BULGARIAN TELECOMMUNICATIONS COMPANY EAD

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

31 December 2017

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CONSOLIDATED AND SEPARATE ANNUAL ACTIVITIES REPORT

2017

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BULGARIAN TELECOMMUNICATIONS COMPANY EAD
ANNUAL ACTIVITIES REPORT
For the year ended 31 December 2017

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

OVERVIEW OF THE ACTIVITY OF THE COMPANY AND THE GROUP

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

As at December 31, 2017 the group includes VIVACOM, the subsidiary entities BTC Net EOOD, NURTS Bulgaria EAD, NURTS Digital EAD and Net Is Sat EOOD (the "Group" or "VIVACOM Group").

As at 31 December, 2016 the Group comprise of BTC and the subsidiary entities - BTC Net EOOD, NURTS Bulgaria EAD, and NURTS Digital EAD.

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

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

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

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

VIVACOM is the leading telecommunications operator in Bulgaria, based on revenue for the year ended December 31, 2017. We are fully integrated operator that provides mobile, fixed telephony, fixed broadband and pay-TV (both DTH and IPTV) services nationwide to residential and business customers. We provide our fixed line services through our own fixed line network and our mobile services through our own mobile network based on GSM/GPRS/EDGE and UMTS/HSPA+/LTE technologies. VIVACOM owns and operates one of the biggest and most modern facilities for satellite communications in the region – Plana teleport, which is able to deliver transmission and connectivity even to the most remote points, including orbital positions in Europe, Africa, Middle East and Asia. As at December 31, 2017, we served 3.085 million mobile subscribers, 806 thousand fixed telephony subscribers, 480 thousand fixed broadband subscribers and 447 thousand fixed pay-TV subscribers. For the year ended December 31, 2017, we generated total consolidated revenue of BGN 889.5 million and had consolidated Adjusted EBITDA of BGN 318.9 million.

We are currently the third largest mobile operator in Bulgaria, based on number of subscribers, with 3.085 million subscribers as at December 31, 2017, a decrease of 1.5% from 3.133 million subscribers as at December 31, 2016. Our successful "value for money" strategy in the mobile market has led us to develop a strong market share position. A central part of our strategy has been our focus on features that allow us to differentiate ourselves from our competitors, such as generous tariff plans, flexible bundles, integrated IT systems and our quality mobile network. As at December 31, 2017 our GSM mobile network covered 99.99% of the Bulgarian population, our UMTS mobile network covered 99.98% of the Bulgarian population, and our LTE mobile network covered 99.34% of the Bulgarian population.

Our revenue share for the mobile services market is approximately 29% for the year ended December 31, 2017.

We are the incumbent in the fixed voice line market with 80% revenue share as at December 31, 2017 (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts).

As at December 31, 2017 VIVACOM is the largest fixed broadband operator with 26% subscriber market share (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts). Our ongoing FTTx network build out enables us to benefit from the ongoing shift to FTTx from other broadband technologies as customers demand reliable services with higher speed capacity. We began our FTTx roll out in 2011 and we have since achieved significant progress, with 1,128,000 fiber homes passed and 23% take-up rate as at December 31, 2017. We also operate our own scalable fiber backbone network, which allows us to deliver complex corporate data solutions to business customers.

As at December 31, 2017 VIVACOM is positioned as the leading IPTV operator with 61% subscriber share (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts), and the third largest pay-TV provider.

We sell our services and products through direct channels, such as VIVACOM owned stores, which are strategically located, and indirect channels, such as a smaller number of third party retail distributors. Our distribution network is further supported by remote channels such as telemarketing. As at December 31, 2017 VIVACOM has 253 owned branded retail locations with an additional 97 alternative sale points.

FINANCIAL CONDITION AND RESULTS OF OPERATION

Total consolidated revenue of the Group increased by 1.6% year-on-year to BGN 889.5 million for the year ended December 31, 2017 with consistent increase in mobile and fixed pay-TV revenues. Adjusted EBITDA was further strengthen by lower operating expenses, increasing by 2.7% year-on-year to BGN 318.9 million for the year ended December 31, 2017.

The Group finished the year ended December 31, 2017 with a profit of BGN 71.1 million (the Company - with a profit of BGN 73.5 million), compared to loss of BGN 19.6 million for the year ended December 31, 2016. In 2016 our net result was affected by an accelerated depreciation and amortization expenses related mainly to the swap of equipment and deployment of SRAN technology in the mobile network as well as from accrued impairment of loans resulting from part of the assigned receivables on cash deposits in CCB and receivables from business customers.

On November 22, 2013 VIVACOM successfully completed its bond offering of EUR 400 (BGN 782.3) million 6⅝% Senior Secured Notes due 2018 (the "Notes"). The maturity date of the Notes is November 15, 2018. The Company will pay interest on the Notes semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2014. In relation to the admission of the Notes, the Company received a credit rating of 'B1' by Moody's Investors Service (Moody's) and 'BB-' by Standard & Poor's Ratings Services (Standard & Poor's).

Standard & Poor's lowered the company's credit rating to 'B' on April 2, 2015 and subsequently to 'B-' on July 8, 2015. On October 22, 2015 Standard & Poor's revised its CreditWatch listing on its 'B-' long-term corporate credit rating of VIVACOM to negative from developing. On December 20, 2015, Moody's reaffirmed its 'B1' credit rating of the Company with stable outlook. On September 12, 2016, Standard & Poor's removed its CreditWatch listing and upgraded the long-term credit rating of VIVACOM from 'B-' to 'B+' with stable outlook. On June 29, 2017, Standard & Poor's placed its 'B+' long-term corporate credit rating of VIVACOM on CreditWatch with developing implications reflecting the upcoming debt maturities in 2018. On July 26, 2017 Moody's affirmed the company's B1 corporate family rating and changed to positive from stable the outlook on the rating.

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

On 22 December 2017 the Company entered into a Senior Facilities Agreement (SFA) arranged by Citibank N.A., London Branch and VTB Bank (Deutschland) AG. The purpose of the facility is to refinance all amounts due under the Existing HY Bonds, payment of fees and costs under the facility and capital expenditure in respect of the Company's investment and development program. The facility comprises of a term loan Facility A, term loan facility B, a Short-term Facility and a Revolving Facility. The maximum tenor is 5.25 years after the first Utilization under the SFA. The interest on the facilities is based on EURIBOR plus a Margin between 1.25 and 3.75 per cent per annum. As per the SFA on 2 March 2018 pledges over the going concern of Viva Telecom Bulgaria OOD and BTC Net OOD were registered in favour of the lenders and the Company is in a process of perfection of the remaining security envisaged in the SFA. Simultaneously with the SFA the Company extended the maturity of the Existing EUR 35 million Revolving Credit Facility with Societe Generale Expressbank AD and reduced the applicable Margin to between 1.05 and 1.75 per cent per annum. The final term of the RCF is 3 years as from the date of first utilisation of funds under the Senior Facilities Agreement but not later than 22.06.2021.

REVENUES

Our total consolidated revenue was BGN 889.5 million for the year ended December 31, 2017, an increase of BGN 14.2 million, or 1.6%, from BGN 875.3 million for the year ended December 31, 2016.

The table below sets forth our revenue for the year ended December 31, 2017 as compared to the year ended December 31, 2016.

	For the year ended	December 31,	Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Recurring charges	402.1	397.9	4.2	1.0
Outgoing traffic	63.5	81.0	(17.5)	(21.6)
Leased lines and data transmission	107.7	109.1	(1.3)	(1.2)
Interconnect	75.3	61.3	14.0	22.8
Radio and TV broadcasting	27.4	30.4	(3.0)	(10.0)
Other revenue	213.5	195.6	18.0	9.2
Total revenue	**889.5**	**875.3**	**14.2**	**1.6**

Revenue from recurring charges was BGN 402.1 million for the year ended December 31, 2017, an increase of BGN 4.2 million, or 1.0%, from BGN 397.9 million for the year ended December 31, 2016 primarily due to the growth of our subscriber base in mobile, fixed broadband and fixed pay-TV.

Revenue from outgoing traffic was BGN 63.5 million for the year ended December 31, 2017, a decrease of BGN 17.5 million, or 21.6%, from BGN 81.0 million for the year ended December 31, 2016 mainly due to competitive pressure leading to decline in prices per minute and less chargeable traffic as a result of the generous offerings with more included minutes in the tariff plans.

Revenue from leased lines and data transmissions was BGN 107.7 million for the year ended December 31, 2017. This represents a decrease of BGN 1.3 million, or 1.2% from BGN 109.1 for the year ended December 31, 2016, primarily due to the migration of customers to alternative data solutions where such services are being offered as a low price substitute to the traditional lines. The overall decrease was partially offset by growth in revenues from fiber connections related to the increase of our subscriber base.

Interconnect revenue was BGN 75.3 million for the year ended December 31, 2017, an increase of BGN 14.0 million, or 22.8%, from BGN 61.3 million for the year ended December 31, 2016. The increase was primarily due to higher inbound traffic in our mobile network generated by other operators as a result of more calls terminated in our network.

Revenue from radio and TV broadcasting was BGN 27.4 million for the year ended December 31, 2017, a decrease of BGN 3.0 million, or 10% from BGN 30.4 for the year ended December 31, 2016. The decrease was mainly due to lower revenue from digital terrestrial broadcasting of television provided by NURTS.

Other revenue was BGN 213.5 million for the year ended December 31, 2017 an increase of BGN 18.0 million, or 9.2% from BGN 195.6 million for the year ended December 31, 2016 mainly due to increased revenue from provision of pay-TV services (both DTH and IPTV) and sales of mobile handsets as well as from ducts rental and colocation services.

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

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Fixed-line revenue	349.5	336.4	13.0	3.9
Mobile revenue	521.0	508.5	12.4	2.4
NURTS revenue	41.6	43.5	(1.9)	(4.3)
Eliminations	(22.5)	(13.2)	(9.4)	71.2
Total revenue	**889.5**	**875.3**	**14.2**	**1.6**

Our fixed-line revenue, which is comprised of fixed voice (fixed telephony and other), fixed data (fixed broadband and other), fixed pay-TV and other fixed line services was BGN 349.5 million for the year ended December 31, 2017, an increase of BGN 13.0 million, or 3.9%, from BGN 336.4 million for the year ended December 31, 2016. The increase was mainly attributable to the growth in fixed pay-TV and fixed-data revenues related to the increase of our subscriber base as we l as from fixed other revenues.

Our mobile revenue was BGN 521.0 million for the year ended December 31, 2017, an increase of BGN 12.4 million, or 2.4%, from BGN 508.5 million for the year ended December 31, 2016. The increase in mobile revenue was primarily due to the growth of our mobile subscriber base and increased data usage, which can be attributed to our competitive offers and the quality of our mobile network.

Our NURTS revenue was BGN 41.6 million for the year ended December 31, 2017, a decrease of BGN 1.9 million, or 4.3% from BGN 43.5 for the year ended December 31, 2016, mainly attributable to lower revenue from digital terrestrial broadcasting of television provided by NURTS.

Principal Factors Affecting Mobile Revenues

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

	For the year ended December 31,		Change	
	2017	**2016**	**(amount)**	**(%)**
Number of mobile subscribers at period end (in thousands)	3 085	3 133	(48.0)	(1.5)
% post-paid at period end	89	87	1.8	2.1
% pre-paid at period end	11	13	(1.8)	(14.0)
Blended mobile ARPU (BGN)	11.1	11.2	(0.1)	(0.5)
Post-paid ARPU (BGN)	12.1	12.3	(0.2)	(1.8)
Pre-paid ARPU (BGN)	3.8	3.9	(0.0)	(0.9)
AMOU (minutes)	213	181	31.6	17.5

Our mobile subscriber base consists primarily of residential subscribers and, in line with the Bulgarian mobile telecommunications market, the vast majority of our subscribers are post-paid. As at December 31, 2017, 89% of our total mobile subscriber base consisted of post-paid subscribers. This represents an increase by 2 percentage points year-on-year.

Our mobile subscriber base has decreased, from 3.133 million subscribers as at December 31, 2016 to 3.085 million subscribers as at December 31, 2017. The decline was mainly attributable to the pre-paid base clean-up following the mandatory registration of prepaid subscribers.

Blended mobile ARPU decreased by 0.5% to BGN 11.1 for the year ended December 31, 2017, from BGN 11.2 for the year ended December 31, 2016 primarily due to the lower price per minute and less chargeable traffic. This was partially offset by an increase in data usage and, in turn, data share in ARPU as a result of the growing smartphone penetration and share.

Mobile AMOU increased 17.5% to 213 minutes for the year ended December 31, 2017, from 181 minutes for the year ended December 31, 2016 mainly as a result of the higher outbound calls to other mobile networks as well as from increased inbound traffic from other mobile operators.

Principal Factors Affecting Fixed-line Revenue

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

	For the year ended December 31,		Change	
	2017	**2016**	**(amount)**	**(%)**
Fixed telephony subscribers at period end (in thousands)	806	926	(119.5)	(12.9)
Fixed telephony ARPU (BGN)	10.3	10.9	(0.6)	(5.5)
AMOU (minutes)	96	100	(4.2)	(4.2)
Fixed broadband subscribers at period end (in thousands)	480	437	43.1	9.9
% FTTx at period end	54	51	2.7	5.3
Fixed broadband ARPU (BGN)	9.4	10.1	(0.6)	(6.4)
Number of fiber homes passed (in thousands)	1 128	1 087	41.1	3.8
Fixed pay-TV subscribers at period end (in thousands)	447	410	36.8	9.0
% IPTV at period end	46	42	3.2	7.5
Fixed pay-TV ARPU (BGN)	13.6	12.7	1.0	7.7

Fixed Telephony

Our total fixed telephony subscribers decreased by 12.9% to 806 thousand as at December 31, 2017, from 926 thousand as at December 31, 2016. The decrease in fixed telephony subscribers was primarily due to the strong price competition surrounding fixed telephony services, where such services are being offered as a low price addition to our competitors' mobile, fixed broadband and pay-TV services, as well as the ongoing fixed-to-mobile substitution.

Total fixed telephony ARPU decreased by 5.5% to BGN 10.3 for the year ended December 31, 2017, from BGN 10.9 for the year ended December 31, 2016. The decrease in total fixed telephony ARPU was primarily due to a decrease in the chargeable outgoing traffic volume as well as the lower monthly recurring fees.

Fixed telephony AMOU decreased by 4.2% to 96 minutes for the year ended December 31, 2017, from 100 minutes for the year ended December 31, 2016. The decrease was primarily due to ongoing fixed-to-mobile substitution, which resulted in a decrease in outgoing volume of calls made by our customers.

Fixed Broadband

Our total fixed broadband subscribers increased by 9.9% to 480 thousand as at December 31, 2017, from 437 thousand as at December 31, 2016. The increase was mainly due to higher FTTx connections driven by the growing demand for high speed bandwidth capacity and reliable broadband service.
Total fixed broadband ARPU decreased by 6.4% to BGN 9.4 for the year ended December 31, 2017, from BGN 10.1 for the year ended December 31, 2016. The decrease was primarily due to bundling discounts and intense price competition from other alternative operators.

Fixed Pay-TV

Our total fixed pay-TV subscribers increased by 9.0% to 447 thousand as at December 31, 2017, from 410 thousand as at December 31, 2016. This was mainly due to the increased demand for high quality services with superior user experience, rich content and high-definition (HD) channels.

Total fixed pay-TV ARPU increased by 7.7% to BGN 13.6 for the year ended December 31, 2017, from BGN 12.7 for the year ended December 31, 2016. The increase was mainly attributable to the growing share of tariffs with higher monthly recurring fees and additional packages with rich content.

