

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

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

31 December 2019

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Bulgarian Telecommunications Company EAD

**CONSOLIDATED AND SEPARATE ANNUAL
ACTIVITIES REPORT**

2019

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BULGARIAN TELECOMMUNICATIONS COMPANY EAD
ANNUAL ACTIVITIES REPORT
For the year ended 31 December 2019

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, 2018 and December 31, 2019 the group includes VIVACOM, the subsidiary entities BTC Net EOOD, NURTS Bulgaria EAD, NURTS Digital EAD and Net Is Sat EOOD (the “Group” or “VIVACOM Group”).

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

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

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

VIVACOM is the leading telecommunications operator in Bulgaria, based on revenue for the year ended December 31, 2019. 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. In 2019, we successfully performed tests of next generation 5G mobile networks, which demonstrated technological readiness for commercial launch when the needed spectrum frequencies become available. 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, 2019, we served 2.985 thousand mobile subscribers, 593 thousand fixed telephony subscribers, 459 thousand fixed broadband subscribers and 490 thousand fixed pay-TV subscribers. For the year ended December 31, 2019, we generated total consolidated revenue of BGN 993.2 million and had consolidated Adjusted EBITDA of BGN 447.0 million.

We are currently the third largest mobile operator in Bulgaria, based on number of subscribers, with 2.985 thousand subscribers as at December 31, 2019, a decrease of 2.8% from 3.071 thousand subscribers as at December 31, 2018. Our successful “value for money” strategy in the mobile market has led us to develop a strong market share position, achieving 30% revenue share for the mobile services market. 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 including e-commerce platform and our quality mobile network. As at December 31, 2019 our GSM mobile network covered 99.99% of the Bulgarian population, our UMTS mobile network covered 99.99% of the Bulgarian population, and our LTE mobile network covered 99.94% of the Bulgarian population.

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VIVACOM has received multiple awards for both the fastest mobile network in Bulgaria and the 4G/LTE network with widest population coverage in the country. Award for fastest mobile network is based on analysis by Ookla® of Speedtest Intelligence® data for Q4 2019 average mobile download speeds in Bulgaria. VIVACOM has received award for Bulgaria's best mobile coverage based on analysis by Ookla® for the Q1-Q2 2019 period.

We are the incumbent in the fixed voice line market with 81% revenue share as at June 30, 2019 (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts).

VIVACOM is the largest fixed broadband operator with 27% subscriber market share (Source: CRC 2018 Annual Report). 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 1,240,000 fiber homes passed and 26% take-up rate as at December 31, 2019. We also operate our own scalable fiber backbone network, which allows us to deliver complex corporate data solutions to business customers.

As at June 30, 2019 VIVACOM is positioned as the leading IPTV operator with 52% subscriber share (Source: Analysys Mason's Telecoms Market Matrix and European Core Forecasts).

We sell our services and products through direct channels, such as VIVACOM owned stores, which are strategically located, online e-commerce platform on our website and indirect channels, such as a smaller number of third party retail distributors. Our distribution network is further supported by remote channels such as our digital online shop and telemarketing. As at December 31, 2019 VIVACOM has 234 owned branded retail locations with an additional 40 alternative sale points.

FINANCIAL CONDITION AND RESULTS OF OPERATION

Total consolidated revenue of the Group increased by 4.8% year-on-year to BGN 993.2 million for the year ended December 31, 2019 with consistent increase in services revenue, mainly attributable to the growth in mobile, fixed broadband and fixed pay-TV revenues. Adjusted EBITDA increased by 24.3% year-on-year to BGN 447.0 million for the year ended December 31, 2019 driven by higher gross margins in mobile, fixed broadband and fixed pay-TV segments as well as from the effect of IFRS 16 adoption.

The Group finished the year ended December 31, 2019 with a profit of BGN 137.7 million (the Company - with a profit of BGN 132.4 million), which is an increase of 7.8% year-on-year compared to BGN 127.7 million for the year ended December 31, 2019. Overall, the financial statements show improving performance and profitability, backed by increasing revenues and optimised cost structure.

On November 22, 2013 VIVACOM successfully completed its debut bond offering of EUR 400 (BGN 782.3) million 6^{5/8}% Senior Secured Notes due 2018 (the "Notes"). The maturity date of the Notes is November 15, 2018. The Company paid interest on the Notes semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2014. In relation to the admission of the Notes, the Company received a credit rating of 'B1' by Moody's Investors Service (Moody's) and 'BB-' by Standard & Poor's Ratings Services (Standard & Poor's). On March 29, 2018 and May 16, 2018 respectively Moody's upgraded the long term corporate credit rating of the Company to Ba3 and Standard & Poor's reconfirmed it as BB-. On November 12, 2019 Moody's placed VIVACOM Ba3 rating on review for downgrade. The rating action follows the announcement that the company has received a buyout offer for its entire share capital for an undisclosed amount from United Group, a leading telecoms and media operator in South Eastern Europe. On November 19, 2019 Standard & Poor's placed VIVACOM BB- rating on CreditWatch with negative implications following the announcement on November 7, 2019, that United Group has agreed to acquire VIVACOM. On March 27, 2020 Standard & Poor's downgraded the corporate credit rating to B+.

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

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Facility (RCF) with commitment of up to EUR 35 (BGN 68.4) million in aggregate. The interest on the principal amounts owed by the Company under the RCF is payable monthly and was initially agreed to be at a rate of 1-month EURIBOR plus a margin of 4% per year. Effective from May 26, 2014 the margin was reduced to 3,75% per year and from November 14, 2016 the margin was further reduced to 1,45% per year while the term was extended up to May 31, 2018. On April 19, 2018 the Company successfully completed the refinancing of its Notes ahead of their maturity date and has delisted the Notes from the Official List and from trading on the Main Securities Market of the Irish Stock Exchange. As of the date of these financial statements the Company has deregistered the relevant securities under the Notes.

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

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

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

REVENUES

Our total consolidated revenue was BGN 993.2 million for the year ended December 31, 2019, an increase of BGN 45.2 million, or 4.8%, from BGN 948.0 million for the year ended December 31, 2018.

The table below sets forth our revenue for the year ended December 31, 2019 as compared to the year ended December 31, 2018.

BGN in millions, except percentages	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Services revenue	831.7	789.1	42.6	5.4
Fixed-line	350.8	339.8	11.0	3.2
Mobile	480.9	449.3	31.6	7.0
Equipment revenue	142.1	143.2	(1.2)	(0.8)
Fixed-line	7.8	5.8	2.0	33.9
Mobile	134.3	137.4	(3.1)	(2.3)
Other revenue	19.4	15.7	3.8	24.0
Total revenue	993.2	948.0	45.2	4.8

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Our services revenue was BGN 831.7 million for the year ended December 31, 2019, an increase of BGN 42.6 million, or 5.4%, from BGN 789.1 million for the year ended December 31, 2018 primarily due to the growth of mobile revenue resulting from higher share of packages with more minutes and data traffic allowances. Overall increase was supported by fixed-line revenue growth in fixed broadband and fixed pay-TV, offsetting the decline in fixed voice revenue.

Our equipment revenue was BGN 142.1 million for the year ended December 31, 2019, a decrease of BGN 1.2 million, or 0.8%, from BGN 143.2 million for the year ended December 31, 2018 mainly due to lower sales of mobile devices, partially offset by increase in sales of fixed-line equipment part of our specific projects, including video surveillance and wireless connectivity.

