BULGARIAN TELECOMMUNICATIONS COMPANY EAD

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

31 December 2013

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CONSOLIDATED AND SEPARATE ANNUAL ACTIVITIES REPORT

2013

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BULGARIAN TELECOMMUNICATIONS COMPANY EAD
ANNUAL ACTIVITIES REPORT
For the year ended 31 December 2013

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 ("VIVACOM" or the "Company") 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 2013 the group includes VIVACOM and its subsidiary entity BTC Net EOOD (the "Group" or "VIVACOM Group").

We are the leading telecommunications operator in Bulgaria, based on revenue for the twelve months ended December 31, 2013. We are the only operator that provides mobile, fixed telephony, fixed broadband and pay TV (both DTH and IPTV) services nationwide to both residential and business customers. We provide our fixed line services through our own fixed line network and our mobile services through our own mobile network based on GSM/GPRS/EDGE and UMTS/HSPA+ technologies. As at December 31, 2013, we served 2.6 million mobile subscribers, 1.3 million fixed telephony subscribers and 0.3 million fixed broadband subscribers. For the twelve months ended September 30, 2013, we generated total revenue of BGN 811.9 million and had Adjusted EBITDA of BGN 324.5 million. During that period, our mobile and fixed line businesses each comprised approximately 50.0 % of our total revenue.

We are currently the third largest mobile operator in Bulgaria, based on number of subscribers, with 2.6 million subscribers as at December 31, 2013, an increase of 10.3% from 2.3 million subscribers as at December 31, 2012. This is primarily due to the implementation of an ongoing successful market challenger strategy in the mobile market, which has led us to achieve an increase in our mobile market share, from a 20% subscriber market share as at December 31, 2012 to a 24% subscriber market share as at December 31, 2013, and to develop a solid market share position. A central part of the market challenger strategy has been our focus on features that allow us to differentiate ourselves from our competitors, such as what we believe to be our "best in class" mobile network, which we believe provides market leading coverage among the major network operators in Bulgaria.

We are the incumbent in the fixed line market with the largest fixed line network in Bulgaria. We offer fixed telephony, fixed broadband and pay TV services to our residential and business customers.

We provide fixed broadband services over ADSL and FTTx connections. Our ongoing FTTx network build out enables us to benefit from the ongoing shift to FTTx from other broadband technologies as customers demand services at higher speeds. We began our FTTx roll out in 2011 and we have since achieved significant progress, with 680,000 fiber homes passed as at December 31, 2013. Our ongoing FTTx network build out enables us to benefit from the ongoing shift from other broadband technologies to FTTx as customers demand higher speed technologies. We also operate our own scalable fiber backbone network which allows for us to deliver complex corporate data solutions to business customers.

We sell our services and products through direct channels, such as Vivacom owned stores, which are strategically located, and indirect channels, such as a smaller number of third party retail distributors. Our distribution network is further supported by remote channels such as telemarketing. As at December 31, 2013Vivacom had 235 owned branded retail locations with an additional 124 alternative sale points.

In the periods under review, we faced competition from the two other major Bulgarian mobile network operators, MobilTel and Globul, Max Telecom is a WiMAX, smaller scale operator which acquired spectrum in the 1800 MHz band in December 2011 and has announced plans to launch LTE services on that spectrum band last year in a small number of cities. As of the date of this report, Max Telecom has not yet started operating its mobile network. Bulsatcom was also granted Bulgaria's fourth mobile license in January 2013, having acquired spectrum in the 1800 MHz band in December 2011. As of the date of this report, Bulsatcom has not yet started operating its mobile network.. Our revenue market share for the mobile market was approximately 23%as at December 31, 2013.

MobilTel and Globul are also our main competitors in the fixed telephony market where we are the incumbent with approximately 87% revenue market share as calculated for 2012(Source: CRC).

In the Bulgarian fixed broadband market, we compete primarily with Blizoo, MobilTel, Bulsatcom and a significant number of small scale LAN operators. We are the market leader in the fixed broadband market with a 25% subscriber market share as at December 31, 2012, followed by Blizoo, MobilTel and Bulsatcom (Source: CRC).

FINANCIAL CONDITION AND RESULTS OF OPERATION

The Group ended the financial year 2013 with a positive result of BGN 29.2 million, (the Company - with a positive result of BGN 27.0 million), an increase of BGN 62.5 million from BGN 33.3 million loss for the twelve months ended December 31, 2012 following the reversal of an accrued impairment of fixed-line business in 2012 and optimisation of costs as well as better positioning of our products and services portfolio. In 2013, following certain optimisation of the operating costs and stabilisation of the revenues of the Fixed business, the Group reassessed its estimates and BGN 29.4 million of the initially recognised impairment has been reversed in 2013 as disclosed in Note 4 to the present consolidated and separate financial statement.

The existing credit facilities of VIVACOM under the amended loan agreement were consolidated into a single facility, whereas the aggregate principal amount of the Company's borrowings was reduced to EUR 452,099 thousand following a prepayment in the amount of EUR 26,337 thousand on 5 November 2012 and was fully repaid with the issuance of Senior Secured Notes in November 2013.

On 22 November 2013 Vivacom successfully completed its bond offering of €400 (BGN 782.3) million 6⅝% Senior Secured Notes due 2018 (the "Notes"). The maturity date of the Notes is November 15, 2018. The Company will pay interest on the Notes semiannually in arrears on May 15 and November 15 of each year, commencing on May 15, 2014. The liabilities of the Company under the Notes are guaranteed by Vivacom subsidiary, BTC Net EOOD and are secured by 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 a first ranking pledge in accordance with the Agreements on Financial Collateral Act on receivables of the Company under certain bank accounts and insurance policies, as well as an additional security provided by BTC Net in a form of a first ranking non-possessory pledge in accordance with the Special Pledges Act over its going concern which includes among other assets the receivables of BTC Net under certain bank accounts. The shares of the Company owned by Viva Telecom Bulgaria EAD are also pledged in favour of the bondholders in accordance with the Agreements on Financial Collateral Act. The proceeds from the bond offering were used by the Company to repay its existing indebtedness under the amended loan agreement. The Company and the Notes received a credit rating of B1 by Moody's and BB- by Standard & Poor's Ratings Services.

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 with commitment of up to €35 (BGN 68.4) million in aggregate. Loans may be borrowed, repaid and reborrowed at any time up to 30 November 2016. The interest on the principal amounts owed by the Company under the revolving credit facility is payable monthly at a rate of 1 month EURIBOR plus a margin of 4% per year.

The Company has utilized the BGN 68.4 million revolver facility from Societe Generale (at EURIBOR + 4%) following loan restructuring.

REVENUES

Our total revenue was BGN 811.9 million for the twelve months ended December 31, 2013, a decrease of BGN 45.8 million, or 5.3%, from BGN 867.7 million for the twelve months ended December 31, 2012.

The table below sets forth our revenue for the twelve months ended December 31, 2013 as compared to the twelve months ended December 31, 2012.

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2013**	**2012**	**(amount)**	**(%)**
Recurring charges	352.0	336.4	15.6	4.6
Outgoing traffic	143.3	169.1	(25.7)	(15.2)
Interconnect	60.7	129.7	(69.0)	(53.2)
Leased lines and data transmission	118.9	128.5	(9.6)	(7.5)
Other revenue	137.0	94.1	42.9	45.5
Total revenue	**811.9**	**857.7**	**(45.8)**	**(5.3)**

Revenue from recurring charges was BGN 352.0 million for the twelve months ended December 31, 2013, an increase of BGN 15.6 million, or 4.6%, from BGN 336.4 million for the twelve months ended December 31, 2012 primarily due to increased bundling and more services provided to customers in their monthly charges, as well as from net subscriber gains from optimizing the tariffs that we offer to customers.

Revenue for outgoing traffic was BGN 143.3 million for twelve months ended December 31, 2013, a decrease of BGN 25.7 million, or 15.2%, from BGN 169.1 million for the twelve months ended December 31, 2012, mainly due to lower termination rates and competitive pressure leading to a decline in prices per minute and more included minutes in tariffs offered to customers.

Interconnect revenue was BGN 60.7 million for the twelve months ended December 31, 2013, a decrease of BGN 69.0 million, or 53.2% from BGN 129.7 million for the twelve months ended December 31, 2012 The decrease in revenue was mainly a result of lower termination rates as mandated by the CRC. MTRs were reduced in July 2012 (from BGN 0.130 in July 2011 to BGN 0.055 in July 2012) and again in January 2013 to reach BGN 0.046 in accordance with the glide path. Further decreases were implemented in July 2013, with MTR lowered to BGN 0.023. FTRs were reduced in July 2013 to BGN 0.0050 compared to BGN 0.0085 in January 2013

Revenue for leased lines and data transmissions was BGN 118.9 million for the twelve months ended December 31, 2013, a decrease of BGN 9.6 million, or 7.5% from BGN 128.5 million for the twelve months ended December 31, 2012, primarily due to the migration of customers to cheaper IP data services.

Other revenue was BGN 137.0 million for the twelve months ended December 31, 2013 an increase of BGN 42.9 million, or 45.5% from BGN 94.1 million for the twelve months ended December 31, 2012 mainly due to increased sales of mobile handsets and tablets and increased revenue from pay TV. Sales of mobile handsets and tablets increased due to heightened promotional efforts and subsidies.

The following table sets forth a breakdown of our revenue by segment for the year ended December 31, 2012 and 2013:

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2013**	**2012**	**(amount)**	**(%)**
Fixed-line revenue	396.0	460.4	(64.5)	(14.0)
Mobile revenue	415.9	397.3	18.6	4.7
Total revenue	**811.9**	**857.7**	**(45.8)**	**(5.3)**

Our fixed line revenue, which is comprised of fixed voice (fixed telephony and other), fixed data (fixed broadband and other) and other fixed line services was BGN 396.0 million for the twelve months ended December 31, 2013, a decrease of BGN 64.5 million, or 14.0%, from BGN 460.4 million for the twelve months ended December 31, 2012. The decrease was mainly attributable to the ongoing fixed to mobile substitution trend, competition from other operators and a decrease in interconnect revenues stemming from the regulatory effect.

Our mobile revenue was BGN 415.9 million for the twelve months ended December 31, 2013, an increase of BGN 18.6 million, or 4.7%, from BGN 397.3 million for the twelve months ended December 31, 2012. The increase in mobile revenue was primarily due to the growth of our mobile subscriber base, which can be attributed to our competitive pricing and the quality of our network, which offset the decrease in mobile ARPU from competition and the regulatory effect.

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	
	2013	**2012**	**(amount)**	**(%)**
Number of mobile subscribers at period end (in thousands)	**2 556**	**2 319**	**238**	**10.3**
% post-paid at period end	84	83	1	1.7
% pre-paid at period end	16	17	(1)	(7.9)
Blended mobile ARPU (BGN)	**11.4**	**12.9**	**(1.5)**	**(11.6)**
Post-paid ARPU (BGN)	12.9	14.4	(1.5)	(10.5)
Pre-paid ARPU (BGN)	4.5	6.5	(1.9)	(29.8)
AMOU (minutes)	**137**	**133**	**4**	**2.9**

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, 2013, 84% of our total mobile subscriber base consisted of post-paid subscribers.

Our mobile subscriber base has increased, from 2.3 million subscribers as at December 31, 2012 to 2.6 million subscribers as at December 31, 2013. We attribute this growth over the periods under review to a number of factors, including what we believe is our superior network quality, offering value for bundled services, decreasing churn amongst our post-paid subscriber base, cross selling and up selling to existing customers between mobile voice and data.

Mobile AMOU increased by 2.9% to 137 minutes for the twelve months ended December 31, 2013, from BGN 133 for the twelve months ended December 31, 2012. The increase is due to our strategy for offering more added services and tariff plans with a high number of included minutes, providing our subscribers with flexible solutions to match their consumption patterns.

Blended mobile ARPU decreased by 11.6% to BGN 11.4 for the twelve months ended December 31, 2013 from BGN 12.9 for the twelve months ended December 31, 2012 primarily as a result of the continued reduction in termination rates mandated by the CRC and reduced tariffs for our offerings. The increasing popularity of Android smartphones boosted the smartphone penetration rate and, in turn, mobile data usage by customers and mobile data ARPU. The gain in mobile data ARPU partially compensated for the falling ARPU from voice services.

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 and fixed broadband subscribers.

	For the year ended December 31,		Change	
	2013	**2012**	**(amount)**	**(%)**
Fixed telephony subscribers at period end (in thousands)	1 325	1 460	(135)	(9.3)
Fixed telephony ARPU (BGN)	12.4	13.6	(1.2)	(8.7)
AMOU (minutes)	110	115	(4)	(3.9)
Fixed broadband subscribers at period end (in thousands)	327	322	5	1.6
% Fttx at period end	17	5	12	233.4
Fixed broadband ARPU (BGN)	12.0	13.1	(1.1)	(8.3)
Number of fiber homes passed (in thousands)	680	402	278	69.2

Fixed Telephony

Our total fixed telephony subscribers decreased by 9.3% to 1.3 million as at December 31, 2013, from 1.5 million as at December 31, 2012. 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 ongoing fixed to mobile substitution.

Fixed telephony AMOU decreased by 3.9% to 110 minutes for the twelve months ended December 31, 2013, from BGN 115 for the twelve months ended December 31, 2012. The decrease is primarily due to ongoing fixed to mobile substitution, which resulted in a decrease in outgoing volume of calls made by our customers.

Total fixed telephony ARPU decreased by 8.7% to BGN 12.4 for the twelve months ended December 31, 2013, from BGN 13.6 for the twelve months ended December 31, 2012. The decrease in total fixed telephony ARPU is primarily due to the decrease in FTRs from July 2012 as well as a decrease in AMOU. FTRs were reduced to BGN 0.009 per minute as at July 1, 2012.

Fixed Broadband

Our total fixed broadband subscribers increased by 1.6% to 327 thousand as at December 31, 2013, from 322 thousand as at December 31, 2012. The slight increase is due to the increase in FTTx connections that has partially offset the continued decrease in ADSL subscribers.

Total fixed broadband ARPU decreased by 8.3% to BGN 12.0 for the twelve months ended December 31, 2013, from BGN 13.1 for the twelve months ended December 31, 2012. The decrease was primarily due to the lower ARPUs of ADSL with speed limitations, as well as from better priced bundled products that cater to specific customer needs

EXPENSES

Interconnect Expense

Our interconnect expense was BGN 55.4 million for the twelve months ended December 31, 2013, a decrease of BGN 57.3 million, or 50.8%, from BGN 112.7 million for the twelve months ended December 31, 2012. This was mainly due to lower termination rates for calls made by our subscribers to other networks, as a result of regulation.