EXPENSES

Interconnect Expense

Our interconnect expense was BGN 79.6 million for the year ended December 31, 2017, an increase of BGN 17.3 million, or 27.8%, from BGN 62.3 million for the year ended December 31, 2016. This was mainly due to increase in mobile outbound traffic to other national mobile operators, resulted from more calls made by our subscribers to other networks.

Materials and Consumables Expenses

Our materials and consumables expenses were BGN 161.6 million for the year ended December 31, 2017, an increase of BGN 6.0 million, or 3.6%, from BGN 167.5 million for the year ended December 31, 2016 mainly from lower utilities expenses related to the optimization of our network infrastructure and optimization in mobile handset subsidies.

Other Operating Expenses

Our other operating expenses were BGN 213.1 million for the year ended December 31, 2017, a decrease of BGN 27.7 million, or 11.5%, from BGN 240.8 million for the year ended December 31, 2016.

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

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Leased lines and data transmission	(7.0)	(8.1)	1.1	(13.4)
Maintenance and repairs	(27.5)	(31.5)	4.0	(12.7)
License fees	(15.7)	(15.5)	(0.2)	1.6
Facilities	(43.1)	(41.6)	(1.5)	3.6
Professional fees	(4.3)	(4.7)	0.3	(7.0)
Vehicles and transports	(9.4)	(9.7)	0.3	(2.9)
Administration expenses	(9.3)	(10.0)	0.7	(6.8)
Advertising, customer service, billing & collection	(76.5)	(69.7)	(6.8)	9.8
Other	(20.1)	(50.1)	29.9	(59.8)
Total operating expenses	**(213.1)**	**(240.8)**	**27.7**	**(11.5)**

Decrease in other operating expenses was mainly as a result from lower expenses for maintenance and repairs, leased lines and data transmission, lower professional fees, administration expenses and other expenses.

Maintenance and repairs expenses decrease was mainly due to lower costs for maintenance of our mobile network with completion of the SRAN swap. Leased lines and data transmission expenses decrease was primarily related to lower fees for satellite transmission services. Lower administration expenses and professional fees resulted mainly from optimization of costs for hired services. Higher other expenses in 2016 were due to the accrued impairment of loans resulting from part of the assigned receivables on cash deposits in CCB as well as impairment of receivables from business customers.

These decreases were partially offset by higher advertising, customer services, billing & collection expenses, facilities expenses and license fees. Advertising, customer services, billing & collection expenses were driven mainly by higher content costs and increase in promotional activities, partially offset by savings in billing and collection costs. Increase in facilities expenses was primarily related with rent of commercial and technical premises, offset to extent by lower security costs. Increase in license fees expenses was driven by the acquired spectrum in the 1800 MHz frequency band last year.

Staff Costs

Our staff costs were BGN 128.8 million for the year ended December 31, 2017, an increase of BGN 1.0 million, or 0.8%, from BGN 127.8 million for the year ended December 31, 2016, mainly as a result of increase in the average salaries.

Depreciation and Amortization

Our depreciation and amortization costs were BGN 200.1 million for the year ended December 31, 2017, a decrease of 43.2 million, or 17.8%, from BGN 243.4 million for the year ended December 31, 2016. The increased depreciation and amortisation in 2016 was due to accelerated depreciation of certain mobile assets subject to swap.

Finance Costs

Our finance costs were BGN 57.6 million for the year ended December 31, 2017, a decrease of BGN 2.1 million, or 3.6%, from BGN 59.8 million for the year ended December 31, 2016. The increased finance costs in 2016 was due to expenses incurred in relation to the solicited consent of the holders of the Notes.

Finance Income

Our finance income was BGN 6.0 million for the year ended December 31, 2017, a decrease of BGN 0.8 million, or 11.2%, from BGN 6.8 million for the year ended December 31, 2016, mainly attributable to lower other finance income from assignments of receivables.

Other gains, net

Other gains, net were BGN 17.9 million for the year ended December 31, 2017, an increase of BGN 12.8 million, or 254.7%, from BGN 5.0 million for the year ended December 31, 2016, mainly as a result of the sale of non-operational buildings, including the Telephone Palace in Sofia.

Income Tax Expenses

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

	For the year ended December 31,		Change	
BGN in millions, except percentages	**2017**	**2016**	**(amount)**	**(%)**
Current income tax charge	(8.7)	(5.6)	(3.1)	55.0
Deferred tax credit to comprehensive income	7,2	0.4	6.8	1 537.6
Income tax expense/(benefit)	**(1.5)**	**(5.2)**	**3.7**	**(71.4)**

Income tax expense was BGN 1.5 million for the year ended December 31, 2017, a decrease of BGN 3.7 million, from income tax expense of BGN 5.2 million for the year ended December 31, 2016 driven mainly by higher deferred tax credit for the current period.

ADJUSTED EBITDA AND PROFIT FOR THE PERIOD

As a result of the foregoing, we have accounted a profit of BGN 71.1 million for the year ended December 31, 2017, an increase of BGN 90.7 million compared to a loss of BGN 19.6 million for the year ended December 31, 2016.

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)	**2017**	**2016**	**(amount)**	**(%)**
Profit / (loss) for the period	**71.1**	**(19.6)**	**90.7**	**(462.6)**
Income tax expense	7.3	5.1	2.1	41.5
Finance expenses, net	51.6	53.0	(1.4)	(2.6)
Depreciation and amortization	200.1	243.4	(43.2)	(17.8)
EBITDA	**324.3**	**281.9**	**42.4**	**15.1**
Other gains, net	(17.9)	(5.0)	(12.8)	254.6
Asset impairment and write off	8.8	29.8	(20.9)	(70.3)
Provisions and penalties	0.2	1.9	(1.7)	(90.1)
Other exceptional items	3.4	2.1	1.3	64.8
Adjusted EBITDA	**318.9**	**310.6**	**8.3**	**2.7**

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	**2017**	**2016**	**(amount)**	**(%)**
Net cash from operating activities	315.0	203.8	111.2	54.6
Net cash used in investing activities	(205.9)	(207.6)	1.8	(0.9)
Net cash used in financing activities	(5.4)	(13.2)	7.8	(59.1)
Net increase / (decrease) in cash and cash equivalents	**103.7**	**(17.1)**	**120.8**	**(708.0)**

Net Cash from Operating Activities

For the year ended December 31, 2017, net cash flows from operating activities increased by BGN 111.2 million to BGN 315.0 million, compared to BGN 203.8 million for the year ended December 31, 2016 mainly due to better working capital performance, including less cash tied up in inventory and settlement of discounts receivable from roaming partners.

Net Cash Used in Investing Activities

For the year ended December 31, 2017, net cash flows used in investing activities decreased by BGN 1.8 million to BGN 205.9 million, from BGN 207.6 million mainly due to lower payments to suppliers of non-current assets reflecting the level of capital expenditures. The acquisition of investments was partially offset by the proceeds from sale of property, plant and equipment, including the Telephone Palace building in Sofia.

Net Cash Used in Financing Activities

For the year ended December 31, 2017, net cash flows used in financing activities decreased by BGN 7.8 million to 5.4 million, from BGN 13.2 million for the year ended December 31, 2016 mainly due to non-utilization of the RCF during the current period.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

CAPITAL EXPENDITURES AND INVESTMENTS

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

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

	For the year ended December 31,	
(BGN in millions)	**2017**	**2016**
Network	132.0	150.0
IT	12.2	13.7
Commercial and other	35.4	34.6
Licenses	-	12.1
NURTS	1.3	1.6
Eliminations	-	(0.5)
Total capital expenditures	**181.0**	**211.6**

For the year ended December 31, 2017, our capital expenditures amounted to BGN 181.0 million, which consisted of:

- BGN 132.0 million of capital expenditures relating to network activities, mainly for investment in our mobile radio access network, fixed core network, mobile core, TV platform and FTTx roll-out projects;
- BGN 12.2 million of capital expenditures relating to IT activities, primarily related to IT infrastructure acquisitions and business support systems;
- BGN 35.4 million of capital expenditures relating to commercial and other activities, mainly for CPEs to support our growing pay-TV and fiber subscriber base, as well as sales commissions related to long-term contracts;
- BGN 1.3 million of capital expenditures relating to maintenance of NURTS infrastructure.

ROUNDING

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

MAIN RISKS

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

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

General risk

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

Macroeconomic risks

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

On December 12, 2014 Standard & Poor's lowered its long- and short-term foreign and local currency sovereign credit ratings of Bulgaria by one notch to 'BB+/B' from 'BBB-/A-3' with stable outlook. The downgrade reflected the liquidity support to weakened domestic banks which has pushed up Bulgarian government debt. The stable outlook balances the risks from potential vulnerabilities mounting in the financial sector against still-low levels of government indebtedness. On June 12, 2015 Standard & Poor's affirmed its 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings on Bulgaria. The outlook remains stable. On December 11, 2015 and subsequently on June 3, 2016 and December 2, 2016 Standard & Poor's reaffirmed its 'BB+/B' sovereign credit rating on Bulgaria with stable outlook. On June 2, 2017, Standard & Poor's affirmed its 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings on Bulgaria and revised its outlook to positive from stable, reflecting the expectation that fiscal and external metrics will continue to improve. On December 1, 2017, Standard & Poor's raised its long- and short-term foreign and local currency sovereign credit ratings on Bulgaria to 'BBB-/A-3' from 'BB+/B", following country's improving external metrics, expansion of exports and rise in domestic savings.

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

Inflation risk

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

Market risk

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

Political risks

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

Specific Company risks

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

Regulatory risk

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

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

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

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

EU Telecom Single Market Regulation

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

Electronic Communications Act

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

Unfair competition

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

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

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

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

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

Credit risks

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

As a result of the assigned receivables on cash deposits in CCB in 2014 and the subsequent cancellation of transactions as disclosed in Note 6 to the present consolidated and separate financial statements the Group has recognized loans and other receivables. The receivables are due by several counterparties, one economic group of which represents more than 50% of the total balance. As at the reporting date all of the outstanding loan receivables are impaired in full, as disclosed in Note 6.

Apart from this VIVACOM Group is not exposed to credit risk from an individual partner or group of partners with similar profile. Trade relations with related parties are similar to those with third parties.

According to Treasury policy, applicable to VIVACOM and its subsidiaries, credit exposure is controlled by individual credit limits of counterparties, which are regularly revised and appropriately approved. The limit for each third party is determined according to its size in terms of assets and equity as well as its long-term credit rating from S&P, Moody's or Fitch. The Treasury policy also defines the financial instruments, allowed to the Treasury Department, as well as the maximum maturity.

Liquidity risks

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

Currency risk

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

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

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

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

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

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

Other specific risks

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

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 2018 the activity of the Group will continue to be carried out in accordance with the main objectives of the Company:

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

INNOVATION PROCESSES AND PRODUCT DEVELOPMENT

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

NON-FINANCIAL INFORMATION AND DISCLOSURES

VIVACOM has been committed to high level of transparency and disclosures of relevant non-financial information about its activities. After a series of Sustainability Reports in 2014 and 2015, and Annual Integrated Report in 2016, VIVACOM will publish its Integrated Annual Report for 2017 which will be publicly available on our corporate website together with this report on March 08, 2018. The report content elaborates on the influence of the external environment on Company's strategy, governance, performance and future outlook. It shows how our business model transforms available capitals such as infrastructure, natural and human resources and creates value for key stakeholders. It includes also objective quantitative data that reflects the economic, technical, social and environmental performance in the period January 1, 2017 – December 31, 2017 on consolidated and individual bases.

Our 2017 Integrated Annual Report includes a transparent and participatory approach in defining the value creation process, taking into account the material topics that could affect the Company's ability to create value over the long-term. The content is further guided by the latest amendments of the national legislation related to disclosure of non-financial information (Accountancy Act, 2016).

INFORMATION ABOUT THE COMPANY'S MANAGING BOARD AND SUPERVISORY BOARD

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

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

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

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

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

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

Remuneration amounting to BGN 2,659 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of December 31, 2017 (2016: BGN 3,134 thousand) from which BGN 1,039 thousand is payable as of December 31, 2017 (2016: BGN 1,712 thousand).

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

No contracts under Article 240b of the Commerce Act were concluded for the year ended December 31, 2017.

INFORMATION ABOUT THE COMPANY'S SHARES

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

CORPORATE GOVERNANCE

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

Internal control

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

ADDITIONAL INFORMATION

The Company has no branches in the country or abroad.

Information about pending judicial, administrative or arbitration proceedings regarding liabilities or receivables of the Company amounting to at least 10% of its equity is disclosed further in Note 28 to the consolidated and separate financial statements.

Data about the Investor Relations:

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CEO
Sofia
07.03.2018

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ABBREVIATIONS AND TERMS

AMOU

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

ARPU

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

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

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

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

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

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

EBITDA and Adjusted EBITDA

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

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

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

Market Share

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

Subscribers

The number of subscribers in our mobile service is reported based on the number of active mobile SIM cards. In line with the prevailing methodology in Bulgaria for calculating post-paid mobile subscribers, post-paid mobile subscribers are counted in our subscriber base as long as they have an active contract, have any active billing status (subscribers who regularly pay their bills) and have not been disconnected from our network, which includes machine to machine connections. Pre-paid mobile subscribers are counted in our subscriber base in line with the prevailing methodology for doing so in the Bulgarian mobile telecommunications market, whereby pre-paid mobile subscribers are counted in our subscriber base if they have had an activity event (such as outgoing and incoming customer generated usage or recharge) within the last 90 days.

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

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

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

Our subscriber data includes the number of main products in use by our residential and business customer units.

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

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

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

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

"**HSPA**" or "**High Speed Packet Access**"	A mix of two mobile telephony protocols, high speed download Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA) that extends and improves the performance of existing protocols.
"**HSPA+**" or "**evolved high speed packet access**" or	A set of 3G / UMTS technology enhancements allowing for very fast data transmission between network and mobile devices. Supports speeds of up to 42 Mbps from network to mobile devices and up to 11 Mbps from mobile devices to network.
"**interconnection**"	The way in which networks are connected to each other and the charges payable by one network operation for accepting traffic from or delivering traffic to another.
"**Internet Protocol**" or "**IP**"	Internet Protocol is a protocol used for communicating data across a packet-switched network. It is used for transmitting data over the internet and other similar networks. The data is broken down into data packets, each data packet is assigned an individual address, then the data packets are transmitted independently and finally reassembled at the destination.
"**IPTV**" or "**Internet Protocol Television**"	IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet.
"**ISDN**" or "**Integrated Services Data Network**"	A set of communication standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network.
"**ISDN BRA/PRA**"	Integrated Service for Digital Network, Basic Rate Access/Primary Rate Access
"**ISP**"	An ISP is a company that provides individuals and companies access to the internet.
"**Kbps**"	Kilobits per second.
"**LAN**" or "**Local Area Network**"	A computer network that interconnects computers in a limited area such as a home, school, computer laboratory, or office building using network media.
"**LLU**" or "**local loop unbundling**"	Local loop unbundling, is where the incumbent grants access to third- party operators of the part of the communications circuit between the subscriber's equipment and the equipment of the local exchange (known as the local loop). Where such access is granted by the incumbent, the incumbent may charge the third-party operator a regulated fee for the interconnection service.
"**LTE**" or "**Long Term Evolution**"	LTE refers to a new mobile telephony technology that succeeds 3G. 3GPP (Third Generation Partnership Project) Long Term Evolution, is a new high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
"**M2M**" or "**Machine-to-Machine**"	M2M refers to the data communication between wireless and wired systems and other wireless and wired systems.
"**MAN**" or "**Metropolitan Area Network**"	A computer network in which two or more computers or communicating devices or networks which are geographically separated but in same metropolitan city.
"**MB**"	A megabit.
"**Mbps**"	Megabits per second.
"**MHz**"	Megahertz; a unit of frequency equal to 1 million Hertz.
"**MMS**" or "**Multimedia Messaging Service**"	An evolution of SMS that enables users to send multimedia content including images, audio and video clips to other users.
"**MPLS**" or "**Multi Protocol Label Switching**"	A method used to speed up data communication over combined IP / ATM networks.
"**MRC**"	Monthly Recurring Charges.