Other revenue was BGN 19.4 million for the year ended December 31, 2019, an increase of BGN 3.8 million, or 24.0%, from BGN 15.7 million for the year ended December 31, 2018 primarily due to increase of revenues from specific projects.

The following table sets forth a breakdown of our revenue by segment for the year ended December 31, 2019, as compared to the year ended December 31, 2018.

BGN in millions, except percentages	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Fixed-line revenue	351.4	335.2	16.2	4.8
Mobile revenue	626.1	596.6	29.5	4.9
NURTS revenue	36.2	37.8	(1.6)	(4.1)
Eliminations	(20.5)	(21.5)	1.0	(4.5)
Total revenue	993.2	948.0	45.2	4.8

Our fixed-line revenue, which is comprised of fixed voice (fixed telephony and other), fixed data (fixed broadband and other), fixed pay-TV (IPTV and DTH) and other fixed line services was BGN 351.4 million for the year ended December 31, 2019, an increase of BGN 16.2 million, or 4.8%, from BGN 335.2 million for the year ended December 31, 2018. The increase was mainly attributable to the growth in fixed broadband and fixed pay-TV revenues, despite the downward pressure of declining fixed voice services.

Our mobile revenue was BGN 626.1 million for the year ended December 31, 2019, an increase of BGN 29.5 million, or 4.9%, from BGN 596.6 million for the year ended December 31, 2018. The increase in mobile revenue was mainly attributable to our smart “more for more” offerings and the quality of our mobile network.

Our NURTS revenue was BGN 36.2 million for the year ended December 31, 2019, a decrease of BGN 1.6 million, or 4.1% from BGN 37.8 for the year ended December 31, 2018, mainly attributable to lower revenue from services provided by NURTS Group.

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.

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	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Number of mobile subscribers at period end (in thousands)	2 985	3 071	(86.0)	(2.8)
% post-paid at period end	88	89	(0.8)	(0.9)
% pre-paid at period end	12	11	0.8	7.4
Blended mobile ARPU (BGN)	12.5	11.4	1.0	9.1

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, 2019, 88% of our total mobile subscriber base consisted of post-paid subscribers.

Our mobile subscriber base has decreased, from 3.071 thousand subscribers as at December 31, 2018 to 2.985 thousand subscribers as at December 31, 2019. The decline was mainly attributable to the post-paid subscriber base as a result of the ongoing SIM-cards consolidation trend on the market and following cleansing operations in the corporate segment.

Blended mobile ARPU increased by 9.1% to BGN 12.5 for the year ended December 31, 2019, from BGN 11.4 for the year ended December 31, 2018 primarily due to increase in data usage as a result of the growing smartphone penetration and strong demand for data.

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	
	2019	2018	(amount)	(%)
Fixed telephony subscribers at period end (in thousands)	593	689	(96.0)	(13.9)
Fixed telephony ARPU (BGN)	10.1	9.9	0.2	1.9
Fixed broadband subscribers at period end (in thousands)	459	444	15.5	3.5
% FTTx at period end	69	65	4.0	6.2
Fixed broadband ARPU (BGN)	10.2	9.5	0.7	7.3
Number of fiber homes passed (in thousands)	1 240	1 182	58.2	4.9
Fixed pay-TV subscribers at period end (in thousands)	490	468	21.4	4.6
% IPTV at period end	53	49	3.3	6.8
Fixed pay-TV ARPU (BGN)	16.7	15.2	1.5	10.0

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Fixed Telephony

Our total fixed telephony subscribers decreased by 13.9% to 593 thousand as at December 31, 2019, from 689 thousand as at December 31, 2018. 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 increased by 1.9% to BGN 10.1 for the year ended December 31, 2019, from BGN 9.9 for the year ended December 31, 2018. The increase in total fixed telephony ARPU was primarily due to introduction of more generous tariffs with included minutes by destinations.

Fixed Broadband

Our total fixed broadband subscribers increased by 3.5% to 459 thousand as at December 31, 2019, from 444 thousand as at December 31, 2018. The increase was mainly due to higher FTTx connections driven by the growing demand for high speed bandwidth capacity and reliable broadband service.

Total fixed broadband ARPU increased by 7.3% to BGN 10.2 for the year ended December 31, 2019, from BGN 9.5 for the year ended December 31, 2018. The increase was primarily due to growing share of tariffs with high bandwidth capacity, despite bundling discounts and price competition from other alternative operators.

Fixed Pay-TV

Our total fixed pay-TV subscribers increased 4.6% to 490 thousand as at December 31, 2019, from 468 thousand as at December 31, 2018. 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 10.0% to BGN 16.7 for the year ended December 31, 2019, from BGN 15.2 for the year ended December 31, 2018. 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 80.8 million for the year ended December 31, 2019, an increase of BGN 3.0 million, or 3.8%, from 77.8 million for the year ended December 31, 2018. This was mainly due to increase in mobile outbound traffic to other national mobile operators.

Materials and Consumables Expenses

Our materials and consumables expenses were BGN 166.9 million for the year ended December 31, 2019 a decrease of BGN 5.3 million, or 3.1%, from BGN 172.2 million for the year ended December 31, 2018 attributable mainly to the lower expenses for CPEs and subsidies for handsets.

Other Operating Expenses

Our other operating expenses were BGN 169.7 million for the year ended December 31, 2019, a decrease of BGN 33.7 million, or 16.6%, from BGN 203.5 million for the year ended December 31, 2018.

The table below sets forth our other operating expenses for the year ended December 31, 2019 as compared to the year ended December 31, 2018.

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BGN in millions, except percentages	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Leased lines and data transmission	(4.4)	(7.4)	3.0	(40.5)
Maintenance and repairs	(26.5)	(27.1)	0.7	(2.5)
License fees	(16.3)	(15.8)	(0.4)	2.6
Facilities	(10.7)	(44.3)	33.6	(75.8)
Professional fees	(4.4)	(4.2)	(0.3)	6.0
Vehicles and transports	(1.7)	(8.3)	6.6	(79.5)
Administrative expenses	(10.7)	(11.5)	0.8	(6.6)
Advertising, customer service, billing & collection	(73.0)	(75.5)	2.5	(3.3)
Other	(22.0)	(9.2)	(12.8)	137.9
Other operating expenses	(169.7)	(203.5)	33.7	(16.6)

Overall decrease in other operating expenses was mainly due to transitional effects related with the implementation of IFRS 16 which is effective as of January 1, 2019. Transitional effects have reflected facilities expenses, vehicles and transports expenses, leased lines and data transmission expenses and advertising, customer service, billing & collection expenses. Facilities expenses effect was mainly due to rental of commercial properties, technical premises and office building. Effect in vehicles and transport expenses consisted of fleet lease charges. Leased lines and data transmission impact was due to rented capacity for satellite transmission used for our broadcasting services. Effect in advertising, customer service, billing & collection expenses was mainly related to satellite capacity charges for our DTH TV platform.

The table below sets forth our other operating expenses for the year ended December 31, 2019 presented on comparable basis excluding IFRS 16 transitional impact.

