the end of 2016 the termination rates were further reduced with the amended BULRIC models. In particular, as at November 1, 2016, FTRs had been reduced from BGN 0.005 to BGN 0.0015. On December 1, 2016 the MTRs were reduced from BGN 0.019 to BGN 0.014.

EU Telecom Single Market Regulation

The European Parliament decided on the Regulation of the European Parliament and of the Council laying down measures concerning the EU single market. The new regulation mandates EU roaming charges at national level from June 2017 and net neutrality (not discriminating traffic to different services). The new regulation was promulgated at the end of 2015. The regulation is expected to have a material impact on the EU telecom sector. The first stage of regulation enabled usage of roaming services at national prices covered by a surcharge. The latter will be abolished effectively from June 15, 2017.

Electronic Communications Act

Amendments to the Electronic Communications Act were adopted and entered into force on April 21, 2015. The amendments modified the sanctions in case of failure to comply with the CRC decisions and imposed specific obligations. Firstly, the CRC shall have the power to impose penalties while the court procedure on the appeal against the CRC decision is pending. Secondly, CRC shall have the power to impose daily sanctions until the fulfilment of the imposed specific obligations, the obligations under the General requirements and the obligations under the authorizations for usage of scarce resource (spectrum and numbers).

Unfair competition

Unfair competition from a number of alternative operators poses a risk to the Company. Their typical behaviour is anti-competitive associations for concerted market behaviour, forbidden and hidden advertising, negative advertising and unfair acquisition of clients as a result of the low price promotions.

A new element in the field of competition law should be noted - the use of non-profit legal entities (NGOs) to approach the CPC. Such NGOs are used for policy coordination and consolidation of market participants. They also attack specific VIVACOM offers – as for example the bundled services including communications device and a subscription plan for mobile internet.

It is important to emphasize the particularly active policy of CPC to investigate specific inquiries regarding possible anticompetitive behaviour of VIVACOM in the field of market promotions. Such in-depth studies and inquiries have resulted in to a competition risk.

Use of illegal content by TV operators is also not uncommon. Some of the operators distribute content without contracts with the content owners or underreport the number of their subscribers. As a result, they are not paying the full price for content, creating risks for the Company and the industry as a whole.

Some operators that provide internet access build their cable networks in contradiction with imperative stipulation of Bulgarian legislation. Examples of such practices are networks built over the air in cities with more than 10 000 inhabitants, in violation of the Electronic Communications Act.

Credit risks

Credit risks or the risk of counterparty defaulting is reduced partly by the application of monthly subscription, credit limits and monitoring procedures. The Company has a policy of obtaining collateral from its retail customers where risk is perceived and from distributors. Credit risk is managed on VIVACOM Group level. The credit exposure of VIVACOM consists of the total value of trade and other receivables and short-term deposits.

As a result of the assigned receivables on cash deposits in CCB in 2014 and the subsequent cancellation of transactions as disclosed in Note 5 to the interim consolidated and separate condensed financial statements. The receivables are due by several counterparties, one economic group of which represents more than 50% of the

total balance. As at the reporting date all of the outstanding loan receivables are impaired in full, as disclosed in Note 5. Apart from this VIVACOM Group is not exposed to credit risk from an individual partner or group of partners with similar profile. Trade relations with related parties are similar to those with third parties.
According to Treasury policy, applicable to VIVACOM and its subsidiaries, transactions are carried out predominantly with financial institutions and banks with credit standing between BBB and A. Credit exposure is controlled by individual credit limits of counterparties, which are regularly revised and appropriately approved. The limit for each third party is determined according to its size in terms of assets and equity as well as its long-term credit rating from S&P, Moody's or Fitch. The Treasury policy also defines the financial instruments, allowed to the Treasury Department, as well as the maximum maturity.

Liquidity risks

Liquidity risk arises from the mismatch of contractual maturity of monetary assets and liabilities and the possibility that debtors may not be able to settle obligations to the Company within the normal terms of trade. To manage such risk, the Company uses planning techniques, including but not limited to, arrangement of overdraft facilities, liquidity reports, short- and medium-term cash forecasts.

Currency risk

The main objective of Company currency risk management is to minimise adverse effects of market volatility on exchange rates.

Due to the fact that the companies within VIVACOM Group use mainly BGN and EUR as operating currencies they are not significantly exposed to currency risk. Most of the income is generated in BGN while long term borrowings, interest expenses and part of the capital expenses are in EUR. This mismatch has not been a problem as the Bulgarian lev is pegged to the euro. At the same time the stability of the currency board needs to be monitored closely, since a potential free floating of the local currency and devaluation of the Lev will significantly affect the financial situation of the Group.

Company identifies currency risk, arising as a result of exposure in USD. According to the Treasury policy of the Company and in compliance with its foreign exchange risk management strategy, the foreign exchange risk arising from the highly probable forecasted purchases is hedged. The hedges are cash flow hedges and are classified as financial assets at fair value through profit or loss.

When significant foreign currency exposure arises, the Company takes into account the following factors:

- Future outlook on volatility of financial market variables. These are modelled by Treasury and in accordance with best practice analytical techniques and economic models;
- Effect of the given foreign exchange exposure on total Company financial results;
- Cost of foreign exchange exposure hedging

VIVACOM’s Treasury department uses mainly forward contracts to hedge foreign exchange risk. All derivatives are entered into with credible counterparties and are in compliance with the Treasury policy of the Company.

Other specific risks

Other specific risk identified by the management is the risk of unethical behaviour of employees of the Company. To address this risk the management has developed and adopted a Code of Ethics that entered into force on July 1, 2010 and regularly promotes it with awareness campaigns. It guides the employees to act responsibly, ethically and lawfully and in compliance with the Code of Ethics, as well as all other policies, laws and regulations that apply to the Company.

ROUNDING

Certain numerical figures set out in this document, including but not limited to financial data presented in millions or thousands, have been subject to rounding adjustments and, as a result, the totals of the data in this report may vary slightly from the actual arithmetic totals of such information. Percentages and amounts reflecting changes over time periods are calculated using the numerical data in the consolidated financial statements or the tabular presentation of other data (subject to rounding) contained in this report, as applicable, and not using the numerical data in the narrative description thereof.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There are no important events after the end of the reporting period that need to be disclosed.

EXPECTED DEVELOPMENT

In 2017 the activity of the Group will continue to be carried out in accordance with the main objectives of the Company:

- VIVACOM will continue to support its competitive advantages by further investments in its mobile network, including optimization of infrastructure with deployment of single radio access network technology and further expansion of the LTE network coverage;
- VIVACOM will further expand its fibre-optic network coverage in order to support today's growing demands for high speed bandwidth capacity;
- VIVACOM will continue to increase its network capacity, resilience and stability in response to customers’ expectations;
- VIVACOM plans to continue the investments in its high quality TV platforms.

CORPORATE GOVERNANCE

VIVACOM applies internationally recognized standards for good corporate governance. The Company complied, in all material respects, throughout the period under review, with the legal requirements for public companies and with the best practices and principles applicable to Bulgarian companies. In line with this commitment, we continue to enhance and align policies, systems and processes to embed sound corporate governance principles and ethical standards. Guided by these principles and standards, directors and management are required to exercise rigorous ethical judgement in leading the business and acting in the best governance practices.

Internal control

The Managing Board of VIVACOM exercises independent supervision over the activities and the internal control established by the Company including via the established Internal Audit Department. The objective of the internal control system is to manage rather than eliminate the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable, but not absolute, assurance against possible misstatements and losses. The Managing Board of VIVACOM ensured ongoing identification, evaluation and management of the material risks faced by the business. The Audit Committee was established in 2009 with liabilities and responsibilities according to the Independent Financial Audit Act.

INFORMATION ABOUT THE COMPANY'S MANAGING BOARD AND SUPERVISORY BOARD

Members of the Company's Managing Board and Supervisory Board at March 31, 2017

a) At March 31, 2017 the members of the Managing Board of VIVACOM are:

Mr. Atanas Dobrev - Member of the Managing Board and Chief Executive Officer
Mr. Alexander Grancharov - Member of the Managing Board
Mr. Rusin Yordanov - Member of the Managing Board
Mr. Asen Velikov - Member of the Managing Board
Mr. Radoslav Zlatkov - Member of the Managing Board
Mr. Miroslav Petrov - Member of the Managing Board

b) At March 31, 2017 the members of the Supervisory Board of VIVACOM are:

Mr. Michael Tennenbaum - Chairman of the Supervisory Board
Mr. Georgi Veltchev - Deputy Chairman and Member of the Supervisory Board
Mr. Vladimir Penkov - Member of the Supervisory Board
Mr. Stefano Zuppet - Member of the Supervisory Board
Mr. Svetoslav Dimitrov - Member of the Supervisory Board

On 11.04.2017 Mr. Spas Roussev, Mr. Bojan Ivanovic, Mr. Franz Hörhager, Mr. Zeno Meier and Mr. Bruno Ducharme were registered in the Bulgarian Commercial Register as new Supervisory Board members of the Company. They were appointed to the Supervisory Board pursuant to a resolution of the sole owner of the share capital of the Company. They replace Mr. Michael Tennenbaum, Mr. Georgi Veltchev, Mr. Vladimir Penkov, Mr. Stefano Zuppet and Mr. Svetoslav Dimitrov who were the former members of the Supervisory Board.

As per the available information, the member of the Managing Board and CEO Atanas Dobrev holds bonds of VIVACOM at a nominal value of EUR 200 thousand. With the exception of the disclosure under the previous sentence the members of the Managing Board, the Supervisory Board and the senior management of the Company did not acquire, hold and transfer shares and bonds of VIVACOM for the three months ended March 31, 2017. The members of the Managing Board and the Supervisory Board are not entitled to acquire shares or bonds of VIVACOM on special terms pursuant to any existing financial instrument or agreement.

Remuneration amounting to BGN 1,467 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of March 31, 2017.

Participation of the members of the Managing Board and the Supervisory Board in companies as general partners, holdings of more than 25% of the capital in another company, as well as participations in the management of other companies or co-operations as procurators, managing directors or board members were disclosed in accordance with the provisions of the applicable law.

No contracts under Article 240b of the Commerce Act were concluded for the three months ended March 31, 2017.

INFORMATION ABOUT THE COMPANY'S SHARES

The share capital of VIVACOM is comprised of 288,764,840 ordinary registered shares. The nominal value of one share is BGN 1.

INNOVATION PROCESSES AND PRODUCT DEVELOPMENT

Throughout the period under review, VIVACOM has been consistently engaged in innovation processes and product development. Such activities ultimately benefit our customers as innovative technology enables us to deliver complex solutions and offer innovative products and services.

ADDITIONAL INFORMATION

The Company has no branches in the country or abroad.

Information about pending judicial, administrative or arbitration proceedings regarding liabilities or receivables of the Company amounting to at least 10% of its equity is disclosed further in Note 27 to the interim consolidated and separate condensed financial statements.

Data about the Investor Relations:

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05.05.2017

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ABBREVIATIONS AND TERMS

AMOU

We define AMOU as the sum of the total traffic (in minutes) in a certain period divided by the average number of mobile subscribers for the period divided by the number of months in that period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile SIM cards at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

ARPU

We believe that ARPU provides useful information concerning the appeal and usage patterns of our rate plans and service offerings and our performance in attracting and retaining high value subscribers of mobile, fixed line voice and fixed broadband subscribers.

We define blended mobile ARPU as the sum of the monthly mobile services revenue in the period divided by the average number of mobile subscribers in the period, divided by the number of months in that period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile Subscriber Identity Module cards ("SIM cards") at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period. For purposes of calculating blended mobile ARPU, mobile services revenue (which differs from revenue from our mobile segment) consist of revenue generated from our monthly subscription fees, usage fees for services that are incremental to the services allocated with our monthly subscription fees and mobile interconnect revenue (from fees paid to us by other operators for calls terminated on our mobile network, including roaming charges by our customers) as well as the expired balance revenue for pre-paid SIM cards as part of non-recurring revenue, but does not include non-recurring revenue such as revenue generated from mobile handset sales and revenue from roaming charges incurred by customers of other operators using our network.

We define pre-paid mobile ARPU as the sum of the monthly pre-paid mobile revenue in the period divided by the average number of pre-paid mobile subscribers in the period divided by the number of months in that period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile SIM cards at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

We define post-paid mobile ARPU as the sum of the monthly post-paid mobile revenue in the period divided by the average number of post-paid mobile subscribers in the period divided by the number of months in that period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile SIM cards at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

We define fixed telephony ARPU as the sum of the monthly fixed telephony revenue in the period divided by the average number of fixed telephony subscribers in the period, divided by the number of months in that period. The average number of fixed telephony subscribers in a period is calculated by adding together the number of fixed telephony subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period. For purposes of calculating fixed telephony ARPU, fixed telephony revenue includes revenue generated from monthly subscription fees, usage fees for services that are incremental to the services allocated with our monthly subscription fees and landline termination rates (i.e., fees paid to us by other operators for calls terminated on our landline network), but does not include revenue generated from wholesale voice and public payphone services.

We define fixed broadband ARPU as the sum of the monthly fixed broadband revenue in the period divided by the average number of fixed broadband subscribers in the period, divided by the number of months in that period. The average number of fixed broadband subscribers in a period is calculated by adding together the number of fixed broadband subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period. For purposes of calculating fixed broadband ARPU, fixed broadband revenue includes revenue generated from monthly subscription fees but does not include dial up revenue, revenue from the sale of customer premises equipment, such as modems and initial set up charges and revenue generated from the provision of business data and connectivity solutions such as VPN and MAN services.

EBITDA and Adjusted EBITDA

We define EBITDA as starting from profit/(loss) for the period (prepared in accordance with IFRS) and adding back income tax expense, finance costs, finance income and depreciation and amortization.