"**MTR**" or "**mobile termination rates**"	A voice, or SMS or MMS, as applicable termination charge levied against the origination network by the receiving network at a rate that is agreed between the two networks. The MTR is usually subject to regulatory limits.
"**MVNO**" or "**mobile virtual network operator**"	A mobile operator that does not own its own spectrum and usually does not have its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile operators to buy minutes of use for sale to their own subscribers.
"**network**"	An interconnected collection of telecom components consisting of switches connect to each other and to customer equipment by real or virtual transmission links. Transmission links may be based on fiber optic or metallic cable or point-to-point radio connections.
"**number portability**"	A facility provided by telecommunications operators that enables customers to keep their full telephone numbers when they change operators.
"**operator**"	A term for any company engaged in the business of building and running its own network facilities.
"**penetration**"	A measurement of access to telecommunications, normally calculated by dividing the number of subscribers to a particular service by the population and multiplying by 100.
"**roaming**"	Roaming is the transfer of mobile traffic from one network to another, referring to the exchange of mobile international traffic.
"**R2D**"	Register to Digital signalization via 2 Mbit/s subscriber line.
"**smartphone**"	A smartphone is a mobile phone built on a mobile computing platform and includes high-resolution (touch) screens, web browsers that can access and properly display standard web pages and high speed data access via Wi-Fi and mobile broadband.
"**SMS**" or "**Short Message Service**"	A text message service which enables users to send short messages (160 characters or less) to other users.
"**spectrum**"	A continuous range of frequencies, usually wide in extent within which waves have some certain common characteristics.
"**Subscriber Identity Module card**" or "**SIM card**"	A SIM is a chip card inserted into a mobile phone, which contains information such as telephone numbers and memory for storing a directory.
"**subscriber**"	A person or entity who is party to a contract with the provider of telecommunications services for the supply of such services.
"**termination rate**"	The tariff chargeable by operators for terminating calls on their networks as set forth by the CRC.
"**Universal Mobile Telecommunications System**" or "**UMTS**"	UMTS is one of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS at approximately 6 times the speed of ISDN.
"**VoBB**" or "**Voice over Broadband**"	A telephone service via Internet, or via transmission control/Internet Protocol, which can be accessed using a computer, a sound card, adequate software and a modem.
"**VPN**" or "**Virtual Private Network**"	A VPN is a virtual network constructed from logic connections that are separated from other users
"**Wi-Fi**"	Wi-Fi is a technology that allows an electronic device to exchange data wirelessly over a computer network, including broadband internet connections. Wi-Fi is a trademark of the Wi-Fi Alliance.

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

	Notes	Consolidated Financial Statements		Separate Financial Statements	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
ASSETS					
Current assets					
Cash and cash equivalents	5	175,973	72,344	172,125	66,618
Trade and other receivables	6	101,954	150,662	102,146	159,050
Current income tax receivables		-	453	-	452
Inventories	7	37,005	42,543	35,773	41,236
Investments	12	5	322	5	322
Other current assets	9	14,075	11,375	13,920	10,873
Assets classified as held for sale	8	193	194	13	14
Total current assets		329,205	277,893	323,982	278,565
Non-current assets					
Goodwill		2,049	2,049	2,049	2,049
Property, plant and equipment	10	751,489	766,947	706,783	717,828
Investment property	10	145,401	168,205	10,243	13,112
Intangible assets	11	196,301	204,123	195,439	203,900
Investments	12	59,057	382	101,160	41,103
Trade and other receivables	6	53,256	36,012	47,913	35,826
Other non-current assets	9	10,558	2,491	10,558	2,491
Deferred tax assets, net	17	3,981	1,486	-	-
Total non-current assets		1,222,092	1,181,695	1,074,145	1,016,309
TOTAL ASSETS		1,551,297	1,459,588	1,398,127	1,294,874

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

	Notes	Consolidated Financial Statements		Separate Financial Statements	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	13	102,482	77,395	107,977	75,750
Other payables	14	38,764	40,953	37,984	40,441
Deferred income/revenue		21,893	21,258	21,889	21,258
Current income tax liabilities		556	1	534	-
Provisions	15	3,073	3,905	3,016	3,827
Borrowings	16	787,295	12,355	787,258	12,318
Total current liabilities		**954,063**	**155,867**	**958,658**	**153,594**
Non-current liabilities					
Borrowings	16	856	776,519	856	776,519
Deferred tax liabilities, net	17	10,204	14,644	732	451
Retirement benefit obligations	18	6,187	4,687	6,187	4,687
Provisions	15	12,180	10,540	12,180	10,540
Trade payables	13	2,502	2,962	2,502	2,962
Deferred income/revenue		2,717	2,914	2,717	2,914
Total non-current liabilities		**34,646**	**812,266**	**25,174**	**798,073**
Equity					
Share capital	19	288,765	288,765	288,765	288,765
Reserves	19	150,835	173,578	33,105	34,001
Retained earnings		122,988	29,112	92,425	20,441
Total equity		**562,588**	**491,455**	**414,295**	**343,207**
TOTAL LIABILITIES AND EQUITY		**1,551,297**	**1,459,588**	**1,398,127**	**1,294,874**

These financial statements were approved on 07.03.2018.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Sylvia Peneva
Registered Auditor
Date: 08/03/2018

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2017	Year ended 31.12.2016	Year ended 31.12.2017	Year ended 31.12.2016
Revenue	20	889,503	875,266	853,762	838,674
Interconnect expenses		(79,609)	(62,273)	(65,758)	(56,818)
Other operating expenses	21	(213,094)	(240,802)	(216,073)	(230,620)
Materials and consumables expenses		(161,568)	(167,540)	(158,332)	(161,898)
Staff costs	22	(128,755)	(127,780)	(127,688)	(124,294)
Depreciation and amortization	9,10,11	(200,131)	(243,365)	(198,093)	(237,341)
Finance costs	23	(57,635)	(59,769)	(57,608)	(59,605)
Finance income	23	6,010	6,768	7,016	8,478
Other gains, net	24	17,857	5,035	44,626	3,915
Profit/(loss) before tax		**72,578**	**(14,460)**	**81,852**	**(19,509)**
Income tax (expense)/benefit	25	(1,474)	(5,150)	(8,402)	1,688
Profit/(loss) for the year		**71,104**	**(19,610)**	**73,450**	**(17,821)**
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		(995)	313	(995)	313
Related tax	25	99	(31)	99	(31)
		(896)	282	(896)	282
Items that will never be reclassified to profit or loss:					
Revaluation of land and investment property	10	2,656	153,701	-	(1,385)
Remeasurements of defined benefit liability		(1,466)	350	(1,466)	217
Related tax	25	(265)	(15,371)	-	138
		925	138,680	(1,466)	(1,030)
Other comprehensive income for the year, net of tax		**29**	**138,962**	**(2,362)**	**(748)**
Total comprehensive income for the year		**71,133**	**119,352**	**71,088**	**(18,569)**
Earnings/(Loss) per share (basic and diluted)	19	0.25	(0.07)	0.25	(0.06)

These financial statements were approved on 07.03.2018.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditors' report:

Sylvia Peneva
Registered Auditor
Date: 08/03/2018

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

Consolidated Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
Balance as at 1 January 2016		**288,765**	**28,876**	**6,090**	-	**48,372**	**372,103**
Comprehensive income for the year							
Loss for the year		-	-	-	-	(19,610)	**(19,610)**
Total other comprehensive income	25	-	-	138,330	282	350	**138,962**
Total comprehensive income for the year		-	-	**138,330**	**282**	**(19,260)**	**119,352**
Balance as at 31 December 2016		**288,765**	**28,876**	**144,420**	**282**	**29,112**	**491,455**
Comprehensive income for the year							
Profit for the year		-	-	-	-	71,104	**71,104**
Total other comprehensive income	25	-	-	2,391	(896)	(1,466)	**29**
Total comprehensive income for the year		-	-	**2,391**	**(896)**	**69,638**	**71,133**
Transfer to retained earnings - land disposal		-	-	(24,238)	-	24,238	-
Balance as at 31 December 2017		**288,765**	**28,876**	**122,573**	**(614)**	**122,988**	**562,588**

The notes on pages 36 to 102 are an integral part of these financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 31 December 2017
All amounts are in thousand BGN, unless otherwise stated

Separate Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Hedging reserve	Retained earnings	Total
Balance as at 1 January 2016		**288,765**	**28,876**	**6,090**	**-**	**38,045**	**361,776**
Comprehensive income for the year							
Loss for the year		-	-	-	-	(17,821)	**(17,821)**
Total other comprehensive income	25	-	-	(1,247)	282	217	**(748)**
Total comprehensive income for the year		**-**	**-**	**(1,247)**	**282**	**(17,604)**	**(18,569)**
Balance as at 31 December 2016		**288,765**	**28,876**	**4,843**	**282**	**20,441**	**343,207**
Comprehensive income for the year							
Profit for the year		-	-	-	-	73,450	**73,450**
Total other comprehensive income	25	-	-	-	(896)	(1,466)	**(2,362)**
Total comprehensive income for the year		**-**	**-**	**-**	**(896)**	**71,984**	**71,088**
Balance as at 31 December 2017		**288,765**	**28,876**	**4,843**	**(614)**	**92,425**	**414,295**

These financial statements were approved on 07.03.2018.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditors' report:

Sylvia Peneva
Registered Auditor
Date: 08/03/2018

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

The notes on pages 36 to 102 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 2017
All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statement		Separate financial statement	
		Year ended 31.12.2017	Year ended 31.12.2016	Year ended 31.12.2017	Year ended 31.12.2016
Cash flows from operating activities					
Profit/(loss) before tax		72,578	(14,460)	81,852	(19,509)
Adjustment for:					
Depreciation and amortization	9,10, 11	200,131	243,365	198,093	237,341
Gain on sale of non-current assets and assets held for sale	24	(9,199)	(4,969)	(36,220)	(3,914)
Impairment loss and write off of non-current asset	10,11	6,095	7,818	5,932	7,680
Interest expenses, net of interest income	23	51,113	51,816	50,085	50,097
Impairment loss on trade receivables	6	11,146	38,056	10,390	32,085
Impairment loss and write off of current asset		700	1,906	650	1,616
Income from investment operations and other finance income	23	(71)	(54)	(71)	(54)
Gain from operations with cash flow hedges	23	(73)	(41)	(73)	(41)
Gain on bargain purchase	24, 31	(42)	-	-	-
Gain on changes in fair value of investment properties		(216)	-	-	-
Accruals and provisions charged to profit and loss		5,479	4,261	5,200	4,506
Changes in:					
-inventories		5,000	(7,192)	4,938	(7,283)
-trade and other receivables		39,254	(45,452)	29,935	(34,249)
-other current and non-current assets		(13,467)	(3,184)	(13,831)	(3,555)
-trade and other payables		12,645	(6,504)	19,522	(4,718)
-provisions and employee benefits		(6,166)	(3,660)	(5,791)	(3,026)
-deferred income/revenue		438	1,683	434	1,691
Cash generated from operations		**375,345**	**263,389**	**351,045**	**258,667**
Interest received		260	194	2,099	663
Interest paid		(52,939)	(54,345)	(52,939)	(54,345)
Corporate income tax paid		(7,655)	(5,436)	(7,036)	(6,340)
Net cash from operating activities		**315,011**	**203,802**	**293,169**	**198,645**
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		38,653	7,976	38,287	3,920
Acquisition of PPE and intangible assets		(171,953)	(209,806)	(170,329)	(209,280)
Acquisition of investments		(59,565)	-	(59,577)	-
Cash deposits with maturity greater than three months		352	118	352	(2)
Dividends received		125	51	125	51
Loans granted to related parties Total		(13,485)	(5,986)	(13,485)	(5,986)
Loan repayments received from related parties		-	-	22,461	6,980
Net cash used in investing activities		**(205,873)**	**(207,647)**	**(182,166)**	**(204,317)**
Cash flows from financing activities					
Repayment of borrowings		-	(9,779)	-	(9,779)
Payment of finance lease liabilities		(5,411)	(3,437)	(5,411)	(3,437)
Net cash used in financing activities		**(5,411)**	**(13,216)**	**(5,411)**	**(13,216)**
Net increase/(decrease) in cash and cash equivalents		**103,727**	**(17,061)**	**105,592**	**(18,888)**
Effect of exchange rate fluctuations on cash held		(98)	(150)	(85)	(159)
Cash and cash equivalents at the beginning of the year	5	72,344	89,555	66,618	85,665
Cash and cash equivalents at the end of the year	5	**175,973**	**72,344**	**172,125**	**66,618**

These financial statements were approved on 07.03.2018.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

Initialed for identification purposes in reference to the auditors' report:

Sylvia Peneva
Registered Auditor
Date: 08/03/2018

The notes on pages 36 to 102 are an integral part of these financial statements.

1. General information

The Parent Company – Bulgarian Telecommunications Company EAD

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

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

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

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

As of 31 December, 2017 and 2016 the Parent company had 5,638 and 6,130 employees, respectively.

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

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

As at 31 December 2016 the Group comprise of BTC and the subsidiary entities - BTC Net EOOD, NURTS Bulgaria EAD, and NURTS Digital EAD.

BTC Security EOOD/ Renamed to BTC Net EOOD

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

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

1. General information (continued)

On September 30, 2009 BTC Net EOOD was merged into BTC Security. The legal merger of the entities was registered in the Commercial Register on October 15, 2009.

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

NURTS Bulgaria EAD

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

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

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

Regulations

Regulatory framework

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

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

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

1. General information (continued)

Regulations (continued)

In 2017 the following secondary legislation acts were modified:

- General requirements for the provision of public electronic communications;

During 2017 CRC decided on the following specific obligations:

- Price cap on rates for IP interconnection non-traffic services. The rates were defined for two periods of validity – the first one as from 1 January 2017 to 1 July 2017 and the second one as from 1 September 2017 to 1 March 2018.

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 2017 and 2016 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 2017 and 2016 the fee was BGN 2,627 thousand and BGN 2,448 thousand, respectively. The fees are regulated by the CRC and relevant Council of Ministers Ordinances.

- **Mobile telecommunications**

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

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

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

1. General information (continued)

Regulations (continued)

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

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

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

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

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

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

An annual fee, calculated based on the annual revenue from telecommunication services provided to the subscribers is paid quarterly. In 2017 and 2016 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 2017 and 2016 the fees paid for frequency bands in 900, 1800 and 2100 MHz amounted to BGN 7,833 thousand and BGN 7,536 thousand.

- **TV broadcasting**

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

2. Summary of significant accounting policies

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

2.1. Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and available-for-sale financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and defined benefit plan at the present value of the obligation.
Consolidated financial information, including subsidiaries, has been prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

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

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

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:
• Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017),
• Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017).
• Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards and interpretation has not led to any material changes in these financial statements.

