BULGARIAN TELECOMMUNICATIONS COMPANY EAD

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
CONSOLIDATED AND SEPARATE ANNUAL ACTIVITIES REPORT
INDEPENDENT AUDITOR'S REPORT

31 December 2018

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Bulgarian Telecommunications Company EAD

CONSOLIDATED AND SEPARATE ANNUAL ACTIVITIES REPORT

2018

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BULGARIAN TELECOMMUNICATIONS COMPANY EAD
ANNUAL ACTIVITIES REPORT
For the year ended 31 December 2018

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 December 31, 2017 and December 31, 2018 the group includes VIVACOM, the subsidiary entities BTC Net EOOD, NURTS Bulgaria EAD, NURTS Digital EAD and Net Is Sat EOOD (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.

On July 31, 2017 VIVACOM has completed the acquisition of 100% of the share capital of Net Is Sat EOOD ("NIS"). NIS is a licensed telecommunication operator, which specializes in offering customized and tailored telecommunications solutions to business customers.

VIVACOM is the leading telecommunications operator in Bulgaria, based on revenue for the year ended December 31, 2018. We are fully integrated operator that provides mobile, fixed telephony, fixed broadband and pay-TV (both DTH and IPTV) services nationwide to 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 is able to deliver transmission and connectivity even to the most remote points, including orbital positions in Europe, Africa, Middle East and Asia. As at December 31, 2018, we served 3.071 thousand mobile subscribers, 689 thousand fixed telephony subscribers, 444 thousand fixed broadband subscribers and 468 thousand fixed pay-TV subscribers. For the year ended December 31, 2018, we generated total consolidated revenue of BGN 948.0 million and had consolidated Adjusted EBITDA of BGN 359.8 million.

We are currently the third largest mobile operator in Bulgaria, based on number of subscribers, with 3.071 thousand subscribers as at December 31, 2018, a decrease of 2.0% from 3.133 thouand subscribers as at December 31, 2017. Our successful "value for money" strategy in the mobile market has led us to develop a strong 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 December 31, 2018 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 covered 99.71% of the Bulgarian population.

VIVACOM has received multiple awards for both the fastest mobile network in Bulgaria and the 4G/LTE network with widest population coverage in the country. Award for fastest mobile network is based on analysis by Ookla® of Speedtest Intelligence® data for Q3 2018 average mobile download speeds in Bulgaria. 4G/LTE network population coverage measurement was performed by Global Wireless Solutions (GWS) in the period 15.10 – 15.11.2018.

Our revenue share for the mobile services market is approximately 30% for the year ended December 31, 2018.

We are the incumbent in the fixed voice line market with 82% revenue share as at December 31, 2018 (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts).

As at December 31, 2018 VIVACOM is the largest fixed broadband operator with 27% 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 1,182,000 fiber homes passed and 25% take-up rate as at December 31, 2018. 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, 2018 VIVACOM is positioned as the leading IPTV operator with 50% subscriber share (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts).

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 our digital online shop and telemarketing. As at December 31, 2018 VIVACOM has 242 owned branded retail locations with an additional 40 alternative sale points.

FINANCIAL CONDITION AND RESULTS OF OPERATION

Total consolidated revenue of the Group increased by 6.6% year-on-year to BGN 948.0 million for the year ended December 31, 2018 with consistent increase in both services and equipment revenues. Adjusted EBITDA was further strengthen by lower operating expenses, increasing by 12.8% year-on-year to BGN 359.8 million for the year ended December 31, 2018.

The Group finished the year ended December 31, 2018 with a profit of BGN 127.7 million (the Company - with a profit of BGN 110.1 million), which is an increase of 79.6% year-on-year compared to BGN 71.1 million for the year ended December 31, 2017. Overall, the financial statements show improving performance, backed by increasing revenues and profitability.

On November 22, 2013 VIVACOM successfully completed its debut 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 paid 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). On March 29, 2018 and May 16, 2018 respectively Moody's upgraded the long term corporate credit rating of the Company to Ba3 and Standard & Poor's reconfirmed it as BB-.

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. 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. On April 19, 2018 the Company successfully completed the refinancing of its Notes ahead of their maturity date and has delisted the Notes from the Official List and from trading on the Main Securities Market of the Irish Stock Exchange. As of the date of these financial statements the Company has deregistered the relevant securities under the Notes.

On December 22, 2017 the Company entered into an up to EUR 365 million Senior Facilities Agreement (SFA) arranged by Citibank N.A., London Branch and VTB Bank (Deutschland) AG (currently VTB Bank (Europe) SE). The purpose of the facility is to refinance all amounts due under the Notes, payment of fees and costs under the facility and capital expenditure in respect of the Company's investment and development program. The SFA comprises of a term loan Facility A, term loan Facility B, a Short-term Facility and a Revolving Facility. The maximum tenor is 5.25 years after the first Utilization under the SFA, which occurred on April 14, 2018. The interest on the facilities is based on EURIBOR plus a Margin between 1.25 and 3.75 per cent per annum. As per the SFA on 2 March 2018 pledges over the going concern of Viva Telecom Bulgaria OOD and BTC Net OOD were registered in favour of the lenders and the Company is in a process of perfection of the remaining security envisaged in the SFA.

Simultaneously with the SFA the Company extended the maturity of the Existing EUR 35 million RCF with Societe Generale Expressbank AD to April 18, 2021 and reduced the applicable Margin to between 1.05 and 1.75 per cent per annum. The Company has established the respective securities under the extended RCF on a pari passu basis by the same scope and type of security provided by the Company under the SFA.

On September 14, 2018 the Company established an Incremental Facility (as defined in the SFA) with incremental commitments totaling EUR 40 million and thus bringing the total SFA borrowings to EUR 365 million. On September 25, 2018 the Short-term Facility outstanding under the SFA in the principal amount of EUR 20 million was prepaid in full.

REVENUES

The accounting principles applicable to revenue recognition for 2018 are according to IFRS 15, while 2017 figures are presented in accordance with IAS 18. Total revenues for the year ended December 31, 2018 increased by BGN 4.4 million as a result of IFRS 15 adoption. Detailed breakdown of IFRS 15 impact on revenues is presented in Note 20 to the consolidated and separate financial statements.

Our total consolidated revenue was BGN 948.0 million for the year ended December 31, 2018, an increase of BGN 58.5 million, or 6.6%, from BGN 889.5 million for the year ended December 31, 2017.

The table below sets forth our revenue for the year ended December 31, 2018 as compared to the year ended December 31, 2017.

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2018**	**2017**	**(amount)**	**(%)**
Services revenue	789.1	788.5	0.6	0.1
Fixed-line	339.8	350.5	(10.7)	(3.0)
Mobile	449.3	438.0	11.3	2.6
Equipment revenue	143.2	83.5	59.7	71.5
Fixed-line	5.8	4.5	1.3	29.5
Mobile	137.4	79.0	58.4	73.9
Other revenue	15.7	17.5	(1.8)	(10.3)
Total revenue	**948.0**	**889.5**	**58.5**	**6.6**

Our services revenue was BGN 789.1 million for the year ended December 31, 2018, an increase of BGN 0.6 million, or 0.1%, from BGN 788.5 million for the year ended December 31, 2017 primarily due to the growth of mobile revenue resulting from higher share of offerings with more minutes and data traffic included in the tariff plans. On the other hand, decrease in fixed-line revenue was mainly attributable to decline in fixed voice driven by fixed-to-mobile substitution trend, partially offset by growth in fixed broadband and fixed pay-TV.

Our equipment revenue was BGN 143.2 million for the year ended December 31, 2018, an increase of BGN 59.7 million, or 71.5%, from BGN 83.5 million for the year ended December 31, 2017 mainly due to the adoption of IFRS 15 as the comparative figures for 2017 are not restated. IFRS 15 impact on our equipment revenue for the year ended December 31, 2018 amounts to BGN 39.9 million. Detailed breakdown of IFRS 15 impact on revenues is presented in Note 20 to the consolidated and separate financial statements. Overall increase in equipment revenue was also supported by increasing sales of both mobile and fixed-line devices.

Other revenue was BGN 15.7 million for the year ended December 31, 2018, a decrease of BGN 1.8 million, or 10.3%, from BGN 17.5 million for the year ended December 31, 2017 primarily due to the less assignments and sales of trade receivables.

The following table sets forth a breakdown of our revenue by segment for the year ended December 31, 2018, as compared to the year ended December 31, 2017.

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2018**	**2017**	**(amount)**	**(%)**
Fixed-line revenue	335.2	349.1	(13.9)	(4.0)
Mobile revenue	596.6	521.3	75.2	14.4
NURTS revenue	37.8	41.6	(3.8)	(9.1)
Eliminations	(21.5)	(22.5)	1.0	(4.6)
Total revenue	**948.0**	**889.5**	**58.5**	**6.6**

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 335.2 million for the year ended December 31, 2018, a decrease of BGN 13.9 million, or 4.0%, from BGN 349.1 million for the year ended December 31, 2017. The decrease was mainly attributable to the ongoing fixed-to-mobile substitution trend and competitive pressure from other alternative operators with low ARPUs. The decrease was partially offset by growth in fixed broadband and fixed pay-TV revenues related to the increase of our subscriber base.

Our mobile revenue was BGN 596.6 million for the year ended December 31, 2018, an increase of BGN 75.2 million, or 14.4%, from BGN 521.3 million for the year ended December 31, 2017. The increase in mobile revenue was mainly attributable to our competitive offers and the quality of our mobile network that enables fastest speeds and have the widest 4G/LTE population coverage in the country.

Our NURTS revenue was BGN 37.8 million for the year ended December 31, 2018, a decrease of BGN 3.8 million, or 9.1% from BGN 41.6 for the year ended December 31, 2017, mainly attributable to lower revenue from satellite services provided by NURTS.

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 year ended December 31,		Change	
	2018	**2017**	**(amount)**	**(%)**
Number of mobile subscribers at period end (in thousands)	3,071	3,133	(62.4)	(2.0)
% post-paid at period end	89	89	(0.0)	(0.0)
% pre-paid at period end	11	11	0.0	0.3
Blended mobile ARPU (BGN)	12.3	11.1	1.2	11.2

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 December 31, 2017 and December 31, 2018, 89% of our total mobile subscriber base consisted of post-paid subscribers.

Our mobile subscriber base has decreased, from 3.133 thousand subscribers as at December 31, 2017 to 3.071 thousand subscribers as at December 31, 2018. The decline was mainly attributable to the pre-paid subscriber base clean-up following the mandatory registration of pre-paid SIM cards.

Blended mobile ARPU increased by 1.2% to BGN 12.3 for the year ended December 31, 2018, from BGN 11.1 for the year ended December 31, 2017 primarily due to increase in data usage as a result of the growing smartphone penetration and share.

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 year ended December 31,		Change	
	2018	**2017**	**(amount)**	**(%)**
Fixed telephony subscribers at period end (in thousands)	689	806	(116.7)	(14.5)
Fixed telephony ARPU (BGN)	10.1	10.3	(0.1)	(1.4)
Fixed broadband subscribers at period end (in thousands)	444	432	11.9	2.8
% FTTx at period end	65	60	5.4	9.1
Fixed broadband ARPU (BGN)	9.6	9.5	0.1	1.2
Number of fiber homes passed (in thousands)	1,182	1,128	54.0	4.8
Fixed pay-TV subscribers at period end (in thousands)	468	447	21.5	4.8
% IPTV at period end	49	46	3.6	7.8
Fixed pay-TV ARPU (BGN)	15.2	13.6	1.6	11.4

Fixed Telephony

Our total fixed telephony subscribers decreased by 14.5% to 689 thousand as at December 31, 2018, from 806 thousand as at December 31, 2017. 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 1.4% to BGN 10.1 for the year ended December 31, 2018, from BGN 10.3 for the year ended December 31, 2017. 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 Broadband

Our total fixed broadband subscribers increased by 2.8% to 444 thousand as at December 31, 2018, from 432 thousand as at December 31, 2017. The increase was mainly due to higher FTTx connections driven by the growing demand for high speed bandwidth capacity and reliable broadband service.

Total fixed broadband ARPU increased by 1.2% to BGN 9.6 for the year ended December 31, 2018, from BGN 9.5 for the year ended December 31, 2017. The increase was primarily due to growing share of tariffs with high bandwidth capacity, despite bundling discounts and price competition from other alternative operators.

Fixed Pay-TV

Our total fixed pay-TV subscribers increased 4.8% to 468 thousand as at December 31, 2018, from 447 thousand as at December 31, 2017. 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 7.8% to BGN 15.2 for the year ended December 31, 2018, from BGN 13.6 for the year ended December 31, 2017. 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 77.8 million for the year ended December 31, 2018, a decrease of BGN 1.8 million, or 2.3%, from BGN 79.6 million for the year ended December 31, 2017. This was mainly due less international interconnect traffic, partially offset by increase in mobile outbound traffic to other national mobile operators.

Materials and Consumables Expenses

Our materials and consumables expenses were BGN 172.2 million for the year ended December 31, 2018, an increase of BGN 10.6 million, or 6.6%, from BGN 161.6 million for the year ended December 31, 2017 attributable mainly to the higher expenses for mobile handsets to support the increased demand for smartphones as well as to higher expenses for CPEs related to the growth of our business and increased utilities expenses.

Other Operating Expenses

Our other operating expenses were BGN 214.8 million for the year ended December 31, 2018, an increase of BGN 1.7 million, or 0.8%, from BGN 213.1 million for the year ended December 31, 2017.

The table below sets forth our other operating expenses for the year ended December 31, 2018 as compared to the year ended December 31, 2017.

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2018**	**2017**	**(amount)**	**(%)**
Leased lines and data transmission	(7.4)	(7.0)	(0.4)	5.3
Maintenance and repairs	(27.1)	(27.5)	0.4	(1.4)
License fees	(15.8)	(15.7)	(0.1)	0.6
Facilities	(44.3)	(43.1)	(1.3)	2.9
Professional fees	(4.2)	(4.3)	0.1	(3.4)
Vehicles and transports	(8.3)	(9.4)	1.1	(11.3)
Administrative expenses	(11.5)	(9.3)	(2.2)	23.2
Advertising, customer service, billing & collection	(75.5)	(76.5)	1.0	(1.4)
Other	(20.6)	(20.1)	(0.5)	2.3
Total operating expenses	**(214.8)**	**(213.1)**	**(1.7)**	**0.8**

Increase in other operating expenses was mainly as a result from higher facilities expenses, administration expenses and leased lines and data transmission expenses. Facilities expenses were driven mainly by higher rental of buildings and technical infrastructure. Increase in administration expenses was mainly due to higher cost for hired services. Leased lines and data transmission expenses increase was attributable to higher fees for satellite transmission service.

These increases were partially offset by lower vehicles and transports expenses, maintenance and repairs expenses and advertising, customer services, billing & collection expenses. Lower vehicles and transports expenses were mainly due to optimizations of our fleet, while maintenance and repairs expenses decrease primarily due to lower costs for maintenance of our networks and IT infrastructure. Advertising, customer services, billing & collection expenses were driven mainly by lower advertising activities and savings in bill printing expenses. The latter was partially offset by higher content costs and increase in marketing research costs.

Staff Costs

Our staff costs were BGN 132.8 million for the year ended December 31, 2018, an increase of BGN 4.1 million, or 3.2%, from BGN 128.8 million for the year ended December 31, 2017, mainly resulting from increase in the average salaries.

Depreciation and Amortization

Our depreciation and amortization costs were BGN 198.6 million for the year ended December 31, 2018, a decrease of 1.6 million, or 0.8%, from BGN 200.1 million for the year ended December 31, 2017.

Finance Costs

Our finance costs were BGN 40.9 million for the year ended December 31, 2018, a decrease of BGN 16.8 million, or 29.1%, from BGN 57.6 million for the year ended December 31, 2017 primarily due to lower interest expenses under the SFA.

Finance Income

Our finance income was BGN 7.5 million for the year ended December 31, 2018, an increase of BGN 1.5 million, or 25.3%, from BGN 6.0 million for the year ended December 31, 2017, mainly attributable to higher interest income on granted loans.

Other gains, net

Other gains, net were BGN 17.6 million for the year ended December 31, 2018, a decrease of BGN 0.3 million, or 1.4%, from BGN 17.9 million for the year ended December 31, 2017, mainly as a result of revaluation of investment properties.

Income Tax Expenses

The following table sets forth our income tax expense for the year ended December 31, 2018 as compared to the year ended December 31, 2017.

	For the year ended December 31,		**Change**	
BGN in millions, except percentages	**2018**	**2017**	**(amount)**	**(%)**
Current income tax charge	(3.9)	(8.7)	4.8	(55.0)
Deferred tax credit to comprehensive income	(4.5)	7.2	(11.7)	(163.1)
Income tax expense	**(8.4)**	**(1.5)**	**(7.0)**	**472.2**

Income tax expense was BGN 8.4 million for the year ended December 31, 2018, an increase of BGN 7.0 million, from BGN 1.5 million for the year ended December 31, 2017 driven mainly higher deferred tax charge.

ADJUSTED EBITDA AND PROFIT FOR THE PERIOD

As a result of the foregoing, we have accounted a profit of BGN 127.7 million for the year ended December 31, 2018, an increase of BGN 56.6 million, or 79.6%, compared to BGN 71.1 million for the year ended December 31, 2017.

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

	For the year ended December 31,		Change	
(BGN in millions)	**2018**	**2017**	**(amount)**	**(%)**
Profit / (loss) for the period	**127.7**	**71.1**	**56.6**	**79.6**
Income tax expense	8.4	1.5	7.0	472.2
Finance costs, net	33.3	51.6	(18.3)	(35.4)
Depreciation and amortization	198.6	200.1	(1.6)	(0.8)
EBITDA	**368.0**	**324.3**	**43.7**	**13.5**
Adjustments	(8.3)	(5.4)	(2.9)	53.0
Adjusted EBITDA	**359.8**	**318.9**	**40.8**	**12.8**

Adjusted EBITDA was BGN 359.8 million for the year ended December 31, 2018, an increase of BGN 40.8 million, or 12.8%, from BGN 318.9 million for the year ended December 31, 2017 driven mainly better performance in the top-line and higher profitability. IFRS 15 adoption had positive impact to 2018 Adjusted EBITDA in amount of BGN 15.8 million.

CASH FLOW

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

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2018**	**2017**	**(amount)**	**(%)**
Net cash from operating activities	247.7	315.0	(67.3)	(21.4)
Net cash used in investing activities	(358.6)	(205.9)	(152.7)	74.2
Net cash used in financing activities	(27.8)	(5.4)	(22.4)	414.5
Net increase / (decrease) in cash and cash equivalents	**(138.7)**	**103.7**	**(242.4)**	**(233.7)**

Net Cash from Operating Activities

For the year ended December 31, 2018, net cash flows from operating activities decreased by BGN 67.3 million to BGN 247.7 million, compared to BGN 315.0 million for the year ended December 31, 2017 mainly resulting from increase in inventories supporting the growth of our business activities.

Net Cash Used in Investing Activities

For the year ended December 31, 2018, net cash flows used in investing activities increased by BGN 152.7 million to BGN 358.6 million, from BGN 205.9 million mainly due to higher acquisition of investments. The latter was partially offset by lower acquisitions from sale of property, plant, equipment and intangible assets.

Net Cash Used in Financing Activities

For the year ended December 31, 2018, net cash flows used in financing activities increased by BGN 22.4 million to BGN 27.8 million, from BGN 5.4 million for the year ended December 31, 2017 mainly due to the refinancing of the Notes in April 2018.

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 FTTx and VDSL 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 year ended December 31,	
(BGN in millions)	**2018**	**2017**
Network	129.7	131.9
IT	18.5	12.2
Commercial and other	36.9	35.2
Licenses	0.5	0.3
NURTS	1.9	1.3
Total capital expenditures	**187.5**	**181.0**

For the year ended December 31, 2018, our capital expenditures amounted to BGN 187.5 million, which consisted of:

- BGN 129.7 million of capital expenditures relating to network activities, mainly for investment in our mobile radio access network, mobile core and transmission network, fixed core network, TV platform and FTTx and VDSL roll-out projects;
- BGN 18.5 million of capital expenditures relating to IT activities, primarily related to IT infrastructure acquisitions and business support systems;
- BGN 36.9 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 1.9 million of capital expenditures relating to maintenance of NURTS infrastructure.

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.

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.

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 that 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.

In March 2018 new legislation involving changes in networks deployment requirements entered into force. The new Law on Electronic Communications Network and Physical Infrastructure lightens the laying of new cables in the existing duct networks, including in networks of other operators, encouraging the sharing of infrastructure.

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 first stage of regulation enabled usage of roaming services at national prices covered by a surcharge. The latter was 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 risk

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.

According to Treasury policy, applicable to VIVACOM and its subsidiaries, 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 risk

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 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.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On April 17, 2019 a joint venture between VIVACOM and Bulgarian-American Credit Bank AD was registered in the Bulgarian Commercial Register following competition clearance by the Bulgarian Competition Protection Commission granted on 28 March 2019. VIVACOM holds 50% of the joint venture, which primary activities are envisaged to be development and provision of mobile payments.

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 (13.05.2019).

EXPECTED DEVELOPMENT

In 2019 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 and further expansion of the LTE network capabilities;
- VIVACOM will further expand its fibre-optic network and VDSL 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.

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.

NON-FINANCIAL INFORMATION AND DISCLOSURES

VIVACOM has been committed to high level of transparency and disclosures of relevant non-financial information about its activities. After a series of Sustainability Reports in 2014 and 2015, and Annual Integrated Reports in 2016 and 2017, VIVACOM will publish its Integrated Annual Report for 2018 which will be publicly available on our corporate website by end of May 2019. The report content elaborates on the influence of the external environment on Company's strategy, governance, performance and future outlook. It shows how our business model transforms available capitals such as infrastructure, natural and human resources and creates value for key stakeholders. It includes also objective quantitative data that reflects the economic, technical, social and environmental performance in the period January 1, 2018 – December 31, 2018 on consolidated and individual bases.

Our 2018 Integrated Annual Report includes a transparent and participatory approach in defining the value creation process, taking into account the material topics that could affect the Company's ability to create value over the long-term. The content is further guided by the latest amendments of the national legislation related to disclosure of non-financial information (Accountancy Act, 2016).

INFORMATION ABOUT THE COMPANY'S MANAGING BOARD AND SUPERVISORY BOARD

Members of the Company's Managing Board and Supervisory Board at December 31, 2018

a) At December 31, 2018 the members of the Managing Board of VIVACOM are:

Mr. Atanas Dobrev - Member of the Managing Board and Chief Executive Officer
Mr. Asen Velikov - Member of the Managing Board
Mr. Radoslav Zlatkov - Member of the Managing Board
Mr. Miroslav Petrov - Member of the Managing Board
Mr. Dimitrios Lioupis – Member of the Managing Board

b) At December 31, 2018 the members of the Supervisory Board of VIVACOM are:

Mr. Spas Roussev - Chairman of the Supervisory Board
Mr. Bojan Ivanovic - Deputy Chairman and Member of the Supervisory Board
Mr. Franz Hörhager - Member of the Supervisory Board
Mr. Zeno Meier - Member of the Supervisory Board
Mr. Bruno Ducharme - Member of the Supervisory Board

On April 1, 2019 the Bulgarian Commercial Register has entered the deregistration of Mr. Miroslav Petrov as a member of the Managing Board of the Company.

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 year ended December 31, 2018. 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 3,772 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of December 31, 2018 (2017: BGN 2,659 thousand) from which BGN 1,706 thousand is payable as of December 31, 2018 (2017: BGN 1,039 thousand).

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 year ended December 31, 2018.

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.

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.

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 28 to the consolidated and separate financial statements.

Data about the Investor Relations:

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13.05.2019

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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 90 days.