Other Operating Expenses

Our other operating expenses were BGN 212.0 million for the twelve months ended December 31, 2013, a decrease of BGN 98 million, or 32%, from BGN 310.0 million for the twelve months ended December 31, 2012.

The table below sets forth our other operating expenses for the twelve months ended December 31, 2013 as compared to the twelve months ended December 31, 2012.

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2013**	**2012**	**(amount)**	**(%)**
Maintenance and repairs	(81.4)	(86.8)	5.4	(6.2)
Advertising, customer service, billing and collection	(59.2)	(52.3)	(6.9)	13.3
Facilities	(44.4)	(42.1)	(2.3)	5.4
License fees	(13.5)	(13.2)	(0.3)	2.3
Administrative expenses	(12.3)	(8.0)	(4.2)	52.3
Vehicles and transport	(3.8)	(3.7)	(0.1)	2.7
Leased Lines & Data Transmission	(3.1)	(3.9)	0.7	(18.3)
Professional fees	(2.6)	(6.2)	3.6	(58.7)
Other, net	8.3	(93.8)	102.1	(108.8)
Total operating expenses	**(212.0)**	**(310.0)**	**98.0**	**(31.6)**

The decrease in other operating expenses was driven mainly by lower other expenses reflecting the accrued impairment of fixed-line business in 2012 and the respective reversal in 2013 as well as lower maintenance and repairs and professional fees. In 2013, following certain optimisation of the operating costs and stabilisation of the revenues of the Fixed business, the Group reassessed its estimates and BGN 29.4 million of the initially recognised impairment has been reversed.
Maintenance and repairs decreases principally due to lower costs for dismantling copper cables, with slow-down in activities in 2013. Professional fees decreased as we had higher costs in 2012 that were related to our restructuring.
These decreases were partially offset by the higher cost of advertising, customer service, billing and collection and administrative expenses and facilities. Higher administrative expenses were driven by accrued one off costs for compensation paid out to customers following a CRC decision to impose lower regulated fixed to mobile retail prices, after the new pricing scheme proposed by us was rejected.
The increase in advertising, customer service, billing and collection can be attributed to more promotional activities and higher costs for pay TV content as we increased our subscriber numbers.
Facilities costs increased primarily due to increase in rentals as we increased the number of rented technical sites and remodeled our existing point of sale network.

Materials and Consumables Expenses

Our materials and consumables expenses were BGN 136.9 million for the twelve months ended December 31, 2013, an increase of BGN 27.6 million, or 25.3%, from BGN 109.3 million for the twelve months ended December 31, 2012 mainly due to increased costs related to the higher sales of mobile handsets to support the increased demand for smartphones and higher energy costs. Higher energy costs were primarily due to a rise in electricity prices in Jul 2012 and an increased number of retail locations in our expanding network footprint.

Staff Costs

Our staff costs were BGN 73.6 million for the twelve months ended December 31, 2013, an increase of BGN 4.1 million, or 5.9%, from BGN 69.5 million for the twelve months ended December 31, 2012, mainly due to the increase in the number of our commercial employees, including sales, customer service and administrative staff, driven by our increased number of retail locations.

Depreciation and Amortization

Our depreciation and amortization costs were BGN 259.0 million for the twelve months ended December 31, 2013, a decrease of BGN 18.6 million, or 6.7%, from BGN 277.6 million for the twelve months ended December 31, 2012. This was mainly due to lower capital expenditures and decreased net book value of our fixed assets as a result of the impairment of our fixed line business as at December 31, 2012. As at the year ended December 31, 2012, following third party impairment testing of our assets as part of our annual financial review, we recorded a BGN 56.6 million impairment charge against our fixed line business. In 2012, the forecasted future cash flows for our fixed line business declined as a result of stricter termination rate regulations implemented by the CRC and competitive market pressures leading to an impairment loss that was recognized in other operating expenses for the year ended December 31, 2012. The initially recognised impairment loss amounting to BGN 29.4 was subsequently reversed in 2013, following optimisation of the operating costs and stabilisation of the revenues of the Fixed business.

Finance Costs

Our finance costs were BGN 53.0 million for the twelve months ended December 31, 2013, an increase of BGN 19.3 million, or 57.0%, from BGN 33.8 million for the twelve months ended December 31, 2012, primarily as a result of the costs for debt restructuring and bond issue, as well as an increase in the fixed interest rates - 6⅝% fixed for 5 years vs. EURIBOR + 5.5%.

Finance Income

Our finance income was BGN 6.4 million for the twelve months ended December 31, 2013, a decrease of BGN 1.8 million, or 21.7%, from BGN 8.2 million for the twelve months ended December 31, 2012, due to decreased interest income on bank deposits as a result of slightly lower interest rates and lower cash balances held with financial institutions in 2013 following repayment of our long term borrowings in 2012.

Other Gains, Net

Our other gains, net were BGN 4.7 million for the twelve months ended December 31, 2013, a decrease of BGN 5.5 million, or 53.9%, from BGN 10.2 million for the twelve months ended December 31, 2012 as gains from sales of non current assets decreased, mainly due to the decrease in sales of our dismantled copper cables as such activities were reduced in 2013

Income Tax Expenses

The following table sets forth our income tax expense for the twelve months ended December 31, 2013 as compared to the twelve months ended December 31, 2012.

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2013**	**2012**	**(amount)**	**(%)**
Current income tax charge	(2.3)	(6.4)	4.0	(63.6)
Deferred tax credit to comprehensive income	(1.5)	9.7	(11.2)	(116.0)
Income tax expense	**(3.9)**	**3.3**	**(7.2)**	**(215.8)**

Income tax expenses were BGN 3.9 million for the twelve months ended December 31, 2013, an increase of BGN 7.2 million, or 215.8%, from BGN a positive 3.3 million for the twelve months ended December 31, 2012 due to higher operating profit for 2013.

ADJUSTED EBITDA AND PROFIT FOR THE PERIOD

As a result of the foregoing, our profit for the period was BGN 29.2 million for the twelve months ended December 31, 2013, an increase of BGN 62.5 million, or 187.7% from BGN 33.3 million loss for the twelve months ended December 31, 2012.

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)	**2013**	**2012**	**(amount)**	**(%)**
Profit / (loss) for the period	**29.2**	**(33.3)**	**62.5**	**(187.7)**
Income tax expense	3.9	(3.3)	7.2	(215.8)
Finance costs	53.0	33.8	19.2	56.8
Finance income	(6.4)	(8.2)	1.8	(22.5)
Depreciation and amortization	259.0	277.6	(18.6)	(6.7)
EBITDA	**338.7**	**266.6**	**72.1**	**27.0**
Asset impairment and write off	(22.0)	75.7	(97.7)	(129.1)
Other gains, net	(4.7)	(10.2)	5.5	(53.9)
Provisions and penalties	8.4	10.3	(2.0)	(19.0)
Other exceptional items	4.2	6.9	(2.7)	(39.4)
Adjusted EBITDA	**324.5**	**349.3**	**(24.8)**	**(7.1)**

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	**2013**	**2012**	**(amount)**	**(%)**
Net cash from operating activities	233.1	334.0	(100.9)	(30.2)
Net cash used in investing activities	(174.9)	(142.3)	(32.6)	22.9
Net cash used in financing activities	(34.7)	(269.5)	234.8	(87.1)
Net increase / (decrease) in cash and cash equivalents	**23.5**	**(77.8)**	**101.3**	**(130.3)**

Net Cash from Operating Activities

For the twelve months ended December 31, 2013, net cash flows from operating activities decreased by BGN 101.0 million or 30.2%, to BGN 233.1 million, from BGN 334.0 million for the twelve months ended December 31, 2012. The decrease mainly resulted from higher interest payments and an increase in operating assets. Our interest payments were higher due to the change in our interest payment period and applicable interest rates under the amended loan agreement following the restructuring in November 2012 as well as the Notes offering transaction costs. The increase in operating assets was primarily due to the increase in trade receivables and trading stock to support customer growth. Trade and other receivables increased mainly due to increased finance lease receivables stemming from the higher sales of mobile handsets. Trade payables decreased mainly due to decreased payables to international telecommunications operators from falling international termination rates.

Net Cash Used in Investing Activities

For the twelve months ended December 31, 2013, net cash flows used in investing activities increased by BGN 32.5 million or 22.9%, to BGN 174.8 million, from BGN 142.3 million for the twelve months ended December 31, 2012. The increase was primarily attributable to acquisition of investments (corporate bonds with 7% fixed coupon) and bank deposits with a maturity of greater than three months. In 2012, additional cash deposits were released in advance of our loan repayments to be made during the year. This increase was offset by lower payments for purchases of property, plant and equipment and intangible assets in line with our lower capital expenditures for the twelve months ended December 31, 2013, as compared to the twelve months ended December 31, 2012.

Net Cash Used in Financing Activities

For the twelve months ended December 31, 2013, net cash flows used in financing activities decreased by BGN 234.8 million or 87.1%, to BGN 34.7 million, from BGN 269.5 million for the twelve months ended December 31, 2012. The decrease was primarily due to lower net repayments of borrowings and the lack of dividend payments, as there were no distributable reserves. At the General Meeting of Shareholders, held on July 31, 2013 it was voted not to distribute dividends for the year. The proceeds from Notes have been used together with cash on hand to repay the indebtedness outstanding under the amended loan agreement.

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.

In 2013 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 with 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.

CAPITAL EXPENDITURES AND INVESTMENTS

Our investments mainly relate to the build out and enhancement of our fixed (particularly in respect of fiber roll-out) and mobile network (particularly in respect of 3G technology and HSPA+). 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 modems. 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, except where indicated)	**2013**	**2012**
Network	113.7	146.1
IT	11.4	14.9
Commercial and other	39.5	28.8
Licenses	-	13.8
Total capital expenditure	**164.6**	**203.6**

For the twelve months ended December 31, 2013, capital expenditures amounted to BGN 164.6 million, which consisted of:

- BGN 113.7 million of capital expenditures relating to network activities, mainly for investment in optical infrastructure and our mobile network;
- BGN 39.5 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 renovation and reconstruction of our retail locations and sales commissions related to term contracts; and
- BGN 11.4 million of capital expenditures relating to IT activities, mainly for IT infrastructure and customer care and billing ("CC&B") driven projects.

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 weigh on 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.
Currently Bulgarian government remains stable, despite non-confidence votes.

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: origination and termination on fixed network, access and local, long distance and international calls for fixed voice service, call termination for the mobile voice service. VIVACOM is still obliged to have and officially publish standard offers for interconnection, unbundling access to the subscription line. In addition VIVACOM was obliged to provide another wholesale services – wholesale line rental, bitstream, leased lines, duct rental. The lack of strict regulation allows the mobile operators with dominant position to provide many complex and bundled quasi-fixed offers at lower prices than the one VIVACOM is allowed to provide due to its regulated activity.

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 services and advertisements which may affect the whole sector. The measures which the CPC may impose will 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.

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.

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.

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.

More market analyses of CRC are due to become effective which shall most probably confirm some of VIVACOM's existing specific obligations.

The measures which the CPC may impose will 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.

Credit risks

Credit risks or the risk of counterparty defaulting is reduced partly by the application of monthly subscription, credit limits and monitoring procedures. The Company has a policy of obtaining collateral from its retail customers where risk is perceived and from distributors. Credit risk is managed on VIVACOM Group level. The credit exposure of VIVACOM consists of the total value of trade and other receivables and short-term deposits. There is no significant concentration of credit risk related to accounts receivable.

Liquidity risks

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

Currency risk

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

Due to the fact that the companies within Vivacom Group use mainly BGN and EUR as operating currencies they are not significantly exposed to currency risk. Most of the income is generated in BGN while long term borrowings, interest expenses and part of the capital expenses are in EUR. This mismatch has not been a problem for the past 15 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 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 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 behavior 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

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

EXPECTED DEVELOPMENT

In 2014 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;
- VIVACOM will continue to deploy its fibre network and to develop its portfolio of Internet services in order to support today's growing demands for high speed bandwidth capacity;
- VIVACOM plans to continue the investments in high quality digital television services.

INFORMATION ABOUT THE COMPANY'S BOARD OF DIRECTORS AND SUPERVISORY BOARD.

Members of the Company's Managing Board and Supervisory Board at 31 December 2013

a) At 31 December 2013 the members of the Managing Board of VIVACOM are:

Mr. Zlatozar Krastev Sourlekov - Chairman of the Managing Board
Mr. Atanas Iliev Dobrev - Member of the Managing Board and Chief Executive Officer
Mr. Alexander Georgiev Grancharov – Deputy Chairman of the Managing Board
Mr. Rusin Yordanov - Member of the Managing Board
Mr. Ivailo Rumenov Bachiiski - Member of the Managing Board

b) At 31 December 2013 the members of the Supervisory Board of VIVACOM are:

Mr. Tsvetan Radoev Vassilev - Chairman of the Supervisory Board
Mr. Olksandr Moroz - Member of the Supervisory Board
Mr. Philip Harrison Grose - Member of the Supervisory Board
Mr. Stefano Zuppet - Member of the Supervisory Board
Mr. Vladimir Alexandrov Rangelov - Member of the Supervisory Board

The members of the Managing Board, the Supervisory Board and the senior management of the Company did not acquire, hold and transfer shares and bonds of VIVACOM in 2013. The members of the Managing Board and the Supervisory Board are not entitled to acquire shares or bonds of VIVACOM pursuant to any existing financial instrument or agreement.

The contracts referred to in Article 240b of the Commerce Act were concluded in 2013 after the due authorization by the Managing Board of VIVACOM.

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.

In 2013 Viva Telecom Bulgaria EAD increased its shareholding by 16, 247, 640 shares to 99.72% of Vivacom shares as a result of the tender offer.

In July 2013, the Company's direct parent company, Viva Telecom Bulgaria EAD successfully completed its acquisition of all remaining common voting shares of the Company, pursuant to the Squeeze Out, which was approved by the Bulgarian Financial Supervision Commission (the regulatory authority for the non-banking financial sector). The Bulgarian government's Golden Share was not subject to the Squeeze Out. At the general meeting of shareholders of the Company on September 30, 2013, the resolution was passed to cancel the special rights of the Golden Share, such as the right to veto certain corporate actions. The Golden Share was then redeemed on October 15, 2013 and Vivacom was registered as EAD (single shareholder company) on October 21, 2013. The delisting of the Company from the Bulgarian stock exchange was completed as of October 31, 2013.