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

At the date of authorisation of these financial statements, the following amendments to the existing standards issued by IASB and adopted by the EU were in issue but not yet effective:
• IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018). The final phase of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group has performed impact assessment of all three aspects of IFRS 9 based on currently available information. The assessment may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

Classification and measurement
The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

Loans and trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The equity shares in non-listed companies are intended to be held, not sold in the foreseeable future. In accordance with IAS 39 they were accounted at cost. No impairment losses were recognized in profit or loss during prior periods for these investments. IFRS 9 requires at the date of initial application such investments to be measured at fair value and the difference between the previous carrying amount and the fair value to be recognized in the opening equity of the reporting period that includes the date of initial application. The Group will apply the option to present subsequent fair value changes in OCI. As of the date of authorization of these financial statements for issue the exact impact of the initial application is not known as the Group is in process of obtaining fair valuation for the investments in non-listed companies by independent valuers.

Impairment
IFRS 9 requires the Group to record expected credit losses on all of its loans, trade receivables and contract assets, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables and contract assets. As per the current accounting policy the majority of the trade receivables are impaired on a group basis according to their aging structure and taking into consideration historical data on collectability. The Group does not expect the application of the impairment requirement of IFRS 9 to have a significant impact on Group's financial statements. The exact impact of the initial application is not known as the exact model for calculation the lifetime expected losses is not yet finalized.

Hedge accounting
The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. Similar to the Group's current hedge accounting policy the forward element of foreign currency forward contracts is intended to be excluded from designated hedging relationships. The Group has already elected to basis adjust non-financial hedged items with gains/losses arising from effective cash flow hedges under IAS 39, which is mandatory under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have any impact on Group's financial statements.

• IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018). IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations and key judgments and estimates.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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

• Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018). The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

Management expects significant qualitative and quantitative impact of the standard for reporting period beginning on January 1, 2018, and further analyses its implication below.

The Group has completed the detailed contract analysis for all of the Group's revenue streams and the impact of applying IFRS 15 from methodology point of view. To date, the Group has finalized and approved the IFRS 15 accounting policies and target IT architecture and software solution for the IFRS 15 implementation. The IFRS project team is currently working on the implementation of the IT solution. No reliable quantitative estimates of the impact are yet available and with regards to high complexity of the changes in accounting policies, cannot be done before the IT solution is ready. Currently the quantitative impact of adoption of IFRS 15 is not known and is not reliably estimable.

The main expected qualitative impacts are explained below. The Group will utilize the option for simplified initial application, i. e. only contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application (1 January 2018). Prior-year comparatives will not be restated; instead, the Group will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period (2018) as a result of applying IFRS 15 for the first time.

Under our current accounting policy for multiple-element arrangements (sales of phones & service under 1-2 year contracts with post-paid subscribers, including subscription fees), revenue recognition for each of the units of accounting (elements) identified is 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). As a result, for mobile handsets and other devices sold revenue is recognized based on the amount the customer pays for the device when it is delivered to the customer. As part of the strategy for acquisition of new customers devices could either be provided for free or at price below its acquisition cost.

Under IFRS 15, additional revenue will be allocated to the device at the start of the contract. This is calculated with reference to its relative standalone value within the contract, regardless of the contract pricing. For each such multiple-element contract the revenue recognition profile will change with greater day one recognition of revenue for the device and a corresponding reduction in ongoing service revenue over the contract period. The difference between the device revenue recognized and the amounts charged to the customer will be recognized as a contract asset. On adoption of IFRS 15, this change will result in increase of retained earnings and corresponding recognition of a contract asset for all open contracts at 1 January 2018. Over time, the contract asset generated is expected to remain at similar levels as old contracts expire and new ones are signed. This will be the most significant impact of the IFRS 15 adoption for the Group and will primarily impact the Mobile line of business and to a lesser extent – the Fixed line of business, due to the relative standalone values of the respective devices sold.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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

No impact is expected on adoption of IFRS 15 for contracts with customers where services or devices are sold on their own in separate identified contracts. According to our current accounting policy arrangements involving the delivery of bundled services (a package of different services is sold in bundle to customers i.e. Internet + TV + Mobile/Fixed telephony) are separated into individual elements. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values, which approximate the standalone prices of those elements. As such, the current approach is in line with the requirements of IFRS 15.

IFRS 15 will impact other areas but we do not expect them to be material. These include certain contract fulfilment costs, which will be recognized as an asset and amortized over the period in which benefit is received. Under our current accounting policy costs incurred to fulfil contracts with customer are deferred and recognized as operating expenses for the respective contractual terms. Respectively the deferred costs as at the adoption date will be reclassified from Other assets and disclosed separately in the statement of financial position.
Currently, sales commissions and other third party acquisition costs resulting directly from securing contracts with customers are capitalized and amortized over the minimum enforceable contractual period. Under IFRS 15 the accounting policy will remain the same. The amounts recognized for subscriber acquisition/retention costs as at the adoption date will be reclassified from Intangible assets to Other non-current assets and disclosed separately.

Recognized contract assets will be subject to impairment under IFRS 9 as set out above.

• IFRS 16 “Leases” - adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after 1 January 2019). The Group is currently assessing the impact of the standard on its financial statements,

• Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 “Financial Instruments” is applied first time).

• Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB except from the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at 07.03.2018 (the effective dates stated below is for IFRS in full):
• IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
• IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2021),
• Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
• Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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

- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019)
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019)
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019)..

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

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

2. 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 Company. They are de-consolidated from the date that control ceases.

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

For consolidation purposes, the separate financial statements of the Company and its subsidiaries have been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Inter-company transactions and resulting profits or losses as of 31 December, 2017 and 2016, including unrealized profits at the year end, have been eliminated in full.

2.3. Segment Reporting

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

2.4. Functional and Presentation Currency

Functional and Presentation Currency
These financial statements are prepared in thousand Bulgarian Levs (BGN), unless otherwise stated, whereas the Bulgarian Lev has been accepted as presentation currency for the presentation of these financial statements.

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

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 and investment property

a) Property, plant and equipment

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

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

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

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

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

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)

a) 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, 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.

b) Investment property

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

Subsequent to initial recognition, investment properties are measured at fair value in the consolidated financial statements, which is also the ultimate parent's group policy. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss under "Other gains, net" in the period in which they arise.
The chosen approach for subsequent measurement of investment properties for the Company is the cost model under IAS 16, i.e. cost less any accumulated depreciation and any accumulated impairment losses in value. Investment properties (excluding Land) are depreciated by using the straight-line method over the estimated useful life which is determined to be 25 years.

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

2. Summary of significant accounting policies (continued)

2.6. Intangible assets and goodwill

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.7 Investments

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

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

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

2.8. Impairment of non-financial assets

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

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

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

2.9. 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. Summary of significant accounting policies (continued)

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.

Loans and receivables

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

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

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

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

Available-for-sale financial assets

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

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

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

2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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

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

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

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

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

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

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

2.11. Inventories

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

2. Summary of significant accounting policies (continued)

2.11. Inventories (continued)

the sale of handsets is recognized at the time of the sale and the cost of the handsets is presented as "Materials and consumables expenses" in the profit or loss for the period.

2.12. 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.

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.

2. Summary of significant accounting policies (continued)

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

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

2. 17. Current and deferred income taxes

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

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

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

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

2.18. Employee benefits

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

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

2. Summary of significant accounting policies (continued)

2.18. Employee benefits (continued)

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

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

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

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

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

2.19. Provisions for other liabilities and charges

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

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

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

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

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition (continued)

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

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

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

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.20. Revenue recognition (continued)

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

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

2.21. Expenses recognition

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

2.22. Leases

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

The Group as lessee

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

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

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

The Group as lessor

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

2. Summary of significant accounting policies (continued)

2.22. Leases (continued)

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

2.23. Dividends Distribution

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

3. Financial risk management

3.1. Financial risk factors

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

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

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

Deposits at banks
According to Treasury policy, applicable to BTC and its subsidiaries, transactions are carried out predominantly with financial institutions and banks with credit standing between BBB and A. Credit exposure is controlled by individual credit limits of counterparties, which are regularly revised and appropriately approved. The limit for each third party is determined according to its size in terms of assets and equity as well as its long-term credit rating from S&P, Moody's or Fitch. The Treasury policy also defines the financial instruments, allowed to the Treasury Department, as well as the maximum maturity.

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

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

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

a) Credit risk (continued)

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

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

As a result of the assigned receivables on cash deposits in CCB in 2014 and the subsequent cancellation of transactions as disclosed in note 6 below the Group has recognized loans and other receivables representing the majority of the balance of "Other receivables" as of 31 December 2017 and 2016, which amounts to respectively BGN 30,574 and BGN 31,011 thousand. The receivables are due by several counterparties, one economic group of which represents more than 50% of the total balance. As at the reporting date all of the outstanding loan receivables are impaired in full, as disclosed in note 6. Apart from this BTC Group is not exposed to credit risk from an individual partner or group of partners with similar profile. Trade relations with related parties are similar to those with third parties.

b) Liquidity risk

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

Maturity analysis

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

For 2017 the financial liabilities are as follows:

For the Group:

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

For BTC

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

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

For 2016 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	39,930	21,039	16,426	693	2,269	80,357
Borrowings	53	886	56,987	836,406	-	894,332
Total financial liabilities	**39,983**	**21,925**	**73,413**	**837,099**	**2,269**	**974,689**

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	39,429	20,443	15,878	693	2,269	78,712
Borrowings	14	886	56,987	836,406	-	894,293
Total financial liabilities	**39,443**	**21,329**	**72,865**	**837,099**	**2,269**	**973,005**

c) Market risk

Currency risk

The main objective of Group's/Company's 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 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 2017 the Group/Company identified currency risk, arising as a result of significant exposure to the USD. According to the Treasury policy of the Group/Company and in compliance with its foreign exchange risk management strategy, the foreign exchange risk arising from these highly probable forecasted purchases 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 Group/Company takes into account the following factors:

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

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

3. Financial risk management (continued)

3.1. Financial risk factors (continued)

c) Market risk (continued)

Interest rate risk

During 2017 the Group/Company has maintained the low level of its interest rate risk exposure, which was achieved in 2013 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. No liabilities of BTC as at the reporting date are sensitive to interest rates. As of 31 December, 2017 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.

3.2. Capital risk management

The Group manages its equity in order to perform its activity as a going concern and to balance the return on equity of shareholders by optimizing the debt to equity ratio in the medium term. The equity structure of the Group/Company consists of long-term borrowings (Note 16), cash and cash equivalents (Note 5) and equity, including share capital, retained earnings and reserves.
In accordance with the Bulgarian Commercial Act as a joint-stock company BTC is required to maintain equity at an amount which is higher than its registered share capital and legal reserves at an amount of minimum 10% of the registered share capital. As at 31 December 2017, the Company's equity is in excess of its registered share capital by BGN 125,530 thousand.

Group's management reviews its equity structure on an annual basis. The gearing ratios as of 31 December 2017 and 2016 are as follows:

	Consolidated financial statements		**Separate financial statements**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Total borrowings	788,151	788,874	788,114	788,837
Cash and cash equivalents	(175,973)	(72,344)	(172,125)	(66,618)
Cash deposits with maturity greater than three months	(651)	(1,004)	(651)	(1,004)
Net debt	**611,527**	**715,526**	**615,338**	**721,215**
Equity	562,588	491,455	414,295	343,207
Total capital	**562,588**	**491,455**	**414,295**	**343,207**
Gearing ratio	109%	146%	149%	210%

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

4. Critical accounting estimates and judgments

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

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

a) Impairment of goodwill, tangible and intangible assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.6. The ability of a tangible and intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty. In performing these assessments of recoverable amount a significant number of estimates and judgments are required including but not limited to:
– An estimate of future cash flows expected to derive from these assets,
– Expectations about possible variations in the amount or timing of those future cash flows,
– The designation of the cash generating unit for which future cash flows are derived. The cash generating units identified are fixed business, mobile business, collocation business and radio and TV broadcasting business
– The time value of money represented by weighted average cost of capital (WACC). The respective long term pre-tax WAAC rates used are: 8.3% for Fixed, 10.5% for Mobile, 9.4% for Collocation and 10.2% for TV broadcasting for 2017 (8.6%, 9.9%, 8.9% and 10.6% respectively for 2016)
– Perpetual growth rate (PGR). The respective PGR values used are: 0% for Fixed, 1% for Mobile, 1% for Collocation and 0% for TV broadcasting for 2017 (0%, 1%, 1% and 0% respectively for 2016).

As at 31 December 2017 the Group performed impairment testing of its assets and as a result no need for impairment was identified. If estimated cash flows were 10% lower or WACC/PGR were 1%/0.5% higher/lower there would still be no need for impairment. These sensitivities are calculated on an individual basis as follows:

Mobile business	**Change (%)**	**Effect on value in use – no impairment**
Estimate		
EBITDA margin absolute decrease	(1%)	(71,359)
WACC absolute increase	0.5%	(68,841)
PGR absolute decrease	(0.5%)	(50,477)

Fixed business	**Change (%)**	**Effect on value in use – no impairment**
Estimate		
EBITDA margin absolute decrease	(1%)	(51,302)
WACC absolute increase	0.5%	(40,142)
PGR absolute decrease	(0.5%)	(31,784)

Collocation business	**Change (%)**	**Effect on value in use – no impairment**
Estimate		
EBITDA margin absolute decrease	(1%)	(3,623)
WACC absolute increase	0.5%	(3,309)
PGR absolute decrease	(0.5%)	(2,331)

4. Critical accounting estimates and judgments (continued)

TV broadcasting business	Change (%)	Effect on value in use – no impairment
Estimate		
EBITDA margin absolute decrease	(1%)	(1,638)
WACC absolute increase	0.5%	(2,183)
PGR absolute decrease	(0.5%)	(1,671)

b) Useful lives of assets

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

Were the actual useful lives of the assets to differ by 10% from management's estimates, the carrying value of the consolidated plant and equipment and respectively consolidated depreciation and amortization charges would be estimated BGN 19,732 thousand higher/lower.

c) Provisions, decommissioning costs and contingent liabilities

Whether a provision or contingent liability is recognized or disclosed in the financial statements is dependent on a number of assumptions and judgments being made by the management. A provision is recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs.

Based on detailed assessment, supported by legal opinions, of each of the cases disclosed in Note 28 management concluded that it is highly unlikely an outflow of resources embodying economic benefits to happen. Accordingly, no liability or provision has been recognized as at December 31, 2017. These issues are expected to be resolved by the competent court after considering all arguments set out by BTC group companies.

d) Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. In 2017 the Group realized a profit of BGN 71,104 thousand (2016 – loss of BGN (19,610) thousand). The Group's net current liabilities as at 31 December 2017 are amounting to BGN 624,858 thousand (as at 31 December 2016 – net current assets, amounting to BGN 122,026 thousand), which is a result of the senior secured notes due November 2018. The future viability of the Group depends upon the business environment as well as upon the continuing support of the owners and providers of finance. The directors, in light of their assessment of expected future cash flows and the refinancing agreement for settlement of the senior secured notes due November 2018, as disclosed in note 16, 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 and other receivables

An allowance for impairment of trade and other 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, 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.

i) Assignment of receivables on cash deposits

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

One of the assigned receivables was utilised by NURTS Bulgaria EAD in order to set-off its obligations to CCB under a bond issued by NURTS Bulgaria EAD in 2013. CCB held 25,723 bonds with a nominal of EUR 1,000 each and in September 2014 NURTS Bulgaria EAD has set-off the principal in the amount of BGN 50,310 and applicable interest due to CCB in the amount of BGN 1,350 thousand against its own cash held in CCB accounts and assigned CCB cash receivables from third parties, including BTC. Despite of the validly executed transactions, the receivers of CCB have recognized only partially the set-off from NURTS Bulgaria EAD (BGN 1,543 thousand) where the remaining amount of BGN 50,117 thousand and other owned cash in CCB of BGN 116 thousand is included in the list of accepted receivables of CCB creditors. No financial assets or liabilities in relation to this matter were recognized in these financial statements.