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.
"IRU" or "Indefeasible right of use"	Indefeasible right of use (IRU) is a permanent contractual agreement that cannot be undone, between the owners of a communications system and a customer.
"**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.
"**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
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated Financial Statements		Separate Financial Statements	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
ASSETS					
Current assets					
Cash and cash equivalents	5	37,333	175,973	30,210	172,125
Trade and other receivables	6	155,842	101,954	143,612	102,146
Current income tax receivables		10	-	-	-
Inventories	7	45,401	37,005	44,151	35,773
Investments	12	-	5	-	5
Other current assets	9	17,146	14,075	16,976	13,920
Assets classified as held for sale	8	13	193	13	13
Contract assets	6	22,619	-	22,619	-
Total current assets		**278,364**	**329,205**	**257,581**	**323,982**
Non-current assets					
Goodwill		2,049	2,049	2,049	2,049
Property, plant and equipment	10	757,948	751,489	716,745	706,783
Investment property	10	151,587	145,401	10,181	10,243
Intangible assets	11	172,195	196,301	171,587	195,439
Investments	12	261,709	59,057	303,527	101,160
Trade and other receivables	6	32,191	53,256	29,076	47,913
Other non-current assets	9	30,157	10,558	30,157	10,558
Deferred tax assets, net	17	4,067	3,981	-	-
Contract assets	6	9,259	-	9,259	-
Total non-current assets		**1,421,162**	**1,222,092**	**1,272,581**	**1,074,145**
TOTAL ASSETS		**1,699,526**	**1,551,297**	**1,530,162**	**1,398,127**

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2018
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated Financial Statements		Separate Financial Statements	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	13	114,092	102,482	124,357	107,977
Other payables	14	34,973	38,764	34,523	37,984
Deferred income/revenue		-	21,893	-	21,889
Current income tax liabilities		1,360	556	1,326	534
Provisions	15	2,431	3,073	2,426	3,016
Borrowings	16	45,399	787,295	45,362	787,258
Contract liabilities	14	23,723	-	23,721	-
Total current liabilities		**221,978**	**954,063**	**231,715**	**958,658**
Non-current liabilities					
Borrowings	16	700,296	856	700,296	856
Deferred tax liabilities, net	17	15,437	10,204	5,153	732
Retirement benefit obligations	18	7,445	6,187	7,445	6,187
Provisions	15	15,078	12,180	15,078	12,180
Trade payables	13	2,020	2,502	2,020	2,502
Other payables	14	1,965	-	1,965	-
Deferred income/revenue		-	2,717	-	2,717
Contract liabilities	14	2,470	-	2,470	-
Total non-current liabilities		**744,711**	**34,646**	**734,427**	**25,174**
Equity					
Share capital	19	288,765	288,765	288,765	288,765
Reserves	19	154,969	150,835	34,494	33,105
Retained earnings		289,103	122,988	240,761	92,425
Total equity		**732,837**	**562,588**	**564,020**	**414,295**
TOTAL LIABILITIES AND EQUITY		**1,699,526**	**1,551,297**	**1,530,162**	**1,398,127**

These financial statements were approved on 13.05.2019.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditor's report:

Sylvia Peneva
Registered Auditor
Date: 15.05.2019

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
Revenue	20	948,043	889,503	918,990	853,762
Interconnect expenses		(77,773)	(79,609)	(68,841)	(65,758)
Other operating expenses	21	(214,801)	(213,094)	(217,005)	(216,073)
Materials and consumables expenses		(172,201)	(161,568)	(168,393)	(158,332)
Staff costs	22	(132,827)	(128,755)	(131,976)	(127,688)
Depreciation and amortization	21	(198,552)	(200,131)	(194,779)	(198,093)
Finance costs	23	(40,864)	(57,635)	(40,838)	(57,608)
Finance income	23	7,535	6,010	7,469	7,016
Other gains, net	24	17,602	17,857	12,441	44,626
Profit before tax		**136,162**	**72,578**	**117,068**	**81,852**
Income tax expense	25	(8,434)	(1,474)	(6,947)	(8,402)
Profit for the year		**127,728**	**71,104**	**110,121**	**73,450**
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Cash flow hedges – effective portion of changes in fair value		(3,277)	(995)	(3,277)	(995)
Related tax	25	327	99	327	99
		(2,950)	(896)	(2,950)	(896)
Items that will never be reclassified to profit or loss:					
Revaluation of land and investment property	10	3,665	2,656	366	-
Changes in the fair value of equity investments at fair value through other comprehensive income	12	4,954	-	4,954	-
Remeasurements of defined benefit liability		(671)	(1,466)	(671)	(1,466)
Related tax	25	(862)	(265)	(532)	-
		7,086	925	4,117	(1,466)
Other comprehensive income for the year, net of tax		**4,136**	**29**	**1,167**	**(2,362)**
Total comprehensive income for the year		**131,864**	**71,133**	**111,288**	**71,088**
Earnings per share (basic and diluted)	19	0.44	0.25	0.38	0.25

These financial statements were approved on 13.05.2019.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditor's report:

Sylvia Peneva
Registered Auditor
Date: 15.05.2019

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018
All amounts are in thousand BGN, unless otherwise stated

Consolidated Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2017 as previously reported		**288,765**	**28,876**	**144,420**	**-**	**282**	**-**	**29,112**	**491,455**
Reclassification	19	-	-	-	-	-	(975)	975	-
Balance as at 1 January 2017 reclassified		**288,765**	**28,876**	**144,420**	**-**	**282**	**(975)**	**30,087**	**491,455**
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	71,104	**71,104**
Total other comprehensive income	25	-	-	2,391	-	(896)	(1,466)	-	**29**
Total comprehensive income for the year		**-**	**-**	**2,391**	**-**	**(896)**	**(1,466)**	**71,104**	**71,133**
Transfer to retained earnings - land and investment property disposal		**-**	**-**	**(24,238)**	**-**	**-**	**-**	**24,238**	**-**
Balance as at 31 December 2017 reclassified		**288,765**	**28,876**	**122,573**	**-**	**(614)**	**(2,441)**	**125,429**	**562,588**
Balance as at 1 January 2018 as previously reported		**288,765**	**28,876**	**122,573**	**-**	**(614)**	**-**	**122,988**	**562,588**
Reclassification	19	-	-	-	-	-	(2,441)	2,441	-
Impact of change in accounting policy	32	-	-	-	2,669	-	-	35,716	38,385
Balance as at 1 January 2018 reclassified		**288,765**	**28,876**	**122,573**	**2,669**	**(614)**	**(2,441)**	**161,145**	**600,973**
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	127,728	**127,728**
Total other comprehensive income	25	-	-	3,298	4,459	(1,155)	(2,466)	-	**4,136**
Total comprehensive income for the year		**-**	**-**	**3,298**	**4,459**	**(1,155)**	**(2,466)**	**127,728**	**131,864**
Transfer to retained earnings - land and investment property disposal		-	-	(230)		-	-	230	-
Balance as at 31 December 2018		**288,765**	**28,876**	**125,641**	**7,128**	**(1,769)**	**(4,907)**	**289,103**	**732,837**

The notes are an integral part of these financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 31 December 2018
All amounts are in thousand BGN, unless otherwise stated

Separate Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2017 as previously reported		**288,765**	**28,876**	**4,843**	**-**	**282**	**-**	**20,441**	**343,207**
Reclassification	19	-	-	-	-	-	(975)	975	-
Balance as at 1 January 2017 reclassified		**288,765**	**28,876**	**4,843**	**-**	**282**	**(975)**	**21,416**	**343,207**
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	73,450	**73,450**
Total other comprehensive income	25	-	-	-	-	(896)	(1,466)	-	**(2,362)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(896)**	**(1,466)**	**73,450**	**71,088**
Balance as at 31 December 2017 reclassified		**288,765**	**28,876**	**4,843**	**-**	**(614)**	**(2,441)**	**94,866**	**414,295**
Balance as at 1 January 2018 as previously reported		**288,765**	**28,876**	**4,843**	**-**	**(614)**	**-**	**92,425**	**414,295**
Reclassification	19	-	-	-	-	-	(2,441)	2,441	-
Impact of change in accounting policy	32	-	-	-	2,669	-	-	35,768	38,437
Balance as at 1 January 2018 reclassified		**288,765**	**28,876**	**4,843**	**2,669**	**(614)**	**(2,441)**	**130,634**	**452,732**
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	110,121	**110,121**
Total other comprehensive income	25	-	-	329	4,459	(1,155)	(2,466)	-	**1,167**
Total comprehensive income for the year		**-**	**-**	**329**	**4,459**	**(1,155)**	**(2,466)**	**110,121**	**111,288**
Transfer to retained earnings - land and investment property disposal		-	-	(6)		-	-	6	-
Balance as at 31 December 2018		**288,765**	**28,876**	**5,166**	**7,128**	**(1,769)**	**(4,907)**	**240,761**	**564,020**

These financial statements were approved on 13.05.2019.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditor's report:

Sylvia Peneva
Registered Auditor
Date: 15.05.2019

The notes are an integral part of these financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statement		Separate financial statement	
		Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
Cash flows from operating activities					
Profit before tax		136,162	72,578	117,068	81,852
Adjustment for:					
Depreciation and amortization	21	198,551	200,131	194,779	198,093
Gain on sale of non-current assets and assets held for sale	24	(4,349)	(9,199)	(3,149)	(36,220)
Impairment loss and write off of non-current asset	10,11	4,827	6,095	4,130	5,932
Interest expenses, net of interest income	23	32,565	51,113	32,626	50,085
Impairment loss on trade receivables and contract assets	6	11,341	11,146	9,922	10,390
Impairment loss and write off of current asset		1,158	700	1,152	650
Income from investment operations and other finance income	23	(73)	(71)	(73)	(71)
(Gain)/loss from operations with cash flow hedges	23	82	(73)	82	(73)
Gain on bargain purchase	24, 31	-	(42)	-	-
Gain on changes in fair value of investment properties		(3,673)	(216)	-	-
Accruals and provisions charged to profit and loss		4,514	5,479	4,494	5,200
Changes in:					
-inventories		(9,353)	5,000	(9,336)	4,938
-trade and other receivables		(19,186)	39,254	(13,124)	29,935
-other current and non-current assets		(34,816)	(13,467)	(34,801)	(13,831)
-trade and other payables		(651)	12,645	4,630	19,522
-provisions and employee benefits		(4,192)	(6,166)	(4,112)	(5,791)
-deferred income/revenue		-	438	-	434
-contract assets		(4,926)	-	(4,926)	-
-contract liabilities		1,774	-	1,778	-
Cash generated from operations		**309,755**	**375,345**	**301,140**	**351,045**
Interest received		41	260	2,257	2,099
Interest paid		(58,965)	(52,939)	(58,965)	(52,939)
Corporate income tax paid		(3,105)	(7,655)	(2,025)	(7,036)
Net cash from operating activities		**247,726**	**315,011**	**242,407**	**293,169**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		6,976	38,653	3,758	38,287
Acquisition of PPE and intangible assets		(156,061)	(171,953)	(154,416)	(170,329)
Acquisition of investments		(193,627)	(59,565)	(193,341)	(59,577)
Cash deposits with maturity greater than three months		221	352	221	352
Dividends received		-	125	-	125
Loans granted to related parties		(16,087)	(13,485)	(16,087)	(13,485)
Loan repayments received from related parties		-	-	3,341	22,461
Net cash used in investing activities		**(358,578)**	**(205,873)**	**(356,524)**	**(182,166)**
Cash flows from financing activities					
Repayment of borrowings		(1,028,562)	-	(1,028,562)	-
Proceeds from new borrowings		1,003,136	-	1,003,136	-
Payment of finance lease liabilities		(2,415)	(5,411)	(2,415)	(5,411)
Net cash used in financing activities		**(27,841)**	**(5,411)**	**(27,841)**	**(5,411)**
Net increase/(decrease) in cash and cash equivalents		**(138,693)**	**103,727**	**(141,958)**	**105,592**
Effect of exchange rate fluctuations on cash held		53	(98)	43	(85)
Cash and cash equivalents at the beginning of the year	5	175,973	72,344	172,125	66,618
Cash and cash equivalents at the end of the year	**5**	**37,333**	**175,973**	**30,210**	**172,125**

These financial statements were approved on 13.05.2019

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditor's report:

Sylvia Peneva
Registered Auditor
Date: 15.05.2019

The notes are an integral part of these 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 a 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 OOD which is the parent of the Company as at 31 December 2017 and 2018. 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.

As of 31 December, 2018 and 2017 the Parent company had 5,433 and 5,638 employees, respectively.

On 31 July 2017 the Commercial Register has registered the acquisition of 100% of the share capital of Net Is Sat EOOD by BTC.

As of 31 December 2018 and 2017 the Group comprise of BTC and the subsidiary entities - BTC Net EOOD, NURTS Bulgaria EAD, NURTS Digital EAD and Net Is Sat EOOD.

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. 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.

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 Digital EAD

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 120,000,000 comprising of shares with nominal value of BGN 500 each.

Net Is Sat EOOD

NET IS SAT is a commercial company registered in the Commercial Register in 3 November 1997. Its main activity is offering individual business telecom solutions, including providing optical and wireless Internet access, fixed call service, Virtual Private Networks (VPN), wholesale international VoIP termination services, network and data management. The registered share capital amounts to BGN 3,832,000.

Regulations

Regulatory framework

In December 2011 a new Law Amendment of Electronic Communications Act (ECA) was adopted, which implemented the new EU 2009 regulatory framework in the field of electronic communications.

According to the procedures set out in ECA and the Methodology for market definition and analysis as at the reporting date the Communications Regulation Commission (CRC) has sent notifications to the European Commission for the following market analyses:

- Access to fixed voice telephony services and markets of local, long distance and international calls (first to third round);
- Markets for origination and termination in fixed networks (first to third round);
- Market for termination in mobile networks (first to third round);
- Markets for wholesale trunk segment and terminating segment of leased lines (first and second round);
- Markets for wholesale local access and wholesale central access provided at a fixed location (first and second round)
- Market for transit services in public telephone network (first round).

In 2018 the following secondary legislation acts were modified:

- General requirements for the provision of public electronic communications;

In March 2018 new legislation involving changes in networks deployment requirements entered into force. The new Law on Electronic Communications Network and Physical Infrastructure lightens the laying of new cables in the existing duct networks, including in networks of other operators, encouraging the sharing of infrastructure.

1. General information (continued)

Licenses

- **Fixed line communications**

On 28 January 2005 the CRC re-issued BTC's license for usage and development of telecommunications network on the territory of Bulgaria and rendering of telecommunication services through the network. Later, the term of the license was extended until June 2024.

An annual license fee, calculated on the base of the annual revenue from telecommunication services billed to subscribers is payable quarterly in arrears. During 2018 and 2017 the annual fee is 0.2% of nominal annual revenue from provision of electronic communications networks and/or services without VAT included and after deduction of transferring payments to other companies for interconnection of networks and access, transit, roaming, value added services, as well as expenses for settling copyrights and related rights for radio and television programs.

An annual fee is to be paid to the CRC for access to limited frequency resources such as the radio-frequency spectrum. This fee is calculated on the basis of technical data and is payable quarterly in arrears as well. During 2018 and 2017 the fee was BGN 2,836 thousand and BGN 2,627 thousand, respectively. The fees are regulated by the CRC and relevant Council of Ministers Ordinances.

- **Mobile telecommunications**

In June 2004 the Communications Regulation Commission (CRC) granted BTC the license for building, exploitation and maintenance of a cellular mobile telecommunications network under the GSM standard with national coverage. The issued license is valid for the period of 20 years and granted the right of using radio frequency 900 and 1 800 MHz. BTC paid BGN 54,160 thousand for the GSM license.

In April 2005 CRC granted BTC EAD the license for building cellular mobile telecommunication network under the UMTS standard with national coverage. The issued license is valid for 20 years and gives the right to use the following radio frequencies:

- 1930 – 1935 MHZ (total of 5 MHz) for the territory of Bulgaria for transmitting from end mobile devices to base stations;
- 2120 – 2125 MHz (total of 5 MHz) for the territory of Bulgaria for transmitting from base stations to end mobile devices; and
- 2015 – 2020 MHz (total of 5 MHz) for the territory of Bulgaria.

In 2012 CRC granted BTC AD an additional spectrum of 5 MHz and exchanged the position of previously submitted spectrum. According to the amendment BTC had the right to use the following spectrum:

- 1945 – 1955 MHZ (total of 10 MHz) for the territory of Bulgaria for transmitting from end mobile devices to base stations;
- 2135 – 2145 MHz (total of 10 MHz) for the territory of Bulgaria for transmitting from base stations to end mobile devices; and
- 2015 – 2020 MHz (total of 5 MHz) for the territory of Bulgaria.

At the end of July, 2015 BTC's permission was amended again after replacing the assigned frequency bands and providing additional spectrum. BTC was granted the right to use the following spectrum:

- 1965-1980 MHz (total of 15 MHz)
- 2155-2170 MHz (total of 15 MHz)

1. General information (continued)

Regulations (continued)

In Q22016 CRC assigned to BTC additional spectrum of 2x5 MHz in 1800 MHz. Following the procedure of reallocation of the assigned frequencies, currently BTC is entitled to use:

- 1740-1755 MHz (total of 15 MHz)
- 1835-1850 MHz (total of 15 MHz)

An annual fee, calculated based on the annual revenue from telecommunication services provided to the subscribers is paid quarterly. In 2018 and 2017 the annual fee is 0.2% from the annual gross revenue from providing electronic communication networks and/or services, VAT excluded after subtracting the transfer payments to other companies for interconnection of networks and access, transit, roaming, value-added services, as well as costs for authority and related rights for radio and television programmes.

For 2018 and 2017 the fees paid for frequency bands in 900, 1800 and 2100 MHz amounted to BGN 7,833 thousand for both years.

- **TV broadcasting**

In 2009 CRC has granted NURTS Digital permission for use of resource from radio frequency spectrum via two networks for digital terrestrial broadcasting (DVB-T) which is mandatory for the operation of its core activity. As per decision of the European Court of Justice dated 23 April 2015, the Republic of Bulgaria is found in breach of certain provisions of European directives in relation to the provision of the digital terrestrial broadcasting permission, which has to be remedied. NURTS Digital has complied with all statutory requirements in this regard. However, any potential state actions might negatively affect the activity of the entity.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The consolidated and separate financial statements (“the financial statements”) of BTC have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and investment property, certain financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and defined benefit plan at the present value of the obligation.

Consolidated financial information, including subsidiaries, has been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

The presentation of the financial statements requires management to make the critical accounting estimates, accruals and assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates (Note 4).

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

- **Initial application of new amendments to the existing standards effective for the current reporting period**

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The Group had to change its accounting policy and make certain adjustments following the adoption of IFRS 9 and IFRS 15. This is disclosed in Note 32. The adoption of the other amendments to the existing standards and interpretation has not led to any material changes in these financial statements.

- **Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements, the following amendments to the existing standards issued by IASB and adopted by the EU were in issue but not yet effective:

- • IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).

Under IFRS 16, lessors continue to make distinction between operating lease and finance lease as previously under IAS 17, while lessees will be required to recognize assets and liabilities for principally all leases in the statement of financial position. The Group expects that the changes introduced by IFRS 16 will have a significant impact on its financial statements. Summary of the performed impact assessment is presented below. The assessment may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2019 when the Group will adopt IFRS 16.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. Based on the assessment preformed to date, the Group expects that assets and liabilities will increase in between BGN 270 and 301 million in the opening balance sheet as of 1 January 2019 as a consequence of the recognition of right-of-use assets and lease liabilities for the majority of contracts that are classified as operating leases under the current lease standard. No impact is expected in equity as the right-of-use asset shall be measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. Amortization of the right-of-use assets and interest costs on the lease obligation will be recognized in the statements of comprehensive income instead of operating expense under the current lease standard. As a result EBITDA is expected to increase in between BGN 53 and 58 million. Classification of lease payments in the statement of cash flows will also be affected by the requirements of the new lease standard: a significant portion of the lease payments recognized as cash flows from operating activities in the statement of cash flows previously, will be classified as cash flows from financing activities upon application of the new lease accounting requirements.

The Group's lease portfolio mainly consists of administrative and commercial buildings, fixed and mobile site rentals, network infrastructure, software and vehicles.

Main assumptions applied in determining the values of the lease liability and right-of-use asset include the assessment of the lease term and the appropriate discount rate. The lease term is impacted by the assessment of the reasonably certain criterion in respect of renewal or termination options. For lease contracts with indefinite term or short term technical site rentals the Group estimates the length of the contract to be equal to the economic useful life of non-current assets located in the leased property. The same economic useful life is applied to determine the depreciation rate of right-of-use assets. The Group's incremental borrowing rate, taking into account the expected term of the leases is applied for discounting the future payment obligations.

The following options and practical expedients will be exercised by the Group on transition to the new requirements:

- Single discount rate shall be applied to a portfolio of leases with reasonably similar characteristics such as lease term, class of underlying asset and currency.

- The Group will exclude initial direct costs from the measurement of the right-of use asset at the date of initial application.

- A distinction will not be made in leases that contain both lease components and non-lease components. Each lease component will be accounted for together with other related performance components as a single lease component.

- The Group will not apply the practical expedient that allows to avoid reassessing whether a contract is, or contains, a lease at the date of initial application of IFRS 16. Besides the contracts identified as leases under the current accounting standard, the new requirements will be applied to certain contracts that are currently treated as supply of service (such as collocation and satellite capacity agreements, where entire satellite transponder is being rented).

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

- **Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective (continued)**

The Group estimates that the main differences with respect to the new lease liability measurement and the lease commitments disclosed in the Group's annual financial statements (Note 29), will relate to, among others:

– Contracts considered: Payments relating to contracts that can be cancelled without penalty and newly assesssed as containing lease as pointed above are not included within lease payment commitments, but they are included in the lease liability.
– Differences in the lease term: extension options and economic useful life for indefinite and short-term term contracts are considered the measurement of the lease liability, whereas they are not taken into consideration in the estimated minimum lease payments for operating leases.
– Discount rate differences: IFRS 16 requires the lease liability to be recognized at discounted value which is not applicable to minimum lease payments.

- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 “Uncertainty over Income Tax Treatments” – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU:

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except from the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 13.05.2019 (the effective dates stated below is for IFRS in full):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 “Business Combinations” - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

New Standards and amendments to the existing Standards issued by IASB but not yet adopted by the EU(continued):

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

Unless otherwise described above, the Group and the Company anticipate that the adoption of these standards and amendments to the existing standards will have no material impact on the financial statements of the Group and the Company in the period of initial application.

Hedge accounting regarding the portfolio of financial assets and liabilities, which principles have not been adopted by the EU, is still unregulated. According to the Group's/Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the reporting date.

2.2. Consolidation

Subsidiaries
A subsidiary is an entity that is directly or indirectly controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

For consolidation purposes, the separate financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Inter-company transactions and resulting profits or losses as of 31 December, 2018 and 2017, including unrealized profits at the year end, have been eliminated in full.

2.3. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Board who makes strategic decisions.

2. Summary of significant accounting policies (continued)

2.4. Functional and Presentation Currency

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 these financial statements.

Effective from 1 January 1999, the Bulgarian Lev was fixed to the EUR at a rate BGN 1.95583 = EUR 1.00. The Bulgarian National Bank ("BNB") determines the exchange rate of the BGN to the other currencies using the rate of the EUR to the respective currency, quoted at the international markets.

Transactions and balances
Foreign currency transactions are accounted for in BGN at the exchange rate at the date of the transaction. Monetary assets and liabilities, denominated in foreign currency at 31 December, are translated at the closing exchange rate of BNB as at that date.

The foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of comprehensive income as "finance income/costs" at the moment when they arise, except when deferred in equity as qualifying cash flow hedges. Financial instruments, denominated in foreign currency as at 31 December are reported in these financial statements at the closing exchange rate of BNB.

Non-monetary reporting items in the statement of financial position, which have been denominated in a foreign currency on initial recognition, are recorded in the functional currency by applying the historical exchange rate of BNB at the date of the transaction and are not subsequently revalued at closing exchange rate.

2.5. Property, plant and equipment and investment property

a) Property, plant and equipment

Initial measurement
Upon their initial acquisition property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to a suitable condition for its intended use. Directly attributable costs comprise mainly the costs of site preparation, initial delivery and handling costs, installation costs, professional fees for people related to the project, non-refundable taxes, etc.

As disclosed in Note 15 a provision for decommissioning costs associated with mobile sites is capitalized in the cost of the sites at the amount of the present value of the estimated decommissioning costs.

Subsequent measurement

The chosen approach for subsequent measurement of property, plant and equipment, is the cost model under IAS 16, i.e. cost less any accumulated depreciation and any accumulated impairment losses in value. Land is an exception to this rule and is revalued at fair value.