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.

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.

The Company has no information about pending judicial, administrative or arbitration proceedings regarding liabilities or receivables of the Company amounting to at least 10% of its equity.

Data about the Investor Relations Director:

Bogdan Bogdanov

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Atanas Dobrev
CEO
Sofia
27.02.2014

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 voice subscribers for the period divided by the number of months in that period. The average number of mobile voice 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. Mobile subscribers are counted excluding machine to machine connections and data subscribers.

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/, other gains, net, provisions and penalties and other exceptional items which we believe are not indicative of our underlying operating performance.

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

Market Share

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

Subscribers

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

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

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

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.
"**ATM**"	Asynchronous transfer mode, a digital network transport technology.
"**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.
"**capacity**"	The amount of bandwidth or throughput that can be handled by a network element.
"**cellular**"	Cellular refers most basically to the structure of the wireless transmission networks that are comprised of cells or transmission sites.
"**channel**"	A path of communication, either electrical or electromagnetic, between two or more points. Also called a circuit, facility, line, link or path.
"**churn**"	A telecom industry measure of the proportion of subscribers that disconnect from a telecommunication providers' service over a period of time.
"**convergence**"	Convergence merger of telecom, data processing and imaging technologies, where fixed, mobile, and IP service providers can offer content and media services, and equipment providers can offer services directly to the subscriber. It is the combination of different media into one operating platform.
"**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.
"**digital subscriber line access multiplexer**" or "**DSLAM**"	A network device that receives signals from multiple customer DSL connections and puts the signals on a high-speed backbone line using multiplexing techniques.
"**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.
"**DTT**" or "**digital terrestrial television**"	Digital television broadcast entirely over earthbound circuits. A satellite is not used for any part of the link between the broadcaster and the end user
"**dual-play**"	Dual-play is the bundling of mobile and fixed telephony services into one contract.
"**EDGE**"	Enhanced Data rates for GSM Evolution; EDGE is a technology, which elevates GPRS download speeds to above 100 kbps.
"**Ethernet**"	Standard for 10 Mbps local area networks.
"**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.
"**IP-VPN**" or "**Internet Protocol Virtual Private Network**"	IP-VPN offers a secured and private network using IP-based infrastructure.
"**ISDN**" or "**Integrated Services Data Network**"	A set of communication standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network.
"**ISDN BRA/PRA**"	Integrated Service for Digital Network, Basic Rate Access/Primary Rate Access
"**ISP**"	An ISP is a company that provides individuals and companies access to the internet.
"**Kbps**"	Kilobits per second.
"**LAN**" or "**Local Area Network**"	A computer network that interconnects computers in a limited area such as a home, school, computer laboratory, or office building using network media.
"**LLU**" or "**local loop unbundling**"	Local loop unbundling, is where the incumbent grants access to third- party operators of the part of the communications circuit between the subscriber's equipment and the equipment of the local exchange (known as the local loop). Where such access is granted by the incumbent, the incumbent may charge the third-party operator a regulated fee for the interconnection service.
"**LTE**" or "**Long Term Evolution**"	LTE refers to a new mobile telephony technology that succeeds 3G. 3GPP (Third Generation Partnership Project) Long Term Evolution, is a new high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
"**M2M**" or "**Machine-to-Machine**"	M2M refers to the data communication between wireless and wired systems and other wireless and wired systems.
"**MAN**" or "**Metropolitan Area Network**"	A computer network in which two or more computers or communicating devices or networks which are geographically separated but in same metropolitan city.
"**MB**"	A megabit.
"**Mbps**"	Megabits per second.
"**MHz**"	Megahertz; a unit of frequency equal to 1 million Hertz.
"**MMS**" or "**Multimedia Messaging Service**"	An evolution of SMS that enables users to send multimedia content including images, audio and video clips to other users.
"**MPLS**" or "**Multi Protocol Label Switching**"	A method used to speed up data communication over combined IP / ATM networks.
"**MRC**"	Monthly Recurring Charges.
"**MTR**" or "**mobile termination rates**"	A voice, or SMS or MMS, as applicable termination charge levied against the origination network by the receiving network at a rate that is agreed between the two networks. The MTR is usually subject to regulatory limits.

"**MVNO**" or "**mobile virtual network operator**"	A mobile operator that does not own its own spectrum and usually does not have its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use for sale to their own subscribers.
"**network**"	An interconnected collection of telecom components consisting of switches connect to each other and to customer equipment by real or virtual transmission links. Transmission links may be based on fiber optic or metallic cable or point-to-point radio connections.
"**number portability**"	A facility provided by telecommunications operators that enables customers to keep their full telephone numbers when they change operators.
"**operator**"	A term for any company engaged in the business of building and running its own network facilities.
"**penetration**"	A measurement of access to telecommunications, normally calculated by dividing the number of subscribers to a particular service by the population and multiplying by 100.
"**roaming**"	Roaming is the transfer of mobile traffic from one network to another, referring to the exchange of mobile international traffic.
"**R2D**"	Register to Digital signalization via 2 Mbit/s subscriber line.
"**smartphone**"	A smartphone is a mobile phone built on a mobile computing platform and includes high-resolution (touch) screens, web browsers that can access and properly display standard web pages and high speed data access via Wi-Fi and mobile broadband.
"**SMS**" or "**Short Message Service**"	A text message service which enables users to send short messages (160 characters or less) to other users.
"**spectrum**"	A continuous range of frequencies, usually wide in extent within which waves have some certain common characteristics.
"**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. See "*Regulation*."
"**triple-play**"	Triple-play is the bundling of mobile, fixed telephony and fixed broadband services into one contract.
"**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.
"**VoIP**" or "**Voice over IP**"	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.
"**WiMAX**"	Worldwide Interoperability for Microwave Access. A wireless network standard with the maximum capacity of approximately 75 Mbps.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
As at 31 December 2013
All amounts are in thousand BGN, unless otherwise stated

		Consolidated Financial Statements			Separate Financial Statements		
	Notes	31.12.2013	31.12.2012	01.01.2012	31.12.2013	31.12.2012	01.01.2012
ASSETS			restated	restated		restated	restated
Current assets							
Cash and cash equivalents	5	87,333	63,886	141,664	79,508	59,352	141,355
Trade and other receivables	6	72,814	79,252	159,488	72,079	73,304	159,497
Current income tax receivables		-	423	-	-	423	-
Inventories	7	37,262	31,987	25,734	37,262	31,987	25,734
Investments		145	-	686	145	-	686
Other current assets	9	11,066	14,687	16,284	11,066	14,542	16,283
Assets classified as held for sale	8	1,533	2,127	1,892	1,533	2,127	1,892
Total current assets		**210,153**	**192,362**	**345,748**	**201,593**	**181,735**	**345,447**
Non-current assets							
Goodwill		2,049	2,049	3,706	2,049	2,049	3,706
Property, plant and equipment	10	853,402	884,609	1,007,369	853,390	884,609	1,007,369
Intangible assets	11	252,215	285,050	304,922	252,207	285,042	304,913
Investments	12	44,992	335	335	45,791	1,134	1,134
Trade and other receivables	6	10,115	5,072	2,940	10,115	5,072	2,940
Other non-current assets	9	1,583	1,089	1,702	1,583	1,089	1,702
Deferred tax assets, net	17	1	14	73	-	-	-
Total non-current assets, net		**1,164,357**	**1,178,218**	**1,321,047**	**1,165,135**	**1,178,995**	**1,321,764**
TOTAL ASSETS		**1,374,510**	**1,370,580**	**1,666,795**	**1,366,728**	**1,360,730**	**1,667,211**

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2013
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated Financial Statements			Separate Financial Statements		
		31.12.2013	31.12.2012 restated	01.01.2012 restated	31.12.2013	31.12.2012 restated	01.01.2012 restated
LIABILITIES AND EQUITY							
Current liabilities							
Dividends payable	19	6	10	158,092	6	10	158,092
Trade payables	13	92,664	89,970	75,921	92,843	86,049	75,920
Other payables	14	25,476	24,560	24,144	25,402	24,530	24,144
Deferred income/revenue		18,882	18,056	17,098	18,882	18,056	17,099
Current income tax liabilities		13	194	404	8	-	404
Provisions for other liabilities and charges	15	10,247	7,483	12,460	10,247	7,483	12,460
Borrowings	16	10,975	31,748	995,075	10,975	31,748	995,075
Total current liabilities		**158,263**	**172,021**	**1,283,194**	**158,363**	**167,876**	**1,283,194**
Non-current liabilities							
Borrowings	16	841,583	862,567	3,393	841,583	862,567	3,393
Deferred tax liabilities, net	17	18,696	17,186	27,276	18,696	17,186	27,276
Retirement benefit obligations	18	1,956	917	946	1,956	917	946
Provisions for other liabilities and charges	15	8,668	8,662	7,329	8,668	8,662	7,329
Trade payables		4,130	4,500	4,926	4,130	4,500	4,926
Deferred income/revenue		1,388	1,234	-	1,388	1,234	-
Total non-current liabilities, net		**876,421**	**895,066**	**43,870**	**876,421**	**895,066**	**43,870**
Equity							
Share capital	19	288,765	288,765	288,765	288,765	288,765	288,765
Reserves		44,298	37,274	40,356	44,298	37,274	40,356
Retained earnings/(accumulated loss)		6,763	(22,546)	10,610	(1,119)	(28,251)	11,026
Total equity		**339,826**	**303,493**	**339,731**	**331,944**	**297,788**	**340,147**
TOTAL LIABILITIES AND EQUITY		**1,374,510**	**1,370,580**	**1,666,795**	**1,366,728**	**1,360,730**	**1,667,211**

These financial statements were approved on 27.02.2014.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Maria Peneva
Director
KPMG Bulgaria OOD
Date 28.02.2014

Margarita Goleva
Registered Auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2013	Year ended 31.12.2012 Restated	Year ended 31.12.2013	Year ended 31.12.2012 Restated
Revenue	20	811,879	857,717	792,794	841,684
Interconnect expenses		(55,411)	(112,665)	(45,219)	(103,436)
Other operating expenses	21	(212,005)	(309,967)	(212,144)	(309,955)
Materials and consumables expenses		(136,878)	(109,253)	(136,875)	(109,247)
Staff costs	22	(73,611)	(69,493)	(73,604)	(69,489)
Depreciation and amortization	9,10,11	(258,991)	(277,597)	(258,989)	(277,596)
Finance costs	23	(53,028)	(33,777)	(53,020)	(33,772)
Finance income	23	6,418	8,201	12,335	8,187
Other gains, net	24	4,697	10,192	4,697	10,192
Profit/(loss) before tax		**33,070**	**(36,642)**	**29,975**	**(43,432)**
Income tax benefit/(expense)	25	(3,862)	3,327	(2,944)	3,996
Profit/(loss) for the year		**29,208**	**(33,315)**	**27,031**	**(39,436)**
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		(108)	(657)	(108)	(657)
Valuation of financial assets available for sale		7,452	-	7,452	
Related tax	25	10	66	10	66
		7,354	(591)	7,354	(591)
Items that will never be reclassified to profit or loss:					
Revaluation of land		(158)	(2,767)	(158)	(2,767)
Remeasurements of defined benefit liability		(87)	159	(87)	159
Related tax	25	16	276	16	276
		(229)	(2,332)	(229)	(2,332)
Other comprehensive income for the year, net of tax		**7,125**	**(2,923)**	**7,125**	**(2,923)**
Total comprehensive income for the year		**36,333**	**(36,238)**	**34,156**	**(42,359)**
Earnings/(loss) per share (basic and diluted)	19	0.10	(0.12)	0.09	(0.14)

These financial statements were approved on 27.02.2014.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Maria Peneva
Director
KPMG Bulgaria OOD

Margarita Goleva
Registered Auditor

Date 28.02.2014

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД

The notes on pages 35 to 89 are an integral part of these financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013
All amounts are in thousand BGN, unless otherwise stated

Consolidated Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Retained earnings/ (accumulated loss)	Total
Balance as at 1 January 2012, as previously reported		**288,765**	**28,876**	**10,934**	**-**	**546**	**10,012**	**339,133**
Impact of change in accounting policy	31	-	-	-	-	-	598	**598**
Restated balance at 1 January 2012		**288,765**	**28,876**	**10,934**	**-**	**546**	**10,610**	**339,731**
Total comprehensive income for the year								
Loss for the year, as restated		-	-	-	-	-	(33,315)	**(33,315)**
Total other comprehensive income	25	-	-	(2,491)	-	(591)	159	**(2,923)**
Total comprehensive income for the year		**-**	**-**	**(2,491)**	**-**	**(591)**	**(33,156)**	**(36,238)**
Restated balance as at 31 December 2012		**288,765**	**28,876**	**8,443**	**-**	**(45)**	**(22,546)**	**303,493**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	29,208	**29,208**
Total other comprehensive income	25	-	-	(142)	7,452	(98)	(87)	**7,125**
Total comprehensive income for the year		**-**	**-**	**(142)**	**7,452**	**(98)**	**29,121**	**36,333**
Transfer to retained earnings - land disposal		-	-	(188)	-	-	188	**-**
Balance as at 31 December 2013		**288,765**	**28,876**	**8,113**	**7,452**	**(143)**	**6,763**	**339,826**

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 31 December 2013
All amounts are in thousand BGN, unless otherwise stated

Separate Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Retained earnings/ (accumulated loss)	Total
Balance as at 1 January 2012, as previously reported		**288,765**	**28,876**	**10,934**	**-**	**546**	**10,428**	**339,549**
Impact of change in accounting policy	31	-	-	-	-	-	598	**598**
Restated balance at 1 January 2012		**288,765**	**28,876**	**10,934**	**-**	**546**	**11,026**	**340,147**
Total comprehensive income for the year								
Loss for the year, as restated		-	-	-	-	-	(39,436)	**(39,436)**
Total other comprehensive income	25	-	-	(2,491)	-	(591)	159	**(2,923)**
Total comprehensive income for the year		**-**	**-**	**(2,491)**	**-**	**(591)**	**(39,277)**	**(42,359)**
Restated balance as at 31 December 2012		**288,765**	**28,876**	**8,443**	**-**	**(45)**	**(28,251)**	**297,788**
Total comprehensive income for the year								
Profit for the year, as restated		-	-	-	-	-	27,031	**27,031**
Total other comprehensive income	25	-	-	(142)	7,452	(98)	(87)	**7,125**
Total comprehensive income for the year		**-**	**-**	**(142)**	**7,452**	**(98)**	**26,944**	**34,156**
Transfer to retained earnings - land disposal		-	-	(188)	-	-	188	**-**
Balance as at 31 December 2013		**288,765**	**28,876**	**8,113**	**7,452**	**(143)**	**(1,119)**	**331,944**