In August 2015 two of the transactions concluded in 2014 for the assignment of cash deposits in CCB were terminated and as a result the assignments were cancelled with retroactive effect where BTC became a titleholder of the assigned receivables in the amount of BGN 53,033 thousand (BGN 9,612 thousand, net of impairment as of 31 December 2017). Despite of the validly executed transactions, the receivers of CCB have not included the cancelled assignments in the list of accepted receivables of CCB creditors.

4. Critical accounting estimates and judgments (continued)

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

5. Cash and cash equivalents

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

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Current accounts and cash in hand				
Held in BGN	108,909	39,874	105,749	34,479
Held in EUR	66,791	31,700	66,229	31,384
Held in foreign currencies other than EUR	273	770	147	755
Total current accounts and cash in hand	175,973	72,344	172,125	66,618
Total cash and cash equivalents	**175,973**	**72,344**	**172,125**	**66,618**

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.

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

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

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

5. Cash and cash equivalents (continued)

Rating	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
A+	46,089	42,259	43,297	38,944
A-	52,972	-	52,806	-
BBB+	2	19,335	2	18,921
BBB-	9,112	-	9,102	-
BB+	13	2,644	13	2,634
BB-	-	5	-	5
B	-	34	-	34
Not rated banks	65,194	6,523	64,316	4,538
Total cash at current accounts and term deposits	**173,382**	**70,800**	**169,536**	**65,076**

The exposure to banks with long term credit rating in the upper medium investment grade segment and without rating has increased as of 31 December 2017 compared to 31 December 2016.

6. Trade and other receivables

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

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Trade receivables	212,022	252,989	184,985	213,612
incl. international settlement receivables	*7,176*	*37,374*	*4,718*	*35,228*
Related party receivables (Note 27)	21,286	14,605	30,880	46,767
Other receivables	30,574	31,011	30,231	29,822
incl. loans	*24,897*	*25,671*	*24,897*	*24,897*
Total	**263,882**	**298,605**	**246,096**	**290,201**
Provision for impairment of receivables	(108,672)	(111,931)	(96,037)	(95,325)
Total Trade and other receivables	**155,210**	**186,674**	**150,059**	**194,876**
Incl.:				
Non-current portion: trade and other receivables	123,260	105,377	117,056	104,337
Provision for impairment of receivables	(70,004)	(69,365)	(69,143)	(68,511)
Total non-current portion:	**53,256**	**36,012**	**47,913**	**35,826**
Current portion trade and other receivables	140,622	193,228	129,040	185,864
Provision for impairment of receivables	(38,668)	(42,566)	(26,894)	(26,814)
Total current portion:	**101,954**	**150,662**	**102,146**	**159,050**

Other receivables as at 31 December 2017 include BGN 651 thousand for the consolidated and for the separate financial statements term cash deposits with maturity greater than three months (as at 31 December 2016: BGN 1,004 thousand).

6. Trade and other receivables (continued)

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

In August 2015 two of the transactions concluded in 2014 for the assignment of cash deposits in CCB were terminated and as a result the assignments were cancelled with retroactive effect where BTC became a titleholder of the assigned receivables in the amount of BGN 53,033 thousand (BGN 9,612 thousand, net of impairment as of 31 December 2017).
Trade receivables for the consolidated and for the separate financial statements as of 31 December 2017 include respectively BGN 60,179 thousand and BGN 59,152 thousand representing the remaining cash and cash equivalents at CCB (after the assignment of receivables on cash deposits of the Group and the Company in 2014 and the above mentioned transactions). The nominal value of the cash accounts at CCB as of 31 December 2016 is respectively BGN 66,089 thousand and BGN 65,062 thousand for the Group and the Company. The receivables representing the remaining cash and cash equivalents at CCB are presented as non-current. Their net book value as of 31 December 2017 amounts to BGN 11,959 thousand and BGN 11,794 thousand for the consolidated and for the separate financial statements, respectively, and the accumulated impairment is respectively BGN 48,220 thousand and BGN 47,358 thousand.

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

In 2016 loans resulting from part of the assigned receivables on cash deposits in CCB in 2014 in the amount of BGN 20,668 thousand were impaired in full due to the following: (i) initiated insolvency procedures against one of the borrowers and the respective security providers and (ii) the assessment of the management of the collectability of the receivables based on the deterioration of the business activities of the borrowers being the main security for the loans. Impairment of BGN 20,668 thousand were recognized and included under other operating expenses in 2016.

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

6. Trade and other receivables (continued)

	Gross receivables from finance leases		Net investment in finance leases	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Finance leases receivables with maturity:				
Within one year	45,668	43,850	42,805	40,953
In the second to fifth years inclusive	16,449	17,400	15,950	16,874
Total receivables	**62,117**	**61,250**	**58,755**	**57,827**
Less: unearned finance income	(3,362)	(3,423)		
Provision for impairment of receivables	(4,113)	(4,626)	(4,113)	(4,626)
Net investment in finance leases	**54,642**	**53,201**	**54,642**	**53,201**

Movement of the allowance for impairment of accounts receivables in 2017 and 2016 is as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Balance at the beginning of the period	111,931	84,054	95,325	71,199
Accrued impairment	11,146	38,057	10,390	32,085
Subsidiary acquisition	106	-	-	-
Impairment of receivables written off	(14,510)	(10,180)	(9,678)	(7,959)
Balance at the end of the period	**108,673**	**111,931**	**96,037**	**95,325**

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

Business customers

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Balance at the beginning of the period	94,343	70,710	77,737	57,855
Accrued impairment	4,205	27,139	3,449	21,167
Subsidiary acquisition	106	-	-	-
Impairment of receivables written off	(7,579)	(3,506)	(2,747)	(1,285)
Balance at the end of the period	**91,075**	**94,343**	**78,439**	**77,737**

Residential customers

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Balance at the beginning of the period	17,588	13,344	17,588	13,344
Accrued impairment	6,941	10,918	6,941	10,918
Impairment of receivables written off	(6,931)	(6,674)	(6,931)	(6,674)
Balance at the end of the period	**17,598**	**17,588**	**17,598**	**17,588**

Accrued impairment for the business customers for 2016 for the Company and Group includes BGN 20,668 thousand impairment of loans due from one debtor.
Expenses for receivables written off are recognised in Other operating expenses of the profit or loss for the period. For 2017 they amount to BGN 77 thousand for the consolidated and BGN 67 thousand for the separate financial statements (2016: BGN 155 thousand for the consolidated and BGN 131 thousand for the separate financial statements).

6. Trade and other receivables (continued)

As of 31 December, 2017 and 31 December, 2016 receivables of the Group at the amount of BGN 103,375 thousand and BGN 111,882 thousand, respectively, were assessed individually and the accumulated impairment amounts to 87,348 thousand and 91,006 thousand.

As of 31 December, 2017 and 31 December, 2016 receivables of the Company at the amount of BGN 90,526 thousand and BGN 89,901 thousand, respectively, were assessed individually and the accumulated impairment amounts to 74,706 thousand and 74,515 thousand.

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

	Consolidated financial statements		**Separate financial statements**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
From 60 to 90 days	98	97	129	87
From 91 to 180 days	348	144	336	108
From 181 to 360 days	84	255	63	29,799
Above 1 year	90	430	6,533	430
Total	**620**	**926**	**7,061**	**30,424**

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

Type	**Consolidated financial statements**	**Carrying amount of the receivable as of**	
		31.12.2017	**31.12.2016**
In the country		7,777	10,495
In the country		5,989	5,989
In the country		4,048	4,048
In the country		3,492	1,033
Outside the country		1,415	823

Type	**Separate financial statements**	**Carrying amount of the receivable as of**	
		31.12.2017	**31.12.2016**
In the country		3,492	1,033
Outside the country		1,418	823
Outside the country		1,178	-
In the country		1,071	1,000
In the country		469	396

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

	31.12.2017	**31.12.2016**
BGN	86,297	110,506
EUR	68,003	76,011
USD	910	157
Total	**155,210**	**186,674**

7. Inventories

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

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Materials and supplies, net	4,317	5,177	3,085	3,870
Merchandise and other, net	32,688	37,366	32,688	37,366
Total materials and supplies	**37,005**	**42,543**	**35,773**	**41,236**

Impairment charges related to the inventory items for 2017 were BGN 92 thousand for the Group and the Company (2016 – BGN 971 thousand). The reversal of write-downs for the Company amounted to BGN 61 thousand (2016: BGN 152 thousand). The write-downs and reversals are included in Other operating expenses.

8. Assets classified as held for sale

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Real estate, held for sale	193	194	13	14
Total assets held for sale	**193**	**194**	**13**	**14**

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

9. Other assets

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Prepayments and deferred expenses	23,611	12,617	23,498	12,231
Subscriber acquisition costs and other	1,022	1,249	980	1,133
Total other assets	**24,633**	**13,866**	**24,478**	**13,364**
Incl.				
Other current assets	**14,075**	**11,375**	**13,920**	**10,873**
Other non-current assets	**10,558**	**2,491**	**10,558**	**2,491**

Subscriber acquisition cost, representing mainly commissions and fees paid to employees and distributors for the Group and the Company are amounting to BGN 976 thousand as of 31 December 2017. For 2016 they amount to BGN 1,124 thousand. The amortization expense related to these subscriber acquisition costs is amounting to BGN 2,409 thousand for 2017 and BGN 2,598 thousand for 2016.
Subscriber acquisition costs and other assets include also intellectual rights, amounting to BGN 4 thousand as of 31 December 2017 (2016: BGN 9 thousand), for which amortisation expense amounting to BGN 395 thousand has been recognised in profit or loss for 2017 (2016: BGN 408 thousand).

10. Property, plant and equipment and investment property

a) Property, plant and equipment

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

	Switching	Transmission	Land	General support	Construction in progress	Total
Gross Book Value						
At 1 January 2016	**1,437,556**	**859,718**	**10,824**	**327,001**	**44,698**	**2,679,797**
Revaluation	-	-	(1,385)	-	-	(1,385)
Additions	644	-	-	94	124,333	125,071
Transfers	84,513	16,514	-	26,629	(127,656)	-
Impairment	-	-	-	4	(2,087)	(2,083)
Assets held for sale	-	-	(121)	120	-	(1)
Investment property	-	-	(3,093)	(46,796)	-	(49,889)
Disposals	(108,221)	(69,953)	(225)	(12,581)	(206)	(191,186)
At 31 December 2016	**1,414,492**	**806,279**	**6,000**	**294,471**	**39,082**	**2,560,324**
Additions	1,651	-	-	243	123,350	125,244
Acquisitions trough business combinations	70	807	-	52	-	929
Transfers	77,446	12,949	-	22,387	(112,782)	-
Impairment	-	-	-	-	(87)	(87)
Assets held for sale	-	-	(120)	(428)	-	(548)
Investment property	-	-	(425)	(2,396)	(570)	(3,391)
Disposals	(182,599)	(12,195)	-	(20,516)	(457)	(215,767)
At 31 December 2017	**1,311,060**	**807,840**	**5,455**	**293,813**	**48,536**	**2,466,704**
Accumulated depreciation and impairment						
At 1 January 2016	**1,085,895**	**558,065**	**-**	**212,126**	**-**	**1,856,086**
Depreciation charged	108,408	24,401	-	26,682	-	159,491
Impairment	-	-	-	(66)	-	(66)
Assets held for sale	-	-	-	(33)	-	(33)
Investment property	-	-	-	(36,770)	-	(36,770)
Disposals	(104,552)	(69,238)	-	(11,541)	-	(185,331)
At 31 December 2016	**1,089,751**	**513,228**	**-**	**190,398**	**-**	**1,793,377**
Depreciation charged	86,899	23,977	-	21,405	-	132,281
Impairment	273	-	-	1	-	274
Assets held for sale	-	-	-	(7)	-	(7)
Investment property	-	-	-	(865)	-	(865)
Disposals	(178,516)	(11,093)	-	(20,236)	-	(209,845)
At 31 December 2017	**998,407**	**526,112**	**-**	**190,696**	**-**	**1,715,215**
Net book value						
At 31 December 2016	**324,741**	**293,051**	**6,000**	**104,073**	**39,082**	**766,947**
At 31 December 2017	**312,653**	**281,728**	**5,455**	**103,117**	**48,536**	**751,489**

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

a) Property, plant and equipment (continued)

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

	Switching	Transmission	Land	General support	Construction in progress	Total
Gross Book Value						
At 1 January 2016	**1,431,921**	**848,134**	**7,335**	**289,172**	**43,877**	**2,620,439**
Revaluation	-	-	(1,385)	-	-	(1,385)
Additions	644	-	-	94	123,257	123,995
Transfers	84,229	16,513	-	25,932	(126,674)	-
Impairment	-	-	-	4	(2,087)	(2,083)
Assets held for sale	-	-	(77)	293	-	216
Investment property	-	-	(3,093)	(46,796)	-	(49,889)
Disposals	(108,170)	(69,860)	(23)	(11,404)	(206)	(189,663)
At 31 December 2016	**1,408,624**	**794,787**	**2,757**	**257,295**	**38,167**	**2,501,630**
Additions	1,651	-	-	166	122,034	123,851
Transfers	77,146	12,909	-	21,487	(111,542)	-
Impairment	-	-	-	-	(87)	(87)
Assets held for sale	-	-	-	30	-	30
Investment property	-	-	(31)	(907)	(570)	(1,508)
Disposals	(182,506)	(12,195)	-	(20,395)	(409)	(215,505)
At 31 December 2017	**1,304,915**	**795,501**	**2,726**	**257,676**	**47,593**	**2,408,411**
Accumulated depreciation and impairment						
At 1 January 2016	**1,085,061**	**557,510**	**-**	**209,308**	**-**	**1,851,879**
Depreciation charged	107,154	23,306	-	23,059	-	153,519
Impairment	-	-	-	(66)	-	(66)
Assets held for sale	-	-	-	(26)	-	(26)
Investment property	-	-	-	(36,770)	-	(36,770)
Disposals	(104,523)	(69,230)	-	(10,981)	-	(184,734)
At 31 December 2016	**1,087,692**	**511,586**	**-**	**184,524**	**-**	**1,783,802**
Depreciation charged	85,948	22,939	-	19,110	-	127,997
Impairment	273	-	-	1	-	274
Assets held for sale	-	-	-	32	-	32
Investment property	-	-	-	(732)	-	(732)
Disposals	(178,454)	(11,093)	-	(20,198)	-	(209,745)
At 31 December 2017	**995,459**	**523,432**	**-**	**182,737**	**-**	**1,701,628**
Net book value						
At 31 December 2016	**320,932**	**283,201**	**2,757**	**72,771**	**38,167**	**717,828**
At 31 December 2017	**309,456**	**272,069**	**2,726**	**74,939**	**47,593**	**706,783**

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

a) Property, plant and equipment (continued)

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the bond offering by establishing a pledge on real estate properties, which net book value as of 31 December 2017 amounted to BGN 4,134 thousand. As of 31 December 2016 their net book value amounted to BGN 4,709 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 :

- 25 properties of BTC with a net book value as of 31 December 2016 amounting to BGN 105 thousand. They are included in General support and Land above. During 2017 the imposed mortgages were lifted.
- 17 properties of NURTS Bulgaria with a net book value as of 31 December 2017 amounting to BGN 772 thousand (BGN 799 thousand for 17 properties as of 31 December 2016).

Measurement of fair value

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

The fair value measurement for land of BGN 5,455 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 2017	6,000
Transfers to Investment property	(425)
Transfers out of Level 3	(120)
Balance at 31 December 2017	5,455

During 2017 the Group has signed preliminary agreement for the sale of a land plots, which have been transferred to Assets classified as held for sale.