Revaluation of land is performed by independent certified appraisers usually every three years. When there is an indication of material changes in their fair value in shorter intervals, the revaluation may be performed at shorter intervals.

Increases in the carrying amount arising on revaluation of land are credited to revaluation reserves in shareholders' equity. As disclosed in Note 2.8 decreases that offset previous increases of the same asset are charged against revaluation reserves directly in equity. All other decreases are charged to the profit or loss for the period as other operating expenses.

2. Summary of significant accounting policies (continued)

2.4. Functional and Presentation Currency (continued)

a) Property, plant and equipment (continued)

Subsequent costs

Repair and maintenance costs are recognized as current expenses as incurred. Subsequent expenses incurred in relation to property, plant and equipment having the nature of replacement of certain components, significant parts and aggregates or improvements and restructuring, are capitalized in the carrying amount of the respective asset whereas the residual useful life is reviewed at the capitalisation date. At the same time, the non-depreciated part of the replaced components is derecognised from the carrying amount of the assets and is recognised in the current expenses for the period of replacement.

Upon sale or disposal of property, plant and equipment, the cost and related accumulated depreciation is removed from the accounts.

Gains or losses on sale (disposal) are determined as the difference between the amounts received and the carrying amount of the asset and are presented net under “Other gains, net” in the statement of comprehensive income. When revalued assets are sold, the amount of the revaluation reserve is transferred to “Retained earnings”.

Depreciation

Property, plant and equipment are depreciated by using the straight-line method over the estimated useful life of the asset. Depreciation of an asset begins when it is available for use. Land is not depreciated. The useful life of the classes of assets is determined in accordance with their physical wear, the characteristic features of the equipment, the future intentions for use and the expected obsolescence.

The estimated useful lives of the major classes of property, plant and equipment are as follows:

Class	Useful life
Switches	4–12 years
Transmission, distribution and remote switching	15–25 years
Optic cables	15–25 years
Mobile network	6–25 years
General support*	2–25 years

*General support represents mainly administrative buildings, furniture and other IT environment

The useful life, set for any tangible fixed asset, is reviewed at each year-end and in case of any material deviation from the future expectations of their period of use, the latter is adjusted prospectively.

b) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Where the Company uses only insignificant portion of a property it owns for supply of goods or services or for administrative purposes (utilisation of less than 25% is regarded as insignificant) the property is presented as an investment property. Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value in the consolidated financial statements, which is also the ultimate parent’s group policy. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss under “Other gains, net” in the period in which they arise.

2. Summary of significant accounting policies (continued)

2.5. Property, plant and equipment (continued)

b) Investment property (continued)

The chosen approach for subsequent measurement of investment properties for the Company is the cost model under IAS 16, i.e. cost less any accumulated depreciation and any accumulated impairment losses in value. Investment properties (excluding Land) are depreciated by using the straight-line method over the estimated useful life which is determined to be 25 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

2.6. Intangible assets and goodwill

Software and licenses
Software and licenses are the main items comprising intangible assets. Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be reliably measured. After initial recognition, intangible assets are measured at cost less accumulated amortization and any impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The useful life of licenses is from 5 years to 20 years. The useful life of software is from 2 years to 10 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group/Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

BTC considers its operations as comprising four cash generating units – fixed business, mobile business, collocation business and radio and TV broadcasting business.

2. Summary of significant accounting policies (continued)

2.6. Intangible assets and goodwill (continued)

Distribution network

Distribution network acquired in a business combination is recognized at fair value at the acquisition date. The distribution network has a finite useful life and is carried at cost less accumulated amortization and any impairment losses. Amortization is calculated using the straight-line method over the expected useful life, estimated to be 10 years.

Subscriber acquisition/retention costs

Customer acquisition and retention expenses were capitalized and amortized over the minimum enforceable contractual period, using the straight-line method. By the introduction of IFRS 15 these costs are no longer within the scope of IAS 38: "Intangible assets". Effective from 1 January 2018 the costs of obtaining contracts will be presented as "Other assets" in the statement of financial position. Amortization will continue to be classified within "Depreciation and amortization" line in the profit & loss and calculated by keeping the method and period previously used.

2.7 Investments

In the separate financial statements investments in subsidiaries are accounted for at cost of acquisition, less impairment, if any. The cost of an acquisition is measured at the fair value of the consideration given, the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange.

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Under the cost method of accounting the investor recognizes income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

2.8. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the profit or loss for the period as other operating expenses, except for land previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses of assets may no longer exist or may have decreased. If such indication exists, the Group/Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income as reduction of other operating expenses unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2. Summary of significant accounting policies (continued)

2.9. Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.10. Financial instruments

The Group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

2.10.1. Financial instruments - accounting policies applied after 1 January 2018

A financial instrument is any contract that simultaneously gives rise to a financial asset at one entity and a financial liability or equity instrument at another entity.

The Group's usual financial instruments are: cash and cash equivalents; trade and other short-term receivables, incl. from related persons, lease receivables and payables, equity (minority) and debt securities, loans granted; trade and other payables, bank, bond, and other loans received; derivate instruments.

Financial assets

Initial recognition, classification and measurement

Upon initial recognition, the Group's financial assets are classified in three groups, based on their subsequent measurement: at amortized cost; at fair value through other comprehensive income, and at fair value through profit or loss.

The Group initially measures financial assets at fair value, and in the case of financial assets not at fair value through profit and loss, the transaction costs that are directly attributable to the acquisition of the financial asset are added. Exceptions to this rule are trade receivables that do not contain a significant financing component – they are measured based on the transaction price determined under IFRS 15 and the invoice issued.

The purchases and sales of financial assets whose conditions require asset delivery within a certain period, usually pursuant to legislation or the effective practice of the respective market (mostly the Bulgarian one) (regular way purchases), are recognized using trade date accounting, i.e. on the date when the Company committed to purchase or sell the asset.

The classification of financial assets upon their initial recognition depends on the characteristics of: a) the contractual cash flows of the respective financial asset, and b) the Group's business model for management thereof. In order for a financial asset to be classified and measured at amortized value or at fair value through other comprehensive income, its conditions should give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. For this purpose, analysis is performed by means of SPPI test at instrument level.

The Group's business model for the management of financial assets reflects the way the Group manages its financial assets to generate cash flows. The business model determines if cash flows are generated by the collection of contractual cash flows, the sale of financial assets, or both.

Subsequent measurement

For the purpose of subsequent measurement, the Group's financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through other comprehensive income with "recycling" of cumulative gains or losses (applied for debt instruments);

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

- Financial assets at fair value through other comprehensive income without "recycling" of cumulative gains or losses (equity instruments);
- Financial instruments at fair value through profit or loss (applied for debt and equity instruments, as well as for derivative instruments under certain conditions and transactions).

Classification groups
Financial assets at amortised cost (debt instruments)

The Group measures a financial asset at amortised cost if both of the following conditions are met:
• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method. They are subject to impairment. Gains and losses are recognised in profit or loss upon asset disposal, modification or impairment.

The Group's financial assets at amortised cost may include: cash and cash equivalents at banks, trade receivables and other receivables, loans to related parties and loans to third parties, corporate bonds (potentially). They are presented within the following items in the statement of financial position: cash and cash equivalents, trade and other receivables and investments.

Financial assets at fair value through other comprehensive income (debt instruments) (based on past experience, for future transactions)

The Group measures its debt instruments at fair value through other comprehensive income, when both of the following conditions have been satisfied:
• the financial asset is held and used within the business model, for the purpose of both collecting contractual cash flows and selling it; and
• the conditions of the financial asset contract give rise to cash flows on specific dates, which constitute solely payments of principal and interest (SPPI) on the principal amount outstanding.

With respect to debt instruments at fair value through other comprehensive income, the interest income, foreign exchange gains and losses and impairment losses, including their reversal, are recognised in profit or loss and are calculated in the same manner as the one applied for financial assets measured at amortised cost. The other changes in fair value are recognised through other comprehensive income in fair value reserve. Upon derecognition, the cumulative gain or loss previously recognised in OCI is reclassified(recycled) from equity to profit or loss.

The Group's debt instruments at fair value through other comprehensive income may include: investments in quoted debt instruments (corporate bonds), which are stated within the "long-term investments" item in the statement of financial position.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

Financial instruments at fair value through other comprehensive income (equity instruments)

At the time of initial recognition, the Group may make an irrevocable election to account for the equity investments at fair value through other comprehensive income, but only if they meet the equity definition under IAS 32 Financial Instruments: Presentation, and are not held for trading. The classification is determined at the level of individual instruments. The Group usually makes an irrevocable election to classify into this category minority equity investments, which it holds in the long-term and in relation to its business interests in these entities. They are presented in the statement of financial position within "investments". The minority interest of BTC in: Viva Telecom Bulgaria, Sofia Stock Exchange and Intersputnik (Russia) is classified within these equity instruments.

Upon derecognition of these assets, gains and losses from remeasurement to fair value, recognised in other comprehensive income, are not reclassified (recycled) to profit or loss. Dividends are recognised as "finance income" in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of an investment – in this case gains are recognised in other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not subject to impairment tests.

Financial assets at fair value through profit or loss (based on past experience, for future transactions)

Financial assets at fair value through profit or loss include: financial assets designated upon their initial recognition as "at fair value through profit or loss", or financial assets for which a mandatory requirement exists to be measured at fair value. Derivatives, including individual embedded derivates, are also classified as held for trading, unless they have been designated as effective hedging instruments.

Irrespective of the criteria for debt instruments which should be classified at amortised cost or at fair value through other comprehensive income as described above, debt instruments may be designated as "at fair value through profit or loss" upon their initial recognition, if this would eliminate or reduce a significant accounting mismatch.

Financial assets at fair value through profit or loss are measured in the statement of financial position at fair value, with net changes in the fair value recognised in profit or loss.

This category includes derivative instruments, as well as equity instruments registered for trade on stock exchanges, with respect to which the Group has not made an irrevocable election to be accounted for at fair value through other comprehensive imcome. Dividends from such equity instruments are also recognised within "finance income" in profit or loss when the right to receive payment is established.

A derivative embedded in a hybrid contract containing a host that is financial liability or a non-financial item is separated from the host and accounted for as a separate instrument, if: the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value, and changes therein are recognised in profit or loss. Remeasurement is only done if there is either a change in the contractual conditions that materially modifies the cash flows that would otherwise be required, or if there is reclassification of a financial asset outside the category of fair value through profit or loss.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

A derivative embedded in a hybrid contract whose host is a financial asset is not accounted for separately. The requirement is the host – financial asset, together with the embedded derivative, to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

A financial asset (or, when applicable, a portion of a financial asset or a group of similar financial assets) is derecognised from the Group's statement of financial position, when:

- the rights to cash flows from the asset have expired, or
- the rights to cash flows from the asset have been transferred or the Group has assumed an obligation to pay in full the cash flows received, without undue delay, to a third party under a transfer agreement, in which: a) the Group has transferred substantially all risks and rewards from ownership of the asset; or b) the Group has neither transferred nor retained substantially all risks and rewards from ownership of the asset, but has transferred control thereon.

When the Group has transferred its right to obtain cash flows from the asset or has concluded a transfer agreement, it assesses the extent to which it has retained the risks and rewards of ownership. When the Group has neither transferred, nor retained substantially all risks and rewards from ownership of the financial assets, it continues to recognise the asset transferred to the extent of its continuing interest therein. In this case, the Group also recognises the respective liability. The transferred asset and the related liability are measured on a basis reflecting the rights and obligations that the Group has retained.

Continuing involvement in the form of a guarantee on the transferred asset is measured at the lower of the two values: the initial carrying amount of the asset and the maximum amount of consideration that the Group may be required to pay.

Impairment of financial assets

The Group recognises an allowance (impairment provision) for expected credit losses for all debt instruments which are not carried at fair value through profit or loss. Expected credit losses are calculated as the difference between the contractual cash flows due under the contractual conditions, and all cash flows the Group expects to receive, discounted at the initial effective interest rate. Expected cash flows also include cash flows from the sale of collateral held or other credit enhancements that constitute an integral part of the contractual conditions.

Loans to related and third parties, other significant individual receivables and cash and cash equivalents. Financial guarantees

To calculate the expected credit losses from loans to related and third parties, other significant individual receivables, incl. cash and cash equivalents at banks, the Group applies the general impairment approach defined by IFRS 9. Under this approach, the Group applies a 3-stage impairment model based on changes versus the initial recognition of the credit quality of the financial instrument (asset). The categorization used by the Group to assess the credit risk related to loans, financial guarantees, and other individual receivables, is as follows:

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

Category	Description	Basis for recognition of expected credit losses
Performing (Stage 1)	The debtor has a low default risk and no payments past due	12-month expected credit losses
Under-performing (Stage 2)	Payments past due for over 30 days or a significant increase in the credit risk compared to initial recognition	Expected credit losses for the asset's lifetime – credit-unimpaired
Non-performing (Stage 3)	Payments past due for over 90 days or evidence that the asset is credit-impaired	Expected credit losses for the asset's lifetime – credit-impaired

Trade receivables, contract assets, lease and other short-term receivables

In order to calculate expected credit losses for trade receivables and lease and other short-term receivables the Group has elected and applies a simplified approach based on an expected credit losses calculation matrix and does not monitor subsequent changes in their credit risk. In this approach, it recognises an allowance (impairment provision) based on lifetime expected credit losses at each reporting date. The Group has developed and applies provisioning matrix(es) based on its historical experience with credit losses, adjusted with expected collection trends and forecast factors specific for the debtors and the economic environment, for which a correlation has been established with the percentage of credit losses.

In the provisioning matrixes used to calculate expected credit losses from trade receivables, lease and other receivables, provision rates are based on days past due for groups from different customer segments sharing similar loss models. For BTC Group, such are: corporate and business customers, residential customers and "international connectivity" customers.

The Group usually assumes that the date of economic loss from uncollectability occurs 365 days after the first day of delay. This period is studied and historically assessed. The Group does not have a practice of requesting collateral for receivables from clients.

Contract assets have the same risk characteristics as lease receivables under the same contracts and customers. Therefore, the Group has decided that the expected levels of losses for lease receivables are approximately equal to the levels of losses for contract assets. Based on historical data about the behaviour of payment of invoices issued and forecast factors specific for the debtors and the economic environment, it determines a fixed impairment rate which is applied for both lease receivables and contract assets.

Financial liabilities

Initial recognition, classification and measurement

Upon their initial recognition, financial liabilities are classified as: financial liabilities at fair value through profit or loss, including derivatives, or as financial liabilities at amortised cost, such as: loans and borrowings, trade and other payables, bond loans, lease liabilities.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

All financial liabilities are initially recognised at fair value, and in the case of loans and borrowings and trade and other payables, net of direct transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, bond loans (if any), and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Classification groups
Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially measured at fair value through profit or loss.

Financial liabilities are classified as held for trading if they have been acquired for the purpose of repeated purchase in the near future. This category includes derivative financial instruments held by the Group which have not been designated as hedging instruments in the hedge relations pursuant to the IFRS 9 definition. Separated embedded derivatives are also classified as held for trading, unless designated as effective hedging instruments.

Gains and losses from financial liabilities held for trading are recognised in profit or loss under the "finance income/finance costs" item.

Financial liabilities initially measured at fair value through profit or loss are identified as such at the date of initial recognition only if the IFRS 9 criteria are met. The Group has not classified any of its financial liabilities at fair value through profit or loss.

Financial liabilities at amortised cost

The general accounting policies for the respective financial liabilities are presented in the notes below.

Offsetting (netting) of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position, if a legally enforceable right exists to offset the recognised amounts and if there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

This requirement results from the concept of the actual economic nature of the Group's relations with a given counterparty stating that in the simultaneous presence of these two requirements the expected actual future cash flow and benefits for the Group is the net flow, i.e. the net amount reflects the Group's actual right and obligation resulting from these financial instruments – in all cases to only receive or pay the net amount.

If the two conditions are not simultaneously met, it is assumed that the Group's rights and obligations with respect to these offsetting financial instruments are not exhausted in all situations by only the payment or receipt of the net amount.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

The offsetting policy is also related to the measurement, presentation and management of actual credit risk and the liquidity risk pursuant from these offsetting instruments.
The criteria applied to establish the "current and legally enforceable entitlement to offsetting" are:

- lack of dependence on a future event, i.e. it should not only be applicable upon the occurrence of a future event;
- the offsetting should be enforceable and legally defendable during (cumulatively):
  - the Company's usual business operations;
  - in case of default/delay, and
  - in case of insolvency.

The applicability of criteria is measured against the requirements of the Bulgarian legislation and the contractual relations between the parties. The condition of "presence of current and legally enforceable right to offsetting" is always and mandatorily assessed together with the second condition – for "mandatory settling of these instruments on a net basis".

The Group applies netting with respect to financial assets and liabilities with other domestic and foreign communications operators.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as currency forwards and interest rate swaps and options respectively to hedge the risks related to change in foreign exchange rates and interest rates. These derivative financial instruments are initially recognised at fair value on the date of concluding the derivative contract. Following their initial recognition, derivatives continue to be measured at fair valued. They are carried as financial assets when the fair value is positive, and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, each hedge is classified based on its characteristics as:

- fair value hedges, whereas the exposure to changes in the fair value of a recognised asset or liability or of an unrecognized irrevocable commitment is hedged;
- cash flow hedges, whereas the exposure to variability of cash flows due to a specific risk related to a recognised asset or liability or to a very probable forecast transaction, or to a currency risk related to an unrecognized irrevocable commitment;
- hedges of a net investment in a foreign operation.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group 's risk management objective and strategy for undertaking the hedge.

As from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the hedged risk, and the methods how the Group to assess hedging relation for hedge effectiveness (including analysis of the sources of ineffectiveness of the hedging and how the hedge ratio has been determined). A hedging relation meets the requirements for hedge accounting if the three effectiveness requirements listed below have been satisfied:

- there is an "economic relationship" between the hedged item and the hedging instrument;
- the effect of credit risk does not "dominate the value changes" that result from that economic relationship;

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Hedges that meet all criteria for hedge accounting are accounted for using the methods described herein below:

Fair value hedges

The change in the fair value of the hedging instrument is recognised within the respective item in the statement of comprehensive income (within profit or loss for the year). The change in the fair value of the hedge position pursuant from the hedged risk is carried as a portion of the carrying amount of the hedged item and is also recognised within the respective item in the statement of comprehensive income (within profit or loss for the year).

In case of fair value hedges of items measured at amortised cost, any adjustment to the carrying amount shall be amortised through profit or loss for the hedge period remaining to maturity, using the effective interest method. Amortisation by means of effective interest may commence as soon as adjustments are made and not later than the point of discontinuing the hedged item's correlation as a result of fair value changes pursuant from the hedged risk.

If the hedged item is derecognised, the unamortized fair value is immediately recognised in the statement of comprehensive income (within profit or loss for the year).

When an unrecognised firm commitment has been designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment pursuant from the hedged risk shall be recognised as asset or liability by accounting for the respective gains or losses in the statement of comprehensive income (within profit or loss for the year).

The Group has no outstanding transactions classified as fair value hedges.

Cash flow hedges

The portion of the gain or loss on the hedging instrument that is determined to be an effective is recognised in other comprehensive income, respectively in the cash flow hedge reserve, while the hedge ineffectiveness is immediately recognised in profit or loss. The cash flow hedge reserve is adjusted for reduction in the cumulative gains or losses of the hedging instrument and the cumulative change in the fair value of the hedged item.

The Group uses currency forwards to hedge its currency risk exposure in forecast transactions and firm commitments. The ineffective portion of currency contracts is recognised within "finance costs". Moreover, it uses interest rate swaps and interest rate cap options.

The Group only designates the spot component of forward contracts as a hedging instrument. The forward component is recognised either: a) in profit or loss, or b) in other comprehensive income and is accumulated within a separate component of equity, within cost of hedging reserve". The choice is made on a hedge by hedge basis. The accounting treatment of interest rate swaps and interest rate options is analogous, with the changes in the time value of options recognized only within separate component of equity – "cost of hedging reserve".

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

2.10.1. Financial instruments - accounting policies applied after 1 January 2018(continued)

The amounts that have been accumulated through other comprehensive income in "cash flow hedge reserve" or "cost of hedging reserve" are accounted for depending on the nature of the underlying hedge transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred from the respective reserve and is included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and hence is not recognised in other comprehensive income for the period. This is also applicable in the cases where the hedged forecast transaction for a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For all other cash flow hedges, the amount accumulated through other comprehensive income in "cash flow hedge reserve" or "cost of hedging reserve" is reclassified into profit or loss as a reclassification adjustment in the same period during which the hedged cash flows affect profit or loss.

If the Group discontinues hedge accounting for a cash flow hedge, the amount accumulated through other comprehensive income in the cash flow hedge reserve is not reclassified if the hedged future cash flows are still expected to occur.

Otherwise, the amount is immediately reclassified to profit or loss as a reclassification adjustment. Following the discontinuance, upon occurrence of the hedged cash flows, any outstanding amount in the reserve accumulated through other comprehensive income is accounted for depending on the underlying transaction, as described herein above.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make certain payments to recover the holder's loss incurred when a debtor failed to make payment when due, in accordance with the initial or amended conditions of a debt instrument.

Financial guarantee contracts are recognised as financial liabilities. They are initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit losses model, and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The model of expected credit losses determines the expected credit loss (ECL) of the guarantee by taking into consideration the debtor's published or forecast credit rating, the term, interest rates and repayment plans, adjusted for the guarantee's specific conditions, such as default conditions, limits of liability, collaterals, etc.

The expected loss from financial guarantee contracts is included in "Other operating expenses" in the statement of comprehensive income.

2.10.2. Financial instruments - accounting policies applied until 31 December 2017

Financial assets

The Group classifies its financial assets in the following categories: 'at fair value through profit or loss', 'loans and receivables', including cash and cash equivalents, and 'available-for-sale assets'. The classification depends on the substance and purpose (designation) of the financial assets at the date of their acquisition. The management of each Group company determines the classification of its financial assets at the date of their initial recognition in the statement of financial position.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)
2.10.2. Financial instruments - accounting policies applied until 31 December 2017 (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in the group of current assets when having maturity within 12 months or within a common operating cycle of the Group/Company while the remaining ones are carried as non-current assets.

Loans and receivables are carried at amortised cost, or cost if no maturity, less an allowance for uncollectability, with changes in carrying value (amortisation of discount/ premium and transactions costs) recognised in the statement of comprehensive income under finance income or finance costs. They are included in current assets, except for maturities greater than 12 months after the reporting date. Loans and receivables are included in Trade and other receivables in the statement of financial position.

Loans and receivables are recognised at the date, at which the asset is delivered to or by us. Thus, a loan is recognised at the moment the cash is transferred to the borrower, redemptions of a loan are recognised at the date the payment is received.

Interest income on loans and receivables is recognised by applying the effective interest method. It is presented in the statement of comprehensive income under ‘Finance income’. (Note 23)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative assets that are either designated as available-for-sale or are not classified in any other category. These are usually unlisted or not actively traded shares or shares in other companies, acquired for investment purposes, and are included within non-current assets, except where the Group/Company intends to sell them in the following 12 months.

Available-for-sale financial assets are carried at fair value with unrealised gains and losses (except for impairment losses) recognised in other comprehensive income. When derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Purchases and sales of investments are recognised on trade date, the date on which the Group/Company commit to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and we have transferred substantially all risks and rewards of ownership.

Dividends on shares, classified as available-for-sale financial assets, are recognised in the statement of comprehensive income as Finance income when the Group’s/Company’s right to receive the dividends is established.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

2.10.2. Financial instruments - accounting policies applied until 31 December 2017 (continued)

The Group/Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in other comprehensive income on equity instruments are not reversed through the profit or loss for the period.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group/Company designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group/Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group/Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss for the period under ‘finance income/costs.’

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a nonfinancial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit or loss for the period. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss for the period under ‘finance income/costs’.

2.11. Inventories

Inventories are principally composed of handsets, network establishment and maintenance materials, valued at the lower of cost or net realizable value. Materials and supplies are expensed when utilized, using the weighted-average method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. BTC sells handsets separately and in connection with service contracts. As part of the strategy to acquire new customers, it sells handsets, in connection with a service contract, at below its acquisition cost. The loss on the sale of handsets is recognized at the time of the sale and the cost of the handsets is presented as “Materials and consumables expenses” in the profit or loss for the period.