These financial statements were approved on 27.02.2014.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Maria Peneva
Director
KPMG Bulgaria OOD
Date 28.02.2014

Margarita Goleva
Registered Auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
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"КПМГ - България" ООД

The notes on pages 35 to 89 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 2013
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statement		Separate financial statement	
		Year ended 31.12.2013	Year ended 31.12.2012	Year ended 31.12.2013	Year ended 31.12.2012
Cash flows from operating activities			Restated		Restated
Profit/(loss) before tax		33,070	(36,642)	29,975	(43,432)
Adjustment for:					
Depreciation and amortization	9,10, 11	258,991	277,597	258,989	277,596
Gain on sale of non-current assets	24	(4,665)	(10,178)	(4,665)	(10,178)
Impairment (reversal)/loss and write off of non-current asset	10,11	(23,284)	74,698	(23,282)	74,699
Interest expenses, net	23	46,616	25,458	46,796	25,471
Impairment loss on trade receivables	6	8,571	19,351	8,647	19,268
Impairment loss and write off of current asset		2,042	3,606	2,042	3,606
Income from investment operations	23	(333)	(286)	(6,433)	(286)
Gain/(loss) from operations with cash flow hedges	23	5	(27)	5	(27)
Loss/(gain) from provisions		6,679	(2,954)	6,679	(2,954)
Changes in:					
-inventories		(6,968)	(9,231)	(6,968)	(9,231)
-trade and other receivables		(17,937)	(1,118)	(23,357)	5,029
-trade and other payables		5	17,250	4,060	13,301
-provisions and employee benefits		(2,232)	(1,879)	(2,232)	(1,879)
-deferred income/revenue		980	2,191	980	2,191
Cash generated from operations		**301,540**	**357,836**	**291,236**	**353,174**
Interest received		4,043	7,880	3,875	7,869
Interest paid		(70,414)	(24,670)	(70,414)	(24,670)
Corporate income tax paid		(2,071)	(6,995)	(977)	(6,579)
Net cash from operating activities		**233,098**	**334,051**	**223,720**	**329,794**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		12,650	11,586	12,650	11,586
Acquisition of property, plant, equipment and intangible assets		(150,631)	(208,595)	(150,619)	(208,595)
Acquisition of investments		(37,205)	-	(37,205)	-
Cash deposits with maturity greater than three months		(56)	54,430	(86)	54,460
Dividends received		358	267	6,458	267
Sale of investment		25	-	25	-
Net cash used in investing activities		**(174,859)**	**(142,312)**	**(168,777)**	**(142,282)**
Cash flows from financing activities					
Proceeds from new borrowings		850,786	-	850,786	-
Repayment of borrowings		(884,229)	(110,679)	(884,229)	(110,679)
Dividend paid		-	(158,087)	-	(158,087)
Payment of finance lease liabilities		(1,251)	(752)	(1,251)	(752)
Net cash used in financing activities		**(34,694)**	**(269,518)**	**(34,694)**	**(269,518)**
Net decrease in cash and cash equivalents		**23,545**	**(77,779)**	**20,249**	**(82,006)**
Effect of exchange rate fluctuations on cash held		(98)	1	(93)	3
Cash and cash equivalents at the beginning of the year	5	63,886	141,664	59,352	141,355
Cash and cash equivalents at the end of the year	**5**	**87,333**	**63,886**	**79,508**	**59,352**

These financial statements were approved on 27.02.2014.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Maria Peneva
Director
KPMG Bulgaria OOD
Date 28.02.2014

Margarita Goleva
Registered Auditor

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
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The notes on pages 35 to 89 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") is a single owned joint stock company, domiciled in Bulgaria, with its registration address: 115i, Tsarigradsko shose Blvd, 1784 Sofia. BTC's activities include development, operation and maintenance of the national fixed and mobile network and data system for the Republic of Bulgaria.

The Ultimate Parent Company is V Telecom Investment S.C.A. ("V Telecom") which indirectly owns 100% of the shares of Viva Telecom Bulgaria EAD which is the Parent of the Company as at 31 December 2013. As per the publicly disclosed tender offer documentation published by Viva Telecom Bulgaria EAD on 15 July 2013 there are two shareholders which own more than 5% of the share capital of V Telecom none of which exercise control over V Telecom: Bromak Telecom Invest AD (indirectly wholly owned by Mr Tsvetan Radoev Vasilev) holding 43,264% of the share capital of V Telecom and Crusher Investment Limited (indirectly wholly owned by OJSC VTB Bank which is majority owned by the Russian Federation) holding 33,307% of the share capital of V Telecom, and a number of shareholders (being lenders of the present and/or previous owners of the Company's group companies) holding less than 5% share individually.

As a result of the approval of a comprehensive scheme for the sale and restructuring of BTC group with its creditors on 9 November 2012 Viva Telecom Bulgaria EAD acquired 93.99% of BTC shares following the receipt of relevant EC and other regulatory approvals. Following mandatory tender offer procedure in January-February 2013 and squeeze-out procedure in July 2013 Viva Telecom Bulgaria EAD acquired 100% of BTC shares.

As of 31 December, 2013 and 2012 the Parent company had 3,519 and 3,406 employees, respectively.In 2010 BTC and Alcatel-Lucent Bulgaria EOOD has signed a master service agreement whereby BTC outsourced various aspects of its network implementation, provisioning operations, field service, maintenance and other business. The parties have jointly decided to terminate the outsourcing agreement prior to its initially agreed term without any penalty for either party and to transfer the outsourced activities and staff back to BTC effective as of 1 January 2014. As a result as of the beginning of 2014 BTC assumed 2171 employees, assets and liabilities solely related to the network operation activities, incl. equipment and tools; inventory, spare and consumables; the rights, claims, lawsuits and credits which Alcatel-Lucent Bulgaria has against third parties; work in progress; third party contracts with subcontractors.

The Group

As at 31 December 2013 and 2012 the Group includes the subsidiary entity BTC Net 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.

1. General information (continued)

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.

Regulations

Regulatory framework

- **Fixed line telecommunications**

In May 2007 a new Electronic Communications Act (ECA) was adopted, which implemented the new EU 2002 regulatory framework in the field of electronic communications.

In 2008 the following secondary legislation acts which play significant role in the activities of BTC were adopted:

- Methodology for determination of prices and price packages of Universal service (US);
- Ordinance No 6 for the requirements and the quality parameters of US, special measures for disabled people and terms and conditions for selection of undertakings providing universal service;
- Functional specifications for portability of geographic numbers when changing the supplier of fixed telephony service and/or changing the address within one geographic national code;
- Rules for provision of carrier selection service;
- Methodology for the terms and conditions for defining, analyzing and evaluation of the relevant markets and criteria for defining undertakings with significant market power.

In 2009 the preparation and adoption of secondary legislation acts continued and Ordinance No 1 for the terms and conditions for carrying out access and interconnection was also adopted.

According to the procedures set out in ECA and the Methodology for market definition and analysis the Communications Regulation Commission (CRC) 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;
- Markets for origination and termination in fixed networks;
- Market for termination in mobile networks

In 2010 secondary legislation was developed through modification of already existing ordinances and through issuing of new ones:

- Ordinance № 1 of 22 July 2010 for distribution rules and procedures for primary and secondary provision for use, reservation and withdrawal of numbers, addresses and names;
- Amendment of Ordinance № 1 on the procedures for accessing and / or interconnection;
- Amendment of Functional specifications for the implementation of portability of nationally significant numbers for changing of service provider of public mobile telephone service;
- Amendment of functional specifications for the implementation of portability of non-geographic numbers when changing service provider providing the service
- Amendment of functional specifications for portability of geographic numbers for switching to a fixed telephone service and / or change of address within a geographic country code for direction.

In December 2011 a new Law Amendment of ECA was adopted, which implemented the new EU 2009 regulatory framework in the field of electronic communications.
In 2011 the Communications Regulation Commission (CRC) sent notifications to the European Commission for the following market analyses:

- Market for wholesale (physical) network infrastructure access
- Market for wholesale broadband access

1. General information (continued)

Regulations (continued)

In 2012 the following secondary legislation acts were adopted or modified:

- Methodology for the terms and procedure of relevant markets definition, analysis and assessment, and criteria for designating undertakings with significant market power
- Amendment of Functional specifications for portability of geographic numbers when changing the supplier of fixed telephony service and/or changing the address within one geographic national code
- Amendment of Ordinance no 6 for the universal service according to law of electronic communication
- Amendment of ordinance № 1 of 22 July 2010 for distribution rules and procedures for primary and secondary provision for use, reservation and withdrawal of numbers, addresses and names;
- Amendment of general requirements for provision of public electronic communications
- Amendment of rules for the conditions and procedure for transferring of authorizations for use of individually assigned scarce resource

In 2012 the Communications Regulation Commission (CRC) sent notifications to the European Commission for the following market analyses:

- Markets for origination and termination in fixed networks;
- Market for termination in mobile networks
- Market for terminating segment of leased lines
- Market for trunk segment of leased lines
- Market for retail leased lines

In 2013 г. the Communications Regulation Commission (CRC) sent notifications to the European Commission for the following market analyses:

- Market for access to the public telephone network at a fixed location for residential and non-residential customers;
- Market for publicly available national telephone services provided at a fixed location for residential and non-residential customers;
- Market for publicly available international telephone services provided at a fixed location for residential and non-residential customers.

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. The term of the license is until February 2019.

An annual license fee, calculated on the base of the annual revenue from telecommunication services billed to subscribers is payable quarterly in arrears. During 2013 and 2012 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, valuated 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 2013 and 2012 the fee was BGN 2,397 thousand and BGN 2,720 thousand, respectively. The fees are regulated by the CRC and relevant Council of Ministers Ordinances.

1. General information (continued)

Regulations (continued)

- **Mobile telecommunications**

In June 2004 the Communications Regulation Commission (CRC) granted BTC EAD 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. According to the license BTC AD undertook the commitment to ensure coverage of not less than 20% of the population within 12 months, not less than 40% within 24 months and not less than 65% within 36 months. BTC paid BGN 54,160 thousand for the GSM license.

In June 2005 BTC EAD transferred the license to BTC Mobile after the CRC's approval.

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

According to the license BTC EAD undertook the commitment to ensure coverage of not less than 15% of the population within 2 years and 144 kbps guaranteed speed of information transfer and not less than 50% within 5 years and 144 kbps guaranteed speed of information transfer and for Sofia, Plovdiv, Varna, Bourgas and Ruse the guaranteed speed of information transfer has to be minimum 384 kbps. BTC paid BGN 42,000 thousand for the UMTS license. In August 2006 BTC EAD transferred the license to BTC Mobile after the CRC's approval.

Based on the filed application, with decision No 1391 from 04 August 2008 CRC approved the transfer of both the licenses to BTC and the respective permission for using individually determined limited resource was issued consequently.

In 2012 CRC granted BTC AD an additional spectrum of 5 MHz and exchanged the position of previously submitted spectrum. At present BTC has 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

An annual fee, calculated based on the annual revenue from telecommunication services provided to the subscribers is paid quarterly. In 2013 and 2012 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 2013 and 2012 the fees paid for frequency bands for the GSM license were BGN 4,028 thousand and for the UMTS license - respectively BGN 2,375 thousand and BGN 1,679 thousand.

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

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and available-for-sale financial assets at fair value through other comprehensive income, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
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).

- **New and amended standards adopted by the group**

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

IFRS 13 Fair Value Measurement. IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such disclosures are required or permitted by other IFRSs. It unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result the Group has included additional disclosures in this regard (see notes 10, 12 and 30).
In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

IAS 19 Employee Benefits (2012). As a result of IAS 19 Employee Benefits (2012), the Group has changed its accounting policy in respect of actuarial gains and losses arising from defined benefit plans from using the 'corridor' approach to recognising all actuarial gains and losses in other comprehensive income (OCI).
Previously, the Group recognized a portion of its actuarial gains and losses as income or expense for the period if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded 10% of the present value of defined benefit obligation as at that date. The portion of the actuarial gains and losses recognized in profit or loss was the excess divided by the expected average working lives of the employees participating in the plan (expected to be 9 years). The unrecognized actuarial gains as at 31 December 2012 were in the amount of BGN 757 thousand (1 January 2012 – BGN 664 thousand). The impacts resulting from the above change in accounting policy on the Group's financial position and comprehensive income is summarized in note 31.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

- **New and amended standards adopted by the group**

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1). As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassifies to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

- **New standards and interpretations not yet adopted:**

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in annual period ended 31 December 2013, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early.

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

IFRS 10 Consolidated Financial Statements shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint Arrangements, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

IFRS 12 Disclosures of Interests in Other Entities, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the new Standard will have a material impact on the financial statements.

IAS 27 Separate Financial Statements (2011) which supersedes IAS 27 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the new Standard will have a material impact on the financial statements.

IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any impact on the financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

2. Summary of significant accounting policies (continued)

1.1. Basis of preparation (continued)

- **New standards and interpretations not yet adopted:**

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the new standard to have any impact on the financial statements, since BTC does not qualify as an investment entity.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the Amendment will have a material impact on the financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the Amendment to have any impact on the financial statements.

IASB/IFRIC documents not yet endorsed by EC:

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

IFRS 9 Financial Instruments (2009), additions to IFRS 9 (2010 and 2013) and Amendment to IFRS 9 and IFRS 7 Mandatory effective date and transitional disclosures (Effective date not yet determined; to be applied prospectively. Earlier application is permitted.)

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (Effective for annual periods beginning on or after 1 July 2014. Earlier application is permitted. The amendments apply retrospectively).

IFRIC 21 – Levies (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted).

2. Summary of significant accounting policies (continued)

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 Group. 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 Group. 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, 2013 and 2012, 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 board of directors who make strategic decisions.

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 Group's consolidated financial statements.

Effective from 1 January 2000, 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.

2. Summary of significant accounting policies (continued)

2.4. Functional and Presentation Currency (continued)

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

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.

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.

2. Summary of significant accounting policies (continued)

2.5. Property, plant and equipment (continued)

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/(losses), 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	6–15 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.

2.6. Intangible assets

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 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.