We define Adjusted EBITDA as EBITDA as calculated above, and adjusted to remove the effect of asset impairment and write off /excluding the impairment of receivables and trading stock/, gains on sale of non-current assets and materials, provisions and penalties and other exceptional items which we believe are not indicative of our underlying operating performance.

We define Adjusted EBITDA margin as Adjusted EBITDA divided by total revenue in the applicable period.

Market Share

We calculate the market share for our mobile services by taking the total number of our subscribers as a percentage of the total number of subscribers in the Bulgarian market (which is calculated here by adding the total number of our subscribers to the number of subscribers disclosed by each of the mobile network operators in their publicly available reports as of a given date). We have excluded the market share represented by third party mobile virtual network operators or “MVNOs.” MVNOs have limited penetration in Bulgaria.

Subscribers

The number of subscribers in our mobile service is reported based on the number of active mobile SIM cards. In line with the prevailing methodology in Bulgaria for calculating post-paid mobile subscribers, post-paid mobile subscribers are counted in our subscriber base as long as they have an active contract, have any active billing status (subscribers who regularly pay their bills) and have not been disconnected from our network, which includes machine to machine connections. Pre-paid mobile subscribers are counted in our subscriber base in line with the prevailing methodology for doing so in the Bulgarian mobile telecommunications market, whereby pre-paid mobile subscribers are counted in our subscriber base if they have had an activity event (such as outgoing and incoming customer generated usage or recharge) within the last three months.

In our fixed telephony service, subscribers are counted in our subscriber base as long as they have an active billing status (subscribers who regularly pay their bills). Subscribers are counted in channels – PSTN =1, ISDN BRA = 2, ISDN PRA and R2D = 30 channels.

In our fixed broadband service, we report fixed broadband subscribers based on technical installations and the number of subscribers who have an active billing status (subscribers who regularly pay their bills).

In our fixed pay-TV service, we report fixed pay-TV subscribers based on technical installations and the number of subscribers who have an active billing status (subscribers who regularly pay their bills).

Our subscriber data includes the number of main products in use by our residential and business customer units. An individual buying a VIVACOM Trio bundle could therefore be reported as a post-paid mobile subscriber, a fixed telephony subscriber and a fixed broadband subscriber, as each active service is reported separately based on the technology. Generally, each connection counts as one subscriber; however, this may vary depending on the circumstances and subscriber numbers should not be equated with the actual number of individuals or businesses using our services.

The following technical terms and abbreviations when used in this report have the definitions ascribed to them opposite below.

Abbreviation	**Definitions**
"**2G**"	Second Generation Mobile System, which is based on the GSM universal standard.
"**3G**"	Third Generation Mobile System, which is based on the UMTS universal standard.
"**4G**"	Fourth Generation Mobile System, which is based on the LTE universal standard.
"**ADSL**" or "**Asymmetric Digital Subscriber Line.**"	ADSL is a type of DSL broadband communications technology used for connecting to the Internet. ADSL allows more data to be sent over existing copper telephone lines (POTS), when compared to traditional modem lines. A special filter, called a microfilter, is installed on a subscriber's telephone line to allow both ADSL and regular voice (telephone) services to be used at the same time.
"**AMOU**" or "**average minutes of use**"	Average minutes of use is a telecom industry metric generally calculated by dividing sum of the total traffic (in minutes) in a certain period divided by the average number of subscribers for that period.
"**ARPU**" or "**average revenue per user**"	Average revenue per user is a telecom industry metric generally calculated by dividing recurring revenue (which includes airtime (*i.e.*, time elapsed between the start and termination of a call) usage, monthly subscription fees and other recurring service fees) during a period by the average number of subscribers during a period.
"**backbone**"	A high speed line, or a series of connections forming a major communication pathway within a network, which uses a much faster protocol than that employed by a single local area network and has the highest traffic intensity.
"**band**"	In wireless communication, band refers to a frequency or contiguous range of frequencies.
"**bit**"	The smallest unit of binary information.
"**bps**"	Bits per second.
"**broadband**"	Broadband refers to telecommunication that provides multiple channels of data over a single communications medium, typically using some form of frequency or wave division multiplexing.
"**BTS**" or "**base transceiver station**"	Fixed transmitter/receiver equipment in each geographic area or cell of a mobile telecommunications network that communicates by radio signal with mobile telephones in the cell.
"**byte**"	A sequence of usually eight bits (enough to represent one character of alphanumeric data) processed by a computer as a single unit of information.
"**churn**"	A telecom industry measure of the proportion of subscribers that disconnect from a telecommunication providers' service over a period of time.
"**CPE**" or "**customer premises equipment**" or "**customer provided equipment**"	Any terminal and associated telecommunications equipment located at a subscriber's premises such as telephones, routers, switches, residential gateways, set-top boxes, fixed mobile convergence products, home networking adaptors and internet access gateways.
"**digital**"	A signaling technology in which a signal is encoded into digits for transmission.
"**DSL**" or "**Digital Subscriber Line**"	A technology enabling a local loop copper pair to transport high- speed data between a central office and the subscribers' premises.
"**DTH**" or "**Direct to Home**"	A satellite television signal transmitted directly to the home, rather than to a broadcast television station or to a cable television provider for retransmission to the subscriber.

"**EDGE**"	Enhanced Data rates for GSM Evolution; EDGE is a technology, which elevates GPRS download speeds to above 100 kbps.
"**fiber optic cable**"	Fiber-optic cable is a transmission medium composed of extremely pure and uniform glass. Digital signals are transmitted across fiber optic cable as pulses of light. While signals transmitted over fiber optic cable travel at the same speed as those transmitted over traditional copper cable, fiber optic cable benefits from greater transmission capacity and lower distortion of signals transmitted..
"**fixed-line**"	A physical line connecting the subscriber to the telephone exchange. In addition, fixed-line includes fixed wireless systems, in which the users are in fixed locations using a wireless connection (*i.e.,* cordless telephones) to the telephone exchange.
"**frequency**"	The rate at which an electrical current alternates, usually measured in Hertz (Hz). Also the way to note a description of a general location on the radio frequency spectrum such as 800 MHz, 900 MHz or 1900 MHz.
"**FTR**" or "**fixed termination rates**"	A voice termination charge levied against the origination network by the receiving network at a rate that is agreed between the two networks. The FTR is usually subject to regulatory limits.
"**FTTB**" or "**fiber to the building**"	FTTB is an access network architecture in which the final part of the connection goes to a point on a shared property and other cabling provides the connection to homes, offices or other spaces.
"**FTTH**" or "**fiber to the home**"	FTTH is an access network architecture in which the final part of the connection to the home is optical fiber.
"**FTTx**" or "**fiber to the x**"	A generic term for any broadband network architecture using optical fiber to provide all or part of the local loop used for last mile telecommunications. The term is a generalization for several configurations of fiber deployment.
"**GB**"	A gigabyte, equal to 1 billion bytes.
"**GPRS**" or "**General Packet Radio Services**"	A packet-based telecommunications service designed to send and receive data at rates from 56 Kbps to 114 Kbps that allows continuous connection to the Internet for mobile phone and computer users. GPRS is a specification for data transfer over GSM networks.
"**GPS**" or "**Global Positioning System**"	A space-based satellite navigation system that provides location and time information in all weather conditions, anywhere on or near the Earth where there is an unobstructed line of sight to 4 or more GPS satellites
"**GSM**" or "**Global System for Mobile Communications**"	A comprehensive digital network for the operation of all aspects of a cellular telephone system.
"**GSM 1800**" or "**GSM 900**"	GSM operating at a frequency of 1800 MHz or 900 MHz. Used in Europe, the Middle East, Africa, much of Asia and certain South American countries.
"**Hertz**"	A unit of frequency of one cycle per second.
"**Homes passed**"	The number of homes that a service provider has capability to connect in a service area through fiber.
"**HSDPA**" or "**High Speed Downlink Packet Access**"	A 3G mobile telephone protocol which allows networks based Universal Mobile Telecommunication System to have higher data transfer speeds and capacity.
"**HSPA**" or "**High Speed Packet Access**"	A mix of two mobile telephony protocols, high speed download Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA) that extends and improves the performance of existing protocols.
"**HSPA+**" or "**evolved high speed packet access**" or	A set of 3G / UMTS technology enhancements allowing for very fast data transmission between network and mobile devices. Supports speeds of up to 42 Mbps from network to mobile devices and up to 11 Mbps from mobile devices to network.

"**interconnection**"	The way in which networks are connected to each other and the charges payable by one network operation for accepting traffic from or delivering traffic to another.
"**Internet Protocol**" or "**IP**"	Internet Protocol is a protocol used for communicating data across a packet-switched network. It is used for transmitting data over the internet and other similar networks. The data is broken down into data packets, each data packet is assigned an individual address, then the data packets are transmitted independently and finally reassembled at the destination.
"**IPTV**" or "**Internet Protocol Television**"	IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet.
"**ISDN**" or "**Integrated Services Data Network**"	A set of communication standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network.
"**ISDN BRA/PRA**"	Integrated Service for Digital Network, Basic Rate Access/Primary Rate Access
"**ISP**"	An ISP is a company that provides individuals and companies access to the internet.
"**Kbps**"	Kilobits per second.
"**LAN**" or "**Local Area Network**"	A computer network that interconnects computers in a limited area such as a home, school, computer laboratory, or office building using network media.
"**LLU**" or "**local loop unbundling**"	Local loop unbundling, is where the incumbent grants access to third- party operators of the part of the communications circuit between the subscriber's equipment and the equipment of the local exchange (known as the local loop). Where such access is granted by the incumbent, the incumbent may charge the third-party operator a regulated fee for the interconnection service.
"**LTE**" or "**Long Term Evolution**"	LTE refers to a new mobile telephony technology that succeeds 3G. 3GPP (Third Generation Partnership Project) Long Term Evolution, is a new high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
"**M2M**" or "**Machine-to-Machine**"	M2M refers to the data communication between wireless and wired systems and other wireless and wired systems.
"**MAN**" or "**Metropolitan Area Network**"	A computer network in which two or more computers or communicating devices or networks which are geographically separated but in same metropolitan city.
"**MB**"	A megabit.
"**Mbps**"	Megabits per second.
"**MHz**"	Megahertz; a unit of frequency equal to 1 million Hertz.
"**MMS**" or "**Multimedia Messaging Service**"	An evolution of SMS that enables users to send multimedia content including images, audio and video clips to other users.
"**MPLS**" or "**Multi Protocol Label Switching**"	A method used to speed up data communication over combined IP / ATM networks.
"**MRC**"	Monthly Recurring Charges.
"**MTR**" or "**mobile termination rates**"	A voice, or SMS or MMS, as applicable termination charge levied against the origination network by the receiving network at a rate that is agreed between the two networks. The MTR is usually subject to regulatory limits.
"**MVNO**" or "**mobile virtual network operator**"	A mobile operator that does not own its own spectrum and usually does not have its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use for sale to their own subscribers.

"**network**"	An interconnected collection of telecom components consisting of switches connect to each other and to customer equipment by real or virtual transmission links. Transmission links may be based on fiber optic or metallic cable or point-to-point radio connections.
"**number portability**"	A facility provided by telecommunications operators that enables customers to keep their full telephone numbers when they change operators.
"**operator**"	A term for any company engaged in the business of building and running its own network facilities.
"**penetration**"	A measurement of access to telecommunications, normally calculated by dividing the number of subscribers to a particular service by the population and multiplying by 100.
"**roaming**"	Roaming is the transfer of mobile traffic from one network to another, referring to the exchange of mobile international traffic.
"**R2D**"	Register to Digital signalization via 2 Mbit/s subscriber line.
"**smartphone**"	A smartphone is a mobile phone built on a mobile computing platform and includes high-resolution (touch) screens, web browsers that can access and properly display standard web pages and high speed data access via Wi-Fi and mobile broadband.
"**SMS**" or "**Short Message Service**"	A text message service which enables users to send short messages (160 characters or less) to other users.
"**spectrum**"	A continuous range of frequencies, usually wide in extent within which waves have some certain common characteristics.
"SRAN"	SingleRAN is a radio access network (RAN) technology that allows mobile telecommunications operators to support multiple mobile communications standards and wireless telephone services on a single network.
"**Subscriber Identity Module card**" or "**SIM card**"	A SIM is a chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.
"**subscriber**"	A person or entity who is party to a contract with the provider of telecommunications services for the supply of such services.
"**termination rate**"	The tariff chargeable by operators for terminating calls on their networks as set forth by the CRC.
"**Universal Mobile Telecommunications System**" or "**UMTS**"	UMTS is one of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.
"**VoBB**" or "**Voice over Broadband**"	A telephone service via Internet, or via transmission control/Internet Protocol, which can be accessed using a computer, a sound card, adequate software and a modem.
"**VPN**" or "**Virtual Private Network**"	A VPN is a virtual network constructed from logic connections that are separated from other users
"**Wi-Fi**"	Wi-Fi is a technology that allows an electronic device to exchange data wirelessly over a computer network, including broadband internet connections. Wi-Fi is a trademark of the Wi-Fi Alliance.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONDENSED CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
As at 31 March 2017
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated Financial Statements		Separate Financial Statements	
		31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
ASSETS					
Current assets					
Cash and cash equivalents	4.	73,196	72,344	67,949	66,618
Trade and other receivables	5.	108,567	150,662	116,957	159,050
Current income tax receivables		450	453	449	452
Inventories	6.	41,841	42,543	40,553	41,236
Investments	11.	109	322	109	322
Other current assets	8.	27,492	11,375	26,716	10,873
Assets classified as held for sale	7.	660	194	450	14
Total current assets		**252,315**	**277,893**	**253,183**	**278,565**
Non-current assets					
Goodwill		2,049	2,049	2,049	2,049
Property, plant and equipment	9.	758,173	766,947	710,079	717,828
Investment property	9.	167,548	168,205	12,083	13,112
Intangible assets	10.	201,159	204,123	200,954	203,900
Investments	11.	59,057	382	99,778	41,103
Trade and other receivables	5.	33,596	36,012	33,435	35,826
Other non-current assets	8.	7,190	2,491	7,190	2,491
Deferred tax assets, net	16.	1,494	1,486	-	-
Total non-current assets		**1,230,266**	**1,181,695**	**1,065,568**	**1,016,309**
TOTAL ASSETS		**1,482,581**	**1,459,588**	**1,318,751**	**1,294,874**
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	12.	76,125	77,395	77,779	75,750
Other payables	13.	42,315	40,953	41,708	40,441
Deferred income/revenue		21,162	21,258	21,162	21,258
Current income tax liabilities		800	1	749	-
Provisions	14.	3,369	3,905	3,291	3,827
Borrowings	15.	24,614	12,355	24,577	12,318
Total current liabilities		**168,385**	**155,867**	**169,266**	**153,594**
Non current liabilities					
Borrowings	15.	778,267	776,519	778,267	776,519
Deferred tax liabilities, net	16.	14,760	14,644	472	451
Retirement benefit obligations	17.	4,764	4,687	4,764	4,687
Provisions	14.	10,650	10,540	10,650	10,540
Trade payables	12.	2,864	2,962	2,864	2,962
Deferred income/revenue		2,853	2,914	2,853	2,914
Total non current liabilities		**814,158**	**812,266**	**799,870**	**798,073**
Equity					
Share capital	18.	288,765	288,765	288,765	288,765
Reserves	18.	173,220	173,578	33,814	34,001
Retained earnings		38,053	29,112	27,036	20,441
Total equity		**500,038**	**491,455**	**349,615**	**343,207**
TOTAL LIABILITIES AND EQUITY		**1,482,581**	**1,459,588**	**1,318,751**	**1,294,874**