2. Summary of significant accounting policies (continued)

2.12. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for impairment.

An allowance for impairment of trade receivables is established for the expected credit losses, calculated as the difference between the contractual cash flows due under the contractual conditions, and all cash flows the Company expects to receive, discounted at the initial effective interest rate. Expected cash flows also include cash flows from the sale of collateral held or other credit enhancements that constitute an integral part of the contractual conditions.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income as 'Other operating expenses'. The resulting carrying amount approximates the present value of estimated future cash flows. When a trade receivable is uncollectible and the relevant legal grounds are present, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in 'Other revenue' in the profit or loss for the period.

2.13. Cash and cash equivalents

Cash and cash equivalents include cash in hand, balances of current bank deposits, term deposits with original maturity up to 3 months and all other amounts that are readily convertible into cash.

2.14. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds. Where any BTC Group company purchases BTC's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the BTC Group equity holders.

2.15. Trade and other payables

Payables to suppliers and other current amounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16. Interest-bearing loans and other borrowings

All loans and other borrowings are initially recognised at fair value of the consideration received on the transaction, netted of the direct costs related to these loans and borrowings. After the initial recognition, the interest-bearing loans and other borrowings are subsequently measured at amortised cost by applying the effective interest rate method.

The amortised cost is calculated by taking into consideration all types of charges, commissions and other costs, including any discount or premium associated with these loans. Amortisation is recognisd in profit or loss as a "finance costs" in the statement of comprehensive income.

2. Summary of significant accounting policies (continued)

2.16. Interest-bearing loans and other borrowings (continued)

Borrowings are classified as current liabilities unless the Group/Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

2. 17. Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group/Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18. Employee benefits

Defined contribution plans
According to the Bulgarian legislation, the Group/Company is obliged to pay contributions to Social Security Funds. This obligation relates to full-time employees and provides for paying contributions to state pension fund by the employer and by the employee in the amount of certain percentages determined in the Social Security Code. These contributions are charged to the profit or loss in the period to which they relate.

Short-term employee benefits
Short-term employee benefits in the form of remuneration, bonuses and social payments and benefits (payable within 12 months after the end of the period when the employees have rendered the service or have met the required terms and requirements) are recognized as an expense in the statement of comprehensive income in the period when the service thereon has been rendered or the requirements for their receipt have been met and as a current liability (less any amounts already paid and deductions due) at their undiscounted amount. The Group’s/ Company’s obligations for social security and health insurance are recognized as a current expense and liability at their undiscounted amount together with the relevant benefits and within the period of the respective income to which they are related.

2. Summary of significant accounting policies (continued)

2.18. Employee benefits (continued)

At each reporting date, the Group/Company measures the expected costs of the accumulating compensated absences, which amount is expected to be paid as a result of the unused entitlement. The measurement includes the estimated expenses on the employee's remunerations and the statutory social security contributions due by the employer thereon.

Retirement benefit obligations

In accordance with the requirements of the Labour Code, the employer is obliged to pay an indemnity to its personnel upon coming of age for retirement, which depending on the length of service with the Group/Company, varies between 2 and 6 gross monthly salaries as at the termination date of the employment. In their nature, these are defined benefit plans.

The calculation of the amount of these retirement benefit obligations necessitates the participation of qualified actuaries in order to determine their present value at the date of the financial statements, which is included in the statement of financial position, and respectively, the change in their value, which is included in the statement of comprehensive income. For this purpose, they apply the Projected Unit Credit Method.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses and are recognised in other comprehensive income (OCI). Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

Termination benefits

The Group/Company recognises employee benefit obligations on employment termination before the normal retirement date when it is demonstrably committed, based on announced plan, to terminating the employment contract with the respective individuals without possibility of withdrawal or in case of formal issuance of documents for voluntary redundancy. Termination benefits due more than 12 months are discounted and presented in the statement of financial position at their present value.

2.19. Provisions for other liabilities and charges

Provisions are recognized when the Group/Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle (repay) the obligation.
Restructuring provisions comprise employee termination payments.

The measurement of provisions is based on the best estimate, made by the management at the reporting date, concerning the expenses that will be incurred for the settlement of the particular obligation. The estimate is discounted if the obligation maturity is long-term.

When part of the resources required to settle the obligation is expected to be recovered from a third party, the Group recognises a receivable if it is virtually certain that reimbursement will be received and its amount can be reliably measured. Income is recognised in the same category of the profit or loss for the period where the creations of the provision is charged.

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition

The accounting principles applicable to revenue recognition for 2018 (according to IFRS 15) and 2017 (IAS 18) are presented below.

2.20.1 Revenue recognition for 2018, in accordance to IFRS 15

Revenues comprise all revenues from the ordinary business activities of the Group and the Company, including not only the core business but also other recurring sales of goods or rendering of services and income from contractual penalties and default interest. Gains from sales of property, plant and equipment, investment property or intangible assets are not classified as revenue but presented in other gains, net. Revenues are recognized net of value-added tax in accordance with the provision of goods or services, if collectability of the consideration is probable. For service contracts with a continuous service provision, the contractually agreed total consideration is recognized as revenue on a straight-line basis over the minimum contract term, regardless of the payment pattern.

A contract asset is recognized if corresponding revenue for fulfillment of a contractual performance obligation is recorded before the customer has paid consideration or before the requirements for billing and thus the recognition of a receivable exist. A contract liability is recognized when the customer has paid consideration or a receivable from the customer is due before the Group or the Company has fulfilled a contractual performance obligation. On a customer contract level, contract liabilities are set off against contract assets.

Multiple-element arrangements involving the delivery or provision of multiple products or services are separated into distinct performance obligations, each with its own separate revenue contribution that is recognized as revenue on fulfillment of the obligation to the customer. This is particularly applicable for sale or lease of a mobile handset or other telecom equipment combined with the conclusion of a mobile or fixed telecommunication service contract. The total transaction price of the contract is allocated among the individual performance obligations based on their relative standalone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells the telecommunication services and equipment. For items that are not sold separately, like options providing material right, the Group estimates stand-alone selling prices reflecting the likelihood that the option will be exercised. As a result, the revenue to be recognized for the telecom equipment usually delivered at contract inception and sold at a discounted price in combination with a term service contract is higher than the amount billed. This leads to the recognition of a contract asset in the statement of financial position. The contract asset is reversed and reduced over the remaining minimum contract period, lowering revenue from the other performance obligations in the contract (the telecommunication service). In contrast to the amounts billed, this results in higher revenue from the sale of goods and merchandise and lower revenue from the provision of services.

One-time payments by the customer that do not constitute consideration for a separate performance obligation are classified as contract liabilities and are deferred and recognized as revenue over the minimum contract term. This is applicable to fees for installation and set-up activities that do not have an independent value for the customer.

Options provided in the contract to the customer to purchase additional goods or services free of charge or at a discount are separate performance obligations (material rights) for which part of the revenue is deferred as a contract liability until the option is exercised or expires. Offers for the purchase of additional products or services at their stand-alone prices are treated as marketing offers and are excluded when determining consideration.

Long-term customer receivables arising from sales of telecom equipment in installments, contract assets arising from sales of a telecom equipment at discount in connection with the conclusion of a term customer contract or contract liabilities arising from a prepayment by the customer are recognized at present value if the financing component is significant in relation to the total contract value, including those performance obligations that do not contain a financing component.

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition (continued)

2.20.1 Revenue recognition for 2018, in accordance to IFRS 15(continued)

Payments to customers, including subsequent discounts are recognized as a reduction in revenue unless the payment constitutes consideration for a distinct good or service acquired from the customer, for which the fair value can be reasonably estimated.

The incremental costs of obtaining a contract (mainly sales commission paid to employees and third-party retailers) and the costs to fulfill a contract are capitalized if it can be assumed that the costs will be compensated by future revenue from the contract. Incremental costs of obtaining a contract are additional costs that would have not been incurred had the contract not been concluded. Costs to fulfill a contract are costs relating directly to a contract that are incurred after contract inception and serve the purpose of fulfilling the contract but are incurred prior to fulfillment and cannot be capitalized under any other standard.

The capitalized contract costs are presented as other assets in the statement of financial position and recognised in the profit or loss as depreciation and amortization: 1) on a straight-line basis over the minimum enforceable contract period, or 2) when impairment loss is recognized, if their carrying amount exceeds the remaining amount of consideration that the Group expects to receive, less the costs that relate directly to providing the goods or services that have not been recognized as expenses.

Principal activities from which the revenues are generated include provision of mobile and fixed voice and data services, broadband internet access, pay TV services (DTH and IPTV), rent of terrestrial network (ducts), TV and radio broadcasting, collocation services, connection and roaming fees billed to other operators, and sales or lease of mobile handsets, other telecommunications equipment, and accessories. Services revenue is recognized upon rendering of the agreed service. Services are usually billed and paid for on a monthly basis. Revenue from non-sales-type rentals and leases is recognized on a straight-line basis over the lease term. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled Group's/Company's obligations that affect the customer's final acceptance of the arrangement. For telecommunications equipment sold separately, customers pay in full at the point of sale. For devices sold on lease in combination with a term service contract, customers usually pay monthly in equal instalments over a period of 12 or 24 months.

2.20.2 Revenue recognition for 2017, in accordance to IAS 18

a) Sales of services
Revenue comprises in the ordinary course of business the fair value of consideration received or receivable from the sale of services, net of value-added tax, rebates and discounts and after eliminating sales within the Group for consolidation purposes.

All streams of revenue are recognized on a monthly accrual basis and to the extent that it is probable that the economic benefits will flow to the Group/Company and as far as the revenue can be reliably measured.

Revenue streams

The Group's/Company's revenue is derived from the following telecommunication and Information and communications technology (ICT) services and products:

- Outgoing traffic;
- Recurring charges;
- Leased lines and Data transmission;
- Interconnect;
- Radio and TV Broadcasting
- Other sales

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition (continued)

2.20.2 Revenue recognition for 2017, in accordance to IAS 18(continued)

Outgoing traffic fees for both post-paid and pre-paid customers are charged at an agreed tariff for a fixed duration of time and are recognised as revenue based upon provided services on a monthly basis. Recognition of revenue from pre-paid cards is based on actual airtime usage or the expiration of the obligation to provide service. The unused balance of the valid pre-paid cards is presented as deferred income in the statement of financial position.

Recurring charges consist of monthly subscription fees and are recognised as revenue over the associated period.

Leased lines and Data transmission fees are charged at an agreed rate in accordance with dedicated capacity of BTC's data network and are recognized as revenue over the associated subscription period.

Interconnect revenue include charges to other telecommunications providers when they terminate or transit calls on BTC's network or when their customers use BTC's mobile network when in roaming. The revenues are recognised gross in the statement of comprehensive income based on real network usage and settled on a net basis, after deducting the cost of interconnection for the Company's customers calls that are routed via or terminated in other networks.

Radio and TV broadcasting revenue comprise charges for broadcasting and transmission of content of radio and TV operators and is recognized based upon airtime usage.

Other sales, comprise revenue generated from services not included in the streams above, which is recognised in the statement of comprehensive income when services are rendered. Revenues from premium rate services (Voice and non-voice) are recognized on a gross basis when the delivery of the service over the Group's network is the responsibility of the Group, the Group establishes the prices of these services and bears substantial risks of these services, otherwise these revenues are presented on a net basis.

For multiple-element arrangements (sales of phones & service under 1-2 year contracts with post-paid subscribers, including subscription fees), revenue recognition for each of the units of accounting (elements) identified must be determined separately. Revenue is recognized on the basis of the fair value of the individual elements by determining the fair value of undelivered components (residual method).

Arrangements involving the delivery of bundled products or services (a package of different services is sold in bundle to customers i.e. Internet + TV + Mobile/Fixed telephony) are separated into individual elements. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values.

b) Sale of goods
Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled Group's/Company's obligations that affect the customer's final acceptance of the arrangement.

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition (continued)

2.20.2 Revenue recognition for 2017, in accordance to IAS 18(continued)

c)Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group/Company reduces the carrying value to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

d)Dividend Income
Dividend income is recognised when the right to receive payment is established.

2.21. Expenses recognition

Operating expenses are recognized as they are incurred, following the accrual and matching concepts.
Financial costs are recorded in the profit or loss for the period when incurred and comprise of: interest expense, using the effective interest method, including bank charges and other direct expenses on loans and bank guarantees, and exchange differences on loans denominated in foreign currency (net).

2.22. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Finance lease
Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as Borrowings / finance lease obligation/.

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss. Contingent rentals are recognized as expenses in the periods in which they are incurred. Assets acquired under the terms of finance lease are depreciated on the basis of the useful life of the asset over the lease term.

Operating lease
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The Group as lessor

Finance lease
When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

2. Summary of significant accounting policies (continued)

2.22. Leases (continued)

Operating lease
When assets are leased out under an operating lease, the asset is included in the statement of financial position based on the nature of the asset. Lease income is recognized over the term of the lease on a straight-line basis.

2.23. Dividends Distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1. Financial risk factors

In the ordinary course of business, the Group/Company can be exposed to a variety of financial risks the most important of which are market risk that includes currency risk and interest risk, credit risk, and liquidity risk. The financial risks are currently identified, measured and monitored by the Treasury Department and the Managing Directors of each company within the Group through various control mechanisms in order to establish adequate prices for the services, provided by the company, to appropriately assess the market circumstances related to its investments and the forms for maintenance of free liquid funds through preventing undue concentration of a particular risk.

Below are presented the various types of risks to which the companies of the Group are exposed upon performing their business activities as well as the adopted approach for managing these risks.

a) Credit risk
Credit risks or the risk of counter-parties defaulting, is controlled by the application of limits and monitoring procedures. The Group has a policy of obtaining collateral from its retail customers who use mobile services and from distributors. Credit risk is managed at a BTC Group level. It arises from cash and cash equivalents, derivative financial instruments and deposits at banks, as well as from credit exposures to business and households, including overdue receivables and commitments. The carrying amount of financial assets represents the maximum credit exposure.

Deposits at banks
According to Treasury policy, applicable to BTC and its subsidiaries, transactions are carried out predominantly with financial institutions and banks with credit standing of A- and above. 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.

Receivables and commitments
Trade receivables consist of a large number of customers, distributed by industries. The fixed business of BTC follows the approved by CRC "General Rules of Contracts between BTC and Subscribers". The management of risk of non-payment of retail customers is carried out through a policy of suspension and termination of services, based on credit risk segmentation. The retail subscribers' contracts termination follows the General Conditions.

BTC has adopted a policy for mutual connection with operators and wholesale with partners with good credit ratings by applying of respective guarantees for risk management.

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

a) Credit risk (continued)

The credit risk related to international accounts is managed through the availability of net arrangement between the contractual parties and by directing traffic through chosen routes in order to decrease existing exposures. The management is satisfied with the level of risk concentration in receivables as disclosed in Note 6.

The credit worthiness of the customers is evaluated according to their financial status, payment history and other factors. On the basis of the credit score individual credit limits are set in compliance with the credit policy. The levels of the credit limits and their daily observation are monitored. Most of the payments from customers of mobile services are in cash.

As a result of the assigned receivables on cash deposits in CCB in 2014 and the subsequent cancellation of transactions as disclosed in note 6 below the Group has recognized loans and other receivables representing the majority of the balance of "Other receivables" as of 31 December 2018 and 2017, which amounts to respectively BGN 32,678 and BGN 30,574 thousand. 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 these outstanding loan receivables are impaired in full. Apart from this BTC 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.

b) Liquidity risk

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

Maturity analysis

The table below presents the financial liabilities of the Group/Company, grouped by remaining term to maturity, determined against the contractual maturity at the reporting date. The table is prepared on the basis of contracted undiscounted cash flows and the earliest date on which the liability becomes due for payment. The amounts include principal and interest.

For 2018 the financial liabilities are as follows:

For the Group:

	Up to 1 month	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Trade payables	62,745	40,876	10,471	88	1,932	116,112
Borrowings	6,086	216	58,737	801,945	-	866,984
Total financial liabilities	**68,831**	**41,092**	**69,208**	**802,033**	**1,932**	**983,096**

For BTC

	Up to 1 month	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Trade payables	73,700	40,071	10,586	88	1,932	126,377
Borrowings	6,049	216	58,737	801,945	-	866,947
Total financial liabilities	**79,749**	**40,287**	**69,323**	**802,033**	**1,932**	**993,324**

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

For 2017 the financial liabilities are as follows:

For the Group:

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Trade payables	56,418	33,342	12,722	400	2,102	104,984
Borrowings	53	43	836,486	904	-	837,486
Total financial liabilities	**56,471**	**33,385**	**849,208**	**1,304**	**2,102**	**942,470**

For BTC

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Trade payables	62,778	32,123	13,076	400	2,102	110,479
Borrowings	14	43	836,486	904	-	837,447
Total financial liabilities	**62,792**	**32,166**	**849,562**	**1,304**	**2,102**	**947,926**

c) Market risk

Currency risk

The main objective of Group's/Company's currency risk management is to minimize any adverse effects of market volatility on exchange rates so as to provide the maximum value of foreign currency net income and under pre-determined and approved risk level.

Due to the fact that the companies within BTC 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 and revolving financing, interest payments and part of the capital expenses are in EUR. This mismatch has not been a problem for the past years 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 BGN will significantly affect the financial situation of the Group.

Due to forecasted purchases of equipment during 2018 the Group/Company identified currency risk, arising as a result of significant exposure to the USD. According to the Treasury policy of the Group/Company and in compliance with its foreign exchange risk management strategy, the foreign exchange risk arising from these highly probable forecasted purchases may be hedged. The hedges are cash flow hedges and are classified as financial assets/liabilities at fair value through profit or loss.

When significant foreign currency exposure arises, the Group/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 Group/Company financial results
- cost of foreign exchange exposure hedging

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

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

c) Market risk (continued)

Interest rate risk
During 2018 due to the European Central Bank policy the interest rates were generally negative and thus the Group/Company was paying only the applicable margin on its bank loans. As of 31 December 2018, liabilities of BTC sensitive to interest rates amount to BGN 756,906 thousand and the interest payments are principally based on EURIBOR. In 2018 the Company decided to conclude two forward starting hedge deals on the interest rate of the Senior Facilities Agreement. 70% of the principal amount of Term Loan A is hedged for the period from April 2020 to April 2023. 88% of the outstanding principal of Term Loan B is hedged for the period from April 2020 to April 2023.

If the variable components of the interest rate on non-fixed interest rate borrowings were 1% higher, that would have resulted in an increase of interest expenses for 2018 by BGN 3,269 thousand therefore, the consolidated profit after taxation would have been BGN 124,786 thousand. If the variable components of the interest rate on non-fixed interest rate borrowings were 1% lower, that would have not resulted in a change of interest expenses and consolidated profit after tax for 2018.

3.2. Capital risk management

The Group manages its equity in order to perform its activity as a going concern and to balance the return on equity of shareholders by optimizing the debt to equity ratio in the medium term. The equity structure of the Group/Company consists of long-term borrowings (Note 16), cash and cash equivalents (Note 5) and equity, including share capital, retained earnings and reserves.

In accordance with the Bulgarian Commercial Act as a joint-stock company BTC is required to maintain equity at an amount which is higher than its registered share capital and legal reserves at an amount of minimum 10% of the registered share capital. As at 31 December 2018, the Company's equity is in excess of its registered share capital by BGN 275,255 thousand (31 December 2017: BGN 125,530 thousand).

Group's management reviews its equity structure on an annual basis. The gearing ratios as of 31 December 2018 and 2017 are as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Total borrowings	745,695	788,151	745,658	788,114
Cash and cash equivalents	(37,333)	(175,973)	(30,210)	(172,125)
Cash deposits with maturity greater than three months	(430)	(651)	(430)	(651)
Net debt	**707,932**	**611,527**	**715,018**	**615,338**
Equity	732,837	562,588	564,020	414,295
Total capital	**732,837**	**562,588**	**564,020**	**414,295**
Gearing ratio	97%	109%	127%	149%

During the period gearing has improved for the Group and the Company. The management aims to keep the ratio below 300%.

4. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates could differ from the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

a) Impairment of goodwill, tangible and intangible assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.6. The ability of a tangible and intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty. In performing these assessments of recoverable amount, a significant number of estimates and judgments are required including but not limited to:
– An estimate of future cash flows expected to derive from these assets,
– Expectations about possible variations in the amount or timing of those future cash flows,
– The designation of the cash generating unit for which future cash flows are derived. The cash generating units identified are fixed business, mobile business, collocation business and radio and TV broadcasting business
– The time value of money represented by weighted average cost of capital (WACC).
– Perpetual growth rate (PGR).

For the last couple of years, the Group has been conducting annual impairment testing of its assets and no need for impairment has been identified. Taking into account the above and the fact that the Group performs in line with its projections and based on the assessment that no internal or external indicators exist affecting the recoverable amount of the assets or triggering the need for annual impairment test of assets, the Management considers that the carrying amount of the assets as of 31 December 2018 does not exceed their recoverable amount.

b) Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. We believe that the accounting estimate related to the determination of the useful lives of assets is a critical accounting estimate since it involves assumptions about technological development in an innovative industry. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations.

Were the actual useful lives of the assets to differ by 10% from management's estimates, the carrying value of the consolidated plant and equipment and respectively consolidated depreciation and amortization charges would be estimated BGN 16,590 thousand higher/lower.

c) Provisions, decommissioning costs and contingent liabilities

Whether a provision or contingent liability is recognized or disclosed in the financial statements is dependent on a number of assumptions and judgments being made by the management. A provision is recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

4. Critical accounting estimates and judgments (continued)

Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs

Based on detailed assessment, supported by legal opinions, of each of the cases disclosed in Note 28 management concluded that it is highly unlikely an outflow of resources embodying economic benefits to happen. Accordingly, no liability or provision has been recognized as at December 31, 2018. These issues are expected to be resolved by the competent court after considering all arguments set out by BTC group companies.

d) Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. In 2018 the Group realized a profit of BGN 127,728 thousand (2017 – profit of BGN 71,104 thousand). The Group's net current assets as at 31 December 2018 are amounting to BGN 56,386 thousand (as at 31 December 2017 – net current liabilities, amounting to BGN 624,858 thousand, as a result of the senior secured notes due November 2018). The future viability of the Group depends upon the business environment as well as upon the continuing support of the owners and providers of finance. The directors, in light of their assessment of expected future cash flows are satisfied that it is appropriate for the financial statements to be prepared on a going concern basis.

e) Revenue recognition, contract assets and liabilities

Multiple-element arrangements involving the delivery or provision of multiple products or services are assessed to determine whether it is necessary to separate the different identifiable components and apply the corresponding revenue recognition policy to each element. The transaction price for the entire multiple-element arrangement is allocated among the identified elements based on their respective standalone selling prices. Determining standalone selling prices for each identified element requires estimates that are complex due to the nature of the business. A change in estimates of standalone selling prices could affect the allocation of revenue among the elements and, as a result, the timing of recognition of revenues and the carrying amount of contract assets and liabilities.

f) Purchase price accounting

The Group assesses the initial accounting for business combinations by identifying and determining the fair value to be assigned to the acquired identifiable assets, liabilities, contingent liabilities, and the cost of the combination. The initial accounting for business combinations is determined provisionally by the end of the period in which the combination is affected. Either the fair valued to be assigned to the acquired liabilities or contingent liabilities or the cost of combination can be determined only provisionally. The Group recognizes any adjustments to those provisional values as a result of concluding the initial accounting within twelve months of the acquisition date.

g) Allowance for impairment of trade and other receivables, leases, and contract assets

An allowance for impairment of trade and other receivables is established for estimated losses resulting from the inability of customers to make due payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness, and estimated probability of default. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

4. Critical accounting estimates and judgments (continued)

h) Income tax provision

The Group is subject to income taxes in the Bulgarian tax jurisdiction. Significant judgment is required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax due based on management estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

i) Assignment of receivables on cash deposits

The transactions for assignment of receivables on cash deposits in Corporate Commercial Bank AD – in bankruptcy (CCB), refer also to notes 5 and 6, were executed in 2014 as per the provisions of the applicable law. The critical judgments related to these transactions are summarized below.

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.