2. Summary of significant accounting policies (continued)

2.6. Intangible assets (continued)

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 two cash generating units – fixed and mobile business, to which the goodwill is allocated.

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.

Subscriber acquisition/retention costs
Customer acquisition and retention expenses are capitalized and amortized over the minimum enforceable contractual period, using the straight line method.

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 all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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. Summary of significant accounting policies (continued)

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 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.

2.9. 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

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.

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.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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 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 consolidated 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 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 we 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 Company's right to receive the dividends is established.

The group 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 the statement of comprehensive income. Impairment losses recognised in other comprehensive income on equity instruments are not reversed through the profit or loss for the period.

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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 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 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 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 "Material and consumables expenses" in the profit or loss for the period.

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 provision for impairment.

An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than thirty days), and historical evidence of collectability are considered indicators that trade receivables are impaired.

2. Summary of significant accounting policies (continued)

2.12. Trade and other receivables (continued)

Certain receivables are assessed and impaired individually if it is known that it will not be collected in full. All other receivables are impaired on a group basis according to their aging structure and taking into consideration historical data on collectability.

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 within '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 against 'Other operating expenses' 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.
Borrowings are classified as current liabilities unless the Group 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.

2. Summary of significant accounting policies (continued)

2. 17. Current and deferred income taxes (continued)

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 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 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 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.

At each reporting date, the Group 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
As discussed above, 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 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.

2. Summary of significant accounting policies (continued)

2.18. Employee benefits (continued)

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 OCI. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

Termination benefits
The Group 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 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.

2.20. Revenue recognition

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.
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 company and as far as the revenue can be reliably measured.

Revenue streams
The Company's revenue is derived from the following telecommunication and ICT services and products:

- Outgoing traffic;
- Recurring charges
- Leased lines and Data transmission
- Interconnect
- Other sales.

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition (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 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.

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, 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 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 company obligations that affect the customer's final acceptance of the arrangement.

c)Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the 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. Summary of significant accounting policies (continued)

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 a 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.

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 group'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 can be exposed to a variety of financial risks the most important of which are currency risk, interest risk, price 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 only with reputable financial institutions and banks with good credit standing. 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 net 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.

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

a) Credit risk (continued)

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.

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. There is no significant risk concentration in receivables.

The creditworthiness 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.

The 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 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, 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 2013 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	45,475	30,495	16,694	389	3,741	96,794
Borrowings	666	1,391	57,363	1,074,687	-	1,134,107
Total financial liabilities	**46,141**	**31,886**	**74,057**	**1,075,076**	**3,741**	**1,230,901**

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	46,060	30,089	16,694	389	3,741	96,973
Borrowings	666	1,391	57,363	1,074,687	-	1,134,107
Total financial liabilities	**46,726**	**31,480**	**74,057**	**1,075,076**	**3,741**	**1,231,080**

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

For 2012 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	58,915	27,747	3,308	1,303	4,431	95,704
Borrowings	1	14,601	60,752	1,028,981	-	1,104,335
Total financial liabilities	**58,916**	**42,348**	**64,060**	**1,030,284**	**4,431**	**1,200,039**

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	54,994	27,747	3,308	1,303	4,431	91,783
Borrowings	1	14,601	60,752	1,028,981	-	1,104,335
Total financial liabilities	**54,995**	**42,348**	**64,060**	**1,030,284**	**4,431**	**1,196,118**

c) Market risk

Currency risk

The main objective of Company currency risk management is to minimise 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 and coupon payments and part of the capital expenses are in EUR. This mismatch has not been a problem for the past 15 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 2013 Company identified currency risk, arising as a result of significant exposure to the 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 these highly probable forecasted purchases is 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 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

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 Company.

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

c) Market risk (continued)

Interest rate risk

During 2013 the Company has significantly decreased its interest rate risk exposure. This was achieved through a successful refinancing of the senior syndicated loan through a senior secured notes offering due 2018 with a fixed coupon of $6^{5}/_{8}$%, as disclosed in note 16. Liabilities of BTC sensitive to interest rates amount to BGN 68,454 thousand and the interest payments are based on EURIBOR. As of 31 December, 2013 the Parent company has used no instruments to hedge possible changes in the EURIBOR levels. However, potential hedging transactions are periodically measured based on the possible interest rate levels, as well as in accordance with the market risk policy and if necessary are performed as such.

If the interest rate on borrowings were 0.1% higher, that would have resulted in an increase of interest expenses for 2013 and 2012 respectively by BGN 801 thousand and BGN 943 thousand therefore, the consolidated profit/(loss) after taxation would have been BGN 28,487 thousand for 2013 and BGN (34,164) thousand for 2012. If the interest on long-term borrowings were 0.1% lower, that would result in lower interest expenses for 2013 and 2012 amounting respectively to BGN 801 thousand and BGN 943 thousand and therefore, the profit/(loss) after taxation would have been BGN 29,929 thousand for 2013 and BGN (32,466) thousand for 2012.

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 BTC consists of long-term borrowings (Note 16), cash and cash equivalents (Note 5) and equity, including share capital and retained earnings.

Parent company's management reviews its equity structure on an annual basis. The gearing ratios as of 31 December 2013 and 2012 are as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Total borrowings	852,558	894,315	852,558	894,315
Cash and cash equivalents	(87,333)	(63,886)	(79,508)	(59,352)
Cash deposits with maturity greater than three months	(133)	(77)	(133)	(47)
Net debt	**765,092**	**830,352**	**772,917**	**834,916**
Equity	339,826	303,493	331,944	297,788
Total capital	**339,826**	**303,493**	**331,944**	**297,788**
Gearing ratio	225%	274%	233%	280%

During the period gearing has improved as a result of the partial repayment of the borrowings. The management believes that higher gearing will result in more efficient capital structure and higher returns to the shareholders but 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 the Fixed and Mobile businesses,
– The time value of money represented by weighted average cost of capital (WACC). The respective long term pre-tax WAAC rates used are: 8.8% for Fixed and 10.2% for Mobile for 2013 (8.7% and 10.6% for 2012),
– Perpetual growth rate (PGR). The respective PGR values used are: 0% for Fixed and 1% for Mobile for 2013 (0% and 1% for 2012).

As at 31 December 2013 the Group performed impairment testing of its assets and as a result no need for impairment was identified for the Mobile business. If estimated cash flows were 10% lower or WACC/PGR were 1% higher/lower there would still be no need for impairment. These sensitivities are calculated on an individual basis as follows:

Estimate	**Change (%)**	**Effect on value in use – no impairment**
EBITDA margin absolute decrease	(1%)	(58,134)
WACC absolute increase	0.5%	(63,689)
PGR absolute decrease	(0.5%)	(46,299)

In 2012 forecast future cash flows for the Fixed business declined as a result of stricter termination price regulation and competitive market pressures. This caused a BGN 56,607 thousand impairment loss to be recognized in other operating expenses for the year. The recoverable amount of the asset allocated to the Fixed business had been calculated using the value in use methodology. In 2013, following certain optimisation of the operating costs and stabilisation of the revenues of the Fixed business, the Group reassessed its estimates and BGN 29,382 thousand of the initially recognised impairment has been reversed. The impairment loss and its subsequent reversal was allocated pro rata to the individual assets allocated to the Fixed business. The sensitivity of the recoverable amount expressed in reversal of impairment losses or new impairment loss to be recognised on an individual basis is as follows:

Estimate	**Change (%)**	**Effect on value in use – reversal/(new impairment)**
EBITDA margin absolute decrease	(1%)	(10,359)
WACC absolute increase	0.5%	(4,879)
PGR absolute decrease	(0.5%)	4,075

4. Critical accounting estimates and judgments (continued)

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 plant and equipment and respectively depreciation and amortization charges would be an estimated BGN 25,113 thousand higher/lower.

c) Provisions and contingent liabilities

As set out in Note 28 the Group is a participant in several lawsuits and administrative proceedings. The Group's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive).
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. 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.

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 2013 the Group realized a profit of BGN 29,208 thousand (2012 – a loss of BGN 33,315 thousand). The Group's working capital as at 31 December 2013 is amounting to BGN 51,890 thousand (as at 31 December 2012 – BGN 20,341 thousand). 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. If this risk is not mitigated and if the business of the Group was to be wound down and its assets sold, adjustments would have to be made to reduce the statement of financial position value of assets to their liquidation value, to provide for further liabilities that might arise, and to reclassify property, plant and equipment and long term liabilities as current assets and liabilities. 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.

4. Critical accounting estimates and judgments (continued)

e) Subscriber acquisition costs

Costs to acquire telecommunication customers are capitalized and amortized over the minimum enforceable contractual period as these will be recovered from the future revenue generated from the customers. In the event that a customer terminates a service contract prior to the expiration of the minimum enforceable contractual period, any unamortized customer acquisition costs are written off.

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 receivables

An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than thirty days), and historical evidence of collectability are considered indicators that trade receivables are impaired. Certain receivables are assessed and impaired individually if it's known that it will not be collected in full. All other receivables are impaired on a group basis according to their aging structure and taking into consideration historical data on collectability.

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.

5. Cash and cash equivalents

As at 31 December 2013 and 31 December 2012 the components of the cash and cash equivalents are:

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Current accounts and cash in hand				
Held in BGN	15,680	9,351	14,183	5,499
Held in EUR	2,530	3,427	2,462	3,426
Held in foreign currencies other than EUR	785	426	615	285
Total current accounts and cash in hand	18,995	13,204	17,260	9,210
Deposits				
Held in BGN	68,338	50,682	62,248	50,142
Total deposits	68,338	50,682	62,248	50,142
Total cash and cash equivalents	**87,333**	**63,886**	**79,508**	**59,352**

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

BGN 65,000 thousand and BGN 59,000 thousand (respectively for the consolidated and for the separate financial statements) from the cash and cash equivalents for 2013 are deposited in a bank, a member of the Bromak Telecom Invest AD Group.
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	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
A+	306	1,388	72	1,249
A	1,374	1,514	1,359	1,500
BBB+	2,434	1,120	2,434	1,120
BBB	228	97	101	2
BBB-	-	47	-	47
BB+	381	2,262	381	2,262
BB	17		17	
BB-	-	49,998	-	46,163
B+	77,968		70,519	
B-	8	82	8	82
CCC	2	453	2	1
Not rated banks	3,258	4,172	3,257	4,172
Total cash at current accounts and term deposits	**85,976**	**61,133**	**78,150**	**56,598**

The exposure to banks with credit rating B+ has increased and to banks with credit rating BB- has decreased as of 31 December 2013 compared to 31 December 2012 due to negative development of the long term credit ratings granted by S&P to some banks operating in Bulgaria.

6. Trade and other receivables

As at 31 December 2013 and 31 December 2012 trade receivables include:

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Trade receivables	131,203	142,731	129,607	136,166
incl. international settlement receivables	*2,900*	*6,600*	*1,508*	*1,651*
Intercompany receivables	1	9	864	516
Other receivables	6,685	7,472	6,669	7,439
Total	**137,889**	**150,212**	**137,140**	**144,121**
Provision for impairment of receivables	(54,960)	(65,888)	(54,946)	(65,745)
Total Trade and other receivables	**82,929**	**84,324**	**82,194**	**78,376**
Incl:				
Non-current portion: trade and other receivables	11,237	5,616	11,237	5,616
Provision for impairment of receivables	(1,122)	(544)	(1,122)	(544)
Total non-current portion:	**10,115**	**5,072**	**10,115**	**5,072**
Current portion trade and other receivables	126,652	144,596	125,903	138,505
Provision for impairment of receivables	(53,838)	(65,344)	(53,824)	(65,201)
Total current portion:	**72,814**	**79,252**	**72,079**	**73,304**

Other receivables for 2013 include BGN 133 thousand and for 2012 respectively BGN 77 thousand (for the consolidated financial statements) and 47 thousand (for the separate financial statements) term cash deposits with maturity greater than three months.
All 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 analyzed as follows:

	Gross receivables from finance leases		Net investment in finance leases	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Finance leases receivables with maturity:				
Within one year	24,253	12,176	22,486	11,324
In the second to fifth years inclusive	11,590	5,627	11,222	5,440
Total receivables	**35,843**	**17,803**	**33,708**	**16,764**
Less: unearned finance income	(2,135)	(1,039)	-	-
Provision for impairment of receivables	(3,371)	(1,676)	(3,371)	(1,676)
Net investment in finance leases	**30,337**	**15,088**	**30,337**	**15,088**

Movement of the allowance for impairment of accounts receivables in 2013 and 2012 is as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Balance at the beginning of the period	65,888	64,197	65,745	64,110
Accrued impairment	8,571	19,351	8,647	19,268
Impairment of receivables written off	(19,499)	(17,660)	(19,446)	(17,633)
Balance at the end of the period	**54,960**	**65,888**	**54,946**	**65,745**

6. Trade and other receivables (continued)

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

Business customers

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Balance at the beginning of the period	20,077	19,364	19,934	19,277
Accrued impairment	1,331	8,679	1,407	8,596
Impairment of receivables written off	(7,134)	(7,966)	(7,081)	(7,939)
Balance at the end of the period	**14,274**	**20,077**	**14,260**	**19,934**

Residential customers

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Balance at the beginning of the period	45,811	44,833	45,811	44,833
Accrued impairment	7,240	10,672	7,240	10,672
Impairment of receivables written off	(12,365)	(9,694)	(12,365)	(9,694)
Balance at the end of the period	**40,686**	**45,811**	**40,686**	**45,811**

Expenses for receivables written off are recognised in Other operating expenses of the profit or loss for the period. For 2013 they amount to BGN 200 thousand for the consolidated and individual financial statements (2012: BGN 382 thousand)

Related parties balances are shown in Note 27.
As of 31 December, 2013 and 31 December, 2012 receivables of the Group and the Company at the amount of BGN 7,307 thousand and 9,241 thousand were assessed individually and the impairment amounts to 5,773 thousand and 9,185 thousand.