These financial statements were approved on 05.05.2017

Atanas Dobrev
CEO

Asen Velikov
Finance Director

The accompanying notes from pages 33 to 69 are an integral part of these interim consolidated and separate financial statements.

All amounts are in thousand BGN, unless otherwise stated

Consolidated financial statements	**Notes**	**Three months ended**	
		31.3.2017	**31.3.2016**
Revenue	19.	211,106	211,730
Interconnect expenses		(16,180)	(13,152)
Other operating expenses	20.	(52,776)	(49,511)
Materials and consumables expenses		(36,140)	(38,156)
Staff costs	21.	(32,873)	(31,996)
Depreciation and amortization	8.; 9., 10.	(50,786)	(64,765)
Finance costs	22.	(14,398)	(14,550)
Finance income	22.	1,470	1,642
Other gains, net	23.	280	1,687
Profit before tax		**9,703**	**2,929**
Income tax expenses	24.	(933)	(251)
Profit for the period		**8,770**	**2,678**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or los:			
Cash flow hedges – effective portion of changes in fair value		(208)	(415)
Related tax	24.	21	42
		(187)	**(373)**
Other comprehensive income for the period, net of tax		**(187)**	**(373)**
Total comprehensive income for the period		**8,583**	**2,305**
Earnings per share (basic and diluted)		0.03	0.01

The accompanying notes from pages 33 to 69 are an integral part of these interim consolidated and separate financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

CONDENSED CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME(CONTINUED)

For the three months ended 31 March 2017

All amounts are in thousand BGN, unless otherwise stated

Separate financial statements	Notes	Three months ended 31.3.2017	Three months ended 31.3.2016
Revenue	19.	204,442	202,171
Interconnect expenses		(13,541)	(12,438)
Other operating expenses	20.	(53,188)	(47,893)
Materials and consumables expenses		(35,299)	(36,447)
Staff costs	21.	(32,689)	(30,463)
Depreciation and amortization	8.; 9., 10.	(50,253)	(63,190)
Finance costs	22.	(14,393)	(14,450)
Finance income	22.	1,858	2,024
Other gains, net	23.	453	724
Profit before tax		**7,390**	**38**
Income tax expenses	24.	(794)	(32)
Profit for the period		**6,596**	**6**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or los:			
Cash flow hedges – effective portion of changes in fair value		(208)	(415)
Related tax	24.	21	42
		(187)	**(373)**
Other comprehensive income for the period, net of tax		**(187)**	**(373)**
Total comprehensive income for the period		**6,409**	**(367)**
Earnings per share (basic and diluted)		0.02	0.00

These financial statements were approved on 05.05.2017

Atanas Dobrev

CEO

Asen Velikov

Finance Director

The accompanying notes from pages 33 to 69 are an integral part of these interim consolidated and separate financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONDENSED CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
For the three months ended 31 March 2017
All amounts are in thousand BGN, unless otherwise stated

Consolidated Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
Balance as at 1 January 2016		**288,765**	**28,876**	**6,090**	-	**48,372**	**372,103**
Comprehensive income							
Profit for the period		-	-	-	-	2,678	2,678
Total other comprehensive income		-	-	-	(373)	-	(373)
Total comprehensive income		-	-	-	**(373)**	**2,678**	**2,305**
Balance as at 31 March 2016		**288,765**	**28,876**	**6,090**	**(373)**	**51,050**	**374,408**
Balance as at 1 January 2017		**288,765**	**28,876**	**144,420**	**282**	**29,112**	**491,455**
Comprehensive income							
Profit for the period		-	-	-	-	8,770	8,770
Total other comprehensive income		-	-	-	(187)	-	(187)
Total comprehensive income		-	-	-	**(187)**	**8,770**	**8,583**
Transfer to retained earnings - land and investment property disposal		-	-	**(171)**	-	**171**	-
Balance as at 31 March 2017		**288,765**	**28,876**	**144,249**	**95**	**38,053**	**500,038**

Separate Financial Statements

	Share capital	Legal reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
Balance as at 1 January 2016	**288,765**	**28,876**	**6,090**	-	**38,045**	**361,776**
Comprehensive income						
Profit for the period	-	-	-	-	6	6
Total other comprehensive income	-	-	-	(373)	-	(373)
Total comprehensive income	-	-	-	**(373)**	**6**	**(367)**
Balance as at 31 March 2016	**288,765**	**28,876**	**6,090**	**(373)**	**38,051**	**361,409**
Balance as at 1 January 2017	**288,765**	**28,876**	**4,843**	**282**	**20,441**	**343,207**
Comprehensive income						
Profit for the period	-	-	-	-	6,596	6,596
Total other comprehensive income	-	-	-	(187)	-	(187)
Total comprehensive income	-	-	-	**(187)**	**6,596**	**6,409**
Balance as at 31 March 2017	**288,765**	**28,876**	**4,843**	**95**	**27,037**	**349,616**

These financial statements were approved on 05.05.2017

Atanas Dobrev

CEO

Asen Velikov

Finance Director

The accompanying notes from pages 33 to 69 are an integral part of these interim consolidated and separate financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONDENSED CONSOLIDATED AND SEPARATE CASH FLOW STATEMENT
For the three months ended 31 March 2017
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statement		Separate financial statement	
		Three months ended		Three months ended	
		31.3.2017	31.03.2016	31.3.2017	31.03.2016
Cash flows from operating activities					
Profit before tax		9,703	2,929	7,390	38
Adjustment for:					
Depreciation and amortization	8., 9., 10.	50,786	64,765	50,253	63,190
Gain on sale of non current assets and assets held for sale	23.	(279)	(1,687)	(453)	(724)
Impairment loss and write off of non-current assets	9., 10.	1,289	1,042	1,289	1,041
Interest expenses, net of interest income	22.	12,834	12,678	12,435	12,185
Impairment loss on trade receivables	5.	4,802	2,914	4,617	2,190
Impairment/(reversal) loss and write off of current assets		94	(22)	94	(46)
(Gain)/loss from operations with cash flow hedges	22.	6	(29)	6	(29)
Accruals and provisions charged to profit and loss		2,467	1,755	2,438	1,755
Changes in:					
-inventories		652	(8,631)	631	(8,670)
-trade and other receivables		41,141	9,412	41,353	17,733
-other current and non-current assets		(21,432)	(13,004)	(21,159)	(12,621)
-trade and other payables		(864)	(4,726)	1,844	(3,989)
-provisions and employee benefits		(1,908)	(942)	(1,884)	(889)
-deferred income/revenue		(156)	(322)	(156)	(323)
Cash generated from operations		**99,135**	**66,132**	**98,698**	**70,841**
Interest received		232	6	576	474
Interest paid		(223)	(196)	(223)	(196)
Corporate income tax paid		(1)	(390)	-	(390)
Net cash from operating activities		**99,143**	**65,552**	**99,051**	**70,729**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		1,049	4,124	1,033	916
Acquisition of property, plant, equipment and intangible assets		(40,025)	(46,313)	(39,438)	(46,258)
Acquisition of investments		(58,675)	-	(58,675)	-
Cash deposits with maturity greater than three months, net		90	(21)	90	(21)
Dividends received		54	51	54	51
Net cash used in investing activities		**(97,507)**	**(42,159)**	**(96,936)**	**(45,312)**
Cash flows from financing activities					
Repayments of borrowings		-	(9,779)	-	(9,779)
Payment of finance lease liabilities		(766)	(1,113)	(766)	(1,113)
Net cash used in financing activities		**(766)**	**(10,892)**	**(766)**	**(10,892)**
Net increase in cash and cash equivalents		**870**	**12,501**	**1,349**	**14,525**
Effect of exchange rate fluctuations on cash held		(18)	(174)	(18)	(174)
Cash and cash equivalents at the beginning of the year		72,344	89,555	66,618	85,665
Cash and cash equivalents at the end of the period		**73,196**	**101,882**	**67,949**	**100,016**

These financial statements were approved on 05.05.2017

Atanas Dobrev

CEO

Asen Velikov

Finance Director

The accompanying notes from pages 33 to 69 are an integral part of these interim consolidated and separate financial statements.

1. General information

The Parent Company – Bulgarian Telecommunications Company EAD

Bulgarian Telecommunications Company EAD ("BTC", the "Parent Company" or the "Company") with UIC 831642181 registered in the Commercial Register of Bulgaria, is a single owned joint stock company, domiciled in Bulgaria, with its registration address: 115i, Tsarigradsko shose Blvd, 1784 Sofia. BTC's activities include development, operation and maintenance of the national fixed and mobile network and data system for the Republic of Bulgaria.

The Ultimate Parent Company is Viva Telecom (Luxembourg) S.A. ("VTL") which through InterV Investment S.à r.l. owns 100% of the equity of Viva Telecom Bulgaria EOOD which is the parent of the Company as at 31 March 2017. The largest shareholder in VTL with a 46% stake is Viva Edge Telecom Limited which is ultimately owned by Mr. Spas Roussev. Other minority investors are comprised of entities affiliated with OJSC VTB Bank, Delta Capital Investments OOD (ultimately controlled by Messrs. Milen Velchev, George Velchev and Krassimir Katev), Mr. Michael Tennenbaum and companies managed by Mezzanine Management Central Europe II Limited.

On August 30, 2016 VTL acquired 100% of the capital of InterV Investment S.à r.l. The change in ownership has received the approval of the Bulgarian Commission for Protection of Competition. The transaction resulted from an auction that took place on 20th of November 2015 in London, which VTL won after an offer of 330 million euro for the acquisition of InterV.

On 8 June 2015 CPC approved a resolution, which gives an authorization to BTC to acquire control of NURTS Bulgaria Group (NURTS). On 1 July 2015 all shares of NURTS Bulgaria AD were transferred to BTC. Thus BTC became the sole owner of the company and its wholly owned subsidiary NURTS Digital EAD.

In the course of fulfillment of a long-term plan for optimization and more efficient utilisation of resources as of 1 July 2016 the overall service of the operational activities of NURTS Bulgaria EAD are provided by BTC, based on an agreement between the two companies. As a result, NURTS Bulgaria EAD will be able to concentrate on its core business, reduce its operating expenses and ensure increased network and services quality, whereas the main part of NURTS Bulgaria EAD employees joined BTC.

The Group

As at 31 March 2017 and 2016, and 31 December 2016 the Group includes the subsidiary entities BTC Net EOOD and NURTS Bulgaria EAD, and NURTS Digital EAD.

BTC Security EOOD/ Renamed to BTC Net EOOD

The subsidiary was registered in the Register of commercial companies of Sofia City Court on 27 October 2004 with share capital of BGN 5 thousand. Its main activity is provision of security services to BTC AD and the companies controlled by it. BTC is the sole owner of this company.

The registered subject of business activity of BTC Net is building and operation of data transfer networks for the provision of domestic and international value added services and sale of telecommunication network facilities, development and exploitation of other telecommunication networks, and provision of other telecommunications services, as well as any other commercial activities.

On September 30, 2009 BTC Net EOOD was merged into BTC Security EOOD.

The legal merger of the entities was registered in the Commercial Register on October 15, 2009. As a result, BTC Net has ceased to exist as a separate legal entity, by virtue of law BTC Security has become universal legal successor of BTC Net and all assets, rights and obligations of BTC Net have passed to BTC Security automatically as of that date. On October 16, 2009 the successor BTC Security was renamed to BTC Net EOOD.

1. General information(continued)

NURTS Bulgaria EAD

NURTS Bulgaria EAD is a commercial company registered in the Commercial Register in 1 April 2010 with subject of business activity: development, operation and maintenance of public electronic communication networks and data systems in Bulgaria, as well as providing telecommunication services through them, including terrestrial broadcasting of television and radio programs, analogue radio-relay and satellite transmission services, collocation services and other commercial activities. The registered share capital amounts to BGN 151,482,310 comprising of shares with nominal value of BGN 1 each.