In August 2015 two of the transactions concluded in 2014 for the assignment of cash deposits in CCB were terminated and as a result the assignments were cancelled with retroactive effect where BTC became a titleholder of the assigned receivables in the amount of BGN 53,033 thousand (BGN 10,312 thousand, net of impairment as of 31 December 2018). Despite of the validly executed transactions, the receivers of CCB have not included the cancelled assignments in the list of accepted receivables of CCB creditors.

These issues are expected to be resolved by the competent court after considering all arguments set out by BTC Group companies. The final court resolutions may have an impact on the value of the recognized assets and liabilities by the Group and respectively affect the profit or loss.

j) Fair value measurement

Some of the Group's assets and liabilities are measured and presented and/or only disclosed at fair value for the purpose of financial reporting. Such are: a) on a recurrent (annual) basis – financial assets at fair value through other comprehensive income (prior reporting period – financial assets available for sale), financial assets at fair value through profit or loss, investment property, loans granted or borrowings received to/from third or related parties, certain trade and other receivables and payables, finance lease receivables and payables, etc. and b) on a non-recurrent (periodic) basis – non-financial assets such as property, plant and equipment.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a common transaction between independent market participants at the measurement date. Fair value is an exit price and is based on the assumption that the sale transaction will take place either in the principal market for this asset or liability or in the absence of a principal market – in the most advantageous market for the asset or liability. Both the designated as a principal market and the most advantageous market are markets to which the Group must have an access.

4. Critical accounting estimates and judgments (continued)

j) Fair value measurement(continued)

Fair value is measured from the perspective of using the assumptions and judgments that potential market participants would use when pricing the respective asset or liability assuming that market participants act in their economic best interest.

In measuring the fair value of non-financial assets the starting point is always the assumption what would be the highest and best use of the particular asset for the market participants.

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information. It uses the three acceptable approaches – the market approach, the income approach and the cost approach – whereas the most frequently applied valuation techniques include directly quoted and/or adjusted quoted market prices, market comparables (analogues) and discounted cash flows, including based on capitalised rental income.

All assets and liabilities that are measured and/or disclosed in the financial statements at fair value, are categorised within the following fair value hierarchy, namely:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised at fair value in the financial statements on a recurring basis, the Group determines at the end of each reporting period whether transfers between levels in the fair value hierarchy are deemed to be made for a particular asset or liability depending on the inputs available and used at that date.

The Group uses the expertise of external certified valuators to determine the fair value of the following assets and liabilities: derivative hedge instruments) Level 2 and Level 3, investment properties, investments in equity instruments not quoted on an active market, property, plant and equipment. The choice of such valuators is made on an annual basis using the following criteria: applied professional standards, professional experience and knowledge, reputation and market status.

When the fair value of financial assets and financial liabilities carried in the statement of financial position cannot be obtained based on quoted prices on active markets, their fair value is determined by using other valuation models and techniques, including the discounted cash flows model. The input used in these models is obtained from observable markets, where possible, but when this cannot be done, significant judgement is applied to determine fair values. Such judgement involves the review, analysis and assessment of input, for instance regarding liquidity risk, credit risk, and volatility. The changes in assumptions for these factors may impact the amount of the fair value of financial instruments

5. Cash and cash equivalents

As at 31 December 2018 and 31 December 2017 the components of the cash and cash equivalents are:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Current accounts and cash in hand				
Held in BGN	25,841	108,909	19,613	105,749
Held in EUR	10,896	66,791	10,326	66,229
Held in foreign currencies other than EUR	596	273	271	147
Total current accounts and cash in hand	37,333	175,973	30,210	172,125
Total cash and cash equivalents	**37,333**	**175,973**	**30,210**	**172,125**

As disclosed in Note 16 BTC secured the payments related to Company's liabilities under the SFA (and the bond offering redeemed in 2018) by establishing a pledge on the receivables under certain bank accounts and insurance policies.

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 6.

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.

The availability of cash in current accounts and short term deposits is allocated in banks with long term credit ratings from S&P as follows:

Rating	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
A+	16,903	46,089	10,701	43,297
A	1,405	-	1,404	-
A-	8,489	52,972	8,101	52,806
BBB+	-	2	-	2
BBB-	834	9,112	824	9,102
BB+	-	13	-	13
Not rated banks	8,928	65,194	8,407	64,316
Total cash at current accounts and term deposits	**36,559**	**173,382**	**29,437**	**169,536**

The exposure to banks with long term credit rating in the upper medium investment grade segment and without rating has increased as of 31 December 2018 compared to 31 December 2017.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

6. Trade and other receivables, and contracts assets

As at 31 December 2018 and 31 December 2017 trade receivables include:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Trade receivables	221,267	212,022	188,037	184,985
incl. international settlement receivables	*6,569*	*7,176*	*4,843*	*4,718*
Related party receivables (Note 27)	39,600	21,286	44,817	30,880
Other receivables	32,678	30,574	32,215	30,231
incl. loans	*27,656*	*24,897*	*27,656*	*24,897*
Total	**293,545**	**263,882**	**265,069**	**246,096**
Provision for impairment of receivables	(105,512)	(108,672)	(92,381)	(96,037)
Total Trade and other receivables	**188,033**	**155,210**	**172,688**	**150,059**
Incl.:				
Non-current portion: trade and other receivables	102,516	123,260	98,315	117,056
Provision for impairment of receivables	(70,325)	(70,004)	(69,239)	(69,143)
Total non-current portion:	**32,191**	**53,256**	**29,076**	**47,913**
Current portion trade and other receivables	191,029	140,622	166,754	129,040
Provision for impairment of receivables	(35,187)	(38,668)	(23,142)	(26,894)
Total current portion:	**155,842**	**101,954**	**143,612**	**102,146**

Other receivables as at 31 December 2018 include BGN 430 thousand for the consolidated and for the separate financial statements term cash deposits with maturity greater than three months (as at 31 December 2017: BGN 651 thousand).

On 4 May 2015, being a central billing party (CBP) of MECMA 2014 agreement and acting in good faith, BTC entered into agreement with the members of MECMA in relation to the cash of MECMA blocked in CCB. As per the agreed terms, all affected MECMA members assigned to BTC their receivables from CCB amounting to BGN 11,819 thousand (EUR 6,043 thousand), along with all accrued interest, and BTC paid 50% of the assigned amount in cash. The agreement is full and final settlement of all potential disputes regarding MECMA's cash blocked in CCB. The assigned receivables from CCB are included in trade receivables.

In August 2015 two of the transactions concluded in 2014 for the assignment of cash deposits in CCB were terminated and as a result the assignments were cancelled with retroactive effect where BTC became a titleholder of the assigned receivables in the amount of BGN 53,033 thousand (BGN 10,312 thousand, net of impairment as of 31 December 2018 and BGN 9,612 thousand, net of impairment as of 31 December 2017).

Trade receivables for the consolidated and for the separate financial statements as of 31 December 2018 include respectively BGN 60,179 thousand and BGN 59,152 thousand representing the remaining cash and cash equivalents at CCB (after the assignment of receivables on cash deposits of the Group and the Company in 2014 and the above mentioned transactions). The nominal value of the cash accounts at CCB as of 31 December 2016 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 December 2018 amounts to BGN 12,042 thousand and BGN 11,875 thousand for the consolidated and for the separate financial statements, respectively, and the accumulated impairment is respectively BGN 48,137 thousand and BGN 47,277 thousand. Net book value as of 31 December 2017 amounts to BGN 11,959 thousand and BGN 11,794 thousand for the consolidated and for the separate financial statements, respectively, and the accumulated impairment is respectively BGN 48,220 thousand and BGN 47,358 thousand.

6. Trade and other receivables, and contracts assets (continued)

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 19% (18% as of 31 December 2017). In 2018 the initially assumed recovery date has been revised. As a result, impairment related to the receivables representing cash at CCB amounting to BGN 261 thousand for the Group and BGN 257 thousand for the Company has been recognized and included under other operating expenses for 2018 (note 21).

Part of the non-current trade 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 analysed as follows:

	Gross receivables from finance leases		**Net investment in finance leases**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Finance leases receivables with maturity:				
Within one year	49,349	45,668	46,150	42,805
In the second to fifth years inclusive	19,064	16,449	18,495	15,950
Total receivables	**68,413**	**62,117**	**64,645**	**58,755**
Less: unearned finance income	(3,768)	(3,362)	-	-
Provision for impairment of receivables	(4,525)	(4,113)	(4,525)	(4,113)
Net investment in finance leases	**60,120**	**54,642**	**60,120**	**54,642**

Movement of the allowance for impairment of accounts receivables in 2018 and 2017 is as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Balance at the beginning of the period	108,673	111,931	96,037	95,325
Adjustment of applying IFRS 9 on 01.01.2018	(24)	-	(82)	-
Accrued impairment	8,607	11,146	7,187	10,390
Subsidiary acquisition	-	106	-	-
Unwinding of discount	(345)	(328)	(339)	(323)
Impairment of receivables written off	(11,399)	(14,182)	(10,422)	(9,355)
Balance at the end of the period	**105,512**	**108,673**	**92,381**	**96,037**

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

Business customers

	Consolidated financial statements		**Separate financial statements**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Balance at the beginning of the period	91,075	94,343	78,439	77,737
Adjustment of applying IFRS 9 on 01.01.2018	(24)	-	(82)	-
Accrued impairment	1,762	4,205	342	3,449
Subsidiary acquisition	-	106	-	-
Unwinding of discount	(345)	(328)	(339)	(323)
Impairment of receivables written off	(2,609)	(7,251)	(1,632)	(2,424)
Balance at the end of the period	**89,859**	**91,075**	**76,728**	**78,439**

6. Trade and other receivables, and contracts assets (continued)

Residential customers

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Balance at the beginning of the period	17,598	17,588	17,598	17,588
Accrued impairment	6,845	6,941	6,845	6,941
Impairment of receivables written off	(8,790)	(6,931)	(8,790)	(6,931)
Balance at the end of the period	**15,653**	**17,598**	**15,653**	**17,598**

Expenses for receivables written off are recognised in Other operating expenses of the profit or loss for the period. For 2018 they amount to BGN 174 thousand for the consolidated and BGN 168 thousand for the separate financial statements (2017: BGN 77 thousand for the consolidated and BGN 67 thousand for the separate financial statements).

As of 31 December, 2018 and 31 December, 2017 receivables of the Group at the amount of BGN 165,501 thousand and BGN 103,375 thousand, respectively, were assessed individually and the accumulated impairment amounts to 85,118 thousand and 87,348 thousand.

As of 31 December, 2018 and 31 December, 2017 receivables of the Company at the amount of BGN 133,841 thousand and BGN 90,526 thousand, respectively, were assessed individually and the accumulated impairment amounts to 73,177 thousand and 74,706 thousand.

As of 31 December 2018 and 31 December 2017 the age structure of overdue receivables not impaired is as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
From 60 to 90 days	10	98	40	129
From 91 to 180 days	19	348	122	336
From 181 to 360 days	20	84	19	63
Above 1 year	3	90	9	6,533
Total	**52**	**620**	**190**	**7,061**

The tables below present the age structure of gross book value of trade and other receivables and the expected credit loss as of 31 December 2018 and the accumulated impairment as of 31 December 2017.

Consolidated financial statements	**2018**		**2017**	
in TEUR at December 31	Gross	ECL	Gross	Allowance for impairment
not yet due and up to 30 days	242,692	75,448	220,140	75,783
past due 31-60 days	5,772	746	5,605	650
past due 61-90 days	2,849	762	3,147	772
past due 91-365 days	20,826	7,294	11,479	8,269
over 365 days	21,406	21,262	23,511	23,198
	293,545	105,512	263,882	108,672

Separate financial statements	**2018**		**2017**	
in TEUR at December 31	Gross	ECL	Gross	Allowance for impairment
not yet due and up to 30 days	231,460	74,092	209,455	74,838
past due 31-60 days	5,675	641	4,310	623
past due 61-90 days	1,911	664	2,836	746
past due 91- 365 days	14,327	6,457	10,420	7,336
over 365 days	11,696	10,527	19,075	12,494
	265,069	92,381	246,096	96,037

6. Trade and other receivables, and contracts assets (continued)

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:

Type	**Consolidated financial statements**	**Carrying amount of the receivable as of**	
		31.12.2018	**31.12.2017**
In the country		14,738	7,777
In the country		5,989	5,989
In the country		4,048	4,048
In the country		3,300	-
In the country		1,271	-

Type	**Separate financial statements**	**Carrying amount of the receivable as of**	
		31.12.2018	**31.12.2017**
In the country		3,300	-
Outside the country		1,005	1,025
In the country		1,271	-
Outside the country		997	-
In the country		839	4,120

The carrying amounts of the Group's receivables are denominated in the following currencies:

	31.12.2018	**31.12.2017**
BGN	104,976	86,297
EUR	82,950	68,003
USD	107	910
Total	**188,033**	**155,210**

Contract assets

The movement of contract assets in 2018 is as follows:

Consolidated and separate financial statements

Contract assets	**At 31.12.2017**	**IFRS 15 adoption**	**Additions**	**Transfers**	**At 31.12.2018**
Book value	-	31,860	39,338	(36,909)	34,289
Accumulated impairment	-	(2,174)	(2,734)	2,497	(2,411)
Total	**-**	**29,686**	**36,604**	**(34,412)**	**31,878**
incl.:					
Current portion	-	*21,625*			*22,619*
Non-current portion	-	*8,061*			*9,259*

Contract assets relate mainly to sales of the telecom equipment, delivered at contract inception and sold at a discounted price in combination with a term service contract. Once the amounts recognized as contract assets become due, they are transferred to Trade and other receivables.

7. Inventories

The materials and supplies as of 31 December 2018 and 31 December 2017 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Materials and supplies, net	4,907	4,317	3,657	3,085
Merchandise and other, net	40,494	32,688	40,494	32,688
Total materials and supplies	**45,401**	**37,005**	**44,151**	**35,773**

Impairment charges related to the inventory items for 2018 were BGN 508 thousand for the Group and the Company (2017 – BGN 92 thousand). The reversal of write-downs for the Company amounted to BGN 38 thousand (2017: BGN 61 thousand). The write-downs and reversals are included in Other operating expenses.

8. Assets classified as held for sale

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Real estate, held for sale	13	193	13	13
Total assets held for sale	**13**	**193**	**13**	**13**

As of 31 December 2018 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.

9. Other assets

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Prepayments	15,768	23,641	15,612	23,498
Capitalized costs of obtaining a contract	19,731	976	19,731	976
Capitalized costs to fulfill a contract	11,781	-	11,781	
VAT to be recovered	14	42	-	
Intellectual rights	9	4	9	4
Total other assets	**47,303**	**24,633**	**47,133**	**24,478**
Incl.				
Other current assets	**17,146**	**14,075**	**16,976**	**13,920**
Other non-current assets	**30,157**	**10,558**	**30,157**	**10,558**

Until 31 December 2017, the incremental costs of obtaining contracts (mainly sales commission paid to employees and third-party retailers) were recognized as intangible assets according to IAS 38, when related to contracts with term longer than 12 months, and within other current assets when related to 12 months or shorter contracts. Costs to fulfill a contract are costs relating directly to a contract that are incurred after contract inception and serve the purpose of fulfilling the contract but are incurred prior to fulfillment and cannot be capitalized under any other standard. Until 31 December 2017 these costs were presented within prepayments. Following the transition to IFRS 15 the capitalized contract costs are presented as separate items in other assets and recognised in the profit or loss as depreciation and amortization on a straight-line basis over the minimum enforceable contract period.

10. Property, plant and equipment and investment property

a) Property, plant and equipment

The composition of property, plant and equipment for the Group as of 31 December 2018 and 31 December 2017 is as follows:

	Switching	Transmission	Land	General support	Construction in progress	Total
Gross Book Value						
At 1 January 2017	**1,414,492**	**806,279**	**6,000**	**294,471**	**39,082**	**2,560,324**
Additions	1,651	-	-	243	123,350	125,244
Acquisitions trough business combinations	70	807	-	52	-	929
Transfers	77,446	12,949	-	22,387	(112,782)	-
Impairment	-	-	-	-	(87)	(87)
Transfers to assets held for sale	-	-	(120)	(428)	-	(548)
Transfers to investment property	-	-	(425)	(2,396)	(570)	(3,391)
Disposals	(182,599)	(12,195)	-	(20,516)	(457)	(215,767)
At 31 December 2017	**1,311,060**	**807,840**	**5,455**	**293,813**	**48,536**	**2,466,704**
Revaluation	-	-	236	(1)	-	235
Additions	2,807	-	-	24	127,739	130,570
Transfers	78,880	17,870	339	21,936	(119,025)	-
Impairment	-	-	-	-	(358)	(358)
Transfers to assets held for sale	-	-	-	(1,129)	-	(1,129)
Transfers to investment property	-	-	(38)	(1,074)	-	(1,112)
Disposals	(112,768)	(2,949)	-	(10,315)	(382)	(126,414)
At 31 December 2018	**1,279,979**	**822,761**	**5,992**	**303,254**	**56,510**	**2,468,496**
Accumulated depreciation and impairment						
At 1 January 2017	**1,089,751**	**513,228**	**-**	**190,398**	**-**	**1,793,377**
Depreciation charged	86,899	23,977	-	21,405	-	132,281
Impairment	273	-	-	1	-	274
Transfers to assets held for sale	-	-	-	(7)	-	(7)
Transfers to investment property	-	-	-	(865)	-	(865)
Disposals	(178,516)	(11,093)	-	(20,236)	-	(209,845)
At 31 December 2017	**998,407**	**526,112**	**-**	**190,696**	**-**	**1,715,215**
Depreciation charged	76,350	24,832	-	18,369	-	119,551
Impairment	-	-	-	3	-	3
Transfers to assets held for sale	-	-	-	(22)	-	(22)
Transfers to investment property	-	-	-	(1,071)	-	(1,071)
Disposals	(110,642)	(2,679)	-	(9,807)	-	(123,128)
At 31 December 2018	**964,115**	**548,265**	**-**	**198,168**	**-**	**1,710,548**
Net book value						
At 31 December 2017	**312,653**	**281,728**	**5,455**	**103,117**	**48,536**	**751,489**
At 31 December 2018	**315,864**	**274,496**	**5,992**	**105,086**	**56,510**	**757,948**

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

a) Property, plant and equipment (continued)

The composition of property, plant and equipment on BTC standalone basis as of 31 December 2018 and 31 December 2017 is as follows:

	Switching	Transmission	Land	General support	Construction in progress	Total
Gross Book Value						
At 1 January 2017	**1,408,624**	**794,787**	**2,757**	**257,295**	**38,167**	**2,501,630**
Additions	1,651	-	-	166	122,034	123,851
Transfers	77,146	12,909	-	21,487	(111,542)	-
Impairment	-	-	-	-	(87)	(87)
Assets held for sale	-	-	-	30	-	30
Transfers to investment property	-	-	(31)	(907)	(570)	(1,508)
Disposals	(182,506)	(12,195)	-	(20,395)	(409)	(215,505)
At 31 December 2017	**1,304,915**	**795,501**	**2,726**	**257,676**	**47,593**	**2,408,411**
Revaluation			401	(1)		400
Additions	2,807	-	-		125,832	128,639
Transfers	78,087	17,855	-	21,060	(117,002)	-
Impairment	-	-	-	-	(358)	(358)
Assets held for sale	-	-	-	(12)	-	(12)
Transfers to investment property	-	-	(38)	(1,074)	-	(1,112)
Disposals	(112,668)	(2,910)	-	(9,958)	(375)	(125,911)
At 31 December 2018	**1,273,141**	**810,446**	**3,089**	**267,691**	**55,690**	**2,410,057**
Accumulated depreciation and impairment						
At 1 January 2017	**1,087,692**	**511,586**	**-**	**184,524**	**-**	**1,783,802**
Depreciation charged	85,948	22,939	-	19,110	-	127,997
Impairment	273	-	-	1	-	274
Assets held for sale	-	-	-	32	-	32
Transfers to investment property	-	-	-	(732)	-	(732)
Disposals	(178,454)	(11,093)	-	(20,198)	-	(209,745)
At 31 December 2017	**995,459**	**523,432**	**-**	**182,737**	**-**	**1,701,628**
Depreciation charged	**75,533**	**23,779**	**-**	**16,414**	**-**	**115,726**
Impairment	-	-	-	3	-	3
Assets held for sale	-	-	-	(12)	-	(12)
Transfers to investment property	-	-	-	(1,071)	-	(1,071)
Disposals	(110,552)	(2,678)	-	(9,732)	-	(122,962)
At 31 December 2018	**960,440**	**544,533**	**-**	**188,339**	**-**	**1,693,312**
Net book value						
At 31 December 2017	**309,456**	**272,069**	**2,726**	**74,939**	**47,593**	**706,783**
At 31 December 2018	**312,701**	**265,913**	**3,089**	**79,352**	**55,690**	**716,745**

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

a) Property, plant and equipment (continued)

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the SFA (and the bond offering redeemed in 2018) by establishing a pledge on real estate properties, which net book value as of 31 December 2018 amounted to BGN 7,217 thousand. As of 31 December 2017, their net book value amounted to BGN 4,134 thousand.

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:

- 6 properties of NURTS Bulgaria with a net book value as of 31 December 2018 amounting to BGN 31 thousand (BGN 772 thousand for 17 properties as of 31 December 2017).

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 2018 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 5,992 thousand has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

Balance at 1 January 2018	5,455
Transfers to Investment property	(38)
Transfer from general support	339
Revaluation	236
Balance at 31 December 2018	5,992

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).

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

b) 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. The level of usage of each building is being assessed as at the end of each reporting period. Where the Group 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. The movement in Investment property is presented below:

Consolidated financial statements	
Balance at 1 January 2017	**168,205**
Transfers from Property, plant and equipment	2,526
Revaluation to fair value, recognised in other comprehensive income	2,657
Additions	26
Gain/(loss) on property revaluation	214
Property reclassified as held for sale	(28,227)
Balance at 31 December 2017	**145,401**
Transfers from Property, plant and equipment	43
Revaluation to fair value, recognised in other comprehensive income	3,276
Additions	32
Disposals	(3)
Gain/(loss) on property revaluation	3,661
Property reclassified as held for sale	(823)
Balance at 31 December 2018	**151,587**
Separate financial statements	
Gross Book Value	
At 1 January 2017	**49,889**
Transfers from Property, plant and equipment	1,507
Additions	26
Property reclassified as held for sale	(3,070)
Balance at 31 December 2017	**48,352**
Transfers from Property, plant and equipment	1,113
Additions	32
Impairment	102
Disposals	(2)
Property reclassified as held for sale	(92)
Balance at 31 December 2018	**49,505**
Accumulated depreciation and impairment	
At 1 January 2017	**36,777**
Transfers from Property, plant and equipment	729
Property reclassified as held for sale	(1,774)
Depreciation charged	2,377
Balance at 31 December 2017	**38,109**
Transfers from Property, plant and equipment	1,070
Impairment	(49)
Property reclassified as held for sale	(72)
Depreciation charged	266
Balance at 31 December 2018	**39,324**
Net book value	
At 31 December 2017	**10,243**
At 31 December 2018	**10,181**

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

The fair value of the investment properties as at 31 December 2018 in the separate financial statements amounts to BGN 149,775 thousand (2017: BGN 143,089 thousand) and was determined by external, independent property valuers, having appropriate recognized professional qualification and experience.

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 the market comparable approach that reflects recent transaction prices for similar properties. The transactions prices have been adjusted with: market indices to reflect the actual changes 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 properties. The estimated fair value of the individual properties would increase/(decrease) had the respective market indices were higher/(lower) and the adjustments coefficients were higher/(lower).

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the SFA (and the bond offering redeemed in 2018) by establishing a pledge on real estate properties presented as investment property, which value as of 31 December 2018 amounted to BGN 13,862 thousand in the consolidated financial statements and BGN 1,166 thousand in the separate financial statements (2016: BGN 18,892 thousand and BGN 1,370 thousand respectively).