As of 31 December 2013 and 31 December 2012 the age structure of overdue receivables not impaired is as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
From 60 to 90 days	231	544	248	196
From 91 to 180 days	411	177	419	177
From 181 to 360 days	396	330	132	330
Above 1 year	728	165	727	165
Total	**1,766**	**1,216**	**1,526**	**868**

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 and separate financial statements**	**Carrying amount of the receivable as of**	
		31.12.2013	**31.12.2012**
In the country		1,637	1,471
In the country		957	1,232
In the country		603	1,070
In the country		600	1,570
In the country		433	295

6. Trade receivables (continued)

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

	31.12.2013	31.12.2012
BGN	81,050	80,778
EUR	1,842	4,574
SDR	29	61
USD	8	-
Total	**82,929**	**85,413**

7. Inventories

The materials and supplies as of 31 December 2013 and 31 December 2012 are as follows:

	Consolidated and separate financial statements	
	31.12.2013	**31.12.2012**
Materials and supplies, net	5,035	5,199
Merchandise and other, net	32,227	26,788
Total materials and supplies	**37,262**	**31,987**

Impairment charges related to the inventory items for 2013 were BGN 1,113 thousand for the group and the company (2012 – BGN 2,857 thousand). The reversal of write-downs amounted to BGN 6 thousand (2012: nil). The write-downs and reversals are included in Other operating expenses.

8. Assets classified as held for sale

	Consolidated and separate financial statements	
	31.12.2013	**31.12.2012**
Real estate, held for sale	1,533	2,127
Total assets held for sale	**1,533**	**2,127**

As of 31 December 2013 BTC has 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	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Prepayments	9,163	10,629	9,163	10,629
VAT recoverable and other	3,486	5,147	3,486	5,002
Total other assets	**12,649**	**15,776**	**12,649**	**15,631**
Incl.				
Other current assets	**11,066**	**14,687**	**11,066**	**14,542**
Other non-current assets	**1,583**	**1,089**	**1,583**	**1,089**

Subscriber acquisition cost, representing mainly fees paid to distributors, are included in other assets above, which for the Group and the Company are BGN 2,943 thousand as of 31 December 2013. For 2012 they amount to BGN 4,199 thousand. The amortization expense related to these subscriber acquisition costs is amounting to BGN 7,721 thousand for 2013 and BGN 7,896 thousand for 2012.
Other assets include also intellectual rights, amounting to BGN 27 thousand as of 31 December 2013(2012: nil), for which amortisation expense amounting to BGN 140 thousand for 2013 has been recognised in profit or loss for 2013.

10. Property, plant and equipment

The composition of property, plant and equipment for the Group as of 31 December 2013 and 31 December 2012 is as follows:

	Switching	Transmission	Land	General support	Construction in progress	Total
Gross Book Value						
At 31 December 2011	**1,389,414**	**895,541**	**12,351**	**271,964**	**33,482**	**2,602,752**
Revaluation	-	-	(2,767)	-	-	(2,767)
Additions	964	-	-	3	138,116	139,083
Transfers	89,594	16,709	-	13,212	(119,515)	-
Transfer of impairment	-	-	-	-	1,619	1,619
Impairment	-	-	(173)	-	623	450
Assets held for sale	-	-	(228)	(75)	-	(303)
Disposals	(85,811)	(46,091)	(2)	(24,183)	(386)	(156,473)
At 31 December 2012	**1,394,161**	**866,159**	**9,181**	**260,921**	**53,939**	**2,584,361**
Revaluation	-	-	(158)	-	-	(158)
Additions	(366)	-	-	65	113,473	113,172
Transfers	79,457	28,639	-	15,453	(123,549)	-
Transfer of impairment	-	-	-	-	30	30
Impairment	-	-	-	-	(137)	(137)
Assets held for sale	-	-	-	30	-	30
Disposals	(41,133)	(33,875)	-	(9,640)	(546)	(85,194)
At 31 December 2013	**1,432,119**	**860,923**	**9,023**	**266,829**	**43,210**	**2,612,104**
Accumulated depreciation and impairment						
At 31 December 2011	**830,712**	**597,632**	**-**	**167,039**	**-**	**1,595,383**
Depreciation charged	136,800	24,404	-	24,817	-	186,021
Transfer of impairment	1,501	18	-	100	-	1,619
Impairment	28,754	27,120	-	1,175	-	57,049
Assets held for sale	-	-	-	(42)	-	(42)
Disposals	(75,186)	(42,153)	-	(22,939)	-	(140,278)
At 31 December 2012	**922,581**	**607,021**	**-**	**170,150**	**-**	**1,699,752**
Depreciation charged	123,288	19,340	-	24,893	-	167,521
Transfer of impairment	13	11	-	-	-	24
Impairment	(12,676)	(15,306)	-	(459)	-	(28,441)
Assets held for sale	-	-	-	(11)	-	(11)
Disposals	(37,187)	(33,715)	-	(9,241)	-	(80,143)
At 31 December 2013	**996,019**	**577,351**	**-**	**185,332**	**-**	**1,758,702**
Net book value						
At 31 December 2012	**471,580**	**259,138**	**9,181**	**90,771**	**53,939**	**884,609**
At 31 December 2013	**436,100**	**283,572**	**9,023**	**81,497**	**43,210**	**853,402**

10. Property, plant and equipment (continued)

The composition of property, plant and equipment on BTC stand alone basis as of 31 December 2013 and 31 December 2012 is as follows:

	Switching	Transmission	Land	General support	Construction in progress	Total
Gross Book Value						
At 31 December 2011	**1,389,414**	**895,541**	**12,351**	**272,500**	**33,482**	**2,603,288**
Revaluation	-	-	(2,767)	-	-	(2,767)
Additions	964	-	-	3	138,116	139,083
Transfers	89,594	16,709	-	13,212	(119,515)	-
Transfer of impairment	-	-	-	-	1,619	1,619
Impairment	-	-	(173)	-	623	450
Assets held for sale	-	-	(228)	(75)	-	(303)
Disposals	(85,811)	(46,091)	(2)	(24,183)	(386)	(156,473)
At 31 December 2012	**1,394,161**	**866,159**	**9,181**	**261,457**	**53,939**	**2,584,897**
Revaluation	-	-	(158)	-	-	(158)
Additions	(366)	-	-	65	113,459	113,158
Transfers	79,457	28,639	-	15,439	(123,535)	-
Transfer of impairment	-	-	-	-	30	30
Impairment	-	-	-	-	(137)	(137)
Assets held for sale	-	-	-	30	-	30
Disposals	(41,133)	(33,875)	-	(10,235)	(546)	(85,789)
At 31 December 2013	**1,432,119**	**860,923**	**9,023**	**266,756**	**43,210**	**2,612,031**
Accumulated depreciation and impairment						
At 31 December 2011	**830,712**	**597,632**	**-**	**167,575**	**-**	**1,595,919**
Depreciation charged	136,800	24,404	-	24,817	-	186,021
Transfer of impairment	1,501	18	-	100	-	1,619
Impairment	28,754	27,120	-	1,175	-	57,049
Assets held for sale	-	-	-	(42)	-	(42)
Disposals	(75,186)	(42,153)	-	(22,939)	-	(140,278)
At 31 December 2012	**922,581**	**607,021**	**-**	**170,686**	**-**	**1,700,288**
Depreciation charged	123,288	19,340	-	24,892	-	167,520
Transfer of impairment	13	11	-	-	-	24
Impairment	(12,676)	(15,306)	-	(459)	-	(28,441)
Assets held for sale	-	-	-	(11)	-	(11)
Disposals	(37,187)	(33,716)	-	(9,836)	-	(80,739)
At 31 December 2013	**996,019**	**577,350**	**-**	**185,272**	**-**	**1,758,641**
Net book value						
At 31 December 2012	**471,580**	**259,138**	**9,181**	**90,771**	**53,939**	**884,609**
At 31 December 2013	**436,100**	**283,573**	**9,023**	**81,484**	**43,210**	**853,390**

10. Property, plant and equipment (continued)

The impairment for 2013 includes the reversed impairment loss for the assets of the Fixed business CGU as disclosed in note 4a amounting to BGN 29,301 thousand, as well as impairment loss for individual assets amounting to BGN 997 thousand. For 2012 it includes the impairment loss recognised for the assets of the Fixed business CGU amounting to BGN 54,488 thousand, as well as impairment loss for individual assets amounting to BGN 2,111 thousand.

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the bond offering by establishing a pledge on real estate properties, which net book value as of 31 December 2013 amounted to BGN 9,189 thousand. As of 31 December 2012 the net book value of the properties pledged under the syndicated loan was BGN 15,385 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 369 properties of BTC with a net book value as of 31 December 2013 amounting to BGN 3,972 thousand (BGN 24,464 thousand for 694 properties as of 31 December 2012). They are included in General support and Land above except for 5 properties with net book value as of 31 December 2013 amounting to BGN 1,533 thousand which are included in Assets classified as held for sale (BGN 2,057 thousand for 8 properties as of 31 December 2012).

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 2012 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 9,023 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 2013	9,181
Loss included in other comprehensive income	
• Changes in fair value (unrealised)	(158)
Balance at 31 December 2013	9,023

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).

11. Intangible assets

As of 31 December 2013 and 31 December 2012 intangible assets of the Group are as follows

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 31 December 2011	**119,770**	**543,419**	**20,263**	**3,362**	**686,814**
Additions(Transfers)	14,266	43,097	9,748	(1,658)	65,453
Disposals	(7,658)	(25,326)	(366)	-	(33,350)
At 31 December 2012	**126,378**	**561,190**	**29,645**	**1,704**	**718,917**
Additions(Transfers)	166	39,896	10,372	683	51,117
Disposals	-	(31,843)	(5,537)	-	(37,380)
At 31 December 2013	**126,544**	**569,243**	**34,480**	**2,387**	**732,654**
Accumulated amortization and impairment					
At 31 December 2011	**40,954**	**335,601**	**5,337**	**-**	**381,892**
Amortization charge	7,388	70,276	6,016	-	83,680
Impairment	-	990	317	-	1,307
Disposals	(7,658)	(25,156)	(198)	-	(33,012)
At 31 December 2012	**40,684**	**381,711**	**11,472**	**-**	**433,867**
Amortization charge	7,317	67,351	8,941	-	83,609
Impairment	-	(25)	(56)	-	(81)
Disposals	-	(31,777)	(5,179)	-	(36,956)
At 31 December 2013	**48,001**	**417,260**	**15,178**	**-**	**480,439**
Net book value					
At 31 December 2012	**85,694**	**179,479**	**18,173**	**1,704**	**285,050**
At 31 December 2013	**78,543**	**151,983**	**19,302**	**2,387**	**252,215**

11. Intangible assets (continued)

As of 31 December 2013 and 31 December 2013 intangible assets on BTC stand alone bases are as follows:

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 31 December 2011	**119,715**	**543,264**	**20,263**	**3,361**	**686,603**
Additions(Transfers)	14,266	43,097	9,748	(1,657)	65,454
Disposals	(7,658)	(25,171)	(366)	-	(33,195)
At 31 December 2012	**126,323**	**561,190**	**29,645**	**1,704**	**718,862**
Additions(Transfers)	166	39,896	10,372	683	51,117
Disposals	-	(31,843)	(5,537)	-	(37,380)
At 31 December 2013	**126,489**	**569,243**	**34,480**	**2,387**	**732,599**
Accumulated amortization and impairment					
At 31 December 2011	**40,908**	**335,446**	**5,336**	**-**	**381,690**
Amortization charge	7,387	70,276	6,016	-	83,679
Impairment	-	990	317	-	1,307
Disposals	(7,658)	(25,001)	(197)	-	(32,856)
At 31 December 2012	**40,637**	**381,711**	**11,472**	**-**	**433,820**
Amortization charge	7,316	67,351	8,941	-	83,608
Impairment	-	(25)	(56)	-	(81)
Disposals	-	(31,776)	(5,179)	-	(36,955)
At 31 December 2013	**47,953**	**417,261**	**15,178**	**-**	**480,392**
Net book value					
At 31 December 2012	**85,686**	**179,479**	**18,173**	**1,704**	**285,042**
At 31 December 2013	**78,536**	**151,982**	**19,302**	**2,387**	**252,207**

The majority of other intangible assets represents the acquired distribution network in the business combination with Kimimpex – TL OOD and the capitalized customer acquisition and retention expenses with contractual periods longer than one year. Their net book value as of 31 December 2013 is respectively BGN 7,730 thousand and BGN 9,298 thousand (2012 - BGN 9,227 thousand and BGN 6,260 thousand).

The impairment for 2013 includes the reversed impairment recognised for the assets of the Fixed business CGU as disclosed in note 4a amounting to BGN 81 thousand. For 2012 it includes the impairment loss recognised for the assets of the Fixed business CGU amounting to BGN 462 thousand, as well as impairment loss for individual assets amount to BGN 845 thousand.

12. Investments

Investments as of 31 December 2013 and 31 December 2012 are as follows:

		Consolidated financial statements		Separate financial statements	
	Share	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Investments					
Equity securities – available-for-sale					
Eutelsat	0.08%	7,595	144	7,595	144
Intersputnik	4.79%	178	178	178	178
Sofia Commodity Exchange	5%	13	13	13	13
Total equity securities available for sale		**7,786**	**335**	**7,786**	**335**
Corporate debt securities – loans and receivables		37,351		37,351	-
Subsidiaries					
BTC Net	100%	-	-	799	799
Total investments in subsidiaries				**799**	**799**
Total investments		**45,137**	**335**	**45,936**	**1,134**
Incl.					
Current investments		**145**	**-**	**145**	**-**
Non-current investments		**44,992**	**335**	**45,791**	**1,134**

The investment in Eutelsat as of 31 December 2013 is presented at fair value based on the market price of the shares at the reporting date. As at 31 December 2012 all available for sale financial assets were measured at cost, as their fair value was not reliably measurable.

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

Corporate debt securities classified as loans and receivables have stated interest rate of 7.0 percent and mature in 5 years. The interest is receivable semi-annually.

13. Trade payables

The payables to suppliers as of 31 December 2013 and 31 December 2012 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Payables to suppliers of non-current assets	33,869	33,715	33,869	33,715
Payables to international telecom operators - interconnect	14,105	20,003	12,899	16,995
Payables to suppliers of network maintenance	3,433	4,807	3,433	4,807
Payables to suppliers of equipment and goods for customers	3,185	3,271	3,185	3,271
Payables to domestic telecom operators	546	2,424	480	355
Payables to related parties (Note 27)	-	-	1,452	1,161
Others	41,656	30,250	41,655	30,245
Total trade payables	**96,794**	**94,470**	**96,973**	**90,549**
Incl.				
Non-current portion	**4,130**	**4,500**	**4,130**	**4,500**
Current portion	**92,664**	**89,970**	**92,843**	**86,049**

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

14. Other payables

Other payables as of 31 December 2013 and 31 December 2012 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Payables to employees	13,841	14,234	13,841	14,234
Social securities	2,355	2,008	2,355	2,008
Cable project MECMA	1,114	2,211	1,114	2,211
Personal income tax payable	984	940	984	940
Advances from clients	770	1,116	770	1,091
Withholding and other taxes	764	187	764	187
Payables for license fee	747	321	744	316
Forward exchange contracts used for hedging	162	58	162	58
VAT	71	-	-	-
Others	4,668	3,485	4,668	3,485
Total other payables	**25,476**	**24,560**	**25,402**	**24,530**

The liabilities under Cable projects MECMA amounting to BGN 1,114 thousand and 2,211 thousand originated as a result of BTC's role as a Central Billing Party in the MECMA 2004 Agreement for maintenance of submarine cables in the Mediterranean Sea, Red Sea and Black Sea area.