NURTS Bulgaria EAD owns 100 % of the share capital of NURTS Digital EAD, which is a joint stock company registered in the Commercial Register on 15 April 2009 with principal activity construction, operation and maintenance of public electronic communication networks, equipment and information systems in Bulgaria, as well as providing electronic communications services through them, including terrestrial broadcasting of television and radio programs. The registered share capital amounts to BGN 120,00,000 comprising of shares with nominal value of BGN 500 each.

2. Functional and Presentation Currency

These financial statements are prepared in thousand Bulgarian Levs (BGN), unless otherwise stated, whereas the Bulgarian Lev has been accepted as presentation currency for the presentation of Group's consolidated financial statements. Effective from 1 January 1999, the Bulgarian Lev was fixed to the EUR at a rate BGN 1.95583 = EUR 1.00.

3. Summary of significant accounting policies

This condensed interim consolidated and separate financial report has been prepared in accordance with IAS 34, 'Interim financial reporting'. The interim condensed financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

The same accounting policies and methods of calculation are applied in the present interim separate and consolidated financial statement, as in the annual consolidated financial statements of the Group for the year ended 31 December 2016.

4. Cash and cash equivalents

As at 31 March 2017 and 31 December 2016 the components of the cash and cash equivalents are:

	Consolidated financial statements		Separate financial statements	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Current accounts and cash in hand				
Held in BGN	28,438	39,874	24,939	34,479
Held in EUR	43,761	31,700	42,031	31,384
Held in foreign currencies other than EUR	997	770	979	755
Total current accounts and cash in hand	**73,196**	**72,344**	**67,949**	**66,618**
Total cash and cash equivalents	**73,196**	**72,344**	**67,949**	**66,618**

All amounts are in thousand BGN, unless otherwise stated

4. Cash and cash equivalents (continued)

As disclosed in Note 15 BTC secured the payments related to Company's liabilities under the bond offering by establishing a pledge on the receivables under certain bank accounts and insurance policies.

Money kept in bank deposits can be withdrawn at any time on demand of the Company and is held to meet short term operational needs.

On 20.06.2014 the Bulgarian National Bank (BNB) placed one of the servicing banks of the Group - Corporate Commercial Bank (CCB) - under special supervision. On 6 November 2014 BNB Governing Council announced its decision to revoke CCB's license for conducting banking activities and to submit petition to the competent court of law to open bankruptcy proceedings. On these grounds the cash available in current and deposit accounts at CCB as at the reporting date has been presented as receivables, as disclosed in note 5.

5. Trade and other receivables

As at 31 March 2017 and 31 December 2016 trade and other receivables include:

	Consolidated financial statements		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Trade receivables	220,926	252,989	185,730	213,612
incl. international settlement receivables	*8,292*	*37,374*	*6,189*	*35,228*
Intercompany receivables (Note 26)	7,402	14,605	34,946	46,767
Other receivables	30,391	31,011	29,481	29,822
incl. loans	*25,692*	*25,671*	*24,897*	*24,897*
Total	**258,719**	**298,605**	**250,157**	**290,201**
Allowance for impairment of receivables	(116,556)	(111,931)	(99,765)	(95,325)
Total Trade and other receivables	**142,163**	**186,674**	**150,392**	**194,876**
Incl:				
Non-current portion: trade and other receivables	104,712	105,377	103,671	104,337
Allowance for impairment of receivables	(71,116)	(69,365)	(70,236)	(68,511)
Total non-current portion: trade and other receivables	**33,596**	**36,012**	**33,435**	**35,826**
Current portion trade and other receivables	154,007	193,228	146,486	185,864
Allowance for impairment of receivables	(45,440)	(42,566)	(29,529)	(26,814)
Total current portion: trade and other receivables	**108,567**	**150,662**	**116,957**	**159,050**

Other receivables as of 31 March 2017 and 31 December 2016 include respectively BGN 914 thousand and BGN 1,004 thousand term cash deposits with maturity greater than three months for the consolidated and for the separate financial statements.

Trade receivables for the consolidated and for the separate financial statements as of 31 March 2017 include respectively BGN 60,766 thousand and BGN 59,841 thousand representing the remaining cash and cash equivalents at CCB. The nominal value of the cash accounts at CCB as of 31 March 2017 is respectively BGN 66,089 thousand and BGN 65,062 thousand for the Group and the Company. The receivables representing the remaining cash and cash equivalents at CCB are presented as non-current. Their net book value as of 31 March 2017 amounts to BGN 11,694 thousand and BGN 11,533 thousand for the consolidated and for the separate financial statements, respectively, and the accumulated impairment is respectively BGN 49,072 thousand and BGN 48,308 thousand.

Based on the data disclosed by Bulgarian Deposit Insurance Fund the management has made an assessment of the collectability of the cash in CCB as at the reporting date, which was estimated to approximate 18% (20% as of 31 December 2016). As a result, impairment related to the receivables representing cash at CCB amounting to BGN 1,840 thousand for the Group and BGN 1,814 thousand for the Company has been recognized and included under other operating expenses for 2017 (note 21).

All amounts are in thousand BGN, unless otherwise stated

5. Trade and other receivables (continued)

Part of the non-current receivables are due within two years from the end of the reporting period and relate to sales of mobile phone sets on finance lease agreements with customers. The net investment in finance leases for the Group and BTC may be analyzed as follows:

	Gross receivables from finance leases		**Net investment in finance leases**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Finance leases receivables with maturity:				
Within one year	44,071	43,850	41,268	40,953
Within two years	16,223	17,400	15,761	16,874
Total receivables	**60,294**	**61,250**	**57,029**	**57,827**
Less: unearned finance income	(3,265)	(3,423)	-	-
Allowance for impairment of receivables	(4,562)	(4,626)	(4,562)	(4,626)
Net investment in finance leases	**52,467**	**53,201**	**52,467**	**53,201**

Movement of the allowance for impairment of accounts receivables as at 31 March 2017 and 31 December 2016 is as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Balance at the beginning of the period	111,931	84,054	95,325	71,199
Accrued impairment	4,802	38,057	4,617	32,085
Impairment of receivables written off	(177)	(10,180)	(177)	(7,959)
Balance at the end of the period	**116,556**	**111,931**	**99,765**	**95,325**

Presented by class of customer the figures above are as follows:

Business customers	**Consolidated financial statements**		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Balance at the beginning of the period	94,343	70,710	77,737	57,855
Accrued impairment	2,559	27,139	2,374	21,167
Subsidiary acquisition	-	-	-	-
Impairment of receivables written off	(40)	(3,506)	(40)	(1,285)
Balance at the end of the period	**96,862**	**94,343**	**80,071**	**77,737**

Residential customers	**Consolidated financial statements**		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Balance at the beginning of the period	17,588	13,344	17,588	13,344
Accrued impairment	2,243	10,918	2,243	10,918
Impairment of receivables written off	(137)	(6,674)	(137)	(6,674)
Balance at the end of the period	**19,694**	**17,588**	**19,694**	**17,588**

Related parties balances are shown in note 26.

As of 31 March 2017 and 31 December 2016 receivables of the Group at the amount of BGN 114,341 and 111,882 thousand were assessed individually and the accumulated impairment amounts to BGN 93,123 and BGN 91,006 thousand, which is included above. For the Company these amounts are respectively BGN 92,086 thousand and BGN 89,901 thousand and BGN 76,332 thousand and BGN 74,515 thousand.

All amounts are in thousand BGN, unless otherwise stated

5. Trade and other receivables (continued)

As of 31 March 2017 and 31 December 2016 the age structure of overdue receivables not impaired is as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
From 60 to 90 days	32	97	32	87
From 91 to 180 days	81	144	80	108
From 181 to 360 days	121	255	23,595	29,799
Above 1 year	219	430	219	430
Total	**453**	**926**	**23,926**	**30,424**

As of the reporting date the accounts with major (the five biggest) counterparties in the trade receivables for the Group and the Company are as follows:

Consolidated financial statements	**Gross book value of the receivable as of**	
Type	**31.3.2017**	**31.12.2016**
In the country	10,069	9,956
In the country	7,123	10,495
In the country	5,533	5,533
In the country	3,546	3,546
In the country	2,856	1,033

Separate financial statements	**Gross book value of the receivable as of**	
Type	**31.3.2017**	**31.12.2016**
In the country	2,856	1,033
Outside/in the country	2,851	32,752
Outside/in the country	1,369	823
In the country	1,110	838
In the country	887	1,000

6. Inventories

The materials and supplies as of 31 March 2017 and 31 December 2016 are as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Materials and supplies, net	5,163	5,177	3,875	3,870
Merchandise and other, net	36,678	37,366	36,678	37,366
Total materials and supplies	**41,841**	**42,543**	**40,553**	**41,236**

For the three months ended 31 March 2017 and for the three months ended 31 March 2016 there was no write-down of inventories to net realisable value. The reversal of write-downs amounted to BGN 22 thousand for the Company (for the three months ended 31 March 2016: BGN 105 thousand). The write-downs and reversals are included in Other operating expenses.

All amounts are in thousand BGN, unless otherwise stated

7. Assets classified as held for sale

	Consolidated financial statements		Separate financial statements	
	31.3.2017	31.12.2016	31.3.2017	31.12.2016
Real estates, held for sale	660	194	450	14
Total assets held for sale	**660**	**194**	**450**	**14**

As of 31 March 2017 and 31 December 2016 the Group companies have signed several preliminary agreements for the sale of real estates. Their net book value is reported in the statement of financial position as Assets classified as held for sale.

8. Other assets

As of 31 March 2017 and 31 December 2016 other assets are as follows:

	Consolidated financial statements		Separate financial statements	
	31.3.2017	31.12.2016	31.3.2017	31.12.2016
Prepayments and deferred expenses	33,112	12,617	32,551	12,231
Subscriber acquisition costs and other	1,570	1,249	1,355	1,133
Total other assets	**34,682**	**13,866**	**33,906**	**13,364**
Incl.				
Other current assets	**27,492**	**11,375**	**26,716**	**10,873**
Other non-current assets	**7,190**	**2,491**	**7,190**	**2,491**

Subscriber acquisition costs, representing mainly fees paid to distributors for the Group and the Company are amounting to BGN 1,096 thousand as of 31 March 2017. As of 31 December 2016 they amount to BGN 1,124 thousand. The amortization expense related to these subscriber acquisition costs is amounting to BGN 585 thousand and BGN 670 thousand for the three months ended 31 March 2017 and 2016.

Other assets include also intellectual rights, amounting to BGN 259 thousand as of 31 March 2017 (31 December 2016 : BGN 9 thousand), for which amortization expense amounting to BGN 91 thousand for the three months ended 31 March 2017 has been recognised in profit or loss (for the three months ended 30 March 2016 : BGN 152 thousand).

All amounts are in thousand BGN, unless otherwise stated

9. Property, plant and equipment and investment property

Property, plant and equipment

The composition of property, plant and equipment for the Group as of 31 March 2017 and 31 December 2016 is as follows:

	Switching	Transmission	General support	Land	Construction in progress	Total
Gross Book Value						
At 1 January 2016	**1,437,556**	**859,718**	**327,001**	**10,824**	**44,698**	**2,679,797**
Revaluation	-	-	-	(1,385)	-	(1,385)
Additions	644	-	94	-	124,333	125,071
Transfers	84,513	16,514	26,629	-	(127,656)	-
Impairment	-	-	4	-	(2,087)	(2,083)
Assets held for sale	-	-	120	(121)	-	(1)
Investment property			(46,796)	(3,093)		(49,889)
Disposals	(108,221)	(69,953)	(12,581)	(225)	(206)	(191,186)
At 31 December 2016	**1,414,492**	**806,279**	**294,471**	**6,000**	**39,082**	**2,560,324**
Additions	99	-	-	-	26,869	26,968
Transfers	17,123	3,251	5,042	-	(25,416)	-
Impairment	-	-	-	-	15	15
Disposals	(36,051)	(54)	(1,371)	-	(247)	(37,723)
At 31 March 2017	**1,395,663**	**809,476**	**298,142**	**6,000**	**40,303**	**2,549,584**
Accumulated depreciation and impairment						
At 1 January 2016	**1,085,895**	**558,065**	**212,126**	**-**	**-**	**1,856,086**
Depreciation charged	108,408	24,401	26,682	-	-	159,491
Impairment	-	-	(66)	-	-	(66)
Assets held for sale	-	-	(33)	-	-	(33)
Investment property			(36,770)			(36,770)
Disposals	(104,552)	(69,238)	(11,541)	-	-	(185,331)
At 31 December 2016	**1,089,751**	**513,228**	**190,398**	**-**	**-**	**1,793,377**
Depreciation charged	22,528	5,982	5,297	-	-	33,807
Disposals	(34,410)	(39)	(1,324)	-	-	(35,773)
At 31 March 2017	**1,077,869**	**519,171**	**194,371**	**-**	**-**	**1,791,411**
Net book value						
At 31 December 2016	**324,741**	**293,051**	**104,073**	**6,000**	**39,082**	**766,947**
At 31 March 2017	**317,794**	**290,305**	**103,771**	**6,000**	**40,303**	**758,173**

All amounts are in thousand BGN, unless otherwise stated

9. Property, plant and equipment and investment property (continued)

Property, plant and equipment (continued)

The composition of property, plant and equipment on BTC stand alone basis as of 31 March 2017 and 31 December 2016 is as follows:

	Switching	Transmission	General support	Land	Construction in progress	Total
Gross Book Value						
At 1 January 2016	**1,431,921**	**848,134**	**289,172**	**7,335**	**43,877**	**2,620,439**
Revaluation	-	-	-	(1,385)	-	(1,385)
Additions	644	-	94	-	123,257	123,995
Transfers	84,229	16,513	25,932	-	(126,674)	-
Impairment	-	-	4	-	(2,087)	(2,083)
Assets held for sale	-	-	293	(77)	-	216
Investment property			(46,796)	(3,093)		(49,889)
Disposals	(108,170)	(69,860)	(11,404)	(23)	(206)	(189,663)
At 31 December 2016	**1,408,624**	**794,787**	**257,295**	**2,757**	**38,167**	**2,501,630**
Additions	99	-	-	-	26,785	26,884
Transfers	17,107	3,227	4,989	-	(25,323)	-
Impairment	-	-	-	-	15	15
Disposals	(36,051)	(54)	(1,371)	-	(247)	(37,723)
At 31 March 2017	**1,389,779**	**797,960**	**260,913**	**2,757**	**39,397**	**2,490,806**
Accumulated depreciation and impairment						
At 1 January 2016	**1,085,061**	**557,510**	**209,308**	**-**	**-**	**1,851,879**
Depreciation charged	107,154	23,306	23,059	-	-	153,519
Impairment	-	-	(66)	-	-	(66)
Assets held for sale	-	-	(26)	-	-	(26)
Investment property			(36,770)	-		(36,770)
Disposals	(104,523)	(69,230)	(10,981)	-	-	(184,734)
At 31 December 2016	**1,087,692**	**511,586**	**184,524**	**-**	**-**	**1,783,802**
Depreciation charged	22,250	5,731	4,717	-	-	32,698
Disposals	(34,410)	(39)	(1,324)	-	-	(35,773)
At 31 March 2017	**1,075,532**	**517,278**	**187,917**	**-**	**-**	**1,780,727**
Net book value						
At 31 December 2016	**320,932**	**283,201**	**72,771**	**2,757**	**38,167**	**717,828**
At 31 March 2017	**314,247**	**280,682**	**72,996**	**2,757**	**39,397**	**710,079**

All amounts are in thousand BGN, unless otherwise stated

9. Property, plant and equipment and investment property (continued)

Property, plant and equipment (continued)

On the base of § 8 Para 1 of Transitional and concluding provisions to the Law for amendment and supplement of the law for privatization and post-privatization control the Agency for Privatization and Post-privatization Control imposed statutory mortgage on:

-25 properties of BTC with a net book value as of 31 March 2017 amounting to BGN 103 thousand (BGN 105 thousand for 25 properties as of 31 December 2016). They are included in General support above.

-17 properties of NURTS Bulgaria EAD with a net book value as of 31 March 2017 amounting to BGN 793 thousand (BGN 799 thousand for 17 properties as of 31 December 2016).

As disclosed in note 15 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the bond offering by establishing a pledge on real estate property, which net book value as of 31 March 2017 amounted to BGN 4,566 thousand, and as of 31 December 2016 their net book value was BGN 4,709 thousand.

Measurement of fair value
Fair value hierarchy

Land is measured at fair value, in accordance with the revaluation model of IAS 16. The fair value of land was determined as at 31 December 2015 by external, independent property valuers, having appropriate recognized professional qualification and recent experience in the location and category of the property being valued.

The fair value measurement for land of BGN 6,000 thousand has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The valuation technique used is Market comparison - the fair value is based on the market price of properties with similar location and category. At the date of valuation no active market existed and the market value was determined based on offers to sell similar plots under the assumption that these are the end prices. The offered prices have been adjusted with: discount rate ranging from 10% to 15% to reflect the actual reduction in the offered price, based on the trends of actual transactions; adjustment coefficients, derived on the basis of characteristics of the respective plots like size, environmental and geomorphologic condition, level of development and transport accessibility, and improvements of the land. The estimated fair value of the individual properties would increase/(decrease) had the respective discount rate were lower/(higher) and the adjustments coefficients were higher/(lower).

Investment property

As a result of the improvements and modernization of its fixed network during the past years BTC achieved substantial optimization of the technical areas in its own buildings and the Company has assessed the level of their usage as at 31 December 2016. Where the Company uses only part of a property it owns, utilisation of less than 25% is regarded as immaterial and the property is presented as an investment property. As a result, on 31 December 2016 1,335 properties have been transferred form Property, plant and equipment to Investment property, as presented below:

Consolidated financial statements	
Balance as at 1 January 2017	168,205
Transferred as assets held for sale	(657)
Balance as of 31 March 2017	**167,548**

All amounts are in thousand BGN, unless otherwise stated

9. Property, plant and equipment and investment property (continued)

Investment property (continued)

Separate financial statements

Gross Book Value	
At 1 January 2017	49,889
Transferred as assets held for sale	(1,599)
At 31 March 2017	**48,290**
Accumulated depreciation and impairment	
At 1 January 2017	36,777
Depreciation charged	593
Transferred as assets held for sale	(1,163)
At 31 March 2017	**36,207**
Net book value	
At 1 January 2017	**13,112**
At 31 March 2017	**12,083**

The fair value of the investment properties was determined as at 31 December 2016 by external, independent property valuers, having appropriate recognized professional qualification and experience.

As disclosed in note 15 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the bond offering by establishing a pledge on real estate properties presented as investment property, which value as of 31 March 2017 amounted to BGN 18,197 thousand in the consolidated financial statements and BGN 1,569 thousand in the separate financial statements (31 December 2016: BGN 18,197 thousand in the consolidated financial statements and BGN 1,633 thousand in the separate financial statements).

On the basis of § 8 Para 1 of Transitional and concluding provisions to the Law for amendment and supplement of the law for privatization and post-privatization control the Agency for Privatization and Post-Privatization Control imposed statutory mortgages on 59 investment properties of BTC with a net book value as of 31 March 2017 amounting to BGN 3,767 thousand in the consolidated financial statements and BGN 103 thousand in the separate financial statements (31 December 2016 amounting to BGN 3,767 thousand in the consolidated financial statements and BGN 112 thousand in the separate financial statements).

All amounts are in thousand BGN, unless otherwise stated

10. Intangible assets and goodwill

As of 31 March 2017 and 31 December 2016 intangible assets of the Group are as follows

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 1 January 2016	**131,361**	**585,344**	**45,897**	**1,987**	**764,589**
Additions(Transfers)	12,834	56,988	17,603	(206)	87,219
Disposals	-	(18,157)	(14,934)	(7)	(33,098)
At 31 December 2016	**144,195**	**624,175**	**48,566**	**1,774**	**818,710**
Additions(Transfers)	198	8,269	3,875	1,328	13,670
Disposals	-	(1,015)	(743)	-	(1,758)
At 31 March 2017	**144,393**	**631,429**	**51,698**	**3,102**	**830,622**
Accumulated depreciation and impairment					
At 1 January 2016	**62,883**	**477,121**	**25,784**	**-**	**565,788**
Amortization charge	8,738	55,624	16,504	-	80,866
Disposals	-	(18,140)	(13,927)	-	(32,067)
At 31 December 2016	**71,621**	**514,605**	**28,361**	**-**	**614,587**
Amortization charge	2,295	9,728	4,281	-	16,304
Disposals	-	(1,015)	(413)	-	(1,428)
At 31 March 2017	**73,916**	**523,318**	**32,229**	**-**	**629,463**
Net book value					
At 31 December 2016	**72,574**	**109,570**	**20,205**	**1,774**	**204,123**
At 31 March 2017	**70,477**	**108,111**	**19,469**	**3,102**	**201,159**

All amounts are in thousand BGN, unless otherwise stated

10. Intangible assets and goodwill(continued)

As of 31 March 2017 and 31 December 2016 intangible assets on BTC stand alone bases are as follows:

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 1 January 2016	**131,207**	**585,172**	**45,897**	**1,987**	**764,263**
Additions(Transfers)	12,834	56,957	17,603	(206)	87,188
Disposals	-	(18,157)	(14,934)	(7)	(33,098)
At 31 December 2016	**144,041**	**623,972**	**48,566**	**1,774**	**818,353**
Additions(Transfers)	198	8,269	3,875	1,328	13,670
Disposals	-	(1,015)	(743)	-	(1,758)
At 31 March 2017	**144,239**	**631,226**	**51,698**	**3,102**	**830,265**
Accumulated depreciation and impairment					
At 1 January 2016	**62,829**	**477,099**	**25,784**	**-**	**565,712**
Amortization charge	8,727	55,577	16,504	-	80,808
Disposals	-	(18,140)	(13,927)	-	(32,067)
At 31 December 2016	**71,556**	**514,536**	**28,361**	**-**	**614,453**
Amortization charge	2,292	9,713	4,281	-	16,286
Disposals	-	(1,015)	(413)	-	(1,428)
At 31 March 2017	**73,848**	**523,234**	**32,229**	**-**	**629,311**
Net book value					
At 31 December 2016	**72,485**	**109,436**	**20,205**	**1,774**	**203,900**
At 31 March 2017	**70,391**	**107,992**	**19,469**	**3,102**	**200,954**

The majority of other intangible assets represents the acquired distribution network in the business combination with Kimimpex – TL OOD and the capitalized customer acquisition and retention expenses with contractual period longer than one year. Their net book value as of 31 March 2017 is respectively BGN 2,871 thousand and BGN 16,413 thousand (31 December 2016: BGN 3,240 thousand and BGN 16,770 thousand).

All amounts are in thousand BGN, unless otherwise stated

11. Investments

Investments as of 31 March 2017 and 31 December 2016 are as follows:

	Consolidated financial statements		Separate financial statements	
Investments	**31.3.2017**	**31.12.2016**	**31.3.2017**	**31.12.2016**
Equity securities – available-for-sale				
Viva Telecom Bulgaria EOOD	58,675	-	58,675	-
Intersputnik	369	369	369	369
Sofia Commodity Exchange	13	13	13	13
Total equity securities available for sale	59,057	382	59,057	382
Forward exchange contracts for hedging	109	322	109	322
Subsidiaries				
BTC Net	-	-	799	799
NURTS Bulgaria	-	-	39,922	39,922
Total investments in subsidiaries	-	-	40,721	40,721
Total investments	**59,166**	**704**	**99,887**	**41,425**
Incl.				
Current investments	**109**	**322**	**109**	**322**
Non-current investments	**59,057**	**382**	**99,778**	**41,103**

In the separate financial statements the investments in subsidiaries are measured at cost, less any impairment.

The investments in equity securities are measured at cost less accumulated impairment (if any) since these securities are not listed and their fair value cannot be reliably estimated.

On 8 June 2015 the Company was informed about an attachment over 43% of the shares of the Company in BTC Net imposed by the Commission for Forfeiture of Illegally Acquired Property. The attachment represents a preliminary securing measure in relation to a claim of the Commission against the former owner of 43% stake in BTC Mr. Tzvetan Vassilev and other parties, including BTC and Viva Telecom Bulgaria EOOD.

During the reporting quarter BTC acquired shares of Viva Telecom Bulgaria EOOD for a cash consideration amounting to EUR 30,000 thousand (BNG 58, 675 thousand).

12. Trade payables

The payables to suppliers as of 31 March 2017 and 31 December 2016 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Payables to suppliers of non current assets	30,823	31,113	30,810	30,598
Payables to international telecom operators - interconnect	6,868	6,226	4,858	5,204
Payables to suppliers of equipment and goods for customers	4,019	2,424	4,019	2,424
Payables to suppliers of network maintenance	2,683	2,016	2,683	2,016
Payables to domestic telecom operators	869	1,449	247	612
Payables to related parties (Note 26)	-	-	5,079	2,754
Other payables to suppliers	33,727	37,129	32,947	35,104
Total trade payables	**78,989**	**80,357**	**80,643**	**78,712**
Incl.				
Non-current portion	**2,864**	**2,962**	**2,864**	**2,962**
Current portion	**76,125**	**77,395**	**77,779**	**75,750**

Other payables include outstanding balances of suppliers of fuel, utilities, advertising, inventories, and other.

All amounts are in thousand BGN, unless otherwise stated

13. Other payables

Other payables as of 31 March 2017 and 31 December 2016 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Payables to employees	22,986	22,899	22,847	22,760
VAT	6,785	4,799	6,548	4,570
Social securities	4,092	4,431	4,112	4,451
Personal income tax payable	1,701	1,720	1,689	1,710
Advances from clients	791	834	774	817
Payables for license fee	633	264	614	264
Withholding and other taxes	132	142	132	142
Others	5,195	5,864	4,992	5,727
Total other payables	**42,315**	**40,953**	**41,708**	**40,441**

14. Provisions

Consolidated financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2017	**10,540**	**1,590**	**2,315**	**14,445**
Charged to profit and loss	-	-	(123)	(123)
Recognised in the statement of financial position	99	-	-	99
Used during the year	(54)	(278)	(135)	(467)
Unwinding of discount	65	-	-	65
At 31 March 2017	**10,650**	**1,312**	**2,057**	**14,019**

Analysis of provision in consolidated financial statements

	31.3.2017	31.12.2016
Non-current (decommissioning costs)	10,650	10,540
Current	3,369	3,905
Total	**14,019**	**14,445**

Separate financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2017	**10,540**	**1,590**	**2,237**	**14,367**
Charged to profit and loss	-	-	(123)	(123)
Recognised in the statement of financial position	99	-	-	99
Used during the year	(54)	(278)	(135)	(467)
Unwinding of discount	65	-	-	65
At 31 March 2017	**10,650**	**1,312**	**1,979**	**13,941**

All amounts are in thousand BGN, unless otherwise stated

14. Provisions(continued)

Analysis of provision in separate financial statements

	31.3.2017	**31.12.2016**
Non-current (decommissioning costs)	10,650	10,540
Current	3,291	3,827
Total	**13,941**	**14,367**

Decommissioning

A provision has been recognised for decommissioning costs associated with mobile sites. The provision has been capitalized to the cost of the sites with the amount of the present value of the expected decommissioning obligation after ceasing operation. The discount rate used for 2017 and 2016 was 2.5%.