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

a) Property, plant and equipment (continued)

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).

b) Investment property

As a result of the improvements and modernization of its fixed network during the past years BTC achieved substantial optimization of the technical areas in its own buildings and the Company has assessed the level of their usage as at 31 December 2017 and 2016. Where the Company uses only part of a property it owns, utilisation of less than 25% is regarded as immaterial and the property is presented as an investment property. As a result, on 31 December 2016 1,335 properties of BTC and on 31 December 2017 49 properties of BTC and 79 properties of NURTS Bulgaria have been transferred form Property, plant and equipment to Investment property, as presented below:

Consolidated financial statements	
Balance at 1 January 2016	-
Transfers from Property, plant and equipment	13,119
Revaluation to fair value, recognised in other comprehensive income	155,086
Balance at 31 December 2016	**168,205**
Transfers from Property, plant and equipment	2,526
Revaluation to fair value, recognised in other comprehensive income	2,657
Additions	26
Gain/(loss) on property revaluation	214
Property reclassified as held for sale	(28,227)
Balance at 31 December 2017	**145,401**
Separate financial statements	
Gross Book Value	
At 1 January 2016	-
Transfers from Property, plant and equipment	49,889
Balance at 31 December 2016	**49,889**
Transfers from Property, plant and equipment	1,507
Additions	26
Property reclassified as held for sale	(3,070)
Balance at 31 December 2017	**48,352**
Accumulated depreciation and impairment	
At 1 January 2016	-
Transfers from Property, plant and equipment	36,770
Depreciation charged	7
Balance at 31 December 2016	**36,777**

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

b) Investment property (continued)

Transfers from Property, plant and equipment	729
Depreciation charged	2,377
Property reclassified as held for sale	(1,774)
Balance at 31 December 2017	**38,109**
Net book value	
At 31 December 2016	**13,112**
At 31 December 2017	**10,243**

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

Valuation technique and significant unobservable inputs

The valuation technique used is Market comparison - the fair value is based on the market price of properties with similar location and category. At the date of valuation, no active market existed and the market value was determined based on the market comparable approach that reflects recent transaction prices for similar properties. The transactions prices have been adjusted with: market indices to reflect the actual changes in the offered price, based on the trends of actual transactions; adjustment coefficients, derived on the basis of characteristics of the respective plots like size, environmental and geomorphologic condition, level of development and transport accessibility, and improvements of the properties. The estimated fair value of the individual properties would increase/(decrease) had the respective market indices were higher/(lower) and the adjustments coefficients were higher/(lower).

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the bond offering by establishing a pledge on real estate properties presented as investment property, which value as of 31 December 2017 amounted to BGN 18,892 thousand in the consolidated financial statements and BGN 1,370 thousand in the separate financial statements (2016: BGN 18,197 thousand and BGN 1,633 thousand respectively).

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

11. Intangible assets

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

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 1 January 2016	**131,361**	**585,344**	**45,897**	**1,987**	**764,589**
Additions(Transfers)	12,834	56,988	17,603	(206)	87,219
Disposals	-	(18,157)	(14,934)	(7)	(33,098)
At 31 December 2016	**144,195**	**624,175**	**48,566**	**1,774**	**818,710**
Additions(Transfers)	359	35,484	18,895	2,865	57,603
Acquisitions trough business combinations	97	8	707	-	812
Disposals	-	(77,898)	(2,470)	(38)	(80,406)
At 31 December 2017	**144,651**	**581,769**	**65,698**	**4,601**	**796,719**
Accumulated amortization and impairment					
At 1 January 2016	**62,883**	**477,121**	**25,784**	**-**	**565,788**
Amortization charge	8,738	55,624	16,504	-	80,866
Disposals	-	(18,140)	(13,927)	-	(32,067)
At 31 December 2016	**71,621**	**514,605**	**28,361**	**-**	**614,587**
Amortization charge	9,338	37,781	17,920	-	65,039
Disposals	-	(77,852)	(1,356)	-	(79,208)
At 31 December 2017	**80,959**	**474,534**	**44,925**	**-**	**600,418**
Net book value					
At 31 December 2016	**72,574**	**109,570**	**20,205**	**1,774**	**204,123**
At 31 December 2017	**63,692**	**107,235**	**20,773**	**4,601**	**196,301**

11. Intangible assets (continued)

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

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
Gross book value					
At 1 January 2016	**131,207**	**585,172**	**45,897**	**1,987**	**764,263**
Additions(Transfers)	12,834	56,957	17,603	(206)	87,188
Disposals	-	(18,157)	(14,934)	(7)	(33,098)
At 31 December 2016	**144,041**	**623,972**	**48,566**	**1,774**	**818,353**
Additions(Transfers)	359	35,484	18,943	2,857	57,643
Disposals	-	(77,894)	(2,470)	(38)	(80,402)
At 31 December 2017	**144,400**	**581,562**	**65,039**	**4,593**	**795,594**
Accumulated amortization and impairment					
At 1 January 2016	**62,829**	**477,099**	**25,784**	**-**	**565,712**
Amortization charge	8,727	55,577	16,504	-	80,808
Disposals	-	(18,140)	(13,927)	-	(32,067)
At 31 December 2016	**71,556**	**514,536**	**28,361**	**-**	**614,453**
Amortization charge	9,321	37,719	17,868	-	64,908
Disposals	-	(77,850)	(1,356)	-	(79,206)
At 31 December 2017	**80,877**	**474,405**	**44,873**	**-**	**600,155**
Net book value					
At 31 December 2016	**72,485**	**109,436**	**20,205**	**1,774**	**203,900**
At 31 December 2017	**63,523**	**107,157**	**20,166**	**4,593**	**195,439**

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 2017 is respectively BGN 1,743 thousand and BGN 17,856 thousand (2016 - BGN 3,240 thousand and BGN 16,770 thousand).

12. Investments

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

		Consolidated financial statements		Separate financial statements	
	Share	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Investments					
Equity securities – available-for-sale					
Viva Telecom Bulgaria OOD	16.02%	58,675	-	58,675	-
Intersputnik	4.79%	369	369	369	369
Sofia Commodity Exchange	5%	13	13	13	13
Total equity securities available for sale		**59,057**	**382**	**59,057**	**382**
Forward exchange contracts for hedging		5	322	5	322
Subsidiaries					
NURTS Bulgaria	100%			39,922	39,922
Net Is Sat	100%	-	-	1,382	-
BTC Net	100%	-	-	799	799
Total investments in subsidiaries		-	-	**42,103**	**40,721**
Total investments		**59,062**	**704**	**101,165**	**41,425**
Incl.					
Current investments		**5**	**322**	**5**	**322**
Non-current investments		**59,057**	**382**	**101,160**	**41,103**

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

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

During the reporting period BTC acquired shares of Viva Telecom Bulgaria OOD for a cash consideration amounting to EUR 30,000 thousand (BGN 58, 675 thousand) and 100% of the share capital of Net Is Sat EOOD.

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

13. Trade payables

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

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Payables to suppliers of non-current assets	39,689	31,113	39,431	30,598
Payables to suppliers of equipment and goods for customers	10,512	2,424	10,512	2,424
Payables to international telecom operators - interconnect	6,920	6,226	5,561	5,204
Payables to suppliers of network maintenance	3,691	2,016	3,691	2,016
Payables to domestic telecom operators	1,339	1,449	380	612
Payables to related parties (Note 27)	-	-	9,608	2,754
Others	42,833	37,129	41,296	35,104
Total trade payables	**104,984**	**80,357**	**110,479**	**78,712**
Incl.				
Non-current portion	**2,502**	**2,962**	**2,502**	**2,962**
Current portion	**102,482**	**77,395**	**107,977**	**75,750**

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

14. Other payables

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

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Payables to employees	21,489	22,899	21,348	22,760
Social securities	4,499	4,431	4,474	4,451
VAT	3,808	4,799	3,378	4,570
Personal income tax payable	1,743	1,720	1,730	1,710
Advances from clients	1,017	834	997	817
Forward exchange contracts used for hedging	604	-	604	-
Payables for license fee	308	264	288	264
Withholding and other taxes	195	142	195	142
Others	5,101	5,864	4,970	5,727
Total other payables	**38,764**	**40,953**	**37,984**	**40,441**

15. Provisions for other liabilities and charges

Consolidated financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2016	**9,977**	**919**	**2,553**	**13,449**
Charged to profit or loss	-	1,060	101	1,161
Recognised in the statement of financial position	341	-	-	341
Used during the year	(54)	(389)	(339)	(782)
Unwinding of discount	276	-	-	276
At 31 December 2016	**10,540**	**1,590**	**2,315**	**14,445**
Charged to profit or loss	-	1,504	(451)	1,053
Recognised in the statement of financial position	1,410	-	-	1,410
Used during the year	(26)	(1,590)	(295)	(1,911)
Unwinding of discount	256	-	-	256
At 31 December 2017	**12,180**	**1,504**	**1,569**	**15,253**

Analysis of provisions in consolidated financial statements

	31.12.2017	31.12.2016
Non-current (decommissioning costs)	12,180	10,540
Current	3,073	3,905
Total	**15,253**	**14,445**

Separate financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2016	**9,977**	**839**	**2,486**	**13,302**
Charged to profit or loss	-	1,060	90	1,150
Recognised in the statement of financial position	341	-	-	341
Used during the year	(54)	(309)	(339)	(702)
Unwinding of discount	276	-	-	276
At 31 December 2016	**10,540**	**1,590**	**2,237**	**14,367**
Charged to profit or loss	-	1,504	(443)	1,061
Recognised in the statement of financial position	1,410	-	-	1,410
Used during the year	(26)	(1,590)	(282)	(1,898)
Unwinding of discount	256	-	-	256
At 31 December 2017	**12,180**	**1,504**	**1,512**	**15,196**

Analysis of provisions in separate financial statements

	31.12.2017	31.12.2016
Non-current (decommissioning costs)	12,180	10,540
Current	3,016	3,827
Total	**15,196**	**14,367**

Decommissioning

A provision has been recognised for decommissioning costs associated with mobile sites. The provision has been capitalized to the cost of the sites with the amount of the present value of the decommissioning obligation after ceasing operation. The respective discount rate used for 2017 and 2016 is 1.4% and 2.5%.

15. Provisions for other liabilities and charges (continued)

Restructuring
The provision for employment termination is related to the decision for restructuring the activities of the Group in 2018 and is recognised as a staff cost in the profit or loss for the year ended 2017.

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

16. Borrowings

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

	Consolidated financial statements		Separate financial statements	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Secured bond issue	784,950	780,813	784,950	780,813
Financial lease	3,162	4,585	3,125	4,548
Trade credits	39	3,476	39	3,476
Total borrowings	**788,151**	**788,874**	**788,114**	**788,837**
Including:				
Current borrowings	**787,295**	**12,355**	**787,258**	**12,318**
Non-current borrowings	**856**	**776,519**	**856**	**776,519**

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

Consolidated financial statements

			Non cash changes		
	01.01.2017	**Financing cash flows**	**New borrowings**	**Other changes**	**31.12.2017**
Secured bond issue	780,813	-	-	4,137	784,950
Financial lease	4,585	(2,460)	1,065	(28)	3,162
Trade credits	3,476	(2,951)	-	(486)	39
Total borrowings	**788,874**	**(5,411)**	**1,065**	**3,623**	**788,151**

Separate financial statements

			Non cash changes		
	01.01.2017	**Financing cash flows**	**New borrowings**	**Other changes**	**31.12.2017**
Secured bond issue	780,813	-	-	4,137	784,950
Financial lease	4,548	(2,460)	1,065	(28)	3,125
Trade credits	3,476	(2,951)	-	(486)	39
Total borrowings	**788,837**	**(5,411)**	**1,065**	**3,623**	**788,114**

Other changes include interest accrual and payments.

16. Borrowings (continued)

In November 2013 BTC announced the successful completion of its debut bond offering of €400 million 6⅝ % Senior Secured Notes due 2018 on the Irish Stock Exchange pursuant to Rule 144A / Regulation S (the "Notes"). The proceeds from the bond offering were used by the Company to repay its existing indebtedness under the amended and restated loan agreement in full. The interest on the Notes is payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2014. In relation to the admission of the Notes the Company received a credit rating of B1 by Moody's and BB- by Standard & Poor's Ratings Services. Standard & Poor's lowered the company's credit rating to 'B' on April 2, 2015 and subsequently to 'B-' on July 8, 2015, as the refinancing of a bridge loan of a holding company of BTC, due on 22 May 2015, has not yet been finalized. On October 22, 2015 Standard & Poor revised its CreditWatch listing on its 'B-' long-term corporate credit rating to negative from developing. On 12 September 2016, Standard & Poor's upgraded the long-term credit rating of BTC from "B-" to "B+" with stable outlook and removed the rating from credit watch due to the refinancing of the bridge loan at the holding company level and BTC's solid market position in Bulgaria as the largest telecom operator. On 29 June 2017 S&P Global Ratings reconfirmed the "B+" long term corporate credit rating of the Company and placed it on CreditWatch with developing implications due to the upcoming maturity of the Notes in November 2018. On 26 July 2017 Moody's affirmed the company's B1 corporate family rating and changed to positive from stable the outlook on the rating.

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

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

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

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

16. Borrowings (continued)

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

Simultaneously with the SFA the Company extended the maturity of the Existing EUR 35 million Revolving Credit Facility with Societe Generale Expressbank AD and reduced the applicable Margin to between 1.05 and 1.75 per cent per annum. The final term of the RCF is 3 years as from the date of first utilisation of funds under the Senior Facilities Agreement but not later than 22.06.2021.

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

Obligations under Finance lease
Certain part of BTC's software and the Group's fleet are leased under the terms of finance lease. The average lease term is 3 years and the effective borrowing rates are in the range of 2.5% and 2.8%. The fair value of Group's and Company's lease obligations approximates their carrying amount.

Consolidated financial statements	**Minimum lease payments**		**Present value of minimum lease payments**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Finance lease payables with maturity:				
Within one year	2,377	2,540	2,300	2,440
In the second to fifth years inclusive	907	2,206	862	2,145
Total payables	**3,284**	**4,746**	**3,162**	**4,585**
Less: future finance charges	(122)	(161)	-	-
Present value of lease obligations	**3,162**	**4,585**	**3,162**	**4,585**

Separate financial statements	**Minimum lease payments**		**Present value of minimum lease payments**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Finance lease payables with maturity:				
Within one year	2,339	2,503	2,263	2,403
In the second to fifth years inclusive	908	2,206	862	2,145
Total payables	**3,247**	**4,709**	**3,125**	**4,548**
Less: future finance charges	(122)	(161)	-	-
Present value of lease obligations	**3,125**	**4,548**	**3,125**	**4,548**

The net book value of the assets acquired under finance lease arrangements as of 31 December 2017 is BGN 4,836 thousand for the Group and for the Company (2016: BGN 6,389 thousand and BGN 6,313 thousand).