BGN in millions, except percentages	For the year ended December 31,		Change	
	2019*	2018	(amount)	(%)
Leased lines and data transmission	(8.0)	(7.4)	(0.5)	7.3
Maintenance and repairs	(27.1)	(27.1)	0.0	(0.0)
License fees	(16.3)	(15.8)	(0.4)	2.6
Facilities	(46.0)	(44.3)	(1.7)	3.7
Professional fees	(4.4)	(4.2)	(0.2)	6.0
Vehicles and transports	(7.7)	(8.3)	0.7	(7.9)
Administration expenses	(10.7)	(11.5)	0.8	(6.6)
Advertising, customer service, billing & collection	(81.0)	(75.5)	(5.5)	7.3
Other	(21.7)	(9.2)	(12.5)	135.2
Other operating expenses	(222.9)	(203.5)	(19.4)	9.6

*Excluding IFRS 16 transitional impact

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On comparable basis excluding IFRS 16 transitional impact other operating expenses were BGN 222.9 million for the year ended December 31, 2019, an increase of BGN 19.4 million, or 9.6%, from BGN 203.5 million for the year ended December 31, 2018.

Overall increase in other operating expenses was driven by facilities expenses, professional fees, advertising, customer service, billing & collection expenses and other expenses, partially offset by lower expenses for vehicles and transports and administration expenses. Higher facilities expenses were driven mainly by price indexations to agreements for rented properties and infrastructure, partially offset by lower expenses for cleaning, security and facility repairs. Professional fees increase mainly due to higher costs for hired services and consultancies. Advertising, customer service, billing & collection expenses were driven primarily by higher content cost for TV rights, partially offset by savings in bill printing and cash collection.

Increase in other expenses was mainly related with provisions for legal proceedings and our specific projects, including video surveillance, wireless connectivity and other tailor-made solutions.

Net impairment losses on financial and contract assets

Our net impairment losses on financial and contract assets were BGN 9.6 million for the year ended December 31, 2019, a decrease of BGN 1.7 million, or 15.2%, from BGN 11.3 million for the year ended December 31, 2018 as a result of improved collectability reflected in the expected credit losses.

Staff Costs

Our staff costs were BGN 138.7 million for the year ended December 31, 2019, an increase of BGN 5.9 million, or 4.4%, from BGN 132.8 million for the year ended December 31, 2018, mainly resulting from increase in the average salaries.

Depreciation and Amortization

Our depreciation and amortization costs were BGN 244.6 million for the year ended December 31, 2019, an increase of 46.0 million, or 23.2%, from BGN 198.6 million for the year ended December 31, 2018. These increases were mainly due to transitional effects related with the implementation of IFRS 16 and subsequent recognition of right-of-use assets. Depreciation of right-of-use assets amounted to BGN 47.3 million for the year ended December 31, 2019.

Finance Costs

Our finance costs were BGN 43.0 million for the year ended December 31, 2019, an increase of BGN 2.1 million, or 5.2%, from BGN 40.9 million for the year ended December 31, 2018 related primarily to the accounting treatment of leases following IFRS 16 adoption, partially offset by lower interest expenses under the SFA.

Finance Income

Our finance income was BGN 8.9 million for the year ended December 31, 2019, an increase of BGN 1.4 million, or 18.1%, from BGN 7.5 million for the year ended December 31, 2018, mainly attributable to higher interest income on granted loans and income from leasing.

Other gains, net

Other gains, net were BGN 4.8 million for the year ended December 31, 2019, a decrease of BGN 12.8 million, or 72.9%, from BGN 17.6 million for the year ended December 31, 2018. Amount in 2018 carries one-off effect related to refund of prepayment to state tax authorities.

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Income Tax Expenses

The following table sets forth our income tax expense for the year ended December 31, 2019 as compared to the year ended December 31, 2018.

BGN in millions, except percentages	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Current income tax charge	(16.1)	(3.9)	(12.2)	313.2
Deferred tax credit to comprehensive income	0.3	(4.5)	4.9	(107.6)
Income tax expense	(15.8)	(8.4)	(7.3)	87.0

Income tax expense was BGN 15.8 million for the year ended December 31, 2019, an increase of BGN 7.3 million, from BGN 8.4 million for the year ended December 31, 2018 driven mainly by increased current income tax charge reflecting the higher net profit for the period and lower deferred tax charge.

ADJUSTED EBITDA AND PROFIT FOR THE PERIOD

As a result of the foregoing, we have accounted a profit of BGN 137.7 million for the year ended December 31, 2019, an increase of BGN 10.0 million, or 7.8%, compared to BGN 127.7 million for the year ended December 31, 2018.

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

(BGN in millions)	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Profit for the period	137.7	127.7	10.0	7.8
Income tax expense	15.8	8.4	7.3	87.0
Finance costs, net	34.1	33.3	0.8	2.3
Depreciation and amortization	244.6	198.6	46.0	23.2
EBITDA	432.2	368.0	64.1	17.4
Other gains, net	(4.8)	(17.6)	12.8	(72.9)
Asset impairment and write-off	6.9	5.0	1.8	36.5
Other exceptional items	12.8	4.3	8.5	198.5
Adjusted EBITDA	447.0	359.8	87.3	24.3

Adjusted EBITDA was BGN 447.0 million for the year ended December 31, 2019, an increase of BGN 87.3 million, or 24.3%, from BGN 359.8 million for the year ended December 31, 2018 driven mainly by better performance in the top-line and higher profitability, backed by rational cost structure. IFRS 16 mandatory adoption effective as of January 1, 2019 has positively impacted Adjusted EBITDA for the year ended December 31, 2019 by BGN 54.5 million.

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Adjustments to EBITDA consisted of reversal of other gains, net as presented in the statement of comprehensive income and including asset impairment and write-off and other exceptional items. Asset impairment and write-off represents certain impairments of fixed assets, excluding the impairment of receivables and trading stock. Other exceptional items include cable dismantling expenses, exceptional professional and consultancy fees, assessment acts, provisions for legal proceedings and other items which are not indicative to the underlying operating performance.

CASH FLOW

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

BGN in millions, except percentages	For the year ended December 31,		Change	
	2019	2018	(amount)	(%)
Net cash from operating activities	401.3	280.6	120.7	43.0
Net cash used in investing activities	(192.1)	(391.5)	199.3	(50.9)
Net cash used in financing activities	(165.6)	(27.8)	(137.8)	494.9
Net increase / (decrease) in cash and cash equivalents	43.6	(138.7)	182.3	(131.4)

Net Cash from Operating Activities

For the year ended December 31, 2019, net cash flows from operating activities increased by BGN 120.7 million to BGN 401.3 million, compared to BGN 280.6 million for the year ended December 31, 2018 mainly resulting from better operating performance and optimisation in inventories. As a result of IFRS 16 adoption, significant portion of the lease payments recognized as cash flows from operating activities in the statement of cash flows previously, were reclassified as cash flows from financing activities.

Net Cash Used in Investing Activities

For the year ended December 31, 2019, net cash flows used in investing activities decreased by BGN 199.3 million to BGN 192.1 million, from BGN 391.5 million mainly due to lower amount of loans granted to related parties, partially offset by higher acquisitions of property, plant, equipment and intangible assets in line to our capital expenditure investment program but with timing variances in payments pattern.