11. Intangible assets

As of 31 December 2018 and 31 December 2017 intangible assets of the Group are as follows

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 1 January 2017	**144,195**	**624,175**	**48,566**	**1,774**	**818,710**
Additions (Transfers)	359	35,484	18,895	2,865	57,603
Acquisitions trough business combinations	97	8	707	-	812
Disposals	-	(77,898)	(2,470)	(38)	(80,406)
At 31 December 2017, as previously reported	**144,651**	**581,769**	**65,698**	**4,601**	**796,719**
Impact of change in accounting policy (Note 32)	-	-	(45,965)	-	(45,965)
At 1 January 2018	**144,651**	**581,769**	**19,733**	**4,601**	**750,754**
Additions (Transfers)	539	34,757	373	4,657	40,326
Disposals	-	(48,508)	-	(115)	(48,623)
At 31 December 2018	**145,190**	**568,018**	**20,106**	**9,143**	**742,457**
Accumulated amortization and impairment					
At 1 January 2017	**71,621**	**514,605**	**28,361**	**-**	**614,587**
Amortization charge	9,338	37,781	17,920	-	65,039
Disposals	-	(77,852)	(1,356)	-	(79,208)
At 31 December 2017, as previously reported	**80,959**	**474,534**	**44,925**	**-**	**600,418**
Impact of change in accounting policy (Note 32)	-	-	(28,109)	-	(28,109)
At 1 January 2018	**80,959**	**474,534**	**16,816**	**-**	**572,309**
Amortization charge	9,384	35,222	1,786	-	46,392
Disposals	-	(48,439)	-	-	(48,439)
At 31 December 2018	**90,343**	**461,317**	**18,602**	**-**	**570,262**
Net book value					
At 31 December 2017, as previously reported	**63,692**	**107,235**	**20,773**	**4,601**	**196,301**
At 1 January 2018	**63,692**	**107,235**	**2,917**	**4,601**	**178,445**
At 31 December 2018	**54,847**	**106,701**	**1,504**	**9,143**	**172,195**

11. Intangible assets (continued)

As of 31 December 2018 and 31 December 2017 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 2017	**144,041**	**623,972**	**48,566**	**1,774**	**818,353**
Additions(Transfers)	359	35,484	18,943	2,857	57,643
Disposals	-	(77,894)	(2,470)	(38)	(80,402)
At 31 December 2017, as previously reported	**144,400**	**581,562**	**65,039**	**4,593**	**795,594**
Impact of change in accounting policy (Note 32)	-	-	(45,965)	-	(45,965)
At 1 January 2018	**144,400**	**581,562**	**19,074**	**4,593**	**749,629**
Additions(Transfers)	-	-	-	40,381	40,381
Transfers	538	34,750	429	(35,717)	-
Disposals	-	(48,508)	-	(115)	(48,623)
At 31 December 2018	**144,938**	**567,804**	**19,503**	**9,142**	**741,387**
Accumulated amortization and impairment					
At 1 January 2017	**71,556**	**514,536**	**28,361**	**-**	**614,453**
Amortization charge	9,321	37,719	17,868	-	64,908
Disposals	-	(77,850)	(1,356)	-	(79,206)
At 31 December 2017, as previously reported	**80,877**	**474,405**	**44,873**	**-**	**600,155**
Impact of change in accounting policy (Note 32)	-	-	(28,109)	-	(28,109)
At 1 January 2018	**80,877**	**474,405**	**16,764**	**-**	**572,046**
Amortization charge	9,360	35,167	1,666	-	46,193
Disposals	-	(48,439)	-	-	(48,439)
At 31 December 2018	**90,237**	**461,133**	**18,430**	**-**	**569,800**
Net book value					
At 31 December 2017, as previously reported	**63,523**	**107,157**	**20,166**	**4,593**	**195,439**
At 1 January 2018	**63,523**	**107,157**	**2,310**	**4,593**	**177,583**
At 31 December 2018	**54,701**	**106,671**	**1,073**	**9,142**	**171,587**

Until 31 December 2017, the incremental costs of obtaining contracts (mainly sales commission paid to employees and third-party retailers) were recognized as intangible assets according to IAS 38, when related to contracts with term longer than 12 months. Following the transition to IFRS 15 they are reclassified and presented in other assets.

12. Investments

Investments as of 31 December 2018 and 31 December 2017 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Investments				
Equity securities – at fair value through other comprehensive income				
Viva Telecom Bulgaria OOD	260,148	58,675	260,148	58,675
Intersputnik	386	369	386	369
Sofia Commodity Exchange	70	13	70	13
Total equity securities at fair value through other comprehensive income	**260,604**	**59,057**	**260,604**	**59,057**
Derivative contracts for hedging	**1,105**	**5**	**1,105**	**5**
Subsidiaries				
NURTS Bulgaria	-	-	39,922	39,922
Net Is Sat	-	-	1,097	1,382
BTC Net	-	-	799	799
Total investments in subsidiaries	-	-	**41,818**	**42,103**
Total investments	**261,709**	**59,062**	**303,527**	**101,165**
Incl.				
Current investments	-	**5**	-	**5**
Non-current investments	**261,709**	**59,057**	**303,527**	**101,160**

The investments in equity securities are measured at fair value as at the reporting date in accordance with the requirements of IFRS 9 as disclosed in Note 32. As of 31 December 2017 they are presented at cost since these securities are not listed.

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

During the reporting period BTC acquired shares of Viva Telecom Bulgaria OOD for a cash consideration amounting to EUR 99,000 thousand (BGN 193,627 thousand) which is not considered as resulting in significant influence over the investee based on the due analysis performed by the management taking into account the applicable legislative framework, constitutive documents and existing arrangements – BTC does not have representation on the board of directors or equivalent governing body of Viva, BTC does not participate in policy-making processes of Viva and there are no material transactions between BTC and Viva apart from intercompany loan as disclosed in Note 27. The other changes in values of the investments in equity securities are due to their measurement to fair value.

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 ultimate owner of 43% stake in BTC Mr. Tzvetan Vassilev and other parties, including BTC and Viva Telecom Bulgaria OOD.

13. Trade payables

The payables to suppliers as of 31 December 2018 and 31 December 2017 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Payables to suppliers of non-current assets	51,480	39,689	51,064	39,431
Payables to suppliers of equipment and goods for customers	5,433	10,512	5,433	10,512
Payables to international telecom operators - interconnect	4,961	6,920	3,017	5,561
Payables to suppliers of network maintenance	2,733	3,691	2,733	3,691
Payables to domestic telecom operators	1,467	1,339	707	380
Payables to related parties (Note 27)	-	-	15,160	9,608
Others	50,038	42,833	48,263	41,296
Total trade payables	**116,112**	**104,984**	**126,377**	**110,479**
Incl.				
Non-current portion	**2,020**	**2,502**	**2,020**	**2,502**
Current portion	**114,092**	**102,482**	**124,357**	**107,977**

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

14. Other payables and contract liabilities

Other payables as of 31 December 2018 and 31 December 2017 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Payables to employees	23,863	21,489	23,758	21,348
Social securities	4,582	4,499	4,573	4,474
VAT	2,032	3,808	1,847	3,378
Forward exchange contracts used for hedging	1,965	604	1,965	604
Personal income tax payable	1,799	1,743	1,791	1,730
Payables for license fee	303	308	284	288
Withholding and other taxes	171	195	171	195
Advances from clients	3	1,017	3	997
Others	2,220	5,101	2,096	4,970
Total other payables	**36,938**	**38,764**	**36,489**	**37,984**
Incl.				
Non-current portion	**1,965**	**-**	**1,965**	**-**
Current portion	**34,973**	**38,764**	**34,523**	**37,984**

14. Other payables and contract liabilities (continued)

The movement of contract liabilities for 2018 is as follows:

Consolidated financial statements

		IFRS 15 adoption				
	At 31.12.2017	**Remeasurement**	**Reclassification**	**Additions**	**Disposals**	**At 31.12.2018**
Contract liabilities	-	609	23,810	237,357	(235,583)	26,193
incl.:						
Current portion	*21,702*					*23,723*
Non-current portion	*2,717*					*2,470*

Separate financial statements

		IFRS 15 adoption				
	At 31.12.2017	**Remeasurement**	**Reclassification**	**Additions**	**Disposals**	**At 31.12.2018**
Contract liabilities	-	609	23,804	237,349	(235,571)	26,191
incl.:						
Current portion	*21,696*					*23,721*
Non-current portion	*2,717*					*2,470*

Contract liabilities relate to unperformed performance obligations mainly referred to IRU contracts, prepaid airtime and other prepaid services. The most significant portion of the amounts presented as non-current will be recognized as revenues within 15 to 25 years and relates to IRU contracts.

15. Provisions for other liabilities and charges

Consolidated financial statements

	Decommissioning	**Restructuring**	**Legal claims**	**Total**
At 1 January 2017	**10,540**	**1,590**	**2,315**	**14,445**
Charged to profit or loss	-	1,504	(451)	1,053
Recognised in the statement of financial position	1,410	-	-	1,410
Used during the year	(26)	(1,590)	(295)	(1,911)
Unwinding of discount	256	-	-	256
At 31 December 2017	**12,180**	**1,504**	**1,569**	**15,253**
Charged to profit or loss	-	85	48	133
Recognised in the statement of financial position	2,810	-	-	2,810
Used during the year	(34)	(389)	(344)	(767)
Unwinding of discount	122	-	(42)	80
At 31 December 2018	**15,078**	**1,200**	**1,231**	**17,509**

Analysis of provisions in consolidated financial statements

	31.12.2018	**31.12.2017**
Non-current (decommissioning costs)	15,078	12,180
Current	2,431	3,073
Total	**17,509**	**15,253**

15. Provisions for other liabilities and charges (continued)

Separate financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2017	**10,540**	**1,590**	**2,237**	**14,367**
Charged to profit or loss	-	1,504	(443)	1,061
Recognised in the statement of financial position	1,410	-	-	1,410
Used during the year	(26)	(1,590)	(282)	(1,898)
Unwinding of discount	256	-	-	256
At 31 December 2017	**12,180**	**1,504**	**1,512**	**15,196**
Charged to profit or loss		85	48	133
Recognised in the statement of financial position	2,810	-	-	2,810
Used during the year	(34)	(389)	(334)	(757)
Unwinding of discount	122	-	-	122
At 31 December 2018	**15,078**	**1,200**	**1,226**	**17,504**

Analysis of provisions in separate financial statements

	31.12.2018	31.12.2017
Non-current (decommissioning costs)	15,078	12,180
Current	2,426	3,016
Total	**17,504**	**15,196**

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 decommissioning obligation after ceasing operation. The respective discount rate used for 2018 and 2017 is 1% and 1.4%.

Restructuring
The provision for employment termination is related to the decision for restructuring the activities of the Group in 2019 and is recognised as a staff cost in the profit or loss for the year ended 2018.

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).

16. Borrowings

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

	Consolidated financial statements		Separate financial statements	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Syndicated credit facility	700,440	-	700,440	-
Revolving credit facility	43,031	-	43,031	-
Financial lease	2,211	3,162	2,174	3,125
Trade credits	13	39	13	39
Secured bond issue	-	784,950	-	784,950
Total borrowings	**745,695**	**788,151**	**745,658**	**788,114**
Including:				
Current borrowings	**45,399**	**787,295**	**45,362**	**787,258**
Non-current borrowings	**700,296**	**856**	**700,296**	**856**

Reconciliation of liabilities arising from financing activities

The tables below details changes in the liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

Consolidated financial statements

			Non cash changes		
	01.01.2018	**Financing cash flows**	**New borrowings**	**Other changes**	**31.12.2018**
Syndicated credit facility	-	713,875	-	(13,435)	700,440
Secured bond issue	784,950	(782,332)	-	(2,618)	-
Revolving credit	-	43,031	-	-	43,031
Financial lease	3,162	(2,389)	1,436	2	2,211
Trade credits	39	(26)	-	-	13
Total borrowings	**788,151**	**(27,841)**	**1,436**	**(16,051)**	**745,695**

Separate financial statements

			Non cash changes		
	01.01.2018	**Financing cash flows**	**New borrowings**	**Other changes**	**31.12.2018**
Syndicated credit facility	-	713,875	-	(13,435)	700,440
Secured bond issue	784,950	(782,332)	-	(2,618)	-
Revolving credit	-	43,031	-	-	43,031
Financial lease	3,125	(2,389)	1,436	2	2,174
Trade credits	39	(26)	-	-	13
Total borrowings	**788,114**	**(27,841)**	**1,436**	**(16,051)**	**745,658**

Other changes include interest accrual and payments.

16. Borrowings (continued)

In November 2013 BTC announced the successful completion of its debut bond offering of EUR 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. On 29 March 2018 and 16 May 2018 respectively Moody's upgraded the long-term corporate credit rating of the Company to Ba3 and S&P Global Ratings reconfirmed it as BB-.

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 EOOD 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 (RCF) 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 RCF was initially agreed to be available up to 30 November 2016. The interest on the principal amounts owing by the Company under the RCF 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 RCF 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.

16. Borrowings (continued)

On 22 December 2017 the Company entered into an up to EUR 365 million Senior Facilities Agreement (SFA) arranged by Citibank N.A., London Branch and VTB Bank (Deutschland) AG (currently VTB Bank (Europe) SE). The purpose of the facility is to refinance all amounts due under the Existing HY Bonds, payment of fees and costs under the facility and capital expenditure in respect of the Company's investment and development program. The SFA comprises of a term loan Facility A, term loan Facility B, a Short-term Facility and a Revolving Facility. The maximum tenor is 5.25 years after the first Utilization under the SFA, which occurred on 14 April 2018. The interest on the facilities is based on EURIBOR plus a Margin between 1.25 and 3.75 per cent per annum.

The liabilities of the Company under the SFA are guaranteed by BTC Net EOOD (subsidiary) and Viva Telecom Bulgaria OOD (parent of the Company) and are further secured by: 1) a non-possessory pledge in accordance with the Special Pledges Act on the going concern of the Company, which includes among other receivables of the Company under certain bank accounts, insurance policies, related parties and customer receivables, as well as certain tangible and intangible assets (including trademarks), inventory and real estates of the Company; 2) a non-possessory pledge in accordance with the Special Pledges Act over the going concern of BTC Net, which includes among other assets the receivables of BTC Net under certain bank accounts; 3) a non-possessory pledge in accordance with the Special Pledges Act over the going concern of Viva Telecom Bulgaria OOD, which includes among other assets the receivables of Viva Telecom Bulgaria OOD under certain bank accounts and the shares of the Company; 4) a non-possessory pledge in accordance with the Special Pledges Act over the shares of the Company; 5) a pledge in accordance with the Agreements on Financial Collateral Act over the shares of the Company; 6) a non-possessory pledge in accordance with the Special Pledges Act over the shares of BTC Net and a possessory pledge over the shares of NURTS Bulgaria EAD.

On 19 April 2018 the Company successfully completed the refinancing of its Notes ahead of their maturity date and has delisted the Notes from the Official List and from trading on the Main Securities Market of the Irish Stock Exchange. As of the date of these financial statements the Company has deregistered the relevant securities under the Notes.

On 14 September 2018 the Company established an Incremental Facility (as defined in the SFA) with incremental commitments totaling EUR 40 million and thus bringing the total SFA borrowings to EUR 365 million. On 25 September 2018 the Short-term Facility outstanding under the SFA in the principal amount of EUR 20 million was prepaid in full.

Simultaneously with the SFA the Company extended the maturity of the Existing EUR 35 million Revolving Credit Facility (RCF) with Societe Generale Expressbank AD to 18 April 2021 and reduced the applicable Margin to between 1.05 and 1.75 per cent per annum. The Company has established the respective securities under the extended RCF on a pari passu basis by the same scope and type of security provided by the Company under the SFA.

Trade credits

Software license of the Company has been purchased under a trade credit agreement. The contracted term is three 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 of 2.5% p.a.

16. Borrowings (continued)

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 2.8%. 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**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Finance lease payables with maturity:				
Within one year	530	2,377	476	2,300
In the second to fifth years inclusive	1,792	907	1,735	862
Total payables	**2,322**	**3,284**	**2,211**	**3,162**
Less: future finance charges	(111)	(122)	-	-
Present value of lease obligations	**2,211**	**3,162**	**2,211**	**3,162**

Separate financial statements	**Minimum lease payments**		**Present value of minimum lease payments**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Finance lease payables with maturity:				
Within one year	493	2,339	439	2,263
In the second to fifth years inclusive	1,792	908	1,735	862
Total payables	**2,285**	**3,247**	**2,174**	**3,125**
Less: future finance charges	(111)	(122)	-	-
Present value of lease obligations	**2,174**	**3,125**	**2,174**	**3,125**

The net book value of the assets acquired under finance lease arrangements as of 31 December 2018 is BGN 4,053 thousand for the Group and for the Company (2017: BGN 4,836 thousand).

17. Deferred tax assets and liabilities

As of 31 December 2018 and 2017 the deferred tax, are as it follows:

Consolidated financial statements:

Deferred tax assets	**Tax loss carried forward**	**Allowance for impairment of receivables and contract assets**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Total**
At 1 January 2017	**-**	**1,487**	**266**	**(267)**	**1,486**
Charged/(credited) to the profit/(loss) for the year	591	(424)	2,328	-	2,495
Transfer	-	-	(267)	267	-
At 31 December 2017	**591**	**1,063**	**2,327**	**-**	**3,981**
Impact of the change in accounting policy	-	1	-	-	1
At 1 January 2018	**591**	**1,064**	**2,327**	**-**	**3,982**
Charged/(credited) to the profit/(loss) for the year	(591)	88	585	2	84
At 31 December 2018	**-**	**1,152**	**2,912**	**2**	**4,066**

17. Deferred tax assets and liabilities (continued)

Deferred tax liabilities	Retirement benefit obligations	Allowance for impairment of receivables and contract assets	Property, plant, equipment and intangible assets	Expense accruals	Financial assets at FVOCI	Cash flow hedges	Total
At 1 January 2017	**(296)**	**(9,704)**	**28,765**	**(4,152)**	**-**	**31**	**14,644**
Charged/(credited) to the profit/(loss) for the year	(3)	(90)	(5,118)	517	-	-	(4,694)
Charged/(credited) to other comprehensive income for the year	-	-	265	-	-	(99)	166
Subsidiary acquisition	-	(6)	93	1	-	-	88
At 31 December 2017	**(299)**	**(9,800)**	**24,005**	**(3,634)**	**-**	**(68)**	**10,204**
Impact of the change in accounting policy (Note 32)	-	(215)	-	-	296	-	81
At 1 January 2018	**(299)**	**(10,015)**	**24,005**	**(3,634)**	**296**	**(68)**	**10,285**
Charged/(credited) to the profit/(loss) for the year	(134)	377	4,441	(67)	-	-	4,617
Credited to other comprehensive income for the year	-	-	367	-	495	(327)	535
At 31 December 2018	**(433)**	**(9,638)**	**28,813**	**(3,701)**	**791**	**(395)**	**15,437**

Deferred tax (charge)/credit to the profit/(loss) for the year	**2018**	**2017**
Deferred tax liabilities	(4,617)	4,694
Deferred tax assets	84	2,495
Total credited to the profit/(loss) for the year	**(4,533)**	**7,189**

17. Deferred tax assets and liabilities (continued)

Separate financial statements:

Deferred tax liabilities	Retirement benefit obligations	Allowance for impairment of receivables and contract assets	Property, plant, equipment and intangible assets	Expense accruals	Financial assets at FVOCI	Cash flow hedges	Total
At 1 January 2017	**(296)**	**(9,532)**	**14,550**	**(4,302)**	**-**	**31**	**451**
Charged/(credited) to the profit/(loss) for the year	(3)	(71)	(48)	502	-	-	380
Charged/(credited) to other comprehensive income for the year	-	-	-	-		(99)	(99)
At 31 December 2017	**(299)**	**(9,603)**	**14,502**	**(3,800)**	**-**	**(68)**	**732**
Impact of the change in accounting policy (Note 32)	-	(210)	-	-	296	-	86
At 1 January 2018	**(299)**	**(9,813)**	**14,502**	**(3,800)**	**296**	**(68)**	**818**
Charged/(credited) to the profit/(loss) for the year	(134)	333	4,017	(86)	-	-	4,130
Charged/(credited) to other comprehensive income for the year	-	-	37	-	495	(327)	205
At 31 December 2018	**(433)**	**(9,480)**	**18,556**	**(3,886)**	**791**	**(395)**	**5,153**

Deferred tax (charge)credit to the profit/(loss) for the year	**2018**	**2017**
Deferred tax liabilities	(4,130)	(380)
Total (charged)/credited to the profit/(loss) for the year	**(4,130)**	**(380)**

Deferred tax assets and liabilities for different taxable entities are not offset as they cannot 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 December 2018 and 2017 are calculated in these financial statements at 10% tax rate which is effective as of 1 January 2007.

The last period audited by the tax authorities for BTC is 2013. 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 23 April 2018 the Supreme Administrative Court has repealed the tax assessment act for the majority of the assessed tax in the amount of BGN 10,070 thousand and for the remaining assessed tax the case has been returned to the lower administrative court for further review. 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. On 14 November 2018 the Supreme Administrative Court has repealed the tax assessment act.

The last period audited by the tax authorities for BTC Net is 2014.

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

18. Retirement benefit obligations

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

Currently no assets have been allocated for covering the long-term staff benefits 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 statement of financial position, is as follows:

	Consolidated and separate financial statements	
	31.12.2018	**31.12.2017**
Liability at the beginning of the period	**6,187**	**4,687**
Past service cost	*106*	*(203)*
Current service cost	*618*	*469*
Interest cost	*85*	*113*
Total cost recognized in profit or loss	809	379
Remeasurements – actuarial loss/(gain) recognised in OCI	670	1,466
Payments to retirees	(221)	(345)
Liability at the end of the period	**7,445**	**6,187**

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

	31.12.2018	**31.12.2017**
Discount rate at 31 December	1%	1.4%
Future salary increases per year:		
-next year	5%	7.5%
-subsequent years	4%	3%
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.

18. Retirement benefit obligations (continued)

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 2015 – 2017.

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact of the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

For the Group and the Company

	Defined benefit obligation		**Interest and current service costs**	
Effect in thousands of BGN	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	(776)	942	(24)	27
Future salary growth (1% movement)	912	(770)	104	(87)

19. Share capital, reserves and dividends

	31.12.2018	**31.12.2017**
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:	**31.12.2018**	**%**	**31.12.2017**	**%**
Number of ordinary shares:				
Viva Telecom Bulgaria OOD	288,764,840	100%	288,764,840	100%
Other shareholders	-	-	-	-
Total ordinary shares	**288,764,840**	**100%**	**288,764,840**	**100%**

As of 31 December 2018, the share capital of BTC comprises 288,764,840 ordinary registered shares. The nominal share value is BGN 1.

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 ultimate owner of 43% stake in BTC Mr. Tzvetan Vassilev and other parties, including BTC and Viva Telecom Bulgaria OOD.

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 OOD.

Earnings per share	**Consolidated financial statements Year ended**		**Separate financial statements Year ended**	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Profit for distribution	127,728	71,104	110,121	73,450
Weighted average number of ordinary shares	288,765	288,765	288,765	288,765
Earnings per share (BGN (basic and diluted))	0.43	0.25	0.38	0.25

19. Share capital, reserves and dividends (continued)

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 financial assets at fair value through other comprehensive income 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.

Other reserves
The other reserve comprises of the cumulative effect of the remeasurements of retirement benefit obligation and cost of hedging reserves, as summarized below.

Consolidated and separate financial statements

	Remeasurements of retirement benefit obligation	Cost of hedging reserves	Total
At 1 January 2017	**(975)**	**-**	**(975)**
Remeasurements – actuarial gain/(loss) recognised in OCI for the year	(1,466)	-	(1,466)
At 31 December 2017	**(2,441)**	**-**	**(2,441)**
Remeasurements – actuarial gain/(loss) recognised in OCI for the year	**(671)**	**-**	**(671)**
Cash flow hedges – costs of hedging recognised in OCI for the period	-	(1,795)	(1,795)
At 31 December 2018	**(3,112)**	**(1,795)**	**(4,907)**

Until 31 December 2018 the amounts of the other reserves were included in the retained earnings. In these financial statements they are reclassified and presented as separate item of the statement of changes in equity.