Restructuring

The Provision for employment termination is related to the decision for restructuring the activities of the Group in 2017 and was recognized as staff cost in the profit or loss for the year ended 2016.

Legal claims

The amounts represent a provision for labour disputes, legal claim of customers and certain penalties imposed on the Group by the Commission for Protection of Competition (CPC) and Communications Regulation Commission (CRC).

15. Borrowings

The debts in the consolidated and separate financial statements are as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Secured bond issue	794,778	780,813	794,778	780,813
Trade credits	2,628	3,476	2,628	3,476
Financial lease	5,475	4,585	5,438	4,548
Total borrowings	**802,881**	**788,874**	**802,844**	**788,837**
including:				
Current borrowings	**24,614**	**12,355**	**24,577**	**12,318**
Non current borrowings	**778,267**	**776,519**	**778,267**	**776,519**

On 17 August 2007 BTC became a party to a loan agreement together with certain companies from the group of its former parent company. In October 2012 the loans of BTC group were restructured through a combination of debt repayment, equity conversion and an outright debt write off, as well as in a change of the ownership of BTC. The existing credit facilities of BTC under the loan agreement were consolidated into a single facility, whereas the aggregate principal amount of the Company's borrowings was reduced to EUR 452,099 thousand.

In November 2013 BTC announced the successful completion of its debut bond offering of €400 million 6⅝ % Senior Secured Notes due 2018 on the Irish Stock Exchange pursuant to Rule 144A / Regulation S (the "Notes"). The proceeds from the bond offering were used by the Company to repay its existing indebtedness under the amended and restated loan agreement in full. The interest on the Notes is payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2014. In relation to the admission of the Notes the Company received a credit rating of B1 by Moody's and BB- by Standard & Poor's Ratings Services. Standard & Poor's lowered the company's credit rating to 'B' on April 2, 2015 and subsequently to 'B-' on July 8, 2015, as the refinancing of a bridge loan of a holding company of BTC, due on 22 May 2015, has not yet been finalized. On October 22, 2015 Standard & Poor revised its CreditWatch listing on its 'B-' long-term corporate credit rating to negative from developing. On 12 September 2016, Standard & Poor's upgraded the long-term credit rating of BTC from "B-" to "B+" with stable outlook and removed the rating from credit watch due to the refinancing of the bridge loan at the holding company level and BTC's solid market position in Bulgaria as the largest telecom operator.

All amounts are in thousand BGN, unless otherwise stated

15. Borrowings (continued)

The liabilities of the Company under the Notes are guaranteed by BTC Net EOOD (subsidiary) and are secured by : 1) a first ranking non-possessory pledge in accordance with the Special Pledges Act on the going concern of the Company, which includes among other assets the shares of the Company in BTC Net, certain real estates and receivables of the Company under certain bank accounts and insurance policies and 2) first ranking pledge in accordance with the Agreements on Financial Collateral Act on receivables of the Company under certain bank accounts and insurance policies. The liabilities of the Company under the Notes are guaranteed as well by an additional security provided by BTC Net EOOD in a form of a first ranking non-possessory pledge in accordance with the Special Pledges Act over its going concern which includes among other assets the receivables of BTC Net under certain bank accounts. The shares of the Company owned by Viva Telecom Bulgaria EAD are also pledged in favour of the bondholders in accordance with the Agreements on Financial Collateral Act.

BTC underwent a consent solicitation procedure for a waiver of the existing change of control provisions and amendment of certain definitions and ratios applicable to the Notes. The procedure was initiated in relation to the acquisition by VTL of 100% of the shares of InterV Investment S.a.r.l. On 13 June 2016, Vivacom obtained the necessary consent of 87.43% of bondholders. The amendments of Notes' provisions entered into effect upon the execution of the first supplemental indenture on June 10, 2016 which became operative on 7 September 2016, when all the conditions precedent in the first supplemental indenture were either satisfied or waived.

Simultaneously with the bond offering BTC has concluded EUR 35 million Revolving Credit Facility with Societe Generale Expressbank AD under which the Company may borrow funds for the repayment of its debt under the amended and restated loan agreement, financing of its working capital purposes and issue of bank guarantees and letters of credit. The revolving credit facility is available up to 30 November 2016. The interest on the principal amounts owing by the Company under the revolving credit facility is payable monthly and was initially agreed to be the aggregate of 1 month EURIBOR plus a margin of 4% per year. Effective from 26 May 2014 the margin was reduced to 3,75% per year and from 14 November 2016 the margin was further reduced to 1,45% per year and the term was extended to 31 May 2018. The liabilities of the Company under the revolving credit facility are secured on a senior secured basis by the same scope and type of security provided by the Company to secure its obligations to the bondholders under the Notes.

Trade credits

Certain assets of the mobile network of the Company have been purchased under a trade credit agreement. The contracted term is four years and the instalments are payable quarterly. The future payments are discounted to their net present value at the reporting date using an effective borrowing rate in the range from 2.5% to 5.8%.

Obligations under Finance lease

Certain part of BTC’s software and the Group’s fleet are leased under the terms of finance lease. The average lease term is 3 years and the effective borrowing rates are in the range of 2.5% and 4%. The fair value of Group’s and Company’s lease obligations approximates their carrying amount.

Consolidated financial statements	Minimum lease payments		Present value of minimum lease payments	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Finance lease payables with maturity:				
Within one year	2,664	2,540	2,565	2,440
In the second to fifth years inclusive	3,015	2,206	2,910	2,145
Total payables	**5,679**	**4,746**	**5,475**	**4,585**
Less: future finance charges	(204)	(161)	-	-
Present value of lease obligations	**5,475**	**4,585**	**5,475**	**4,585**

All amounts are in thousand BGN, unless otherwise stated

15. Borrowings (continued)

Separate financial statements	Minimum lease payments		Present value of minimum lease payments	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Finance lease payables with maturity:				
Within one year	2,627	2,503	2,528	2,403
In the second to fifth years inclusive	3,015	2,206	2,910	2,145
Total payables	**5,642**	**4,709**	**5,438**	**4,548**
Less: future finance charges	(204)	(161)	-	-
Present value of lease obligations	**5,438**	**4,548**	**5,438**	**4,548**

The net book value of the assets acquired under finance lease arrangements as of 31 March 2017 is BGN 6,578 thousand for the Group and BGN 6,568 thousand for the Company.(31 December 2016: BGN 6,389 thousnad and BGN 6,313 thousand)

All amounts are in thousand BGN, unless otherwise stated

16. Deferred tax assets and liabilities

As of 31 March 2017 and 2016 the deferred tax assets and liabilities are as it follows:

Consolidated financial statements

Deferred tax assets	Tax loss carried forward	Long-term employee benefits	Property, plant, equipment and intangible assets	Allowance for impairment of receivables	Expense accruals	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2016	82	45	8,284	**1,300**	**(162)**	**-**	**-**	**9,549**
Charged/(credited) to the profit/(loss) for the period	53	-	(294)	28	(5)	-	-	(218)
Transferred to deferred tax liabilities	(108)	(45)	442	(135)	(60)	-	-	94
At 31 March 2016	**27**	**-**	**8,432**	**1,193**	**(227)**	**-**	**-**	**9,425**
At 1 January 2017	**-**	**-**	**(1)**	**1,487**	**-**	**-**	**-**	**1,486**
Charged/(credited) to the profit/(loss) for the period	-	-	-	8	-	-	-	8
At 31 March 2017	**-**	**-**	**(1)**	**1,495**	**-**	**-**	**-**	**1,494**

Deferred tax liabilities	Tax loss carried forward	Long-term employee benefits	Property, plant, equipment and intangible assets	Allowance for impairment of receivables	Expense accruals	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2016	**-**	**(260)**	**19,245**	**(7,118)**	**(4,123)**	**-**	**-**	**7,744**
Charged/(credited) to the profit/(loss) for the period	-	(13)	(1,731)	(205)	(344)	-	-	(2,293)
Charged to other comprehensive income for the period	-	-	-	-	-	-	(42)	(42)
Transferred from deferred tax assets	(108)	(45)	442	(135)	(60)		-	94
At 31 March 2016	**(108)**	**(318)**	**17,956**	**(7,458)**	**(4,527)**	**-**	**(42)**	**5,503**
At 1 January 2017	**-**	**(296)**	**28,765**	**(9,704)**	**(4,152)**	**-**	**31**	**14,644**
Charged/(credited) to the profit/(loss) for the period	-	(7)	396	(455)	203	-	-	137
Charged to other comprehensive income for the period	-	-	-	-	-	-	(21)	(21)
At 31 March 2017	**-**	**(303)**	**29,161**	**(10,159)**	**(3,949)**	**-**	**10**	**14,760**

Deferred tax (charge)/credit to the profit/(loss) for the year	Three months ended 31.3.2017	Three months ended 31.3.2016
Deferred tax liabilities	(137)	2,293
Deferred tax assets	8	(218)
Total (charged)/credited to the profit/(loss) for the year	(129)	2,075

All amounts are in thousand BGN, unless otherwise stated

16. Deferred tax assets and liabilities(continued)

Separate financial statements

Deferred tax liabilities	Tax loss carried forward	Long-term employee benefits	Property, plant, equipment and intangible assets	Allowance for impairment of receivables	Expense accruals	Available-for-sale financial assets	Cash flow hedges	Total
At 1 January 2016	**-**	**(260)**	**19,245**	**(7,118)**	**(4,123)**	**-**	**-**	**7,744**
Charged/(credited) to the profit/(loss) for the period	-	(13)	(1,731)	(205)	(344)	-	-	(2,293)
Charged to other comprehensive income for the period	-	-	-	-	-	-	(42)	(42)
At 31 March 2016	**-**	**(273)**	**17,514**	**(7,323)**	**(4,467)**	**-**	**(42)**	**5,409**
At 1 January 2017	**-**	**(296)**	**14,550**	**(9,532)**	**(4,302)**	**-**	**31**	**451**
Charged/(credited) to the profit/(loss) for the period	-	(7)	258	(445)	236	-	-	42
Charged to other comprehensive income for the period	-	-	-	-	-	-	(21)	(21)
At 31 March 2017	**-**	**(303)**	**14,808**	**(9,977)**	**(4,066)**	**-**	**10**	**472**

Deferred tax (charge)/credit to the profit/(loss) for the year	**Three months ended**	
	31.3.2017	**31.3.2016**
Deferred tax liabilities	(42)	2,293
Total (charged)/credited to the profit/(loss) for the year	(42)	2,293

Deferred tax assets and liabilities for different taxable entities are not offset as they can not be settled on a net basis and it is not expected that the assets will be realised and the liabilities will be settled simultaneously in the future.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The deferred tax assets and liabilities as of 31 March 2017 and 31 December 2016 are calculated in these financial statements at 10% tax rate which has been effective since 1 January 2007.

The last period audited by the tax authorities for BTC is 2006. On 05 June 2015 a tax assessment act has been issued for a tax audit, covering the period January 2007 - December 2009, assessing BGN 10,235 thousand corporate income tax and interest due. On 22 December 2015 a tax assessment act has been issued for a tax audit, covering the period January 2010 – December 2013, assessing BGN 2,278 thousand corporate income tax and interest due The tax assessment acts have been appealed and the decisions are pending.

On 9 April 2015 a tax audit was opened to BTC Net with a term of 5 months, covering corporate income tax for the period January 2009 – December 2014. On 22 October 2015 a tax assessment act has been issued where no tax liabilities have been assessed.

The last period audited by the tax authorities for NURTS Digital is 2013.

On 26 July 2016 a tax assessment act has been issued for a tax audit of NURTS Bulgaria, covering the period April 2010 – December 2013, assessing BGN 37 thousand corporate income tax and interest due.

All amounts are in thousand BGN, unless otherwise stated

17. Retirement benefit obligations

In compliance with the Labour Code, the Parent company owes compensation at retirement to all the employees. The compensations of the employees with a 10 years experience in the Company is 6 gross monthly salaries; for the employees having under 10 years experience the compensation is 2 gross monthly salaries.

Currently no assets have been allocated for covering the long-term staff revenue in a separate fund and there are no legal requirements for the establishment of such.

The present consolidated and separate financial statements include a provision for employee benefits obligation which is measured applying the projected unit credit method.

The movement of the liability, recognized in the balance sheet, is as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
Liability at the beginning of the period	4,687	5,249	4,687	4,551
Past service cost	-	*(575)*	-	*(101)*
Current service cost	*117*	*490*	*117*	*462*
Interest cost	*29*	*135*	*29*	*126*
Total cost recognized in profit or loss	146	50	146	487
Payments to retirees	(69)	(262)	(69)	(134)
Remeasurements – actuarial (gain)/loss recognised in OCI	-	(350)	-	(217)
Liability at the end of the period	**4,764**	**4,687**	**4,764**	**4,687**

The following principal assumptions have been used in the estimation of the liability:

	31.3.2017	**31.12.2016**
Discount rate	2.50%	2.50%
Future salary increases per year	2%	2%
Average age of retirement – male employees	65	65
Average age of retirement – female employees	63	63

The Management has used in the estimation of the liability for retirement benefit obligations the assumption that voluntary leave of personnel, without any compensation, will be negligible.

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics. Mortality assumptions are based on the statistical information, provided by the National Statistical Institute for the total mortality of the population in Bulgaria for the period 2013 – 2015.