Net Cash Used in Financing Activities

For the year ended December 31, 2019, net cash flows used in financing activities increased by BGN 137.8 million to BGN 165.6 million, from BGN 27.8 million for the year ended December 31, 2018 mainly due to lease payments reclassified following IFRS 16 adoption, as stated in the cash flows from operating activities.

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.

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CAPITAL EXPENDITURES AND INVESTMENTS

Our investments mainly relate to the build out and enhancement of our fixed (particularly in respect of FTTx and VDSL roll-out) and mobile network 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:

(BGN in millions)	For the year ended December 31,	
	2019	2018
Network	117.1	129.7
IT	22.0	18.5
Commercial and other	46.1	51.6
Licenses	0.5	0.5
NURTS	2.4	1.9
Right-of-use	17.3	-
Total capital expenditures	205.3	202.3

For the year ended December 31, 2019, our capital expenditures amounted to BGN 205.3 million, which consisted of:

- BGN 117.1 million of capital expenditures relating to network activities, mainly for investment in our mobile radio access network, mobile core and transmission network, fixed core network, TV platform and FTTx and VDSL roll-out projects;
- BGN 22.0 million of capital expenditures relating to IT activities, primarily related to business support systems IT infrastructure acquisitions;
- BGN 46.1 million of capital expenditures relating to commercial and other activities, mainly for CPEs to support our growing pay-TV, fiber and fixed wireless subscriber base, as well as capitalised contract acquisition and contract fulfilment costs;
- BGN 0.5 million related with our network infrastructure license fees;
- BGN 2.4 million of capital expenditures relating to maintenance of NURTS infrastructure;
- BGN 17.3 million right-of-use relating to acquisition of rights of use treated under IFRS 16.

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.

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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 general economic climate in Bulgaria has also seen negative effects, the Bulgarian economy has demonstrated signs of strength and fiscal stability with low levels of government debt and declining unemployment.

We operate in the telecommunications sector, for which underlying customer demand has in the past been less cyclical than other aspects of consumer spending. However, the general macroeconomic environment still could have an adverse effect on consumer spending. Consumers could spend less on an incremental basis, such as by using less mobile data, 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 phones or be more likely to disconnect or cancel their services. Generally, weak economic conditions may weigh on the growth prospects of the telecommunications market in Bulgaria, which in turn may negatively 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.

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.

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Pandemic risks

With a global pandemic threatening and the human cost of COVID-19 pandemic risk rising, the novel coronavirus pneumonia outbreak is also sending shocks through the world economy. Across industries, companies that act now can minimize the economic damage. However, if the COVID-19 virus continues to spread and the economic damage is mounting, it may ultimately lead to global economic downturn and an adverse impact on our business.

The rapid development of the COVID-19 virus and its social and economic impact in Bulgaria and globally, as disclosed in Note 31 to the consolidated and separate financial statements, may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular, management expects the assumptions and estimates used in determining Trade and other receivables, Contract assets, Property, plant and equipment, Intangible assets, Right-of-use assets and the related Deferred tax assets and liabilities to be affected. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

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, call termination for the mobile voice service. VIVACOM is still obliged to have and officially publish standard offer for interconnection. In June 2019 CRC decided to deregulate the market for local access provided at a fixed location. Vivacom is obliged to apply the Reference offer for access to ducts within a transitional period of one year. After this period access to ducts shall be provided through the new Law on Electronic Communications Network and Physical Infrastructure.

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

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.

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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 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.

A new regulatory rule applies from May 2019, introducing intra-EU communications caps. This means any retail price charged to residential customers for regulated intra-EU communications shall not exceed EUR 0.19 per minute for calls and EUR 0.06 per SMS message.

Electronic Communications Act

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

Unfair competition

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

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

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

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

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

Credit risk

Credit risks or the risk of counterparty defaulting is reduced partly by the application of monthly subscription, credit limits and monitoring. 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.

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

Liquidity risk

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

Currency risk

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

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

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

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

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

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

Other specific risks

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

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IMPORTANT EVENTS AFTER THE REPORTING PERIOD

After the reporting period the sole owner of the share capital of VIVACOM took a decision for distribution of dividend amounting to BGN 82 882 602, representing part of the distributable reserves of the Company as at December 31, 2018 corresponding to the part of the share capital of the Company over which no attachments are imposed (as disclosed in Note 19 to the consolidated and separate financial statements)

As a preventive measure against the outburst of COVID-19 (Coronavirus) in Europe, on March 13, 2020 the Parliament of Republic of Bulgaria adopted a resolution declaring a state of emergency in the territory of Bulgaria with effect until April 13, 2020, which was subsequently prolonged until May 12, 2020. On the same day the Minister of Healthcare issued an order suspending all visits in certain commercial establishments such as restaurants, shopping centres, entertainment and gaming halls, etc. On March 23, 2020 Law on measures and actions during a state of emergency was adopted, aimed at mitigating the negative consequences of the epidemic on citizens and businesses. While the core activities of the Group are not directly affected by these measures, potential negative impact on its financial position might be expected after the reporting period. As of the date these consolidated and separate financial statements were authorised for issue, no reasonable estimate of the financial effect of the coronavirus outbreak can be made.

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 (23.04.2020).

EXPECTED DEVELOPMENT

In 2020 the activity of the Group will continue to be carried out in accordance with the main objectives:

- 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 and for deployment of 5G mobile networks when the needed spectrum frequencies become available;
- 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.

INFORMATION ABOUT THE COMPANY'S MANAGING BOARD AND SUPERVISORY BOARD

Members of the Company's Managing Board and Supervisory Board at December 31, 2019

a) At December 31, 2019 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. Dimitrios Lioupis – Member of the Managing Board

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b) At December 31, 2019 the members of the Supervisory Board of VIVACOM are:

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

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

Members of the Managing Board, the Supervisory Board and the senior management of the Company did not acquire, hold and transfer shares and bonds of VIVACOM for the year ended December 31, 2019. 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 5,073 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of December 31, 2019 (2018: BGN 3,772 thousand) from which BGN 2,796 thousand is payable as of December 31, 2019 (2018: BGN 1,706 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 declared 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, 2019.

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.

**BULGARIAN TELECOMMUNICATIONS COMPANY EAD
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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 29 to the consolidated and separate financial statements.

Data about the Investor Relations:

1151 Tsarigradsko Shose blvd.
Hermes Park – Sofia, Building A,
1784 Sofia,
Bulgaria
Tel.: +359 2 949 4331
E-mail: ir@vivacom.bg

Atanas Dobrev
CEO
Sofia
23.04.2020



BULGARIAN TELECOMMUNICATIONS COMPANY EAD
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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.

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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 expenses, net 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.