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

20. Revenue

Revenue of the Group and the Company for the years ended 31 December 2018 and 2017 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Service revenue				
Mobile	449,307	438,029	446,937	437,340
Fixed	339,842	350,519	299,132	303,153
Total service revenue	**789,149**	**788,548**	**746,069**	**740,493**
Equipment revenue				
Mobile	137,426	79,011	137,426	79,011
Fixed	5,802	4,482	5,802	4,482
Total equipment revenue	**143,228**	**83,493**	**143,228**	**83,493**
Total revenue from contracts with customers	**932,377**	**872,041**	**889,297**	**823,986**
Other revenue	15,666	17,462	29,693	29,776
Total revenue	**948,043**	**889,503**	**918,990**	**853,762**

The increase in equipment revenues for 2018 is mainly due to the adoption of IFRS 15 as the comparative figures for 2017 are not restated. The following table presents the revenue for the year ended 31 December 2018 in accordance with IFRS 15 as well as the previous accounting treatment in accordance with IAS 18/IAS 11 and related interpretations:

	Consolidated financial statements			Separate financial statements		
	IFRS 15	**IAS 18**	**IFRS 15 Impact**	**IFRS 15**	**IAS 18**	**IFRS 15 Impact**
Service revenue						
Mobile	449,307	482,663	(33,356)	446,937	480,293	(33,356)
Fixed	339,842	343,057	(3,215)	299,132	302,347	(3,215)
Total service revenue	**789,149**	**825,720**	**(36,571)**	**746,069**	**782,640**	**(36,571)**
Equipment revenue						
Mobile	137,426	99,135	38,291	137,426	99,135	38,291
Fixed	5,802	4,177	1,625	5,802	4,177	1,625
Total equipment revenue	**143,228**	**103,312**	**39,916**	**143,228**	**103,312**	**39,916**
Other revenue	15,666	14,607	1,059	29,693	28,634	1,059
Total revenue	**948,043**	**943,639**	**4,404**	**918,990**	**914,586**	**4,404**

Other revenue comprises mainly penalties, revenues from marketing activities and from assigned overdue customer receivables, commission fees and rental income.

As of 31 December 2018, the total transaction price of the unfulfilled (or partly unfulfilled) performance obligations related to multiple-element arrangements amounts to BGN 193,098 thousand and will be realized over the remaining term of the service contracts concluded. Since most service contracts have a minimum contract term of 24 months, an average remaining term of approximately 12 months can be assumed. The transaction price of unfulfilled performance obligations and timing of revenue recognition are not disclosed for performance obligations recognized at the amount to which the Group has a right to invoice.

With the adoption of IFRS 15 the revenue is disaggregated per product line. The tables below present the relation to the revenue streams previously reported for 2017:

20. Revenue (continued)

Consolidated financial statements

	Service revenue		Equipment revenue		Other	Total
	Mobile	**Fixed**	**Mobile**	**Fixed**	**revenue**	**revenue**
Recurring charges	312,429	89,648	-	-	-	**402,077**
Leased lines and data transmission	19,364	88,373	-	-	-	**107,737**
Interconnect	53,421	21,891	-	-	-	**75,312**
Outgoing traffic	48,927	14,539	-	-	-	**63,466**
Radio and TV Broadcasting	-	27,372	-	-	-	**27,372**
Other revenue	3,888	108,696	79,011	4,482	17,462	**213,539**
Total revenue	**438,029**	**350,519**	**79,011**	**4,482**	**17,462**	**889,503**

Separate financial statements

	Service revenue		Equipment revenue		Other	Total
	Mobile	**Fixed**	**Mobile**	**Fixed**	**revenue**	**revenue**
Recurring charges	312,432	89,598	-	-	-	**402,030**
Leased lines and data transmission	19,364	88,582	-	-	-	**107,946**
Interconnect	52,726	5,284	-	-	-	**58,010**
Outgoing traffic	48,930	14,494	-	-	-	**63,424**
Radio and TV Broadcasting	-	2,183	-	-	-	**2,183**
Other revenue	3,888	103,012	79,011	4,482	29,776	**220,169**
Total revenue	**437,340**	**303,153**	**79,011**	**4,482**	**29,776**	**853,762**

21. Other operating expenses, depreciation and amortization

Other operating expenses for the years ended 31 December, 2018 and 2017 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Advertising, customer service, billing and collection	75,490	76,539	75,582	76,627
Facilities	44,330	43,066	50,331	48,648
Maintenance and repairs	27,144	27,535	27,060	27,395
License fees	15,842	15,742	14,742	14,627
Administrative expenses	11,467	9,305	11,210	9,077
Vehicles and transport	8,342	9,408	8,342	9,413
Leased lines and data transmission	7,418	7,043	7,367	6,988
Professional fees	4,181	4,327	3,989	4,169
Other, net	20,587	20,129	18,382	19,129
Including:				
Impairment of trade and other receivables	*11,342*	*11,146*	*9,922*	*10,390*
Scrap of assets	*3,354*	*5,001*	*3,019*	*4,800*
Impairment of non-current assets	*539*	*361*	*173*	*361*
Impairment of other current assets	*470*	*31*	*470*	*31*
Provisions for legal claims	*48*	*(455)*	*48*	*(446)*
Other	*4,834*	*4,045*	*4,750*	*3,993*
Total other operating expenses	**214,801**	**213,094**	**217,005**	**216,073**

21. Other operating expenses, depreciation and amortization (continued)

The breakdown of Depreciation and amortization is as follows:

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Depreciation of Property, Plant, Equipment and Investment Property	10	119,510	132,283	115,937	130,375
Amortization of Intangible assets	11	46,393	48,743	46,193	48,613
Amortization of capitalized costs of obtaining a contract	9	18,673	18,710	18,673	18,710
Amortization of capitalized costs to fulfill a contract	9	13,596	-	13,596	-
Amortization of intellectual rights	9	380	395	380	395
Total depreciation and amortization		**198,552**	**200,131**	**194,779**	**198,093**

Until 31 December 2017 costs to fulfill a contract were presented within prepayments and recognized in the profit or loss as operating expenses. Following the transition to IFRS 15 the capitalized contract costs are presented as separate items in other assets and recognised in the profit or loss as depreciation and amortization on a straight-line basis over the minimum enforceable contract period (as disclosed in Notes 2.20.1 and 32.1).

22. Staff costs

Staff costs for the years ended 31 December 2018 and 2017 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Salaries and wages	106,343	103,091	105,592	102,118
Pension, health and unemployment fund contributions	19,380	18,179	19,288	18,089
Other benefits	4,348	4,542	4,341	4,540
Other staff costs	2,756	2,943	2,755	2,941
Total staff costs	**132,827**	**128,755**	**131,976**	**127,688**

As stated in Note 18 the amounts of post-employment termination benefits (reversed)/included in salaries and wages above for the consolidated and separate financial statements for 2018 are BGN 724 thousand (2017: respectively BGN 266 thousand).

23. Finance income and costs

Financial income and costs for the years ended 31 December 2017 and 2016 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Finance costs				
Interest expense:	(40,021)	(56,931)	(40,021)	(56,931)
-Bank borrowings	*(20,165)*	*(347)*	*(20,165)*	*(347)*
-Bond issues	*(19,553)*	*(55,966)*	*(19,553)*	*(55,966)*
-Provisions	*(208)*	*(369)*	*(208)*	*(369)*
-Finance lease	*(95)*	*(131)*	*(95)*	*(131)*
-Other	-	*(118)*	-	*(118)*
Loss on cash flow hedges - ineffective portion of changes in fair value	(82)	-	(82)	-
Foreign exchange loss	(22)	(10)	(15)	-
Other finance costs	(739)	(694)	(720)	(677)
Total finance cost	**(40,864)**	**(57,635)**	**(40,838)**	**(57,608)**
Finance income				
Interest income:	7,456	5,817	7,396	6,846
-Bank deposits	*37*	*31*	*23*	*31*
-Finance lease	*4,661*	*4,442*	*4,661*	*4,442*
-Other	*2,758*	*1,344*	*2,712*	*2,373*
Incl impaired financial assets:	*344*	*328*	*339*	*323*
Gains on cash flow hedges - ineffective portion of changes in fair value	-	73	-	73
Foreign exchange gains	6	49	-	26
Income on financial assets at fair value through other comprehensive income:				
-Dividend income	-	71		71
Equity investment income	73	-	73	-
Total finance income	**7,535**	**6,010**	**7,469**	**7,016**
Net finance costs	**(33,329)**	**(51,625)**	**(33,369)**	**(50,592)**

24. Other gains, net

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Gains from sales of non-current assets and assets held for sale	4,349	9,200	3,149	36,221
Incl.: income	7,031	39,421	3,756	38,964
net book value	(2,682)	(30,221)	(607)	(2,743)
Gain/(loss) from sales of materials	(15)	(60)	(15)	(54)
Incl.: income	7	14	7	11
net book value	(22)	(74)	(22)	(65)
Gains on bargain purchase	-	42	-	-
Gain on changes in fair value of Investment properties	3,673	216	-	-
Other gains	9,595	8,459	9,307	8,459
Total other gains, net	**17,602**	**17,857**	**12,441**	**44,626**

25. Tax expense

Income tax expenses for the years ended 31 December 2018 and 2017 consist of:

a) amounts recognised in profit or loss

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Current income tax charge	3,901	8,663	2,817	8,022
Deferred tax	4,533	(7,189)	4,130	380
Total income tax expense	**8,434**	**1,474**	**6,947**	**8,402**

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Profit before tax	136,162	72,578	117,068	81,852
Tax rate	10%	10%	10%	10%
Tax at the applicable tax rate	13,616	7,258	11,707	8,185
Non-deductible expenses	3,979	160	3,972	152
Tax exempt income	(932)	(4)	(932)	(4)
Effect of current tax from previous periods, accounted during the year	(7,761)	3	(7,761)	3
Effect of tax offsets not recognised as deferred tax assets	(327)	230	-	-
Effect of previously unrecognised and unused tax losses now recognised as deferred tax assets	-	(2,919)	-	-
Change in recognised deductible temporary differences	(141)	(3,254)	(39)	66
Income tax expense	**8,434**	**1,474**	**6,947**	**8,402**
Effective tax rate	6.19%	2.03%	5.93%	10.26%
Income tax expense in the profit or loss	8,434	1,474	6,947	8,402

25. Tax expense (continued)

b) amounts recognised in other comprehensive income

Consolidated financial statements:

	Year ended 31.12.2018			Year ended 31.12.2017		
	Before tax	**Tax (expense)/ benefit**	**Net of tax**	**Before tax**	**Tax (expense)/ benefit**	**Net of tax**
Revaluation of land and investment property	3,665	(367)	3,298	2,656	(265)	2,391
Cash flow hedges	(3,277)	327	(2,950)	(995)	99	(896)
Defined benefit plan actuarial gains (losses)	(671)	-	(671)	(1,466)	-	(1,466)
Financial assets at fair value through other comprehensive income	4,954	(495)	4,459	-	-	-
	4,671	(535)	4,136	195	(166)	29

Separate financial statements:

	Year ended 31.12.2018			Year ended 31.12.2017		
	Before tax	**Tax (expense)/ benefit**	**Net of tax**	**Before tax**	**Tax (expense)/ benefit**	**Net of tax**
Revaluation of land and investment property	366	(37)	329	-	-	-
Cash flow hedges	(3,277)	327	(2,950)	(995)	99	(896)
Defined benefit plan actuarial gains (losses)	(671)	-	(671)	(1,466)	-	(1,466)
Financial assets at fair value through other comprehensive income	4,954	(495)	4,459	-	-	-
	1,372	(205)	1,167	(2,461)	99	(2,362)

26. 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 periods ended 31 December 2018 and 2017 is presented below.

26. Segment information (continued)

Year ended 31.12.2018	**Mobile line of business**	**Fixed line of business**	**NURTS business**	**Eliminations**	**Total**
Revenue	596,591	335,155	37,805	(21,508)	948,043
Incl. inter-segment revenue	*4*	*14,620*	*6,884*	*(21,508)*	-
Cost of sales	(200,301)	(74,543)	(576)	582	(274,838)
Gross margin	**396,290**	**260,612**	**37,229**	**(20,926)**	**673,205**
Operating expenses					(189,937)
Staff costs					(132,827)
Depreciation and amortization					(198,552)
Financial expenses, net					(33,329)
Other gains, net					17,602
Profit before tax					**136,162**
Income tax expense					(8,434)
Net profit for the year					**127,728**

Year ended 31.12.2017	**Mobile line of business**	**Fixed line of business**	**NURTS business**	**Eliminations**	**Total**
Revenue	521,349	349,093	41,605	(22,544)	889,503
Incl. inter-segment revenue	*6*	*15,975*	*6,563*	*(22,544)*	-
Cost of sales	(183,252)	(82,188)	(588)	578	(265,450)
Gross margin	**338,097**	**266,905**	**41,017**	**(21,966)**	**624,053**
Operating expenses					(188,821)
Staff costs					(128,755)
Depreciation and amortization					(200,131)
Financial expenses, net					(51,625)
Other gains, net					17,857
Profit before tax					**72,578**
Income tax expense					(1,474)
Net profit for the year					**71,104**

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

27. 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 managing and supervisory bodies and parties close to such members, including the subsidiaries and associates of the members and their close parties.

For the separate statements all consolidated subsidiaries are considered related parties as well.

27. Related parties (continued)

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 December 2018 and 31 December 2017:

For the Group:	**Note**	**Receivables**		**Payables**	
		31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Viva Telecom Bulgaria OOD	Parent	5	1	-	-
Total for BTC group		**5**	**1**	**-**	**-**

For BTC:	**Note**	**Receivables**		**Payables**	
		31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
BTC Net EOOD	Subsidiary	427	708	6,406	3,156
NURTS Bulgaria EAD	Subsidiary	4,484	8,554	8,753	6,394
Net Is Sat EOOD	Subsidiary	294	320	1	58
NURTS Digital EAD	Subsidiary	12	12	-	-
Viva Telecom Bulgaria OOD	Parent	5	1	-	-
Total for BTC group		**5,222**	**9,595**	**15,160**	**9,608**

The balance of the receivable from NURTS Bulgaria EAD includes 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 year ended 31 December 2018 in the separate financial statements amounts to BGN 131 thousand (BGN 1,231 thousand for the year ended 31 December 2017).

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

	Note	**Consolidated financial statements**		**Separate financial statements**	
		Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
BTC Net EOOD	Subsidiary	-	-	7,257	12,231
NURTS Bulgaria EAD	Subsidiary	-	-	3,341	6,560
Net Is Sat EOOD	Subsidiary	-	-	2	2
PFC Levski AD	Other RP	-	108	-	108
Total for BTC		**-**	**108**	**10,600**	**18,901**

27. Related parties (continued)

The realised revenue for BTC from related parties is as follows:

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2018	Year ended 31.12.2017	Year ended 31.12.2018	Year ended 31.12.2017
BTC Net EOOD	Subsidiary	-	-	4,128	7,816
NURTS Bulgaria EAD	Subsidiary	-	-	7,404	15,089
NURTS Digital EAD	Subsidiary	-	-	446	892
Net Is Sat EOOD	Subsidiary			173	173
PFC Levski AD	Other RP	-	3	-	3
Viva Telecom Bulgaria OOD	Parent	9	6	2	6
Total for BTC		**9**	**9**	**12,153**	**23,979**

Borrowings

As per Loan Agreement dated 22 April 2014 BTC provided to Viva Telecom Bulgaria OOD 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. During 2017 and 2018 the amount of the loan has been increased and as at the reporting date amounts to up to EUR 24,000 thousand. The total outstanding principal amount and accumulated interest are guaranteed by future dividends payable and shall be fully repaid on 30 November 2019. The amounts related to the loan are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest income	Interest receivable
Viva Telecom Bulgaria OOD	Parent	2017	21,043	784	242
		2018	38,923	2,214	477

As per Loan Agreement dated 9 June 2015 BTC has provided to PFC Levski AD a credit facility. The applicable interest rate is 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 have been fully settled with amounts due by BTC under concluded commercial contract. The amounts related to the loan are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest income	Interest receivable
PFC Levski AD	Other RP	2017	-	21	-
		2018	-	-	-

As per Loan Agreement dated 2 July 2018 BTC provided a credit facility to its beneficial owner. The applicable interest rate is 7% p.a. and the total outstanding principal amount and accumulated interest are agreed to be fully repaid on 1 February 2019. The amounts related to the loan are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest income	Interest receivable
	UBO	2017	-	-	-
		2018	188	7	7

Management remuneration

Remuneration amounting to BGN 3,772 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of 31 December 2018 (2017: BGN 2,659 thousand) from which BGN 1,706 thousand is payable as of 31 December 2018 (2017: BGN 1,039 thousand).

28. Commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment
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 reporting date. A summary of the main commitments to acquire equipment under such contracts, effective as of 31 December 2018, for the Group and the Company is presented in the table below:

For the Group

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2018	Commitments outstanding
Hardware and software	13,171	4,439	8,732
Construction and assembly works of the network of BTC	18,251	3,284	14,967
Network equipment	28,938	26,312	2,626
TOTAL	**60,360**	**34,035**	**26,235**

For BTC

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2018	Commitments outstanding
Hardware and software	13,171	4,439	8,732
Construction and assembly works of the network of BTC	17,948	3,064	14,884
Network equipment	28,906	26,294	2,612
TOTAL	**60,025**	**33,797**	**26,228**

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 16) and claim damages amounting to EUR 62 million. On 19 January 2018 a judgment was rendered by the District Court of Luxembourg which declared the request of LIC Telecommunications S.à r.l inadmissible and declined jurisdiction, which was subsequently appealed by the claimant. BTC considers the legal proceedings in both Bulgaria and Luxembourg as being unmeritorious and devoid of any proper legal basis.

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 commencement by CCB of legal proceedings for the challenge of the set-off.

28. Commitments and contingencies (continued)

On 14 May 2018 the first instance court cast a decision, as a result of which the NURTS set-offs against CCB were declared partially null and void and partially invalid vis-à-vis the creditors of CCB. The decision has not entered into force and has been appealed before the Sofia Court of Appeal. The management supported by Company's legal advisor's arguments believes that it is very likely the Sofia Court of Appeals would repeal the decision of the first instance court and reject the CCB claims against NURTS. While the outcome of the legal proceedings opened cannot be reliably estimated and might result in potential liabilities, management considers that a provision should not be recognized in these financial statements.

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 15.

The Group has bank guarantees issued to third parties which amount to BGN 2,359 thousand as of 31 December 2018 (2017: BGN 2,586 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 (BGN 24,057 thousand). The management of the company underwent a process of confirmation of the relevant circumstances, including it has asked the receivers of CCB for provision of information, and as a result 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 December 31, 2018, 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.

29. Operating lease

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

	Consolidated financial statements		**Separate financial statements**	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Minimum lease payments	13,619	13,801	13,579	13,761

BTC has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	Consolidated financial statements		**Separate financial statements**	
	Year ended 31.12.2018	**Year ended 31.12.2017**	**Year ended 31.12.2018**	**Year ended 31.12.2017**
Within one year	13,236	12,563	13,206	12,530
In the second to fifth years inclusive	39,110	38,047	39,106	38,013
Later than five years	47,446	54,020	47,446	54,020
Total commitments	**99,792**	**104,630**	**99,758**	**104,563**

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.

30. Financial instruments

The following table shows the carrying amounts and fair values of the 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

		Carrying amount					Fair value			
31 December 2018	***Note***	**Fair value – hedging instruments**	**Loans and receivables**	**At fair value through OCI**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Derivative contracts used for hedging	*12*	1,105	-	-	-	1,105		1,105		1,105
Equity securities at fair value through other comprehensive income	*12*	-		260,604	-	260,604			260,604	260,604
		1,105	-	260,604		261,709				
Financial assets not measured at fair value										
Trade and other receivables	6	-	188,033	-	-	188,033				
Cash and cash equivalents	*5*	-	37,333	-	-	37,333				
		-	225,366	-	-	225,366				
Financial liabilities measured at fair value										
Derivative contracts used for hedging		1,965				1,965				
		1,965	-	-	-	1,965		1,195		1,965
Financial liabilities not measured at fair value										
Secured bank loans	*16*				743,471	743,471			743,471	743,471
Finance lease liabilities	*16*				2,211	2,211			2,223	2,223
Trade credits	*16*				13	13			13	13
Trade payables	*13*				116,112	116,112				
					861,807	861,807				

30. Financial instruments (continued)

		Carrying amount					Fair value			
31 December 2017	***Note***	**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										
Derivative contracts used for hedging	*12*	5	-	-	-	5	-	5	-	5
				-	-					
Financial assets not measured at fair value										
Trade and other receivables	6	-	155,210	-	-	155,210				
Cash and cash equivalents	*5*	-	175,973	-	-	175,973				
		-	331,183	-	-	331,183				
Financial liabilities measured at fair value										
Derivative contracts used for hedging		604	-	-	-	604	-	604	-	604
Financial liabilities not measured at fair value										
Secured bond issue	*16*	-	-	-	784,950	784,950	795,240	-	-	795,240
Finance lease liabilities	*16*	-	-	-	3,162	3,162	-	-	3,156	3,156
Trade credits	*16*	-	-	-	39	39			39	39
Trade payables	*13*	-	-	-	104,984	104,984				
		-	-	-	893,135	893,135				

30. Financial instruments (continued)

Separate financial statements

		Carrying amount					Fair value			
31 December 2018	***Note***	**Fair value – hedging instruments**	**Loans and receivables**	**At fair value through OCI**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Derivative contracts used for hedging	*12*	1,105				1,105		1,105		1,105
Equity securities at fair value through other comprehensive income				260,604		260,604			260,604	260,604
		1,105		260,604						
Financial assets not measured at fair value										
Trade and other receivables	6		172,688			172,688				
Cash and cash equivalents	*5*		30,210			30,210				
Financial assets measured at fair value										
Derivative contracts for hedging		1,965						1,965		1,965
		1,965	**-**	**-**	**-**	**1,965**				
Financial liabilities not measured at fair value										
Secured bank loans	*16*				743,471	743,471			743,471	743,471
Finance lease liabilities					2,174	2,174			2,185	2,185
Trade credits	*16*				13	13			13	13
Trade payables	*13*				126,377	126,377				
					872,035	872,035				

30. Financial instruments (continued)

		Carrying amount					Fair value			
31 December 2017	***Note***	**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										
Derivative contracts used for hedging	*12*	5	-	-	-	5	-	5	-	5
		5	-	-	-	5				
Financial assets not measured at fair value										
Trade and other receivables	6	-	150,059	-	-	150,059				
Cash and cash equivalents	*5*	-	172,125	-	-	172,125				
		-	322,184	-	-	322,184				
Financial liabilities measured at fair value										
Derivative contracts used for hedging		604	-	-	-	604				
Financial liabilities not measured at fair value										
Secured bond issue	*16*	-	-	-	784,950	784,950	795,240	-	-	795,240
Finance lease liabilities	*16*	-	-	-	3,125	3,125	-	-	3,118	3,118
Trade credits	*16*	-	-	-	39	39			39	39
Trade payables	*13*	-	-	-	110,479	110,479				
		-	-	-	898,593	898,593				

30. 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.

Type	Valuation technique	Significant unobservable inputs
Financial instruments measured at fair value		
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
Interest rate swaps and options	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Not applicable
Equity securities, not traded on active markets	Income approach. The discounted cash flow method is used to capture the present value of the expected future economic benefits to be derived from the ownership of the investments.	Long-term revenue and dividend growth rates Long-term pre-tax operating margin Weighted average cost of capital (WACC) Discount for lack of marketability
Financial instruments not measured at fair value		
Other financial liabilities	Discounted cash flows	Interest rate

Other financial liabilities above include finance lease liabilities and trade credits. Market interest rates applied for the valuation of the financial instruments are in the range of 2.2% and 3%.

31. Acquisition of subsidiary

On 31 July 2017 BTC acquired 100% of the shares of Net Is Sat EOOD and became the sole owner of the company.