15. Provisions for other liabilities and charges

Consolidated and individual financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2013	**8,662**	**1,005**	**6,478**	**16,145**
Charged to profit or loss	-	1,025	3,315	4,340
Recognised in the statement of financial position	(366)	-	-	(366)
Used during the year	(16)	(623)	(953)	(1,592)
Unwinding of discount	388	-	-	388
At 31 December 2013	**8,668**	**1,407**	**8,840**	**18,915**

Analysis of provision in consolidated financial statements

	31.12.2013	**31.12.2012**
Non-current (decommissioning costs)	8,668	8,662
Current	10,247	7,483
Total	**18,915**	**16,145**

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 2013 and 2012 is 4% and 4.5%.

Restructuring
The Provision for employment termination is related to the decision for restructuring the activities of the Group in 2014 and is recognised as a staff cost in the profit or loss for the year ended 2013.

15. Provisions for other liabilities and charges (continued)

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:

	31.12.2013	31.12.2012
Secured bond issue	768,970	-
Revolving credit	68,586	-
Trade credits	11,768	-
Financial lease	3,234	2,778
Syndicated credit facility	-	891,537
Total borrowings	**852,558**	**894,315**
Including:		
Current borrowings	**10,975**	**31,748**
Non-current borrowings	**841,583**	**862,567**

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

In November 2013 BTC announced the successful completion of its debut bond offering of €400 million 6⅝ % Senior Secured Notes due 2018 on the Irish Stock Exchange pursuant to Rule 144A / Regulation S (the "Notes"). The proceeds from the bond offering were used by the Company to repay its existing indebtedness under the amended and restated loan agreement in full. The interest on the Notes is payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2014. In relation to the admission of the Notes the Company received a credit rating of B1 by Moody's and BB- by Standard & Poor's Ratings Services.

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

Simultaneously with the bond offering BTC has concluded EUR 35 million Revolving Credit Facility with Societe Generale Expressbank AD under which the Company may borrow funds for the repay of its debt under the amended and restated loan agreement, financing of its working capital purposes and issue of bank guarantees and letters of credit. The revolving credit facility is available up to 30 November 2016. The interest on the principal amounts owing by the Company under the revolving credit facility is payable monthly and shall be the aggregate of 1 month EURIBOR plus a margin of 4% per year.

16. Borrowings (continued)

The liabilities of the Company under the revolving credit facility are secured on a senior secured basis by the same scope and type of security provided by the Company to secure its obligations to the bondholders under the Notes.

Trade credits
Certain assets of the mobile network of the Company have been purchased under a trade credit agreement. The contracted term is four years and the instalments are payable quarterly.

Obligations under Finance lease
Certain part of BTC's software is leased under the terms of finance lease. The lease term is 3 years and the effective borrowing rate is 5.798%. The fair value of Group's and Company's lease obligations approximates their carrying amount.

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Finance lease payables with maturity:				
Within one year	1,888	1,449	1,803	1,439
In the second to fifth years inclusive	1,595	1,405	1,431	1,339
Total payables	**3,483**	**2,854**	**3,234**	**2,778**
Less: future finance charges	(249)	(76)	-	-
Present value of lease obligations	**3,234**	**2,778**	**3,234**	**2,778**

The net book value of the assets acquired under finance lease arrangements as of 31 December 2013 is BGN 4,475 thousand (2012: BGN 2,801 thousand).

17. Deferred tax assets and liabilities

As of 31 December, 2013 and 2012 the deferred tax, are as it follows:

Consolidated financial statements:

Deferred tax assets	**Tax loss carried forward**	**Allowance for impairment of receivables**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Total**
At 1 January 2012	**64**	**9**	**-**	**-**	**73**
Charged to the profit/(loss) for the year	(64)	5	-	-	(59)
At 31 December 2012	**-**	**14**	**-**	**-**	**14**
(Charged)/credited to the profit/(loss) for the year	-	(13)	-	-	(13)
At 31 December 2013	**-**	**1**	**-**	**-**	**1**

17. Deferred tax assets and liabilities (continued)

Deferred tax liabilities	**Retirement benefit obligations**	**Allowance for impairment of receivables**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Derivati-ves**	**Total**
At 1 January 2012	**(95)**	**(6,405)**	**38,553**	**(4,838)**	**61**	**27,276**
Charged/(credited) to the profit/(loss) for the year	3	(163)	(4,872)	(4,716)		(9,748)
Charged/(credited) to other comprehensive income for the year	-	-	(276)		(66)	(342)
At 31 December 2012	**(92)**	**(6,568)**	**33,405**	**(9,554)**	**(5)**	**17,186**
Charged/(credited) to the profit/(loss) for the year	(95)	1,080	(3,007)	3,558	-	1,536
Charged/(credited) to other comprehensive income for the year	-	-	(16)	-	(10)	(26)
At 31 December 2013	**(187)**	**(5,488)**	**30,382**	**(5,996)**	**(15)**	**18,696**

Deferred tax (charge)/credit to the profit/(loss) for the year	**2013**	**2012**
Deferred tax liabilities	(1,536)	9,748
Deferred tax assets	(13)	(59)
Total (charged)/credited to the profit/(loss) for the year	**(1,549)**	**9,689**

Separate financial statements:

Deferred tax liabilities	**Retirement benefit obligations**	**Allowance for impairment of receivables**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Derivati-ves**	**Total**
At 1 January 2012	**(95)**	**(6,405)**	**38,553**	**(4,838)**	**61**	**27,276**
Charged/(credited) to the profit/(loss) for the year	3	(163)	(4,872)	(4,716)		(9,748)
Charged/(credited) to other comprehensive income for the year	-	-	(276)		(66)	(342)
At 31 December 2012	**(92)**	**(6,568)**	**33,405**	**(9,554)**	**(5)**	**17,186**
Charged/(credited) to the profit/(loss) for the year	(95)	1,080	(3,007)	3,558	-	1,536
Charged/(credited) to other comprehensive income for the year	-	-	(16)	-	(10)	(26)
At 31 December 2013	**(187)**	**(5,488)**	**30,382**	**(5,996)**	**(15)**	**18,696**

17. Deferred tax assets and liabilities (continued)

Deferred tax credit to the profit/(loss) for the year	**2013**	**2012**
Deferred tax liabilities	(1,536)	9,748
Total (charged)/credited to the profit/(loss) for the year	**(1,536)**	**9,748**

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 2013 and 2012 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 2006.

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	
	31.12.2013	**31.12.2012**
Liability at the beginning of the period	**917**	**946**
Past service cost	*871*	*(29)*
Current service cost	*98*	*116*
Interest cost	*40*	*54*
Total cost recognized in profit or loss	1,009	141
Remeasurements – actuarial (gain)/loss recognised in OCI	88	(159)
Payments to retirees	(58)	(11)
Liability at the end of the period	**1,956**	**917**

18. Retirement benefit obligations (continued)

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

	31.12.2013	31.12.2012
Discount rate at 31 December	4%	4.5%
Future salary increases per year	From 3% to 4.5%	From 2.5% to 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.

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 2010 – 2012.

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.

	Defined benefit obligation		Interest and current service costs	
Effect in thousands of BGN	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	(199)	238	(23)	27
Future salary growth (1% movement)	240	(204)	50	(38)

19. Share capital and dividends

	31.12.2013	31.12.2012
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:	31.12.2013	%	31.12.2012	%
Number of ordinary shares:				
Viva Telecom Bulgaria EAD	288,764,840	100%	271,712,216	94%
Other shareholders	-	-	17,052,623	6%
Total ordinary shares	**288,764,840**	**100%**	**288,764,839**	**100%**
Number of preference shares:				
The Republic of Bulgaria	-	-	1	100%
Total number of shares	**288,764,840**	**100%**	**288,764,840**	**100%**

As of 31 December 2013, the share capital of BTC comprises 288,764,840 ordinary registered shares. The nominal share value is BGN 1.

19. Share capital and dividends (continued)

Earnings per share	**Consolidated financial statements Year ended**		**Separate financial statements Year ended**	
	31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Profit for distribution	29,208	(33,315)	27,031	(39,436)
Weighted average number of ordinary shares	288,765	288,765	288,765	288,765
Earnings/(loss) per share (BGN (basic and diluted))	0.10	(0.12)	0.09	(0.14)

Dividends payable

	31.12.2013	**31.12.2012**
Dividend approved by the General shareholders' meeting	-	-
Non-distributed dividends for prior years	10	158,092
Tax on dividend	-	5
Net dividends paid	(4)	(158,087)
Total dividend payable	**6**	**10**

20. Revenue

Revenue of the Group and the Company for the years ended 31 December 2013 and 2012 consist of:

	Consolidated financial statements		**Separate financial statements**	
	Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
Recurring charges	351,975	336,378	351,975	336,385
Outgoing traffic	143,311	169,055	143,311	169,055
Leased lines and data transmission	118,891	128,480	119,525	128,804
Interconnect	60,710	129,676	39,567	112,613
Other revenue	136,992	94,128	138,416	94,827
Total revenue	**811,879**	**857,717**	**792,794**	**841,684**

Revenues from sale of mobile handsets are included in Other revenue above, which for 2013 amount to BGN 59,215 thousand for the Group and the Company (2012: BGN 32,260 thousand). Revenue from rent of terrestrial network (ducts) and provision of pay TV services (DTH and IPTV) are also included in this category. The significant decrease in Interconnect revenue and Interconnect expenses in 2013 is mainly a result of lower termination rates as mandated by the CRC. During the periods observed, termination rates were decreased on 1 July 2012, 31 December 2012 and 1 July 2013.

21. Other operating expenses

Other operating expenses for the years ended 31 December, 2013 and 2012 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
Maintenance and repairs	81,411	86,789	81,411	86,788
Advertising, customer service, billing and collection	59,207	52,258	59,296	52,351
Facilities	44,402	42,138	44,402	42,138
License fees	13,529	13,226	13,505	13,208
Administrative expenses	12,256	8,047	12,254	8,044
Vehicles and transport	3,785	3,685	3,785	3,685
Leased lines and data transmission	3,149	3,856	3,149	3,856
Professional fees	2,550	6,181	2,550	6,181
Other, net	(8,284)	93,787	(8,208)	93,704
Including:				
Impairment of non-current assets	*(28,385)*	*59,564*	*(28,385)*	*59,564*
Impairment of trade and other receivables	*8,571*	*19,351*	*8,647*	*19,268*
Impairment of other current assets	*1,107*	*2,857*	*1,107*	*2,857*
Scrap of assets	*5,166*	*15,035*	*5,166*	*15,035*
Provisions for legal claims	*3,315*	*(4,795)*	*3,315*	*(4,795)*
Other	*1,942*	*1,775*	*1,942*	*1,775*
Total other operating expenses	**212,005**	**309,967**	**212,144**	**309,955**

22. Staff costs

Staff costs for the years ended 31 December 2013 and 2012 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
Salaries and wages	59,752	56,796	59,746	56,792
Pension, health and unemployment fund contributions	9,212	8,561	9,211	8,561
Other benefits	2,619	2,549	2,619	2,549
Other staff costs	2,028	1,587	2,028	1,587
Total staff costs	**73,611**	**69,493**	**73,604**	**69,489**

As stated in Note 18 the amounts of post-employment termination benefits included in salaries and wages above for the consolidated and separate financial statements are respectively for 2013 BGN 969 thousand (2012: BGN 87 thousand).

23. Finance income and costs

Financial income and costs for the years ended 31 December 2013 and 2012 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
Finance costs				
Interest expense:	(52,642)	(33,345)	(52,642)	(33,345)
-Bank borrowings	*(46,314)*	*(32,726)*	*(46,314)*	*(32,726)*
-Bond issues	*(5,828)*		*(5,828)*	
-Provisions	*(428)*	*(479)*	*(428)*	*(479)*
-Finance lease	*(72)*	*(120)*	*(72)*	*(120)*
-Other	-	*(20)*	-	*(20)*
Loss on cash flow hedges - ineffective portion of changes in fair value	(5)	-	(5)	-
Foreign exchange loss	-	(177)	-	(177)
Other finance costs	(381)	(255)	(373)	(250)
Total finance cost	**(53,028)**	**(33,777)**	**(53,020)**	**(33,772)**
Finance income				
Interest income:	6,026	7,887	5,846	7,874
-Bank deposits	*4,114*	*6,555*	*3,983*	*6,542*
-Finance lease	*1,718*	*1,068*	*1,718*	*1,068*
-Other	*194*	*264*	*145*	*264*
Foreign exchange gains	59	1	56	-
Gains on cash flow hedges - ineffective portion of changes in fair value	-	27	-	27
Equity investment income	333	286	6,433	286
Total finance income	**6,418**	**8,201**	**12,335**	**8,187**
Net finance costs	**(46,610)**	**(25,576)**	**(40,685)**	**(25,585)**

Dividend distributed from the subsidiary of the Company amounting to BGN 6,100 thousand is included in Equity investment income for 2013 in the separate financial statements.