18. Share capital, reserves and dividends

	31.3.2017	**31.12.2016**
Number of shares	288,764,840	288,764,840
Par value per share (in BGN)	1	1
Share capital per BTC's registration	288,765	288,765
Share capital	288,765	288,765

Structure of the share capital:	**31.3.2017**	**%**	**31.12.2016**	**%**
Number of ordinary shares:				
Viva Telecom Bulgaria EOOD	288,764,840	100.00%	288,764,840	100.00%
Total ordinary shares	**288,764,840**	**100%**	**288,764,840**	**100%**
Total number of shares	**288,764,840**	**100%**	**288,764,840**	**100%**

All amounts are in thousand BGN, unless otherwise stated

18. Share capital, reserves and dividends (continued)

On 2 June 2015 the Company was informed about an attachment over 43% of the shares of the Company imposed by the Commission for Forfeiture of Illegally Acquired Property. The attachment represents a preliminary securing measure in relation to a claim of the Commission against the former owner of 43% stake in BTC Mr. Tzvetan Vassilev and other parties, including BTC and Viva Telecom Bulgaria EOOD.
The resolution of this matter in relation to the above referred attachment does not affect these financial statements as the imposed security measure is imposed over asset of Viva Telecom Bulgaria EOOD.

In relation to a tax audit of Viva Telecom Bulgaria EOOD initiated in December 2014 an order has been issued by the National Revenue Agency for imposition of preliminary security measure in the form of an attachment over all shares of the Company held by Viva Telecom Bulgaria EOOD.

Earnings per share	**Consolidated financial statements**		**Separate financial statements**	
	Three months ended		**Three months ended**	
	31.3.2017	**31.3.2016**	**31.3.2017**	**31.3.2016**
Profit for the period	8,770	2,678	6,596	6
Weighted average number of ordinary shares	288,765	288,765	288,765	288,765
Earnings per share (BGN (basic and diluted))	0.03	0.01	0.02	-

Legal reserve

The legal reserve is set up as required by the Bulgarian Commercial Act and equals one tenth of the share capital.

Revaluation reserve

The revaluation reserve relates to the revaluation of Land.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

The revaluation, fair value and hedging reserves are not subject to distribution of profit prior to transfer to retained earnings.

Dividends payable

	31.3.2017	**31.12.2016**
Dividend approved by the General shareholders’ meeting	-	-
Non-distributed dividends for prior years	-	3
Dividends written-off	-	(3)
Net dividends paid	-	
Total dividend payable	-	-

All amounts are in thousand BGN, unless otherwise stated

19. Revenue

Revenue of the Group and the Company for the three months ended 31 March 2017 and 2016 consist of:

Consolidated financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Recurring charges	99,332	99,626
Leased lines and data transmission	26,539	26,935
Interconnect	15,741	12,297
Outgoing traffic	15,724	21,412
Radio and TV Broadcasting	6,724	7,790
Other revenue	47,046	43,670
Total revenue	**211,106**	**211,730**

Separate financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Recurring charges	99,325	99,661
Leased lines and data transmission	26,666	27,167
Outgoing traffic	15,725	21,414
Interconnect	12,509	11,349
Radio and TV Broadcasting	283	-
Other revenue	49,934	42,580
Total revenue	**204,442**	**202,171**

Revenue from sales of mobile handsets is included in Other revenue above, which for the three months ended 31 March 2017 amount to BGN 15,594 thousand for the Group and the Company (for the three months ended 31 March 2016: BGN 15,484 thousand). Revenue from rent of terrestrial network (ducts) and provision of pay TV services (DTH and IPTV) are also included in this category.

20. Other operating expenses

Other operating expenses for the three months ended 31 March 2017 and 2016 consist of:

Consolidated financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Advertising, customer service, billing and collection	17,330	15,858
Facilities	10,345	10,058
Maintenance and repairs	6,586	8,554
License fees	4,200	3,805
Vehicles and transport	2,390	2,422
Administrative expenses	2,043	2,101
Leased lines and data transmission	1,690	1,938
Professional fees	1,607	464
Other, net	6,585	4,311
including		
Impairment of trade and other receivables	*4,802*	*2,914*
Scrap of assets	*961*	*851*
Impairment of non-current assets	*(15)*	*(48)*
Impairment of other current assets	*(22)*	*(105)*
Provisions	*(123)*	*(29)*
Other/other	*982*	*728*
Total other operating expenses	**52,776**	**49,511**

All amounts are in thousand BGN, unless otherwise stated

20. Other operating expenses (continued)

Separate financial statements

	Three months ended	
	31.3.2017	**31.3.2016**
Advertising, customer service, billing and collection	17,353	16,017
Facilities	11,664	11,058
Maintenance and repairs	6,510	8,425
License fees	3,636	3,423
Vehicles and transport	2,381	2,245
Administrative expenses	1,999	1,945
Leased lines and data transmission	1,673	767
Professional fees	1,572	454
Other, net	6,400	3,559
including		
Impairment of trade and other receivables	*4,617*	*2,190*
Scrap of assets	*961*	*849*
Impairment of non-current assets	*(15)*	*(48)*
Impairment of other current assets	*(22)*	*(105)*
Provisions	*(123)*	*(29)*
Other/other	*982*	*702*
Total other operating expenses	**53,188**	**47,893**

21. Staff costs

Staff costs for the three months ended 31 March 2017 and 2016 consist of:

Consolidated financial statements

	Three months ended	
	31.3.2017	**31.3.2016**
Salaries and wages	26,653	25,783
Pension, health and unemployment fund contributions	4,570	4,532
Other benefits	1,215	1,253
Other staff costs	435	428
Total staff costs	**32,873**	**31,996**

Separate financial statements

	Three months ended	
	31.3.2017	**31.3.2016**
Salaries and wages	26,475	24,525
Pension, health and unemployment fund contributions	4,565	4,324
Other benefits	1,214	1,191
Other staff costs	435	423
Total staff costs	**32,689**	**30,463**

As stated in note 17 the amounts of post employment benefits included in salaries and wages above for the consolidated and separate financial statements for the three months ended 31 March 2017 and 2016 are respectively BGN 117 thousand and BGN 115 thousand.

All amounts are in thousand BGN, unless otherwise stated

22. Finance income and costs

Financial income and costs for the three months ended 31 March 2017 and 2016 consist of:

Consolidated financial statements

	Three months ended	
	31.3.2017	**31.3.2016**
Finance costs		
Interest expense:	14,225	14,275
-Bond issues	*13,964*	*13,895*
-Bank borrowings	*85*	*89*
-Finance lease	*34*	*7*
-Provisions	*94*	*100*
-Other	*48*	*184*
Foreign exchange loss	-	115
Loss on cash flow hedges - ineffective portion of changes in fair value	6	-
Other finance costs	167	160
Total finance cost	**14,398**	**14,550**
Finance income		
Interest income:	1,391	1,597
-Bank deposits	*2*	*6*
-Finance lease	*1,136*	*937*
-Other	*253*	*654*
Incl impaired financial assets:	*63*	*157*
Gains on cash flow hedges - ineffective portion of changes in fair value	-	28
Foreign exchange gains	79	17
Total finance income	**1,470**	**1,642**
Net finance costs	**12,928**	**12,908**

All amounts are in thousand BGN, unless otherwise stated

22. Finance income and costs(continued)

Separate financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Finance costs		
Interest expense:	14,224	14,181
-Bond issues	*13,964*	*13,895*
-Bank borrowings	*85*	*89*
-Finance lease	*34*	*7*
-Provisions	*94*	*100*
-Other	*47*	*90*
Foreign exchange loss	-	115
Loss on cash flow hedges - ineffective portion of changes in fair value	6	-
Other finance costs	163	154
Total finance cost	**14,393**	**14,450**
Finance income		
Interest income:	1,790	1,996
-Bank deposits	*2*	*6*
-Finance lease	*1,136*	*937*
-Other	*652*	*1,053*
Incl impaired financial assets:	*62*	*98*
Gains on cash flow hedges - ineffective portion of changes in fair value	-	28
Foreign exchange gains	68	-
Total finance income	**1,858**	**2,024**
Net finance costs	**12,535**	**12,426**

23. Other gains, net

Other gains, net for the three months ended 31 March 2017 and 2016 consist of:

Consolidated financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Gains from sales of non-current assets and assets held for sale	**280**	**1,687**
incl.: income	1,449	4,106
net book value	(1,169)	(2,419)
Total other gains, net	**280**	**1,687**

Separate financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Gains from sales of non-current assets and assets held for sale	**453**	**724**
incl.: income	1,432	898
net book value	(979)	(174)
Total other gains, net	**453**	**724**

All amounts are in thousand BGN, unless otherwise stated

24. Tax expense

Income tax expenses for the three months ended 31 March 2017 and 2016 consist of:

a) amounts recognized in profit or loss

Consolidated financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Current income tax charge	804	2,326
Deferred tax	129	(2,075)
Total income tax expense	**933**	**251**

Separate financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Current income tax charge	752	2,326
Deferred tax	42	(2,294)
Total income tax expense	**794**	**32**

Total tax expense can be reconciled to the accounting profit as follows:

Consolidated financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Profit before tax	9,703	2,929
Tax rate	10%	10%
Tax at the applicable tax rate	970	293
Non-deductible expenses	38	19
Tax exempt income	-	(1)
Effect of current tax from previous periods, accounted during the year	3	-
Effect of unrecognised tax losses and tax offsets from previous periods	57	-
Change in recognised deductible temporary differences	(135)	(60)
Income tax expense	**933**	**251**
Effective tax rate	9.62%	8.57%
Income tax expense in the profit or loss	933	251

Separate financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Profit before tax	7,390	38
Tax rate	10%	10%
Tax at the applicable tax rate	739	4
Non-deductible expenses	38	18
Tax exempt income	-	(1)
Effect of current tax from previous periods, accounted during the year	3	-
Change in recognised deductible temporary differences	14	11
Income tax expense	**794**	**32**
Effective tax rate	10.74%	84.21%
Income tax expense in the profit or loss	794	32

All amounts are in thousand BGN, unless otherwise stated

24. Tax expense(continued)

b) amounts recognized in other comprehensive income

Consolidated and separate financial statements	**Three months ended**		**31.3.2017**	**Three months ended**		**31.3.2016**
	Before tax	**Tax expense**	**Net of tax**	**Before tax**	**Tax expense**	**Net of tax**
Cash flow hedges – effective portion of changes in fair value	(208)	21	(187)	(415)	42	(373)
	(208)	**21**	**(187)**	**(415)**	**42**	**(373)**

All amounts are in thousand BGN, unless otherwise stated

25. Segment information

Management has determined the operating segments based on the reports reviewed by the Managing Board that are used to make strategic decisions. The business, considered on a product perspective is currently organized into three lines of business – Fixed line of business, Mobile line of business and NURTS business. NURTS business represents the acquired in July 2015 company NURTS Bulgaria EAD and its wholly own subsidiary NURTS Digital EAD. Principal activities are as follows:

- Fixed line of business – voice and data services over the fixed network;
- Mobile line of business – mobile services (GSM, UMTS and LTE Standards)
- NURTS business – TV and radio broadcasting, collocation services and maintenance of telecom infrastructure.

The Managing Board assesses the performance of the business segments based on a measure of gross margin. Revenue and gross margin information as reviewed by the Managing Board for the three months ended 31 March 2017 and 2016 is presented below.

Three months ended 31 March 2017			**Consolidated financial statements**		
	Mobile line of business	**Fixed line of business**	**NURTS business**	**Eliminations**	**Total**
Revenue	120,741	86,713	9,605	(5,953)	211,106
Incl. inter-segment revenue	*1*	*4,392*	*1,560*	*(5,953)*	-
Cost of sales	(38,737)	(19,177)	(153)	469	(57,598)
Gross margin	**82,004**	**67,536**	**9,452**	**(5,484)**	**153,508**
Operating expenses					(47,498)
Staff costs					(32,873)
Depreciation and amortization					(50,786)
Financial expenses, net					(12,928)
Gains on sale of non-current assets, assets held for sale and materials					280
Profit before tax					**9,703**
Income tax expense					(933)
Net profit for the year					**8,770**

Three months ended 31 March 2016			**Consolidated financial statements**		
	Mobile line of business	**Fixed line of business**	**NURTS business**	**Eliminations**	**Total**
Revenue	120,043	82,586	10,965	(1,864)	211,730
Incl. inter-segment revenue	*39*	*176*	*1,649*	*(1,864)*	-
Cost of sales	(38,496)	(14,822)	(1,163)	135	(54,346)
Gross margin	**81,547**	**67,764**	**9,802**	**(1,729)**	**157,384**
Operating expenses					(46,473)
Staff costs					(31,996)
Depreciation and amortization					(64,765)
Financial expenses, net					(12,908)
Gains on sale of non-current assets, assets held for sale and materials					1,687
Profit before tax					**2,929**
Income tax expense					(251)
Net profit for the year					**2,678**

Operating expenses comprise materials and consumables and other operating expenses not included in cost of sales

All amounts are in thousand BGN, unless otherwise stated

26. Related parties

The Group's related parties are considered to be the following:
• shareholders of which the Company is a subsidiary or an associate, directly or indirectly, and companies under control by such shareholders;
• members of the Company's statutory and supervisory bodies and parties close to such members, including the subsidiaries and associates of the members and their close parties;
For the stand alone statements as related parties are considered all consolidated subsidiaries as well.

After the acquisition of the shares of InterV by VTL on 30 August 2016 as related parties below are considered entities which are members of the group of entities of the largest shareholder in VTL (Note 1). According to the available information PFC Levski AD is presented as related party for the period 30 August 2016 - 20 January 2017.