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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.
“ 5G ”	Fifth Generation Mobile System, which is based on 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>i.e.</i> , 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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

ANNUAL ACTIVITIES REPORT (CONTINUED)

For the year ended 31 December 2019

“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>i.e.</i> , 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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

ANNUAL ACTIVITIES REPORT (CONTINUED)

For the year ended 31 December 2019

“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.
“IoT” or “Internet of Things”	Network of physical objects that use sensors and application programming interface to connect and exchange data over the Internet.
“IPTV” or “Internet Protocol Television”	IPTV is a system through which television services are delivered using the internet protocol suite over a packet-switched network such as the internet.
“ISDN” or “Integrated Services Data Network”	A set of communication standards for simultaneous digital transmission of voice, video, data, and other network services over the traditional circuits of the public switched telephone network.
“ISDN BRA/PRA”	Integrated Service for Digital Network, Basic Rate Access/Primary Rate Access
“ISP”	An ISP is a company that provides individuals and companies access to the internet.
“IRU” or “Indefeasible right of use”	Indefeasible right of use (IRU) is a permanent contractual agreement that cannot be undone, between the owners of a communications system and a customer.
“Kbps”	Kilobits per second.
“LAN” or “Local Area Network”	A computer network that interconnects computers in a limited area such as a home, school, computer laboratory, or office building using network media.
“LLU” or “local loop unbundling”	Local loop unbundling, is where the incumbent grants access to third- party operators of the part of the communications circuit between the subscriber’s equipment and the equipment of the local exchange (known as the local loop). Where such access is granted by the incumbent, the incumbent may charge the third-party operator a regulated fee for the interconnection service.
“LTE” or “Long Term Evolution”	LTE refers to a new mobile telephony technology that succeeds 3G. 3GPP (Third Generation Partnership Project) Long Term Evolution, is a new high performance air interface for cellular mobile communication systems. LTE is the last step toward the fourth generation (4G) of radio technologies designed to increase the capacity and speed of mobile telephone networks.
“M2M” or “Machine-to-Machine”	M2M refers to the data communication between wireless and wired systems and other wireless and wired systems.
“MAN” or “Metropolitan Area Network”	A computer network in which two or more computers or communicating devices or networks which are geographically separated but in same metropolitan city.
“MB”	A megabit.
“Mbps”	Megabits per second.
“MHz”	Megahertz; a unit of frequency equal to 1 million Hertz.
“MMS” or “Multimedia Messaging Service”	An evolution of SMS that enables users to send multimedia content including images, audio and video clips to other users.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

ANNUAL ACTIVITIES REPORT (CONTINUED)

For the year ended 31 December 2019

“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 2019

All amounts are in thousand BGN, unless otherwise stated

Notes	Consolidated Financial Statements		Separate Financial Statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
ASSETS				
Current assets				
Cash and cash equivalents	5	80,920	37,333	63,152
Trade and other receivables	6	433,697	155,842	408,208
Current income tax receivables		-	10	-
Inventories	7	38,765	45,401	38,062
Other current assets	9	8,105	17,146	8,036
Assets classified as held for sale	8	434	13	12
Contract assets	6	20,472	22,619	20,472
Total current assets		582,393	278,364	537,942
				257,581
Non-current assets				
Goodwill		2,049	2,049	2,049
Property, plant and equipment	10	747,500	757,948	708,772
Investment property	10	144,082	151,587	7,692
Intangible assets	11	169,497	172,195	169,047
Right-of-use assets	11	224,961	-	255,395
Investments	12	496	261,709	42,314
Trade and other receivables	6	30,646	32,191	30,084
Other non-current assets	9	33,245	30,157	33,245
Deferred tax assets, net	17	4,216	4,067	-
Contract assets	6	6,956	9,259	6,956
Total non-current assets		1,363,648	1,421,162	1,255,554
				1,272,581
TOTAL ASSETS		1,946,041	1,699,526	1,793,496
				1,530,162

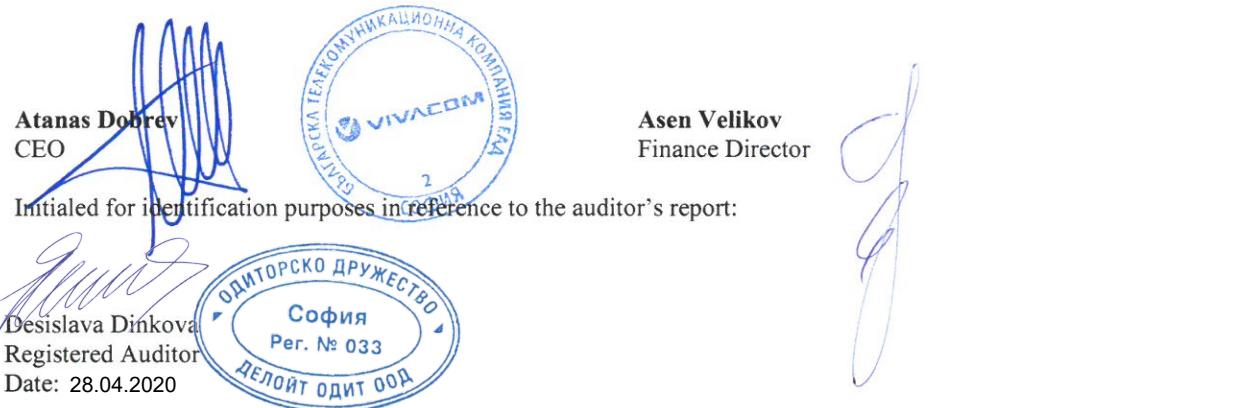
**BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

Notes	Consolidated Financial Statements		Separate Financial Statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
LIABILITIES AND EQUITY				
Current liabilities				
Dividends payable	19	22,317	-	22,317
Trade payables	13	97,567	114,092	103,670
Other payables	14	41,475	34,973	40,736
Current income tax liabilities		2,206	1,360	2,127
Provisions	15	9,817	2,431	1,231
Borrowings and lease liabilities	16	89,888	45,399	97,663
Contract liabilities	14	24,182	23,723	24,177
Total current liabilities		287,452	221,978	291,921
Non-current liabilities				
Borrowings and lease liabilities	16	777,537	700,296	803,693
Deferred tax liabilities, net	17	16,691	15,437	6,816
Retirement benefit obligations	18	8,842	7,445	8,842
Provisions	15	16,486	15,078	16,486
Trade payables	13	119	2,020	119
Other payables	14	3,676	1,965	3,676
Contract liabilities	14	3,853	2,470	3,853
Total non-current liabilities		827,204	744,711	843,485
Equity				
Share capital	19	288,765	288,765	288,765
Reserves	19	139,600	154,969	22,302
Retained earnings		403,020	289,103	347,023
Total equity		831,385	732,837	658,090
TOTAL LIABILITIES AND EQUITY		1,946,041	1,699,526	1,793,496
				1,530,162

These financial statements were approved on 23.04.2020.



**BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

	Notes	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Revenue	20	993,213	948,043	961,340	918,990
Interconnect expenses		(80,752)	(77,773)	(70,668)	(68,841)
Other operating expenses	21	(169,712)	(203,459)	(159,120)	(207,083)
Net impairment losses on financial and contract assets	6	(9,616)	(11,342)	(8,916)	(9,922)
Materials and consumables expenses		(166,883)	(172,201)	(163,348)	(168,393)
Staff costs	22	(138,690)	(132,827)	(138,146)	(131,976)
Depreciation and amortization	21	(244,587)	(198,552)	(246,414)	(194,779)
Finance costs	23	(42,992)	(40,864)	(44,520)	(40,838)
Finance income	23	8,892	7,535	8,644	7,469
Other gains, net	24	4,775	17,602	8,512	12,441
Share of profit/(loss) of joint ventures		(175)	-	-	-
Profit before tax		153,473	136,162	147,364	117,068
Income tax expense	25	(15,773)	(8,434)	(14,922)	(6,947)
Profit for the year		137,700	127,728	132,442	110,121
Other comprehensive income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
Cash flow hedges – effective portion of changes in fair value		(2,791)	(3,277)	(2,791)	(3,277)
Related tax	25	279	327	279	327
		(2,512)	(2,950)	(2,512)	(2,950)
<i>Items that will never be reclassified to profit or loss:</i>					
Revaluation of land and investment property	10	(1,139)	3,665	(273)	366
Changes in the fair value of equity investments at fair value through other comprehensive income	12	18,427	4,954	18,427	4,954
Remeasurements of defined benefit liability	18	(851)	(671)	(851)	(671)
Related tax	25	(1,729)	(862)	(1,816)	(532)
		14,708	7,086	15,487	4,117
Other comprehensive income for the year, net of tax		12,196	4,136	12,975	1,167
Total comprehensive income for the year		149,896	131,864	145,417	111,288

Earnings per share (basic and diluted)

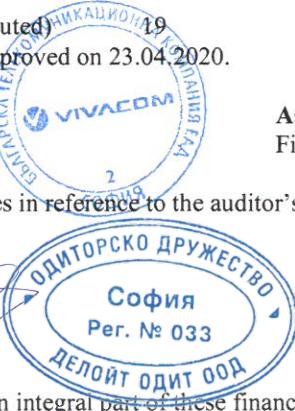
These financial statements were approved on 23.04.2020.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Desislava Dinkova
Registered Auditor
Date: 28.04.2020



The notes on pages 37 to 119 are an integral part of these financial statements.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

Consolidated Financial Statements

	Notes	Share capital	Legal reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2018		288,765	28,876	122,573	2,669	(614)	(2,441)	161,145	600,973
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	127,728	127,728
Total other comprehensive income	25	-	-	3,298	4,459	(1,155)	(2,466)	-	4,136
Total comprehensive income for the year		-	-	3,298	4,459	(1,155)	(2,466)	127,728	131,864
Transfer to retained earnings - land and investment property disposal		-	-	(230)	-	-	-	230	-
Balance as at 31 December 2018		288,765	28,876	125,641	7,128	(1,769)	(4,907)	289,103	732,837
Balance as at 1 January 2019		288,765	28,876	125,641	7,128	(1,769)	(4,907)	289,103	732,837
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	137,700	137,700
Total other comprehensive income	25	-	-	(1,025)	16,584	(1,540)	(1,823)	-	12,196
Total comprehensive income for the year		-	-	(1,025)	16,584	(1,540)	(1,823)	137,700	149,896
Transactions with owners									
Dividends		-	-	-	-	-	-	(51,348)	(51,348)
Total transactions with owners		-	-	-	-	-	-	(51,348)	(51,348)
Transfer to retained earnings - land and investment property disposal		-	-	(3,933)	-	-	-	3,933	-
Transfer of gain on disposal of equity investments at fair value through other comprehensive income	12	-	-	-	(23,632)	-	-	23,632	-
Balance as at 31 December 2019		288,765	28,876	120,683	80	(3,309)	(6,730)	403,020	831,385

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

Separate Financial Statements

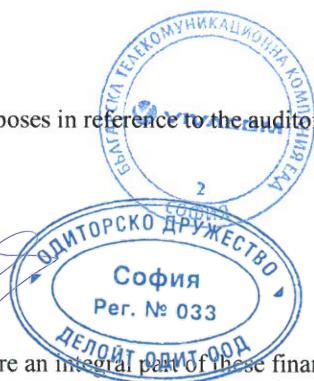
	Notes	Share capital	Legal reserve	Revaluation reserve	Fair value reserve	Hedging reserve	Other reserve	Retained earnings	Total
Balance as at 1 January 2018		288,765	28,876	4,843	2,669	(614)	(2,441)	130,634	452,732
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	110,121	110,121
Total other comprehensive income	25	-	-	329	4,459	(1,155)	(2,466)		1,167
Total comprehensive income for the year		-	-	329	4,459	(1,155)	(2,466)	110,121	111,288
Transfer to retained earnings - land disposal		-	-	(6)		-	-	6	-
Balance as at 31 December 2018		288,765	28,876	5,166	7,128	(1,769)	(4,907)	240,761	564,020
Balance as at 1 January 2019		288,765	28,876	5,166	7,128	(1,769)	(4,907)	240,761	564,020
Comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	132,442	132,442
Total other comprehensive income	25	-	-	(246)	16,584	(1,540)	(1,823)		12,975
Total comprehensive income for the year		-	-	(246)	16,584	(1,540)	(1,823)	132,442	145,417
Transactions with owners									
Dividends		-	-	-	-	-	-	(51,348)	(51,348)
Total transactions with owners		-	-	-	-	-	-	(51,348)	(51,348)
Transfer to retained earnings - land disposal		-	-	(1,536)	-	-	-	1,536	-
Transfer of gain on disposal of equity investments at fair value through other comprehensive income	12	-	-	-	(23,632)	-	-	23,632	-
Balance as at 31 December 2019		288,765	28,876	3,384	80	(3,309)	(6,729)	347,023	658,090

These financial statements were approved on 23.04.2020.

Atanas Dobrev
CEO

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

Desislava Dinkova
Registered Auditor
Date: 28.04.2020



Asen Velikov
Finance Director

The notes on pages 37 to 119 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 2019

All amounts are in thousand BGN, unless otherwise stated

Notes	Consolidated financial statement		Separate financial statement	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Cash flows from operating activities				
Profit before tax	153,473	136,162	147,364	117,068
Adjustment for:				
Depreciation and amortization	21	244,587	198,551	246,414
Gain on sale of non-current assets and assets held for sale	24	(6,735)	(4,349)	(8,434)
Impairment loss and write off of non-current asset	10,11	5,691	4,843	5,555
Interest expenses, net of interest income	23	33,538	32,565	35,154
Impairment loss on trade receivables and contract assets	6	9,616	11,341	8,916
Impairment loss and write off of current asset		1,597	1,142	1,510
Income from investment operations and other finance income	23	(631)	(73)	(631)
Loss from operations with cash flow hedges	23	-	82	-
Loss/(Gain) on changes in fair value of investment properties		2,040	(3,673)	-
Foreign currency exchange differences, net		643	(34)	641
Accruals and provisions charged to profit and loss		13,243	4,514	4,645
Changes in:				
-inventories		5,317	(9,353)	4,799
-trade and other receivables		(9,394)	(19,047)	2,027
-other current and non-current assets		2,886	(2,004)	2,785
-trade and other payables		(2,093)	(681)	(6,714)
-provisions and employee benefits		(5,192)	(4,192)	(5,181)
-contract assets		2,591	(4,926)	2,591
-contract liabilities		1,844	1,772	1,840
Cash generated from operations	453,021	342,640	443,281	334,025
Interest received	61	41	40	2,257
Interest paid	(36,495)	(58,965)	(37,696)	(58,965)
Corporate income tax paid	(15,265)	(3,105)	(13,995)	(2,025)
Net cash from operating activities	401,322	280,611	391,630	275,292
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	11,629	6,976	10,329	3,758
Acquisition of PPE and intangible assets	(164,092)	(154,752)	(161,548)	(153,107)
Acquisition of investments	(500)	(193,627)	(500)	(193,341)
Proceeds from sales of investments	324	-	324	-
Cash deposits with maturity greater than three months	346	221	346	221
Dividends received	150	-	150	-
Loans granted to related parties	(4,987)	(16,087)	(4,987)	(16,087)
Loan repayments received from related parties	71	-	71	3,341
Capitalized costs to fulfil & obtain contracts & intellectual rights	(31,689)	(34,194)	(31,689)	(34,194)
Prepayments for right of use assets	(3,391)	-	(3,390)	-
Net cash used in investing activities	(192,139)	(391,463)	(190,894)	(389,409)