17. Deferred tax assets and liabilities

As of 31 December 2017 and 2016 the deferred tax, are as it follows:

Consolidated financial statements:

Deferred tax assets	**Tax loss carried forward**	**Retirement benefit obligations**	**Allowance for impairment of receivables**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Total**
At 1 January 2016	**82**	**45**	**1,300**	**8,284**	**(162)**	**9,549**
(Charged)/credited to the profit/(loss) for the year	(82)	(45)	359	(6,724)	(255)	(6,747)
Transferred to DTL	-	-	(172)	(1,294)	150	(1,316)
At 31 December 2016	**-**	**-**	**1,487**	**266**	**(267)**	**1,486**
(Charged)/credited to the profit/(loss) for the year	591	-	(424)	2,328	-	2,495
Transfer	-	-	-	(267)	267	-
At 31 December 2017	**591**	**-**	**1,063**	**2,327**	**-**	**3,981**

Deferred tax liabilities	**Retirement benefit obligations**	**Allowance for impairment of receivables**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Cash flow hedges**	**Total**
At 1 January 2016	**(260)**	**(7,118)**	**19,245**	**(4,123)**	**-**	**7,744**
Credited to the profit/(loss) for the year	(36)	(2,414)	(4,557)	(179)	-	(7,186)
Charged to other comprehensive income for the year	-	-	15,371	-	31	15,402
Transferred from DTA	-	(172)	(1,294)	150		(1,316)
At 31 December 2016	**(296)**	**(9,704)**	**28,765**	**(4,152)**	**31**	**14,644**
Charged/(credited) to the profit/(loss) for the year	(3)	(90)	(5,118)	517	-	(4,694)
Charged/(credited) to other comprehensive income for the year	-	-	265	-	(99)	166
Subsidiary acquisition	-	(6)	93	1		88
At 31 December 2017	**(299)**	**(9,800)**	**24,005**	**(3,634)**	**(68)**	**10,204**

Deferred tax (charge)/credit to the profit/(loss) for the year	**2017**	**2016**
Deferred tax liabilities	4,694	7,186
Deferred tax assets	2,495	(6,747)
Total credited to the profit/(loss) for the year	**7,189**	**439**

17. Deferred tax assets and liabilities (continued)

Separate financial statements:

Deferred tax liabilities	**Retirement benefit obligations**	**Allowance for impairment of receivables**	**Property, plant, equipment and intangible assets**	**Expense accruals**	**Cash flow hedges**	**Total**
At 1 January 2016	**(260)**	**(7,118)**	**19,245**	**(4,123)**	**-**	**7,744**
Credited to the profit/(loss) for the year	(36)	(2,414)	(4,557)	(179)	-	(7,186)
Charged/(credited) to other comprehensive income for the year	-	-	(138)	-	31	(107)
At 31 December 2016	**(296)**	**(9,532)**	**14,550**	**(4,302)**	**31**	**451**
Charged/(credited) to the profit/(loss) for the year	(3)	(71)	(48)	502	-	380
Credited to other comprehensive income for the year	-	-	-	-	(99)	(99)
At 31 December 2017	**(299)**	**(9,603)**	**14,502**	**(3,800)**	**(68)**	**732**

Deferred tax (charge)credit to the profit/(loss) for the year	**2017**	**2016**
Deferred tax liabilities	(380)	7,186
Total (charged)/credited to the profit/(loss) for the year	**(380)**	**7,186**

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 2017 and 2016 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. On 05 June 2015 a tax assessment act has been issued for a tax audit, covering the period January 2007 - December 2009, assessing BGN 10,235 thousand corporate income tax and interest due. On 22 December 2015 a tax assessment act has been issued for a tax audit, covering the period January 2010 – December 2013, assessing BGN 2,278 thousand corporate income tax and interest due The tax assessment acts have been appealed and the decisions are pending.
The last period audited by the tax authorities for BTC Net is 2014.
The last period audited by the tax authorities for NURTS Digital is 2013.
On 26 July 2016 a tax assessment act has been issued for a tax audit of NURTS Bulgaria, covering the period April 2010 – December 2013, assessing BGN 37 thousand corporate income tax and interest due.

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 financial statements		**Separate financial statements**	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Liability at the beginning of the period	**4,687**	**5,249**	**4,687**	**4,551**
Past service cost	*(203)*	*(575)*	*(203)*	*(101)*
Current service cost	*469*	*490*	*469*	*462*
Interest cost	*113*	*135*	*113*	*126*
Total cost recognized in profit or loss	379	50	379	487
Remeasurements – actuarial loss/(gain) recognised in OCI	1,466	(350)	1,466	(217)
Payments to retirees	(345)	(262)	(345)	(134)
Liability at the end of the period	**6,187**	**4,687**	**6,187**	**4,687**

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

	31.12.2017	**31.12.2016**
Discount rate at 31 December	1.4%	2.5%
Future salary increases per year:		
-next year	7.5%	2%
-subsequent years	3%	2%
Average age of retirement – male employees	65	65
Average age of retirement – female employees	63	63

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

18. Retirement benefit obligations (continued)

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics. Mortality assumptions are based on the statistical information, provided by the National Statistical Institute for the total mortality of the population in Bulgaria for the period 2014 – 2016.

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

For the Group and the Company

	Defined benefit obligation		**Interest and current service costs**	
Effect in thousands of BGN	**Increase**	**Decrease**	**Increase**	**Decrease**
Discount rate (1% movement)	(641)	773	(21)	23
Future salary growth (1% movement)	754	(639)	88	(74)

19. Share capital, reserves and dividends

	31.12.2017	**31.12.2016**
Number of shares	288,764,840	288,764,840
Par value per share (in BGN)	1	1
Share capital per BTC's registration	288,765	288,765
Share capital	**288,765**	**288,765**

Structure of the share capital:	**31.12.2017**	**%**	**31.12.2016**	**%**
Number of ordinary shares:				
Viva Telecom Bulgaria OOD	288,764,840	100%	288,764,840	100%
Other shareholders	-	-	-	-
Total ordinary shares	**288,764,840**	**100%**	**288,764,840**	**100%**

As of 31 December 2017, the share capital of BTC comprises 288,764,840 ordinary registered shares. The nominal share value is BGN 1.

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

19. Share capital, reserves and dividends (continued)

Earnings per share	Consolidated financial statements Year ended		Separate financial statements Year ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Profit/(Loss) for distribution	71,104	(19,610)	73,450	(17,821)
Weighted average number of ordinary shares	288,765	288,765	288,765	288,765
Earnings/(Loss) per share (BGN (basic and diluted))	0.25	(0.07)	0.25	(0.06)

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

Revaluation reserve
The revaluation reserve relates to the revaluation of Land.

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

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

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

20. Revenue

Revenue of the Group and the Company for the years ended 31 December 2017 and 2016 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	Year ended 31.12.2016	Year ended 31.12.2017	Year ended 31.12.2016
Recurring charges	402,078	397,915	402,030	398,023
Leased lines and data transmission	107,737	109,066	107,946	109,583
Interconnect	75,312	61,318	58,011	54,123
Outgoing traffic	63,466	80,991	63,424	80,998
Radio and TV Broadcasting	27,372	30,411	2,183	70
Other revenue	213,538	195,565	220,168	195,877
Total revenue	**889,503**	**875,266**	**853,762**	**838,674**

Revenues from sale of mobile handsets are included in Other revenue above, which for 2017 amount to BGN 77,702 thousand for the Group and the Company (2016: BGN 74,045 thousand). Revenue from rent of terrestrial network (ducts) and provision of pay TV services (DTH and IPTV) are also included in this category.

21. Other operating expenses

Other operating expenses for the years ended 31 December, 2017 and 2016 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Advertising, customer service, billing and collection	76,539	69,694	76,627	70,260
Facilities	43,066	41,568	48,648	45,278
Maintenance and repairs	27,535	31,528	27,395	30,635
License fees	15,742	15,495	14,627	14,370
Vehicles and transport	9,408	9,693	9,413	9,336
Administrative expenses	9,305	9,979	9,077	9,457
Leased lines and data transmission	7,043	8,135	6,988	3,145
Professional fees	4,327	4,654	4,169	4,495
Other, net	20,129	50,056	19,129	43,644
Including:				
Impairment of trade and other receivables	*11,146*	*38,055*	*10,390*	*32,085*
Scrap of assets	*5,001*	*5,557*	*4,800*	*5,172*
Impairment of non-current assets	*361*	*2,016*	*361*	*2,016*
Impairment of other current assets	*31*	*819*	*31*	*819*
Provisions for legal claims	*(455)*	*101*	*(446)*	*90*
Other	*4,045*	*3,508*	*3,993*	*3,462*
Total other operating expenses	**213,094**	**240,802**	**216,073**	**230,620**

22. Staff costs

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Salaries and wages	103,091	101,822	102,118	98,901
Pension, health and unemployment fund contributions	18,179	17,626	18,089	17,221
Other benefits	4,542	4,814	4,540	4,677
Other staff costs	2,943	3,518	2,941	3,495
Total staff costs	**128,755**	**127,780**	**127,688**	**124,294**

As stated in Note 18 the amounts of post-employment termination benefits (reversed)/included in salaries and wages above for the consolidated and separate financial statements for 2017 are BGN 266 thousand (2016: respectively BGN (85) thousand and BGN 361 thousand).

23. Finance income and costs

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Finance costs				
Interest expense:	(56,931)	(58,489)	(56,931)	(58,480)
-Bond issues	*(55,966)*	*(57,393)*	*(55,966)*	*(57,393)*
-Bank borrowings	*(347)*	*(350)*	*(347)*	*(350)*
-Provisions	*(369)*	*(411)*	*(369)*	*(402)*
-Finance lease	*(131)*	*(37)*	*(131)*	*(37)*
-Other	*(118)*	*(298)*	*(118)*	*(298)*
Foreign exchange loss	(10)	(250)	-	(216)
Other finance costs	(694)	(1,030)	(677)	(909)
Total finance cost	**(57,635)**	**(59,769)**	**(57,608)**	**(59,605)**
Finance income				
Interest income:	5,817	6,673	6,846	8,383
-Bank deposits	*31*	*37*	*31*	*37*
-Finance lease	*4,442*	*3,948*	*4,442*	*3,948*
-Other	*1,344*	*2,688*	*2,373*	*4,398*
Incl impaired financial assets:	*328*	*415*	*323*	*393*
Gains on cash flow hedges - ineffective portion of changes in fair value	73	41	73	41
Foreign exchange gains	49	-	26	-
Income on available-for-sale financial assets:				
-Dividend income	71	54	71	54
Total finance income	**6,010**	**6,768**	**7,016**	**8,478**
Net finance costs	**(51,625)**	**(53,001)**	**(50,592)**	**(51,127)**

24. Other gains, net

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Gains from sales of non-current assets and assets held for sale	9,200	4,968	36,221	3,914
Incl.: income	39,421	8,241	38,964	4,201
net book value	(30,221)	(3,273)	(2,743)	(287)
Gain/(loss) from sales of materials	(60)	67	(54)	1
Incl.: income	14	67	11	1
net book value	(74)	-	(65)	-
Gains on bargain purchase	42	-	-	-
Gain on changes in fair value of Investment Properties	216	-	-	-
Other gains	8,459	-	8,459	-
Total other gains, net	**17,857**	**5,035**	**44,626**	**3,915**

25. Tax expense

Income tax expenses for the years ended 31 December 2017 and 2016 consist of:

a) amounts recognised in profit or loss

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Current income tax charge	8,663	5,589	8,022	5,498
Deferred tax	(7,189)	(439)	380	(7,186)
Total income tax expense/(benefit)	**1,474**	**5,150**	**8,402**	**(1,688)**

Total tax expense/(benefit) can be reconciled to the accounting profit as follows:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Profit/(loss) before tax	72,578	(14,460)	81,852	(19,509)
Tax rate	10%	10%	10%	10%
Tax at the applicable tax rate	7,258	(1,446)	8,185	(1,951)
Non-deductible expenses	160	213	152	182
Tax exempt income	(4)	(6)	(4)	(6)
Effect of current tax from previous periods, accounted during the year	3	-	3	-
Effect of tax offsets not recognised as deferred tax assets	230	140	-	-
Effect of previously unrecognised and unused tax losses now recognised as deferred tax assets	(2,919)	-	-	-
Change in recognised deductible temporary differences	(3,254)	6,249	66	87
Income tax expense/(benefit)	**1,474**	**5,150**	**8,402**	**(1,688)**
Effective tax rate	2.03%	35.62%	10.26%	8.65%
Income tax expense/(benefit) in the profit or loss	1,474	5,150	8,402	(1,688)

25. Tax expense (continued)

b) amounts recognised in other comprehensive income

Consolidated financial statements:

	Year ended 31.12.2017			Year ended 31.12.2016		
	Before tax	**Tax (expense)/ benefit**	**Net of tax**	**Before tax**	**Tax (expense)/ benefit**	**Net of tax**
Revaluation of land and investment property	2,656	(265)	2,391	153,701	(15,371)	138,330
Cash flow hedges	(995)	99	(896)	313	(31)	282
Defined benefit plan actuarial gains (losses)	(1,466)	-	(1,466)	350	-	350
	195	(166)	29	154,364	(15,402)	138,962

Separate financial statements:

	Year ended 31.12.2017			Year ended 31.12.2016		
	Before tax	**Tax (expense)/ benefit**	**Net of tax**	**Before tax**	**Tax (expense)/ benefit**	**Net of tax**
Revaluation of land and investment property	-	-	-	(1,385)	138	(1,247)
Cash flow hedges	(995)	99	(896)	313	(31)	282
Defined benefit plan actuarial gains (losses)	(1,466)	-	(1,466)	217	-	217
	(2,461)	99	(2,362)	(855)	107	(748)

26. Segment information

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

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

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

26. Segment information (continued)

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

Year ended 31.12.2016	**Mobile line of business**	**Fixed line of business**	**NURTS business**	**Eliminations**	**Total**
Revenue	508,528	336,440	43,468	(13,170)	875,266
Incl. inter-segment revenue	*121*	*6,622*	*6,427*	*(13,170)*	-
Cost of sales	(177,346)	(64,977)	(4,958)	469	(246,812)
Gross margin	**331,182**	**271,463**	**38,510**	**(12,701)**	**628,454**
Operating expenses					(223,803)
Staff costs					(127,780)
Depreciation and amortization					(243,365)
Financial expenses, net					(53,001)
Other gains, net					5,035
Profit before tax					**(14,460)**
Income tax expense					(5,150)
Net profit for the year					**(19,610)**

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

27. Related parties

The Group's related parties are considered to be the following:

- shareholders of which the Company is a subsidiary or an associate, directly or indirectly, and companies under control by such shareholders;
- members of the Company's managing and supervisory bodies and parties close to such members, including the subsidiaries and associates of the members and their close parties.

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

27. Related parties (continued)

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

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

For the Group:	**Note**	**Receivables**		**Payables**	
		31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
PFC Levski AD	Other RP	-	1,002	-	-
Viva Telecom Bulgaria OOD	Parent	1	-	-	-
Total for BTC group		**1**	**1,002**	**-**	**-**

For BTC:	**Note**	**Receivables**		**Payables**	
		31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
BTC Net EOOD	Subsidiary	708	998	3,156	709
NURTS Bulgaria EAD	Subsidiary	8,554	31,137	6,394	2,044
Net Is Sat EOOD	Subsidiary	320	-	58	-
NURTS Digital EAD	Subsidiary	12	27	-	1
Viva Telecom Bulgaria OOD	Parent	1	-	-	-
PFC Levski AD	Other RP	-	1,002	-	-
Total for BTC group		**9,595**	**33,164**	**9,608**	**2,754**

The balance of the receivable from NURTS Bulgaria EAD represents mainly principal and interest on loan provided by BTC to the subsidiary entity. The applicable interest rate is 6.5% p.a. and the total outstanding principal amount and accumulated interest were agreed to be fully repaid on 20 May 2016. The loan is secured with first ranking non-possessory pledges in accordance with the Special Pledges Act on the going concerns of NURTS Bulgaria EAD and NURTS Digital EAD, which includes among other certain real estates and other assets of the companies. In November 2015 NURTS Bulgaria failed to repay one of the instalments due to BTC and as a result the Company has appointed a manager of the going concern of NURTS Digital EAD. The interest income recognised for the year ended 31 December 2017 in the separate financial statements amounts to BGN 1,231 thousand (BGN 1,945 thousand for the year ended 31 December 2016).