In the five months to 31 December 2017 Net Is Sat contributed revenue of BGN 567 thousand and profit of BGN 97 thousand to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue would have been BGN 890,320 thousand, and consolidated profit for the year ended 31 December 2017 would have been BGN 70,914 thousand. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

31. Acquisition of subsidiary (continued)

Consideration transferred

As per the SPA, the purchase price was agreed to comprise a base payment and an additional payment. The base payment was an all cash payment amounting to BGN 900 thousand. The additional payment was an all cash payment, comprising several elements, contingent on achievement of certain performance level by NiS until 2018. The additional payment was limited to BGN 600 thousand and its estimated fair value as at the acquisition date was assumed to be BGN 525 thousand. As at 31 December 2018, BGN 286 thousand of the contingent consideration has been derecognised, as the actual performance of NiS was below the initially estimated level. A gain of BGN 286 thousand was included in other gains, net in the consolidated financial statements. In the separate financial statements the cost of the investment was reduced by the same amount.

Acquisition-related costs

The Group incurred acquisition-related costs of BGN 2 thousand which have been included in the cost of the investment in the separate financial statements and recognised as expense under other operating expenses in the consolidated financial statements.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

Cash and cash equivalents	10
Trade and other receivables	108
Inventories	20
Other current assets	16
Property, plant and equipment	929
Intangible assets	857
Trade payables	(302)
Other payables s	(83)
Deferred tax liabilities, net	(88)
Total identifiable net assets acquired	**1,467**

The fair value of assets acquired and liabilities assumed has been determined provisionally as at 31 December 2017. The acquisition accounting has not been revised in 2018.

Gain on bargain purchase

Gain on bargain purchase was recognised as a result of the acquisition as follows:

Total consideration transferred	1,425
Fair value of identifiable net assets	(1,467)
Gain on bargain purchase	**(42)**

32. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements

32.1. IFRS 15 Revenue from Contracts with Customers

At 1 January 2018 the Group initially applied IFRS 15, electing the modified retrospective approach for the initial application in accordance with the transition guidance. Accordingly, the comparative figures for 2017 were not adjusted, i.e. they correspond to the figures published according to IAS 18 and the respective interpretations.

The adjustments made to items in the statement of financial position as of 1 January 2018 and attributable to IFRS 15 are presented below. Only the Parent company is affected by the first-time application of IFRS 15 and the adjustments presented for the consolidated financial statements are the same for the separate financial statements.

Consolidated financial statements

	Ref	Carrying amount in accordance with IAS 18/IAS 39 31.12.2017	IFRS 15 - reclassification	IFRS 15 - remeasurements	Carrying amount in accordance with IFRS 15/IFRS9 1.1.2018
ASSETS					
Current assets					
Trade and other receivables	a	101,954	(809)	-	101,145
Other current assets	b	14,075	-	2,174	16,249
Contract assets	a;c	-	809	20,816	21,625
Non-current assets					
Intangible assets	d	196,301	(17,856)	-	178,445
Other non-current assets	b;d	10,558	17,856	556	28,970
Contract assets LT	a;c	-	-	8,061	8,061
LIABILITIES AND EQUITY					
Current liabilities					
Other payables	e	38,765	(3,681)	-	35,084
Deferred income/revenue	f	21,892	(21,892)	-	-
Contract liabilities	g;e;f	-	25,573	(3,871)	21,702
Non-current liabilities					
Deferred tax liabilities, net	h	10,204	-	(217)	9,987
Deferred income/revenue	f	2,717	(2,717)	-	-
Contract liabilities LT	g;f	-	2,717	-	2,717
Equity					
Retained earnings*		125,429	-	35,695	161,124

*The opening balance of retained earnings includes reclassification adjustments amounting to BGN 2,441 thousand due to change in presentation of other reserves as disclosed in Note 19.
The table above contains only those items of the consolidated statement of financial position that are affected by the first-time application of IFRS 15. The figures shown are rounded in accordance with standard business rounding principles. As a result, the total effect in retained earnings indicated may not be equal to the precise sum of the individual figures.

The remeasurement and reclassification effects referenced above are mainly attributable to the following:

a) -Adjustments for front-loaded(uneven) discounts on services (i.e. first 3 or 6 months with 50% discount on the monthly recurring charge) included in trade and other receivables as of 31 December 2017 amounting to BGN 809 thousand are reclassified and presented as contract assets according to IFRS 15.

32. Changes in accounting policies (continued)

32.1. IFRS 15 Revenue from Contracts with Customers (continued)

b) - Fees payable to other telecom operators when their customers migrate(port in) to Group's network with their existing mobile or fixed number are identified to represent contract fulfillment costs according to IFRS 15. Previously these fees were expensed when incurred and with adoption of IFRS 15 they are capitalized and amortized over the respective contract period. As of 31 December 2017 total assets amounting to BGN 2 729 thousand (incl. BGN 2,174 thousand current and BGN 556 thousand non-current) were recognized against an increase in retained earnings.

c) - Contract assets amounting to BGN 35,531 thousand were recognized as of 31 December 2017 that, under IFRS 15, would have resulted in the earlier recognition of revenue from the sale of handsets and other telecom equipment. The amounts of current and non-current contract assets in the table are presented net of accumulated impairment amounting to BGN 2,174 thousand (as required by IFRS 9) and after netting with contract liabilities (prepaid monthly recurring charges) in the amount of BGN 4,480 thousand.

d) - The incremental costs of obtaining contracts (mainly sales commission paid to employees and third-party retailers) were recognized following the existing accounting policy as intangible assets according to IAS 38, when related to contracts with term longer than 12 months, and amortized over the minimum enforceable contractual period. As of 31 December 2017 such intangible assets amounting to BGN 17,856 were reclassified and presented in other assets, where all relevant capitalized costs to fulfill and costs of obtaining contracts are presented according to IFRS 15.

e) - Initial deposits are collected at contract inception from certain new customers of mobile services, which are subsequently offset against the second billing. As of 31 December 2017 BGN 3,681 thousand representing mainly such initial and other safety deposits and customers advances were included in other payables, that according to IFRS 15 were reclassified to contract liabilities..

f) - Prepaid monthly recurring charges and other fees billed in advance to customers amounting to BGN 24,609 thousand as of 31 December 2017 were reclassified from deferred revenue to contract liabilities in accordance with IFRS 15.

g) - Options, provided to certain business customer to purchase additional goods or services free of charge or at a discount that are not utilized neither expired as of 31 December 2017 represent material rights according to IFRS 15. Part of the revenue, amounting to BGN 609 thousand is deferred and recognized as a contract liability, which is further netted with contract assets at the amount of BGN 4,480 thousand, as disclosed in c above, resulting to BGN 3,871 thousand remeasurement effect.

h) - BGN 217 thousand deferred tax asset has been recognized for the impairment of contract assets, as required by IFRS 9

Taking into account the effects above the transition to the new standard as of 1 January 2018 resulted in a cumulative effect that increased retained earnings by BGN 35,695 thousand.

The following tables contain relevant items from the financial statements as of 31 December 2018 in accordance with IFRS 15 as well as the previous accounting treatment in accordance with IAS 18/IAS 11 and related interpretations:

32. Changes in accounting policies (continued)

32.1. IFRS 15 Revenue from Contracts with Customers (continued)

Consolidated financial statements

	IFRS 15 – 31 December 2018	IAS 18 – 31 December 2018	IFRS 15 Impact
ASSETS			
Current assets			
Trade and other receivables	155,842	156,018	(176)
Other current assets	17,146	15,707	1,439
Contract assets	22,619	-	22,619
Non-current assets			
Intangible assets	172,195	191,242	(19,047)
Other non-current assets	30,157	10,638	19,519
Contract assets LT	9,259	-	9,259
LIABILITIES AND EQUITY			
Current liabilities			
Other payables	34,973	39,432	(4,459)
Deferred income/revenue	-	23,364	(23,364)
Contract liabilities	23,722	-	23,722
Non-current liabilities			
Deferred tax liabilities, net	11,371	11,612	(241)
Deferred income/revenue	-	2,470	(2,470)
Contract liabilities LT	2,470	-	2,470
Equity			
Retained earnings	289,103	251,148	37,955

	IFRS 15 – 31 December 2018	IAS 18 – 31 December 2018	IFRS 15 Impact
Revenue	948,043	943,640	4,404
Interconnect expenses	(77,773)	(77,773)	-
Other operating expenses	(214,801)	(215,907)	1,105
Materials and consumables expenses	(172,201)	(180,603)	8,403
Staff costs	(132,827)	(134,748)	1,921
Depreciation and amortization	(198,552)	(184,956)	(13,596)
Finance costs	(40,857)	(40,857)	-
Finance income	7,528	7,528	-
Other gains, net	17,602	17,602	-
Profit before tax	136,162	133,926	2,236
Income tax expenses	(8,434)	(8,458)	24
Profit for the period	127,728	125,468	2,260

32. Changes in accounting policies (continued)

32.1. IFRS 15 Revenue from Contracts with Customers (continued)

	IFRS 15 – 31 December 2018	IAS 18 – 31 December 2018	IFRS 15 Impact
Cash flows from operating activities			
Profit before tax	136,162	133,926	2,236
Adjustment for:			
Depreciation and amortization	198,551	184,955	13,596
Impairment loss on trade receivables and contract assets	11,341	8,606	2,735
Changes in:			
- trade and other receivables	(19,185)	(18,552)	(633)
- other current and non-current assets	(34,816)	(3,965)	(30,851)
- trade and other payables	(651)	128	(779)
- deferred income/revenue	-	1,225	(1,225)
- contract assets	(4,927)	-	(4,927)
- contract liabilities	1,774	-	1,774
			(18,074)
Cash flows from investing activities			
Acquisition of property, plant, equipment and intangible assets	(156,061)	(174,135)	18,074
			18,074

The adoption of IFRS 15 does not affect cash flows from financing activities

Separate financial statements

	IFRS 15 – 31 December 2018	IAS 18 – 31 December 2018	IFRS 15 Impact
ASSETS			
Current assets			
Trade and other receivables	143,612	143,788	(176)
Other current assets	16,976	15,537	1,439
Contract assets	22,619	-	22,619
Non-current assets			
Intangible assets	171,587	190,634	(19,047)
Other non-current assets	30,157	10,638	19,519
Contract assets LT	9,259	-	9,259
LIABILITIES AND EQUITY			
Current liabilities			
Other payables	34,523	38,984	(4,461)
Deferred income/revenue	-	23,361	(23,361)
Contract liabilities	23,721	-	23,721
Non-current liabilities			
Deferred tax liabilities, net	5,153	5,394	(241)
Deferred income/revenue	-	2,470	(2,470)
Contract liabilities LT	2,470	-	2,470
Equity			
Retained earnings	240,761	202,806	37,955

32. Changes in accounting policies (continued)

32.1. IFRS 15 Revenue from Contracts with Customers (continued)

	IFRS 15 – 31 December 2018	IAS 18 – 31 December 2018	IFRS 15 Impact
Revenue	918,990	914,586	4,404
Interconnect expenses	(68,841)	(68,841)	-
Other operating expenses	(217,005)	(218,110)	1,105
Materials and consumables expenses	(168,393)	(176,796)	8,403
Staff costs	(131,976)	(133,897)	1,921
Depreciation and amortization	(194,779)	(181,183)	(13,596)
Finance costs	(40,838)	(40,838)	-
Finance income	7,469	7,469	-
Other gains, net	12,441	12,441	-
Profit before tax	117,068	114,832	2,236
Income tax expenses	(6,947)	(6,971)	24
Profit for the period	110,121	107,861	2,260

	IFRS 15 – 31 December 2018	IAS 18 – 31 December 2018	IFRS 15 Impact
Cash flows from operating activities			
Profit before tax	117,068	114,832	2,236
Adjustment for:			
Depreciation and amortization	194,779	181,183	13,596
Impairment loss on trade receivables and contract assets	9,922	7,187	2,735
Changes in:			
- trade and other receivables	(13,123)	(12,490)	(633)
- other current and non-current assets	(34,801)	(3,950)	(30,851)
- trade and other payables	4,630	5,413	(783)
- deferred income/revenue	-	1,225	(1,225)
- contract assets	(4,927)	-	(4,927)
- contract liabilities	1,778	-	1,778
			(18,074)
Cash flows from investing activities			
Acquisition of property, plant, equipment and intangible assets	(154,416)	(172,490)	18,074

32.2. IFRS 9 Financial Instruments

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.10. Financial instruments above.

The Group has utilized the option for simplified initial application. The cumulative effect arising from the transition is recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives are not adjusted; instead, an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period is provided.

The following table shows the reference connections between classifications under IFRS 9 and IAS 39 of the Company's financial assets and liabilities at 1 January 2018

32. Changes in accounting policies(continued)

32.2. IFRS 9 Financial Instruments (continued)

	IFRS 9		IAS 39	
	Classification	**Subsequent measurement**	**Classification**	**Subsequent measurement**
Financial assets				
Shares in other entities (with a long-term perspective)	Financial assets at fair value through other comprehensive income	Fair value through other comprehensive income	Available for sale	Fair value through other comprehensive income or cost if not listed securities and fair value not reliably measurable
Trade and other receivables, *incl. Lease receivables, Interest-bearing loans and other funding granted*	Financial assets at amortised cost	Amortised cost	Loans and receivables	Amortised cost
Contract assets	Financial assets at amortised cost	Amortised cost	-	-
Cash and cash equivalents	Financial assets at amortised cost	Amortised cost	Loans and receivables	Amortised cost

	IFRS 9		IAS 39	
	Classification	**Subsequent measurement**	**Classification**	**Subsequent measurement**
Financial liabilities				
Trade and other payables	Financial liabilities at amortised cost	Amortised cost	Loans and payables	Amortised cost
Interest-bearing loans and other borrowings	Financial liabilities at amortised cost	Amortised cost	Loans and payables	Amortised cost
Finance lease liabilities	Financial liabilities at amortised cost	Amortised cost	Loans and payables	Amortised cost

The adoption of IFRS 9 does not impact the classification of the available as of 1 January 2018 derivative hedge instruments (currency forwards for hedging) or the acquired during 2018 interest rate swaps and interest rate cap.

The application of expected credit loss model for impairment of trade and other receivables and measurement of the minority investments at fair value resulted in changes of the following items of the statement of financial position as of 1 January 2018:

32. Changes in accounting policies(continued)

32.2. IFRS 9 Financial Instruments (continued)

Consolidated financial statements

	31 December 2017, IAS 39*	Adjustments		1 January 2018, IFRS 9
		In FV reserves	In Retained earnings	
ASSETS				
Current assets				
Trade and other receivables	101,145	-	27	101,172
Non-current assets				
Investments	59,057	2,966	-	62,023
Trade and other receivables	53,256	-	(4)	53,252
Deferred tax assets, net	3,981	-	1	3,982
LIABILITIES AND EQUITY				
Non-current liabilities				
Deferred tax liabilities, net	9,987	297	2	10,286
Equity				
Reserves**	148,394	2,669	-	151,063
Retained earnings	161,124	-	21	161,145

Separate financial statements

	31 December 2017, IAS 39*	Adjustments		1 January 2018, IFRS 9
		In FV reserves	In Retained earnings	
ASSETS				
Current assets				
Trade and other receivables	101,337	-	82	101,419
Non-current assets				
Investments	101,160	2,966	-	104,126
LIABILITIES AND EQUITY				
Non-current liabilities				
Deferred tax liabilities, net	514	297	8	819
Equity				
Reserves**	30,665	2,669	-	33,334
Retained earnings	130,560	-	74	130,634

* The opening balances include the adjustments attributable to IFRS 15, presented in Note 32.1
** The opening balance of Reserves includes reclassification adjustments amounting to BGN 2,441 thousand due to change in presentation of other reserves as disclosed in Note 19.

33. Subsequent events

On 17 April 2019 a joint venture between BTC and Bulgarian-American Credit Bank AD was registered in the Bulgarian Commercial Register following competition clearance by the Bulgarian Competition Protection Commission granted on 28 March 2019. BTC holds 50% of the joint venture, which primary activities are envisaged to be development and provision of mobile payments.

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 (13 May 2019).

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the sole shareholder of Bulgarian Telecommunications Company EAD

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of Bulgarian Telecommunications Company EAD (the "Parent Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated and separate statement of financial position as at December 31, 2018, and the consolidated and separate statement of comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

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

1. Uncertainties related to the future outcome of litigations

We refer to the following notes to the accompanying consolidated and separate financial statements, disclosing uncertainties related to the future outcome of litigations:

a) Note 4i – set-off of bonds of BGN 50,310 thousand principal and BGN 1,350 thousand accrued interest;
b) Note 4i – cancellation of two assignments of cash deposits of BGN 10,312 thousand;
c) Note 4c – contingent liabilities related to lawsuits and administrative proceedings;
d) Note 12 – attachment over 43% of the shares of the Parent Company in BTC Net
e) Note 19 – attachment over 43% of Parent Company's shares;
f) Note 28 – validity of the first supplemental indenture and claim for damages of at least BGN 121,262 thousand (EUR 62 million);
g) Note 28 – stepping into debt of BGN 24,057 thousand;
h) Note 1, section "TV broadcasting" – license of subsidiary company.

Key audit matter	Our response
In the course of Group's business potential exposures may arise from administrative and court proceedings due to inherent uncertainties regarding outcome of the litigations. Whether a provision is recognized or contingent liability is disclosed in the financial statements is dependent on a number of significant assumptions and judgments. The amounts involved are potentially significant and determining the amount, if any, to be recognized or disclosed in the financial statements, is inherently subjective. Accordingly, the litigations in which the Group is involved, is considered to be a key audit matter.	Our audit procedures included, among others: • reviewing legal expenses incurred during the audited year and sending letters to attorneys providing legal services to the Group and its subsidiaries, inquiring about litigations and actual or potential claims or disputes; • assessing the responses received to the above inquiries and discussing them with the Group's attorneys, management and those charged with governance. • engaging our internal legal specialists to assist the audit team with: - critical assessment of the Parent Company's assumptions and estimates in respect of contingent liabilities disclosed in the financial statements; - assessment of reasonableness of management's estimates of the probability of negative result of litigation; • performing subsequent events procedures in order to verify status of litigations and support adequacy of disclosures in the Group's consolidated and separate financial statements; • assessing whether the Group's disclosures detailing significant legal proceedings adequately disclose the potential liabilities of the Group.

2. Appropriateness of revenue recognition and the effects of the initial application of IFRS 15 Revenue from Contracts with Customers

We refer to note 32.1 to the accompanying consolidated and separate financial statements, disclosing the impact from adoption of IFRS 15 Revenue from Contracts with Customers on the Group's financial statements, note 20 Revenue disclosing revenue from contracts with customers recognized for the year ended December 31, 2018 and note 2.20 Summary of significant accounting policies, Revenue recognition.

Key audit matter	Our response
In the consolidated and separate financial statements of the Group/Parent Company, revenue of BGN 948,043 thousand and BGN 918,990 thousand is recognized in the consolidated and separate statement of comprehensive income for the year ended December 31, 2018. This significant item in terms of its amount is subject to risk due to the complexity of the system applications necessary for properly recording and allocating the impact of changing business models, prices and tariffs, including customer discounts, incentives, and the existence of multiple element arrangements. The Company/Group exercised the option to use a practical expedient on initial application and recognized the cumulative effect of the transition directly in equity as of January 1, 2018, in accordance with the transitional provisions. According to Note 32.1 to the consolidated and separate financial statements, the effect in retained earnings from the change of the accounting policy in relation to the first-time adoption of IFRS 15 Revenue from Contracts with Customers is BGN 35,695 thousand. The effect leading to increase in retained earnings as of January 1, 2018 primarily resulted from initial recognition of contact assets, capitalized contract costs and contract liabilities. Due to the significance of these matters and the complexities in valuating the effects of the application, we consider them as a key audit matter.	Our audit procedures included, among others: • performing assessment of design, implementation and test operating effectiveness of the Group's controls in relation to accuracy, completeness and occurrence of revenue transactions, including related IT applications; • performing substantive analytical procedures on significant classes of revenue transactions; • assessing the analysis prepared by the Group in relation to the adoption of IFRS 15 Revenue from Contracts with Customers for the purpose of determining whether the requirements of the standard are adequately applied; • inquiring and reviewing documents to obtain an understanding of the process of measurement of the impact of IFRS 15 Revenue from Contracts with Customers; • assessing the processes and internal controls implemented by the Group and adjusted for IFRS 15, including IT systems used to recognize revenue; • performing substantive test of details including inspecion of customer contracts, assessment of the determination of the transaction price and its allocation to the performance obligations identified within a multi element arrangement based on the relative standalone selling prices, evaluation whether these performances were rendered over time or at a particular point in time; • reviewing the new accounting policies that the Group has adopted to meet the requirements of IFRS 15 Revenue from Contracts with Customers; • reviewing and assessing the completeness, appropriateness and sufficiency of the disclosures in the consolidataed and separate financial statements of the Group/ Parent Company related to IFRS 15 Revenue from Contracts with Customers.

3. Effects of the initial application of IFRS 9 Financial instruments

We refer to note 32.2 to the accompanying consolidated and separate financial statements, disclosing the impact from adoption of IFRS 9 Financial instruments on the Group's financial statements

Key audit matter	Our response
In Note 32.2 to the consolidataed and separate financial statements in relation to the new IFRS 9, as of January 1, 2018 the Group has presented classification and measurement effects from the adoption of IFRS 9. The Group has utilized the option for simplified initial application of the new standard. The cumulative effect arising from the transition at the amount of BGN 2,690 thousand is recognized as an adjustment to the opening balance of equity in the year of initial application. The Group's management have engaged specialists to assist with the calculation of expected credit losses and fair value of equity investments measured at fair value through other comprehensive income. Due to the significance of these matters and the complexity in valuating the effects of the application, we consider them as key audit matther.	Our audit procedures included, among others: • Inquiring and checking documents to obtain an understanding of the process of measurement of the impact of IFRS 9. • Assessing the analysis prepared by the Group in relation to the adoption of IFRS 9 for the purpose of determining whether the requirements of the standard are adequately applied. • Reviewing the new accounting policies that the Group has adopted to meet the requirements of the standard. • Obtaining an understanding and performing a critical review of the classification of financial instruments of the Group. • Engaging credit modelling and valuation specialists to assist the audit team with critical assessment of the Group's impairment models and management estimates in relation to calculation of expected credit losses and fair values of related financial instrument; • Recomputing expected credit losses on trade receivables from businesss and residential customers; • Reviewing the assessment of the completeness, appropriateness and sufficiency of the disclosures in the consolidated and separate financial statements regarding the initial application of the new standard.

Information other than the consolidated and separate financial statements and auditor's report thereon

The Managing Board (the "Management") is responsible for the other information. The other information comprises the annual report on activities and the non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated and separate financial statements and our auditor's report thereon.
Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

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

We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board and the Audit Committee ("Those charged with governance") are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

In addition to our reporting responsibilities according to ISAs described in section "Information other than the consolidated and separate financial statements and auditor's report thereon", with respect to the annual consolidated and separate report on activities and the non-financial declaration, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act, applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual consolidated and separate report on activities for the financial year for which the consolidated and separate financial statements have been prepared, is consistent with the consolidated and separate financial statements.
- The annual consolidated and separate report on activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act
- The non-financial declaration, covering the financial year for which the consolidated and separate financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

- Deloitte Audit OOD was appointed as a statutory auditor of the consolidated and separate financial statements of the Group for the year ended December 31, 2018 by the General meeting of shareholders held on September 12, 2018 for a period of two years.
- The audit of the consolidated and separate financial statements of the Group for the year ended December 31, 2018 represents fourth total consecutive statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report from May 15, 2019, provided to the Group's Audit Committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory audit refers, we have provided to the Group , in addition to the statutory audit, the following services which have not been disclosed in Group's annual consolidated and separate report on activities or consolidated and separate financial statements:
  - Risk advisory services in relation to Procurement policy of the Group;
  - Agreed upon procedures conducted in accordance with the International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" and performed solely for the purpose of assisting the Managing Board of the Group in reporting regarding covenant compliance as at December 31, 2018 and December 31, 2019 and for the periods then ended, relating to Bulgarian Telecommunications Company EAD, to Citibank Europe Plc, UK Branch, based on the Senior Facilities Agreement dated December 22, 2017 concluded between the "Bulgarian Telecommunications Company" and Citibank N.A., London Branch and VTB Bank (Deutschland) AG, Citibank Europe Plc, UK Branch, Citibank, N.A., London Branch, Financial institutions and Hedge Counterparties, and to report to the Managing Board of the Group the result of those procedures.

Deloitte Audit

Deloitte Audit OOD

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София
Рег. № 033
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May 15, 2019