24. Other gains, net

	Consolidated and separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**
Gains from sales of non-current assets	4,665	10,178
Incl.: income	5,609	11,614
net book value	(944)	(1,436)
Gain from sales of materials	32	14
Incl.: income	38	27
net book value	(6)	(13)
Total other gains, net	**4,697**	**10,192**

25. Tax expense

Income tax expenses for the years ended 31 December 2013 and 2012 consist of:

a) amounts recognised in profit or loss

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
Current income tax charge	2,313	6,362	1,408	5,752
Deferred tax	1,549	(9,689)	1,536	(9,748)
Total income tax expense/(benefit)	**3,862**	**(3,327)**	**2,944**	**(3,996)**

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
Profit/(loss) before tax	33,070	(36,576)	29,975	(43,367)
Tax rate	10%	10%	10%	10%
Tax at the applicable tax rate	3,307	(3,658)	2,998	(4,337)
Non-deductible expenses	(36)	(30)	(645)	(29)
Tax exempt income	349	320	349	320
Change in recognised deductible temporary differences	242	32	242	41
Income tax expense/(benefit)	**3,862**	**(3,336)**	**2,944**	**(4,005)**
Effective tax rate	11.68%	9.12%	9.82%	9.24%
Income tax expense/(benefit) in the profit or loss	3,862	(3,336)	2,944	(4,005)

b) amounts recognised in other comprehensive income
Consolidated and separate financial statements:

	Year ended 31.12.2013			Year ended 31.12.2012 Restated*		
	Before tax	**Tax (expense) benefit**	**Net of tax**	**Before tax**	**Tax (expense) benefit**	**Net of tax**
Revaluation of land	(158)	16	(142)	(2,767)	276	(2,491)
Cash flow hedges	(108)	10	(98)	(657)	66	(591)
Available-for-sale financial assets	7,452	-	7,452	-	-	-
Defined benefit plan actuarial gains (losses)	(87)	-	(87)	159	-	159
	7,099	26	7,125	(3,265)	342	(2,923)

* See Note 31

26. Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The business, considered on a product perspective is currently organized into two lines of business – Fixed line of business and Mobile line of business. Principal activities are as follows:

- Fixed line of business – voice and data services over the fixed network;
- Mobile line of business – mobile services (GSM, and UMTS Standards)

The Board of Directors assesses the performance of the business segments based on a measure of gross margin. Revenue and gross margin information as reviewed by the Board of directors for the periods ended 31 December 2013 and 2012 is presented below.

Year ended 31.12.2013	**Fixed line of business**	**Mobile line of business**	**Total**
Revenue	395,979	415,900	811,879
Cost of sales	(57,403)	(141,547)	(198,950)
Gross margin	**338,576**	**274,353**	**612,929**
Operating expenses			(205,344)
Staff costs			(73,611)
Depreciation and amortization			(258,991)
Financial expenses, net			(46,610)
Other gains, net			4,697
Profit before tax			**33,070**
Income tax expense			(3,862)
Net profit for the year			**29,208**

Year ended 31.12.2012	**Fixed line of business**	**Mobile line of business**	**Total**
Revenue	460,429	397,288	857,717
Cost of sales	(93,504)	(131,313)	(224,817)
Gross margin	**366,925**	**265,975**	**632,900**
Operating expenses			(307,068)
Staff costs			(69,493)
Depreciation and amortization			(277,597)
Financial expenses, net			(25,576)
Other gains, net			10,192
Loss before tax			**(36,642)**
Income tax benefit			3,327
Net loss for the year			**(33,315)**

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 subsidiaries, joint ventures and associates of these shareholders;
- members of the Company's statutory and supervisory bodies and parties close to such members, including the subsidiaries and associates of the members and their close parties;

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

As disclosed in Note 1 on 9 November 2012 Viva Telecom Bulgaria EAD acquired 93.99% of BTC shares. For the periods before 9 November 2012 NEF Telecom Bulgaria OOD group companies and from 10 November 2012 to 31 December 2013 Bromak Telecom Invest AD Group and VTB Bank OJSC Group companies are considered to be related parties.

Balances
The following table summarizes the balances of receivables and payables with related parties as of 31 December 2013 and 31 December 2012:

For the Group:	**Note**	**Receivables**		**Payables**	
		31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
Members of Bromak Telecom Invest AD Group	Other RP	1	9	-	-
Total for BTC group		**1**	**9**	**-**	**-**

For BTC:	**Note**	**Receivables**		**Payables**	
		31.12.2013	**31.12.2012**	**31.12.2013**	**31.12.2012**
BTC Net EOOD	Subsidiary	863	507	1,452	1,161
Members of Bromak Telecom Invest AD Group	Other RP	1	9	-	-
Total for BTC group		**864**	**516**	**1,452**	**1,161**

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

	Note	**Consolidated financial statements**		**Separate financial statements**	
		Year ended 31.12.2013	**Year ended 31.12.2012**	**Year ended 31.12.2013**	**Year ended 31.12.2012**
BTC Net EOOD	Subs.	-	-	10,373	6,653
Members of Bromak Telecom Invest AD Group	Other RP	11	-	11	-
Total for BTC		**11**	**-**	**10,384**	**6,653**

27. Related parties (continued)

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

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2013	Year ended 31.12.2012	Year ended 31.12.2013	Year ended 31.12.2012
BTC Net EOOD	Subs.	-	-	6,278	5,471
Members of Bromak Telecom Invest AD Group	Other RP	515	46	515	46
Viva Telecom Bulgaria EAD	Parent	8		8	
NEF Telecom Bulgaria OOD	Parent	-	19	-	19
NEF Telecom Company BV	Parent	-	11	-	11
Total for BTC		**523**	**76**	**6,801**	**5,547**

Borrowings
Members of Bromak Telecom Invest AD Group and VTB Bank OJSC Group participated in the amended syndicated loan facility as disclosed in note 16. The amounts related to them are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest expense	Interest payable
Members of VTB Bank OJSC Group	Other RP	2012	198,324	1,746	1,746
		2013	-	8,878	-
Members of Bromak Telecom Invest AD Group	Other RP	2012	59,174	487	487
		2013	-	1,194	-

As per Loan Agreement dated 08 August 2013 BTC Net provided to Viva Telecom Bulgaria EAD a revolving credit facility for the amount of up to EUR 3,000 thousand. The applicable interest rate was the aggregate of 3M Euribor plus a margin of 5.5% p.a. The drawn down principal amount and respective accumulated interest were fully repaid on 22 November 2013. Interest income amounting to BGN 49 thousand related to the loan is included in the consolidated financial statements for 2013.

Interest income
Part of the cash availability of the Group and the Company is deposited in a bank, member of Bromak Telecom Invest AD Group as disclosed in Note 5. Interest income from such bank deposits for the year ended 2013 is BGN 3,505 thousand for the consolidated and BGN 3,456 thousand for the separate financial statements. (2012: BGN 44 thousand)

Management remuneration

There is no compensation paid by the company to the members of the Board of Directors as of 31 December 2012. Remuneration amounting to BGN 5,200 thousand relating to the members of the Board of Directors and key management personnel has been accrued as of 31 December 2013 (2012: BGN 6,785 thousand) from which BGN 2,081 thousand is payable as of 31 December 2013 (2012: BGN 4,474 thousand)

28. Commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment
The parent company has 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, 2013, for the Group and the Company is presented in the table below:

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2013	Commitments outstanding
Hardware and software	11,750	4,313	7,437
Construction and assembly works of the network of BTC	20,638	5,172	15,466
Network equipment	81,895	65,847	16,048
TOTAL	**114,283**	**75,332**	**38,951**

Contingencies
The Company is a participant in several lawsuits and administrative proceedings. Based on the information available, management is satisfied that there is no unprovided liability arising from these lawsuits and administrative proceedings.

The Group has bank guarantees issued to third parties which amount to BGN 833 thousand as of 31 December 2013 (2012: BGN 1,393 thousand).

29. Operating lease

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

	Consolidated and separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**
Minimum lease payments	9,502	9,514

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

	Consolidated and separate financial statements	
	Year ended 31.12.2013	**Year ended 31.12.2012**
Within one year	11,841	9,168
In the second to fifth years inclusive	35,943	29,653
Later than five years	81,597	86,546
Total commitments	**129,381**	**125,367**

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 2013	***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										
Equity securities	*12*	-	-	7,595	-	7,595	7,595	-	-	7,595
		-	-	7,595	-	7,595				
Financial assets not measured at fair value										
Trade and other receivables	6	-	82,929	-	-	82,929				
Cash and cash equivalents	*5*	-	87,333	-	-	87,333				
Corporate debt securities	*12*	-	37,351	-	-	37,351	-	-	37,351	37,351
		-	207,613	-	-	207,613				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging	*14*	162	-	-	-	162	-	162	-	162
		162	-	-	-	162				
Financial liabilities not measured at fair value										
Secured bank loans	*16*	-	-	-	68,586	68,586	-	-	-	68,586
Secured bond issues	*16*	-	-	-	768,970	768,970	786,361	-	-	786,361
Finance lease liabilities	*16*	-	-	-	3,234	3,234	-	-	-	3,234
Trade credits	*16*	-	-	-	11,768	11,768				
Trade payables	*13*	-	-	-	96,794	96,794				
		-	-	-	949,352	949,352				

30. Financial instruments (continued)

		Carrying amount					Fair value			
31 December 2012	***Note***	**Fair value – hedging instruments**	**Loans and receivables**	**Available-for-sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value										
Trade and other receivables	6	-	85,413	-	-	85,413				
Cash and cash equivalents	*5*	-	63,886	-	-	63,886				
		-	149,299	-	-	149,299				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging	*14*	58	-	-	-	58	-	58	-	58
		58	-	-	-	58				
Financial liabilities not measured at fair value										
Secured bank loans	*16*	-	-	-	891,537	891,537				-
Finance lease liabilities	*16*	-	-	-	2,778	2,778				-
Trade payables	*13*	-	-	-	94,470	94,470				
		-	-	-	988,785	988,785				

Separate financial statements

		Carrying amount					Fair value			
31 December 2013	***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										
Equity securities	*12*	-	-	7,595	-	7,595	7,595	-	-	7,595
		-	-	7,595	-	7,595				
Financial assets not measured at fair value										
Trade and other receivables	6	-	82,194	-	-	82,194				
Cash and cash equivalents	*5*	-	79,508	-	-	79,508				
Corporate debt securities	*12*	-	37,351	-	-	37,351	-	-	37,351	37,351
		-	199,053	-	-	199,053				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging	*14*	162	-	-	-	162	-	162	-	162
		162	-	-	-	162				
Financial liabilities not measured at fair value										
Secured bank loans	*16*	-	-	-	68,586	68,586	-	-	-	68,586
Secured bond issues	*16*	-	-	-	768,970	768,970	786,361	-	-	786,361
Finance lease liabilities	*16*	-	-	-	3,234	3,234	-	-	-	3,234
Trade credits	*16*	-	-	-	11,768	11,768				
Trade payables	*13*	-	-	-	96,973	96,973				
		-	-	-	949,531	949,531				

30. Financial instruments (continued)

		Carrying amount					Fair value			
31 December 2012	***Note***	**Fair value – hedging instruments**	**Loans and receivables**	**Available-for-sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets not measured at fair value										
Trade and other receivables	6	-	78,376	-	-	78,376				
Cash and cash equivalents	*5*	-	59,352	-	-	59,352				
		-	137,728	-	-	137,728				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging	*14*	58	-	-	-	58	-	58	-	58
		58	-	-	-	58				
Financial liabilities not measured at fair value										
Secured bank loans	*16*	-	-	-	891,537	891,537				
Finance lease liabilities	*16*	-	-	-	2,778	2,778				
Trade payables	*13*	-	-	-	90,549	90,549				
		-	-	-	984,864	984,864				

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
Financial instruments not measured at fair value		
Corporate debt securities	Discounted cash flows	Interest rate
Other financial liabilities	Discounted cash flows	Interest rate

Other financial liabilities above include secured bank loans and finance lease liabilities.
Market interest rates applied for the valuation of the financial instruments are in the range of 4.2% and 7%.

31. Changes in accounting policies

The following tables summarise the impacts resulting from adopt of IAS 19 as described in note 2.1 on the statements of financial position and comprehensive income for the Group and the Company.

Statement of financial position

Consolidated financial statements

	Defined benefit obligation	Deferred tax liability	Retained earnings/(accumulated loss)
Balances at 1 January 2012, as previously reported	1,610	27,210	10,012
Impact of the change in accounting policy	(664)	66	598
Restated balances at 1 January 2012	**946**	**27,276**	**10,610**
Balances at 31 December 2012, as previously reported	1,674	17,111	(23,228)
Impact of the change in accounting policy at 1 January 2012	(664)	66	598
Impact of the change in accounting policy during 2012	(93)	9	84
Restated balances at 31 December 2012	**917**	**17,186**	**(22,546)**

Separate financial statements

	Defined benefit obligation	Deferred tax liability	Retained earnings/(accumulated loss)
Balances at 1 January 2012, as previously reported	1,610	27,210	10,428
Impact of the change in accounting policy	(664)	66	598
Restated balances at 1 January 2012	**946**	**27,276**	**11,026**
Balances at 31 December 2012, as previously reported	1,674	17,111	(28,933)
Impact of the change in accounting policy at 1 January 2012	(664)	66	598
Impact of the change in accounting policy during 2012	(93)	9	84
Restated balances at 31 December 2012	**917**	**17,186**	**(28,251)**

Statement of comprehensive income

Consolidated and separate financial statements

	For the year ended 31 December	
	2013	**2012**
Staff costs	-	(66)
Income tax benefit	-	(9)
Loss for the period	**-**	**(75)**
Defined benefit plan actuarial gains/losses	(87)	159
Other comprehensive income for the period, net of tax	**(87)**	**159**
Total comprehensive income for the period	**(87)**	**84**

31. Subsequent events

No subsequent events, that require adjustments or disclosures in these financial statements, have occurred during the period from the reporting date to the date the consolidated and individual financial statements were authorised for issue by the Board of Directors (27.02.2014).

KPMG

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INDEPENDENT AUDITORS' REPORT

To the sole owner of
Bulgarian Telecommunications Company EAD

Report on the Financial Statements

We have audited the accompanying consolidated and separate financial statements of Bulgarian Telecommunications Company EAD ("the Company") as set out on pages 29 to 89, which comprise the consolidated and separate statement of financial position as at 31 December 2013, the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Company as at 31 December 2013, and of its consolidated and separate financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matter

The consolidated and separate financial statements of the Company as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2013.

Report on Other Legal and Regulatory Requirements

Annual report of the activities of the Company prepared in accordance with the requirements of article 33 of the Accountancy Act

As required under the Accountancy Act, we report that the historical financial information disclosed in the consolidated and separate annual activities report of the Company, prepared by Management as required under article 33 of the Accountancy Act, is consistent, in all material aspects, with the financial information disclosed in the audited consolidated and separate financial statements of the Company as of and for the year ended 31 December 2013. Management is responsible for the preparation of the consolidated and separate annual activities report of the Company which was approved by the Board of Directors of the Company on 27 February 2014.

Maria Peneva
Director

Margarita Goleva
Registered auditor

KPMG Bulgaria OOD

Sofia, 28 February 2014

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №045
"КПМГ - България" ООД