27. Related parties (continued)

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

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2017	Year ended 31.12.2016	Year ended 31.12.2017	Year ended 31.12.2016
BTC Net EOOD	Subsidiary	-	-	12,231	9,561
NURTS Bulgaria EAD	Subsidiary	-	-	6,560	6,464
Net Is Sat EOOD	Subsidiary	-	-	2	
PFC Levski AD	Other RP	108	667	108	667
Total for BTC		**108**	**667**	**18,901**	**16,692**

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

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2017	Year ended 31.12.2016	Year ended 31.12.2017	Year ended 31.12.2016
BTC Net EOOD	Subsidiary	-	-	7,816	8,032
NURTS Bulgaria EAD	Subsidiary	-	-	15,089	6,486
NURTS Digital EAD	Subsidiary	-	-	892	257
Net Is Sat EOOD	Subsidiary			173	-
PFC Levski AD	Other RP	3	20	3	20
Viva Telecom Bulgaria OOD	Parent	6	8	6	8
Total for BTC		**9**	**28**	**23,979**	**14,803**

Borrowings
As per Loan Agreement dated 22 April 2014 BTC provided to Viva Telecom Bulgaria OOD a revolving credit facility for the amount of up to EUR 2,000 thousand. The applicable interest rate was initially agreed to be the aggregate of 6M Euribor plus a margin of 6.5% p.a. Effective from 30 November 2016 the margin is renegotiated to 7% p.a. and the amount of the loan increased to up to EUR 3,800 thousand. On 27 November 2017 the amount of the loan is increased to up to EUR 13,600 thousand. The total outstanding principal amount and accumulated interest shall be fully repaid on 30 November 2019. The amounts related to the loan are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest income	Interest receivable
Viva Telecom Bulgaria OOD	Parent	2016	6,955	237	62
		2017	21,043	784	242

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

27. Related parties (continued)

	Note	As of and for the year ended 31 December	Loan principal	Interest income	Interest receivable
PFC Levski AD	Other RP	2016	6,390	104	196
		2017	-	21	-

Management remuneration
Remuneration amounting to BGN 2,659 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of 31 December 2017 (2016: BGN 3,134 thousand) from which BGN 1,039 thousand is payable as of 31 December 2017 (2016: BGN 1,712 thousand).

28. Commitments and contingencies

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

For the Group

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2017	Commitments outstanding
Hardware and software	9,224	2,046	7,178
Construction and assembly works of the network of BTC	22,733	5,151	17,582
Network equipment	39,459	32,592	6,867
TOTAL	**71,416**	**39,789**	**31,627**

For BTC

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2017	Commitments outstanding
Hardware and software	9,224	2,046	7,178
Construction and assembly works of the network of BTC	22,164	4,702	17,462
Network equipment	39,408	32,591	6,817
TOTAL	**70,796**	**39,339**	**31,457**

Contingencies
The Company is a participant in several lawsuits and administrative proceedings. On 4 July 2016, Empreno Ventures Limited commenced legal proceedings in Bulgaria, challenging the validity of the first supplemental indenture (as referred in Note 16). Following the review on three instances, the Bulgarian courts finally dismissed the case on 16 March 2017 and the claim was rejected. On 26 August 2016, LIC Telecommunications S.à r.l. commenced legal proceedings in Luxembourg that, among other things, challenge the validity of the first supplemental indenture (as disclosed in Note 16) and claim damages amounting to EUR 62 million. On 19 January 2018 a judgment was rendered by the District Court of Luxembourg which declared the request of LIC Telecommunications S.à r.l inadmissible and declined jurisdiction. Thus, BTC considers the legal proceedings in both Bulgaria and Luxembourg as being unmeritorious and devoid of any proper legal basis.

28. Commitments and contingencies (continued)

Contingencies(continued)

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

Based on the information available, management is satisfied that there is no unprovided liability arising from these lawsuits and administrative proceedings, however there are inherent uncertainties related to the outcome of those cases. The recognised provisions for lawsuits are further disclosed in Note 15.

The Group has bank guarantees issued to third parties which amount to BGN 2,586 thousand as of 31 December 2017 (2016: BGN 501 thousand).

NURTS Bulgaria EAD was notified by CCB that pursuant to a contract concluded on January 16, 2013 the company has stepped in as co-debtor in third party's obligation in the amount of EUR 12,300 thousand (BGN 24,057 thousand). The management of the company underwent a process of confirmation of the relevant circumstances, including it has asked the receivers of CCB for provision of information, and as a result as per the date of the present financial statements no reliable and indisputable evidences were received for the existence of such contingent liability, nor for its exact amount (if such liability exists). Respectively, no liability or provision has been recognized as at December 31, 2017, and contingent liability is disclosed. There are uncertainties related to the outcome of the matter that may have an impact on the value of the recognized liabilities and affect the profit and loss.

29. Operating lease

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Minimum lease payments	13,801	14,182	13,761	13,879

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2017	**Year ended 31.12.2016**	**Year ended 31.12.2017**	**Year ended 31.12.2016**
Within one year	12,563	10,187	12,530	10,187
In the second to fifth years inclusive	38,047	34,093	38,013	34,093
Later than five years	54,020	61,202	54,020	61,202
Total commitments	**104,630**	**105,482**	**104,563**	**105,482**

Operating lease payments represent rentals payable for certain part of the vehicles of the Group and the Company. Leases and rentals are negotiated for an average term of three years. In the amount of the non-cancellable operating lease payables are included payments related to contract for lease of administrative building that commenced in 2010 and the leasing term is above 5 years.

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 2017	***Note***	**Fair value – hedging instruments**	**Loans and receivables**	**Available-for-sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Forward exchange contracts used for hedging	*12*	5	-	-	-	5	-	5	-	5
		5	-	-	-	5				
Financial assets not measured at fair value										
Trade and other receivables	6	-	155,210	-	-	155,210				
Cash and cash equivalents	*5*	-	175,973	-	-	175,973				
		-	331,183	-	-	331,183				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging		604	-	-	-	604	-	604	-	604
Financial liabilities not measured at fair value										
Secured bond issue	*16*	-	-	-	784,950	784,950	795,240	-	-	795,240
Finance lease liabilities	*16*	-	-	-	3,162	3,162	-	-	3,156	3,156
Trade credits	*16*	-	-	-	39	39			39	39
Trade payables	*13*	-	-	-	104,984	104,984				
		-	-	-	893,135	893,135				

30. Financial instruments (continued)

		Carrying amount					Fair value			
31 December 2016	***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										
Forward exchange contracts used for hedging	*12*	322	-	-	-	322	-	322	-	322
		322	-	-	-	322				
Financial assets not measured at fair value										
Trade and other receivables	6	-	186,674	-	-	186,674				
Cash and cash equivalents	*5*	-	72,344	-	-	72,344				
		-	259,018	-	-	259,018				
Financial liabilities not measured at fair value										
Secured bond issue	*16*	-	-	-	780,813	780,813	810,801	-	-	810,801
Finance lease liabilities	*16*	-	-	-	4,585	4,585	-	-	4,588	4,588
Trade credits	*16*	-	-	-	3,476	3,476			3,525	3,525
Trade payables	*13*	-	-	-	80,357	80,357				
		-	-	-	869,231	869,231				

Separate financial statements

		Carrying amount					Fair value			
31 December 2017	***Note***	**Fair value – hedging instruments**	**Loans and receivables**	**Available-for-sale**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value										
Forward exchange contracts used for hedging	*12*	5	-	-	-	5	-	5	-	5
		5	-	-	-	5				
Financial assets not measured at fair value										
Trade and other receivables	6	-	150,059	-	-	150,059				
Cash and cash equivalents	*5*	-	172,125	-	-	172,125				
		-	322,184	-	-	322,184				
Financial liabilities measured at fair value										
Forward exchange contracts used for hedging		604	-	-	-	604	-	604	-	604
Financial liabilities not measured at fair value										
Secured bond issue	*16*	-	-	-	784,950	784,950	795,240	-	-	795,240
Finance lease liabilities	*16*	-	-	-	3,125	3,125	-	-	3,118	3,118
Trade credits	*16*	-	-	-	39	39			39	39
Trade payables	*13*	-	-	-	110,479	110,479				
		-	-	-	898,593	898,593				

30. Financial instruments (continued)

		Carrying amount					Fair value			
31 December 2016	***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										
Forward exchange contracts used for hedging	*12*	322	-	-	-	322	-	322	-	322
		322	-	-	-	322				
Financial assets not measured at fair value										
Trade and other receivables	6	-	194,876	-	-	194,876				
Cash and cash equivalents	*5*	-	66,618	-	-	66,618				
		-	261,494	-	-	261,494				
Financial liabilities not measured at fair value										
Secured bond issue	*16*	-	-	-	780,813	780,813	810,801	-	-	810,801
Finance lease liabilities	*16*	-	-	-	4,548	4,548	-	-	4,550	4,550
Trade credits	*16*	-	-	-	3,476	3,476			3,525	3,525
Trade payables	*13*	-	-	-	78,712	78,712				
		-	-	-	867,549	867,549				

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		
Other financial liabilities	Discounted cash flows	Interest rate

Other financial liabilities above include finance lease liabilities and trade credits. Market interest rates applied for the valuation of the financial instruments are in the range of 2.2% and 3.15%.

31. Acquisition of subsidiary

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

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

Consideration transferred

As per the SPA, the purchase price was agreed to comprise a base payment and an additional payment. The base payment is an all cash payment amounting to BGN 900 thousand. The additional payment is an all cash payment, the amount of which consists of several elements, contingent on achievement of certain performance level by NiS until 2018. The additional payment is limited to BGN 600 thousand and its estimated fair value as at the acquisition date is assumed to be BGN 525 thousand.

Acquisition-related costs

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

Identifiable assets acquired and liabilities assumed

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

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

The fair value of assets acquired and liabilities assumed has been determined provisionally pending completion of an independent valuation. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

31. Acquisition of subsidiary (continued)

Gain on bargain purchase

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

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

32. Subsequent events

Except as stated above, there are no other events that require adjustments or disclosures in these financial statements, which have occurred during the period from the reporting date to the date the consolidated and separate financial statements were authorised for issue by the Managing Board (07.03.2018).

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the sole shareholder of Bulgarian Telecommunications Group EAD

REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate and consolidated financial statements of Bulgarian Telecommunications Group EAD (the "Parent Company"), and its subsidiaries (together referred to as "the Group"), which comprise the separate and consolidated statement of financial position as at December 31, 2017, the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

Basis for opinion

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

Key audit matters

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

1. **Uncertainties related to the future outcome of litigations**

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

a) Note 4i – set-off of bonds of BGN 50,310 thousand principal and BGN 1,350 thousand accrued interest;
b) Note 4i – cancellation of two assignments of cash deposits of BGN 9,612 thousand;
c) Note 4c – contingent liabilities related to lawsuits and administrative proceedings;
d) Note 12 – attachment over 43% of the shares of the Parent Company in BTC Net
e) Note 19 – attachment over 43% of Parent Company's shares;
f) Note 28 – validity of the first supplemental indenture and claim for damages of at least BGN 121,262 thousand (EUR 62 million);
g) Note 28 – stepping into debt of BGN 24,057 thousand;
h) Note 1, section "TV broadcasting" – license of subsidiary company.

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

2. Valuation of property, plant and equipment, intangible assets and goodwill

We refer to note 4a to the accompanying consolidated and separate financial statements, disclosing critical accounting estimates and judgments related to impairment of tangible and intangible assets. The carrying amount of consolidated property, plant and equipment, intangible assets and goodwill as at December 31, 2017 is BGN 751,489 thousand, BGN 196,301 thousand and BGN 2,049 thousand, respectively.

Key audit matter	Our response
Property, plant and equipment, intangible assets and goodwill comprise 61% of the consolidated total assets of the Group. As required by the applicable accounting standards, management conducts annual impairment tests to assess the ability of the tangible and intangible assets to generate sufficient future economic benefits to recover its carrying amount. This is performed using discounted cash flow model. As disclosed in note 4a, there are a number of key estimates and judgements made in determining the inputs into the model, including: - An estimate of future cash flow expected to derive from the assets - Expectations about possible variations in the amount or timing of those future cash flows - The designation of the Cash Generating Units (CGUs) for which future cash flows are derived - The discount rates applied to the projected future cash flows. Accordingly, the impairment test of these assets is considered to be a key audit matter. The Directors have engaged specialists to assist with the impairment testing analysis.	Our audit procedures included, among others: • assessing internal controls designed for preparation of budgets and forecasts; • evaluating the appropriateness of the Parent Company's judgments regarding identification of Cash Generating Units, which may be impaired; • evaluating the appropriateness of allocation of assets to Cash Generating Units; • engaging our internal valuations specialist to assist with: - critically evaluating whether the model used by management to calculate the value in use of the individual Cash Generating Units complies with the requirements of IAS 36 Impairment of Assets; - analyzing the future projected cash flows used in the model to determine whether they are reasonable and supportable given the current macroeconomic climate, the expected future performance of the Cash Generating Units and the results of the analysis of the external experts obtained by the Parent Company; - validating the assumptions used to calculate the discount rates and recalculating these rates. • evaluating the Parent Company's analysis of the sensitivity of the impairment tests' results, in particular in respect of the assumptions with the greatest potential effect on the test results, e.g. those related to discount rates and earnings before the deduction of depreciation and amortization (EBITDA); • comparing the projected cash flows, including the assumptions relating to revenue growth rates and operating margins, against historical performance to test the accuracy of management's projections. • evaluating the adequacy of disclosures in respect of impairment.

3. Going concern

We refer to note 4d to the accompanying consolidated and separate financial statements, disclosing critical judgments related to going concern assumption.

Key audit matter	Our response
The Group has senior secured notes due November 2018. Evaluating of the going concern principle, which might be affected by the ability of the Parent Company and the Group to settle the notes is dependent on a significant assumptions and judgments. Accordingly, this is considered to be a key audit matter.	Our audit procedures included, among others: • evaluating management's plans for future actions and alternatives for settlement; • review of refinancing agreement for settlement of the senior secured notes due November 2018; • consideration of: the Group's ability to generate positive cash-flows from operating activities, the 5-year business plan of the Group and projected future cash-flows, the long-term credit rating of the Parent Company, history for successful refinancing of the Parent Company's credit facilities and other; • evaluating whether the financial statements provide adequate disclosures about the events or conditions as required by IAS 1.

Emphasis of Matter

We draw attention to Note 2 of the separate and consolidated financial statements, which describes the potential significance of impact of IFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements for periods beginning on January 1, 2018. Our opinion is not modified in respect of this matter.

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

The Managing Board (the "Management") is responsible for the other information. The other information comprises the annual report on activities and the non-financial declaration, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act

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

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

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

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

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

- Deloitte Audit OOD was appointed as a statutory auditor of the separate and consolidated financial statements of the Group for the year ended December 31, 2017 by the general meeting of shareholders held on August 2, 2017 for a period of one year.

- The audit of the separate and consolidated financial statements of the Group for the year ended December 31, 2017 represents three total consecutive statutory audit engagements for the Group carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report dated March 7, 2018, provided to the Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- No prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory audit refers, we have provided to the Group, in addition to the statutory audit, the following services which have not been disclosed in Group's management report or separate and consolidated financial statements:

  - Assessment of compliance gaps with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (GDPR) and compliance with the GDPR.

  - Review of the Parent Company's interim separate and consolidated financial statements as of June 30, 2017 in compliance with International standard 2410, applicable for review engagements.

Deloitte Audit

Deloitte Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
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ДЕЛОЙТ ОДИТ ООД

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March 8, 2018