BULGARIAN TELECOMMUNICATIONS COMPANY EAD
CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended 31 December 2019
All amounts are in thousand BGN, unless otherwise stated

Notes	Consolidated financial statement		Separate financial statement	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Cash flows from financing activities				
Repayment of borrowings	(260,758)	(1,028,562)	(260,758)	(1,028,562)
Proceeds from new borrowings	148,934	1,003,136	148,934	1,003,136
Dividend paid	(11,904)		(11,904)	-
Payment of lease liabilities	(41,889)		(44,084)	-
Payment of finance lease liabilities	-	(2,415)	-	(2,415)
Net cash used in financing activities	(165,617)	(27,841)	(167,812)	(27,841)
Net increase/(decrease) in cash and cash equivalents	43,566	(138,693)	32,924	(141,958)
Effect of exchange rate fluctuations on cash held	21	53	18	43
Cash and cash equivalents at the beginning of the year	5	37,333	175,973	30,210
Cash and cash equivalents at the end of the year	5	80,920	37,333	63,152

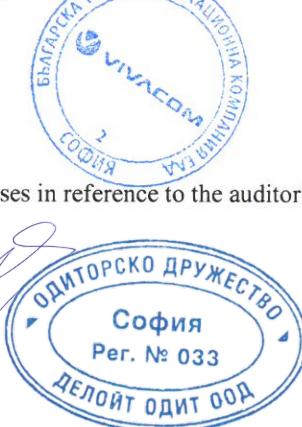
These financial statements were approved on 23.04.2020.

Atanas Dobrev
CEO

Asen Velikov
Finance Director

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

Desislava Dinkova
Registered Auditor
Date: 28.04.2020



BULGARIAN TELECOMMUNICATIONS COMPANY EAD
NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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 2019 and 2018. The largest shareholder in VTL with a 46% stake is Viva Edge Telecom Limited which is ultimately owned by Mr. Spas Roussev. Other minority investors are comprised of entities affiliated with OJSC VTB Bank, Delta Capital Investments OOD (ultimately controlled by Messrs. Milen Velchev, George Velchev and Krassimir Katev), Mr. Michael Tennenbaum and companies managed by Mezzanine Management Central Europe II Limited.

On 7 November 2019 it was announced that United Group, the leading telecoms and media business operating in South Eastern Europe, has agreed to acquire Vivacom group. The transaction is expected to close in the second quarter of 2020, subject to conditions including receipt of applicable antitrust approvals, whereas the European Commission has examined the transaction under the normal merger review procedure and has approved the acquisition on 3 April 2020.

As of 31 December 2019 and 2018 the Parent company had 5,100 and 5,433 employees, respectively.

As of 31 December 2019 and 2018 the Group comprise of BTC and the subsidiary entities - BTC Net EOOD, NURTS Bulgaria EAD, NURTS Digital EAD and Net Is Sat EOOD.

BTC Security EOOD/ Renamed to BTC Net EOOD

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

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

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

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

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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

1. General information (continued)

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.

Paytech EOOD

Paytech is a commercial company registered in the Commercial Register on 17 April 2019 as a joint venture between BTC and Bulgarian-American Credit Bank AD. Its main activity is development and provision of mobile payments. BTC held 50% of the registered share capital of the entity, amounting to BGN 1,000,000 for the period 17 April to 7 October 2019. The articles of association stipulated joint management of the entity whereas the joint venture partners had equal representatives in the General Meeting of the Shareholders, the entity was jointly represented by two managers of the Company each nominated by the respective shareholder and any General Meeting matter concerning the entity required joint decision of the shareholders. Based on that BTC treated its investment in Paytech as a joint venture. On 7 October 2019 BTC sold its 50% share in Paytech OOD to Bulgarian-American Credit Bank AD.

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 third round)
- Market for transit services in public telephone network (first round).

In 2019 the following secondary legislation acts were modified:

- General requirements for the provision of public electronic communications;
- Ordinance №1 of 22 July 2010 for distribution rules and procedures for primary and secondary provision for use, reservation and withdrawal of numbers, addresses and names.
- Functional specifications for portability of fixed, mobile and non-geographic numbers.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

1. General information (continued)

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

During 2019 CRC decided to deregulated access to ducts provided by BTC after a transitional period of 1 year as from the publications of the General Terms and conditions according to LECNPI.

Licenses

- **Fixed line communications**

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

An annual license fee, calculated on the base of the annual revenue from telecommunication services billed to subscribers is payable quarterly in arrears. During 2019 and 2018 the annual fee is 0.2% of nominal annual revenue from provision of electronic communications networks and/or services without VAT included and after deduction of transferring payments to other companies for interconnection of networks and access, transit, roaming, value added services, as well as expenses for settling copyrights and related rights for radio and television programs.

An annual fee is to be paid to the CRC for access to limited frequency resources such as the radio-frequency spectrum. This fee is calculated on the basis of technical data and is payable quarterly in arrears. During 2019 and 2018 the fee was BGN 3,133 thousand and BGN 2,836 thousand, respectively. The fees are regulated by the CRC and relevant Council of Ministers Ordinances.

- **Mobile telecommunications**

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

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

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

1. General information (continued)

Regulations (continued)

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 2019 and 2018 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 2019 and 2018 the fees paid for frequency bands in 900, 1800 and 2100 MHz amounted to BGN 7,842 thousand and BGN 7,833 thousand respectively.

• 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.

In 2019 BTC was granted a permit for use of individually assigned scarce resource – radio frequency spectrum via digital terrestrial broadcasting (DVB-T).

As of 1st June 2020, the NURTS Digital permit will be terminated and all DVB-T activities will be transferred to BTC. Thus, the abovementioned European Court decision is deemed satisfied.

2. Summary of significant accounting policies

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

2.1. Basis of preparation

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

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:

- IFRS 16 "Leases" – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement – adopted by the EU on March 13, 2019 (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures – adopted by the EU on February 8, 2019 (effective for annual periods beginning on or after January 1, 2019),
- 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 – adopted by the EU on March 14, 2019 (effective for annual periods beginning on or after January 1, 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on October 23, 2018 (effective for annual periods beginning on or after January 1, 2019).

The Group had to change its accounting policy and make certain adjustments following the adoption of IFRS 16, as disclosed below. The adoption of the other amendments to the existing standards and interpretation has not led to any material changes in these financial statements.

Under IFRS 16, lessors continue to make distinction between operating lease and finance lease as previously under IAS 17, while lessees are required to recognize assets and liabilities for principally all leases in the statement of financial position. Summary of the performed impact assessment is presented below.