Balances
The following table summarizes the balances of receivables and payables with related parties as of 31 March 2017 and 31 December 2016:

For the Group	**Relationship**	**Receivables**		**Payables**	
		31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
PFC Levski AD	Other RP	-	1,002	-	-
Total for BTC group		**-**	**1,002**	**-**	**-**

For BTC	**Relationship**	**Receivables**		**Payables**	
		31.3.2017	**31.12.2016**	**31.3.2017**	**31.12.2016**
BTC Net EOOD	Subsidiary	712	998	812	709
NURTS Bulgaria EAD	Subsidiary	26,632	31,137	4,266	2,044
NURTS Digital EAD	Subsidiary	200	27	1	1
PFC Levski AD	Other RP	-	1,002	-	-
Total for BTC		**27,544**	**33,164**	**5,079**	**2,754**

The balance of the receivable from NURTS Bulgaria EAD represents mainly principal and interest on loan provided by BTC to the subsidiary entity. The applicable interest rate is 6.5% p.a. and the total outstanding principal amount and accumulated interest were agreed to be fully repaid on 20 May 2016. The loan is secured with first ranking non-possessory pledges in accordance with the Special Pledges Act on the going concerns of NURTS Bulgaria EAD and NURTS Digital EAD, which includes among other certain real estates and other assets of the companies. In November 2015 NURTS Bulgaria failed to repay one of the instalments due to BTC and as a result the Company has appointed a manager of the going concern of NURTS Digital EAD. The interest income recognised for the three months ended 31 March 2017 in the separate financial statements amounts to BGN 431 thousand (BGN 487 thousand for the three months ended 31 March 2016).

Transactions
The following table summarizes services received by BTC from related parties:

For the Group	**Relationship**	**Three months ended**	
		31.3.2017	**31.3.2016**
PFC Levski AD	Other RP	108	-
Total for BTC group		**108**	**-**

All amounts are in thousand BGN, unless otherwise stated

26. Related parties(continued)

For BTC	Relationship	Three months ended 31.3.2017	Three months ended 31.3.2016
BTC Net EOOD	Subsidiary	2,354	1,987
NURTS Bulgaria EAD	Subsidiary	1,560	1,649
PFC Levski AD	Other RP	108	-
Total for BTC		**4,022**	**3,636**

The realised revenue from related parties is as follows:

For the Group	Relationship	Three months ended 31.3.2017	Three months ended 31.3.2016
Members of Mr Vassilev's Group of Companies	Other RP	-	2
PFC Levski AD	Other RP	3	-
Viva Telecom Bulgaria EOOD	Parent	1	-
Total for BTC group		**4**	**2**

For BTC	Relationship	Three months ended 31.3.2017	Three months ended 31.3.2016
BTC Net EOOD	Subsidiary	1,996	1,360
NURTS Bulgaria EAD	Subsidiary	4,171	161
NURTS Digital EAD	Subsidiary	223	54
PFC Levski AD	Other RP	3	-
Members of Mr Vassilev's Group of Companies	Other RP	-	2
Viva Telecom Bulgaria EOOD	Parent	1	-
Total for BTC		**6,394**	**1,577**

Loans

As per Loan Agreement dated 22 April 2014 BTC provided to Viva Telecom Bulgaria EOOD a revolving credit facility for the amount of up to EUR 2,000 thousand. The applicable interest rate was initially agreed to be the aggregate of 6M Euribor plus a margin of 6.5% p.a. Effective from 30 November 2016 the margin is renegotiated to 7% p.a. and the amount of the loan increased to up to EUR 3,800 thousand. The total outstanding principal amount and accumulated interest shall be fully repaid on 30 November 2019. The amounts related to the loan are shown below:

		Loan principal	Interest income	Interest receivable
Viva Telecom	For the three months ended 31 March 2016		51	
Bulgaria EAD	As of 31 December 2016	3,185	-	82
	For the three months ended 31 March 2017		125	
	As of 31 March 2017	7,216	-	186

All amounts are in thousand BGN, unless otherwise stated

26. Related parties(continued)

As per Loan Agreement dated 9 June 2015 BTC has provided to PFC Levski AD a credit facility. The applicable interest rate was 6% p.a. and the total outstanding principal amount and accumulated interest were agreed to be fully repaid on 31 March 2017. On 1 February 2017 the total outstanding principal and accumulated interest has been fully settled with amounts due by BTC under concluded commercial contract. The amounts related to the loan are shown below:

		Loan principal	Interest income	Interest receivable
PFC Levski AD	For the three months ended 31 March 2016		-	
	As of 31 December 2016	6,390		196
	For the three months ended 31 March 2017		21	
	As of 31 March 2017	-		-

Key management remunerations

Remuneration amounting to BGN 1,467 thousand relating to the members of the Board of Directors and to key management personnel has been accrued as of 31 March 2017 (31 March 2016: BGN 632 thousand).

27. Commitments and contingencies

The Group companies have entered into agreements with various suppliers relating to the capital expenditure as approved in the investment program. Certain agreements have not been completed as of the balance sheet date. A summary of the main commitments to acquire equipment under such contracts, effective as of 31 March 2017, for the Group and the Company is presented in the table below:

For the Group

Equipment description	Aggregate contracted amount	Delivered till 31.03.2017	Commitments outstanding
Hardware and software	10,259	918	9,341
Construction and assembly works of the network of BTC	21,025	3,368	17,657
Network equipment	54,067	29,293	24,774
Total	**85,351**	**33,579**	**51,772**

For BTC

Equipment description	Aggregate contracted amount	Delivered till 31.03.2017	Commitments outstanding
Hardware and software	9,695	448	9,247
Construction and assembly works of the network of BTC	20,963	3,367	17,596
Network equipment	54,067	29,293	24,774
Total	**84,725**	**33,108**	**51,617**

Contingencies

The Company is a participant in several lawsuits and administrative proceedings. On 4 July 2016, Empreno Ventures Limited commenced legal proceedings in Bulgaria, challenging the validity of the first supplemental indenture (as referred in Note 16). Following the review on three instances the Bulgarian courts finally dismissed the case on 16 March 2017 and the claim was rejected. On 26 August 2016, LIC Telecommunications S.à r.l. commenced legal proceedings in Luxembourg that, among other things, challenge the validity of the first supplemental indenture (as disclosed in Note 15) and claim damages amounting to EUR 62 million. BTC considers the legal proceedings in both Bulgaria and Luxembourg as being unmeritorious and devoid of any proper legal basis. Based on the information available, management is satisfied that there is no unprovided liability arising from these lawsuits and administrative proceedings, however there are inherent uncertainties related to the outcome of those cases. The recognised provisions for lawsuits are further disclosed in Note 14.

All amounts are in thousand BGN, unless otherwise stated

27. Commitments and contingencies (continued)

The transactions for assignment of receivables on cash deposits in Corporate Commercial Bank AD – in bankruptcy (CCB), were executed in 2014 as per the provisions of the applicable law. One of the assigned receivables was utilised by NURTS Bulgaria EAD in order to set-off its obligations to CCB under a bond issued by NURTS Bulgaria EAD in 2013. CCB held 25,723 bonds with a nominal of EUR 1,000 each and in September 2014 NURTS Bulgaria EAD has set-off the principal in the amount of BGN 50,310 and applicable interest due to CCB in the amount of BGN 1,350 thousand against its own cash held in CCB accounts and assigned CCB cash receivables from third parties, including BTC. Despite of the validly executed transactions, the receivers of CCB have recognized only partially the set-off from NURTS Bulgaria EAD (BGN 1,543 thousand) where the remaining amount of BGN 50,117 thousand and other owned cash in CCB of BGN 116 thousand is included in the list of accepted receivables of CCB creditors. No financial assets or liabilities in relation to this matter were recognized in these financial statements. On 2 May 2017 NURTS Bulgaria EAD was notified for commencment by CCB of legal proceedings for the challenge of the set-off.

The Group has bank guarantees issued to third parties which amount to BGN 1,412 thousand as of 31 March 2017 (31 December 2016: BGN 501 thousand).

NURTS Bulgaria EAD was notified by CCB that pursuant to a contract concluded on January 16,2013 the company has stepped in as co-debtor in third party's obligation in the amount of EUR 12,300 thousand. The management of the company is in a process of confirmation of the relevant circumstances, whereas as per the date of the present financial statements no reliable and indisputable evidences were received for the existence of such contingent liability, nor for its exact amount (if such liability exists). Respectively, no liability or provision has been recognized as at March 31, 2017, and contingent liability is disclosed. There are uncertainties related to the outcome of the matter that may have an impact on the value of the recognized liabilities and affect the profit and loss.

28. Operating lease

Minimum lease payments under operating leases recognized as an expense for the period are as follows:

Consolidated financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Minimum lease payments	3,499	3,703

Separate financial statements	**Three months ended**	
	31.3.2017	**31.3.2016**
Minimum lease payments	3,492	3,451

The Group Companies have outstanding commitments under non-cancellable operating leases, which fall due as follows:

Consolidated and separate financial statements	**31.3.2017**	**31.12.2016**
Within one year	12,596	10,187
In the second to fifth years inclusive	38,057	34,093
Later than five years	59,366	61,202
Total commitments	**110,019**	**105,482**

Operating lease payments represent rentals payable for certain part of the vehicles of the Group and the Company. Leases and rentals are negotiated for an average term of three years.

In the amount of the non-cancellable operating lease payables are included payments related to contract for lease of administrative building that commenced in 2010 and the leasing term is above 5 years.

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29. Financial instruments

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

Consolidated financial statements

31 March 2017	**Note**	**Carrying amount**					**Fair value**			
		Fair value – hedging instruments	**Loans and receivables**	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Forward exchange contracts used for hedging	11.	109				**109**		109		**109**
Total financial assets measured at fair value		**109**	**-**	**-**	**-**	**109**				
Financial assets not measured at fair value										
Trade receivables	5.		142,163			**142,163**				-
Cash and cash equivalents	4.		73,196			**73,196**				-
Total financial assets not measured at fair value		**-**	**215,359**	**-**	**-**	**215,359**				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging	13.	-				-		-		-
Total financial liabilities measured at fair value		**-**	**-**	**-**	**-**	**-**				
Financial liabilities not measured at fair value						-				-
Secured bond issues	15.				794,778	**794,778**	819,759			**819,759**
Finance lease liabilities	15.				5,475	**5,475**			5,443	**5,443**
Trade credits	15.				2,628	**2,628**			2,664	**2,664**
Trade payables	12.				78,989	**78,989**				
Total financial liabilities not measured at fair value		**-**	**-**	**-**	**881,870**	**881,870**				

All amounts are in thousand BGN, unless otherwise stated

29. Financial instruments(continued)

Consolidated financial statements

31 December 2016	**Note**	**Carrying amount**					**Fair value**			
		Fair value – hedging instruments	**Loans and receivables**	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Forward exchange contracts used for hedging		322	-		-	**322**		322		**322**
Total financial assets measured at fair value		**322**	**-**	**-**	**-**	**322**				
Financial assets not measured at fair value										
Trade receivables	5.		186,674			**186,674**				-
Cash and cash equivalents	4.		72,344			**72,344**				-
Total financial assets not measured at fair value		**-**	**259,018**	**-**	**-**	**259,018**				
Financial liabilities not measured at fair value						-				-
Secured bond issues	15.				780,813	**780,813**	810,801			**810,801**
Finance lease liabilities	15.				4,585	**4,585**			4,588	**4,588**
Trade credits	15.				3,476	**3,476**			3,525	**3,525**
Trade payables	12.				80,357	**80,357**				
Total financial liabilities not measured at fair value		**-**	**-**	**-**	**869,231**	**869,231**				

All amounts are in thousand BGN, unless otherwise stated

29. Financial instruments(continued)

Separate financial statements

31 March 2017	**Note**	**Carrying amount**					**Fair value**			
		Fair value – hedging instruments	**Loans and receivables**	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Forward exchange contracts used for hedging	11.	109				**109**		109		**109**
Total financial assets measured at fair value		**109**	**-**	**-**	**-**	**109**				
						-				**-**
Financial assets not measured at fair value										
Trade receivables	5.		150,392			**150,392**				**-**
Cash and cash equivalents	4.		67,949			**67,949**				**-**
Total financial assets not measured at fair value		**-**	**218,341**	**-**	**-**	**218,341**				
Financial liabilities not measured at fair value						**-**				**-**
Secured bond issues	15.				794,778	**794,778**	819,759			**819,759**
Finance lease liabilities	15.				5,438	**5,438**			5,405	**5,405**
Trade credits	15.				2,628	**2,628**			2,664	**2,664**
Trade payables	12.				80,643	**80,643**				
Total financial liabilities not measured at fair value		**-**	**-**	**-**	**883,487**	**883,487**				

All amounts are in thousand BGN, unless otherwise stated

29. Financial instruments(continued)

Separate financial statements

31 December 2016	**Note**	**Carrying amount**					**Fair value**			
		Fair value – hedging instruments	**Loans and receivables**	**Available for sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Forward exchange contracts used for hedging	11.	322				**322**		322		**322**
Total financial assets measured at fair value		**322**	**-**	**-**	**-**	**322**				
						-				-
Financial assets not measured at fair value										
Trade receivables	5.		194,876			**194,876**				-
Cash and cash equivalents	4.		66,618			**66,618**				-
Total financial assets not measured at fair value		**-**	**261,494**	**-**	**-**	**261,494**				
Financial liabilities not measured at fair value						**-**				**-**
Secured bond issues	15.				780,813	**780,813**	810,801			**810,801**
Secured bank loans	15.				-	**-**			-	**-**
Finance lease liabilities	15.				4,548	**4,548**			4,550	**4,550**
Trade credits	15.				3,476	**3,476**			3,525	**3,525**
Trade payables	12.				78,712	**78,712**				
Total financial liabilities not measured at fair value		**-**	**-**	**-**	**867,549**	**867,549**				

29. Financial instruments(continued)

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Forward exchange contracts	The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable.

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Other financial liabilities	Discounted cash flows	Interest rate

Other financial liabilities include secured bank loans and finance lease liabilities

Market interest rates applied for the valuation of the financial instruments are in the range of 2.6% and 3.3%.

30. Subsequent events

Except as stated above, there are no other events that require adjustments or disclosures in these financial statements, which have occurred during the period from the reporting date to the date the consolidated and separate financial statements were authorised for issue by the Managing Board (05.05.2017).