The Group has adopted the new standard on the required effective date retrospectively but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. On transition to IFRS 16, the Group recognised additional BGN 258,934 thousand of right of use assets (Note 11) and BGN 259,661 thousand lease liabilities (Note 16) and the Company - respectively BGN 294,146 thousand and BGN 294,874 thousand. Equity is not impacted as the right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.1. Basis of preparation (continued)**

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

Amortization of the right-of-use assets and interest costs on the lease obligation are recognized in the statements of comprehensive income instead of operating expense under the previous lease standard. Classification of lease payments in the statement of cash flows is also affected by the requirements of the new lease standard: a significant portion of the lease payments recognized as cash flows from operating activities in the statement of cash flows previously, are classified as cash flows from financing activities upon application of the new lease accounting requirements. Accounting policy related to leases is presented in Note 2.22.

The Group's lease portfolio mainly consists of administrative and commercial buildings, fixed and mobile site rentals, network infrastructure, software and vehicles. Main assumptions applied in determining the values of the lease liability and right-of-use asset include the assessment of the lease term and the appropriate discount rate. The lease term is impacted by the assessment of the reasonably certain criterion in respect of renewal or termination options. For lease contracts with indefinite term or short term technical site rentals the Group estimates the length of the contract to be equal to the economic useful life of non-current assets located in the leased property. The same economic useful life is applied to determine the depreciation rate of right-of-use assets. The Group's incremental borrowing rate, taking into account the expected term of the leases is applied for discounting the future payment obligations. As of 1 January 2019 the weighted-average rate is 4.99%. For significant judgements related to leases, see Note 4 k).

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

- Single discount rate is applied to a portfolio of leases with reasonably similar characteristics such as lease term, class of underlying asset and currency.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- A distinction is not made in leases that contain both lease components and non-lease components. Each lease component is accounted for together with other related performance components as a single lease component.
- The Group has not applied the practical expedient that allows to avoid reassessing whether a contract is, or contains, a lease at the date of initial application of IFRS 16. Besides the contracts identified as leases under the previous accounting standard, the new requirements are applied to certain contracts that were previously treated as supply of service (such as collocation and satellite capacity agreements, where entire satellite transponder is being rented).

	1 January 2019	
	Consolidated financial statements	Separate financial statements
Operating lease commitment at 31 December 2018 as disclosed in the Company's consolidated and separate financial statements	99,792	99,758
Discounted using the incremental borrowing rate at 01 January 2019	79,324	79,289
Finance lease liabilities recognised as at 31 December 2018	2,211	2,174
Extension and termination options reasonably certain to be exercised	125,261	122,039
Newly assessed contracts as containing lease	55,076	93,546
Lease liabilities recognised at 01 January 2019	261,872	297,048

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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**

At the date of authorisation of these financial statements, the following new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU, but are not yet effective:

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after January 1, 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards issued on 29 March 2018 (effective for annual periods beginning on or after January 1, 2020),
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” - Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020).
 - **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 23.04.2020 (the effective dates stated below is for IFRS in full):

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 3 “Business Combinations” - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020).

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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, 2019 and 2018, 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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)

2.4. Functional and Presentation Currency

Functional and Presentation Currency

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

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

Transactions and balances

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

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

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

2.5. Property, plant and equipment and investment property

a) Property, plant and equipment

Initial measurement

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

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

Subsequent measurement

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

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

Increases in the carrying amount arising on revaluation of land are credited to revaluation reserves in shareholder's 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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.5. Property, plant and equipment and investment property (continued)****a) Property, plant and equipment (continued)****Subsequent costs**

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

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

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

Depreciation

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

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

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

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

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

b) Investment property

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.5. Property, plant and equipment and investment property (continued)****b) Investment property (continued)**

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

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

2.6. Intangible assets and goodwill**Software and licenses**

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

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

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

Goodwill

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments

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

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

Financial assets

Initial recognition, classification and measurement

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

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

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

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

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

Subsequent measurement

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

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

Classification groups

Financial assets at amortised cost (debt instruments)

The Group measures a financial asset at amortised cost if both of the following conditions are met:

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

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

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

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

The Group measures its debt instruments at fair value through other comprehensive income, when both of the following conditions have been satisfied:

- the financial asset is held and used within the business model, for the purpose of both collecting contractual cash flows and selling it; and
- the conditions of the financial asset contract give rise to cash flows on specific dates, which constitute solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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2. Summary of significant accounting policies (continued)**2.10. Financial instruments (continued)***Financial instruments at fair value through other comprehensive income (equity instruments)*

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

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

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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

Derecognition

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

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

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

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

Impairment of financial assets

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

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

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

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2. Summary of significant accounting policies (continued)**2.10. Financial instruments (continued)**

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

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

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

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

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

Contract assets are considered to have similar risk characteristics as lease receivables under the same contracts and customers. Based on historical data about the behaviour of payment of invoices issued and forecast factors specific for the debtors and the economic environment, the Group determines fixed impairment rates which are applied respectively to lease receivables and contract assets.

Financial liabilities*Initial recognition, classification and measurement*

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

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Classification groups

Financial liabilities at fair value through profit or loss

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

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

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

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

Financial liabilities at amortised cost

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

Offsetting (netting) of financial instruments

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

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

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

The offsetting policy is also related to the measurement, presentation and management of actual credit risk and the liquidity risk pursuant from these offsetting instruments.

The criteria applied to establish the “current and legally enforceable entitlement to offsetting” are:

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

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

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

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2. Summary of significant accounting policies (continued)

2.10. Financial instruments (continued)

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

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

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

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

Financial guarantee contracts

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

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

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

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

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

2.11. 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 certain service contracts, at below their acquisition cost. The loss on the sale of handsets is recognized at the time of the sale and the cost of the handsets is presented as “Materials and consumables expenses” in the profit or loss for the period.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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2. Summary of significant accounting policies (continued)**2.12. Trade and other receivables**

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

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

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

2.13. Cash and cash equivalents

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

2.14. Share capital

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

2.15. Trade and other payables

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

2.16. Interest-bearing loans and other borrowings

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

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

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2. Summary of significant accounting policies (continued)

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

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

2. 17. Current and deferred income taxes

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

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

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

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

2.18. Employee benefits

Defined contribution plans

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

Short-term employee benefits

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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 creation of the provision is charged.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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2. Summary of significant accounting policies (continued)**2.20. Revenue recognition**

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

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

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

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.20. Revenue recognition (continued)**

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

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

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

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

2.21. 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

The accounting principles applicable to leases for 2019 (according to IFRS 16) and 2018 (IAS 17) are presented below.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.22. Leases (continued)****2.22.1. Leases - accounting policies applied after 1 January 2019****The Group as lessee**

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for the country and the Company and makes adjustments specific to the lease, e.g. term, currency and security.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as Borrowings and lease liabilities in the consolidated and separate statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.22. Leases (continued)****2.22.1. Leases - accounting policies applied after 1 January 2019 (continued)**

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated and separate statement of financial position.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 2.8.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in Other operating expenses in the statement of comprehensive income.

The Group applies the practical expedient permitted by IFRS 16 not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

2.22.2. Leases - accounting policies applied until 31 December 2018

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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

2. Summary of significant accounting policies (continued)**2.22. Leases (continued)****2.22.2. Leases - accounting policies applied until 31 December 2018 (continued)****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 and lease liabilities.

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 represents an unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating lease

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

2.23. Dividends Distribution

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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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 counterparties 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 reputable financial institutions. 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 telecom operators and wholesale with partners with good credit ratings by applying of respective guarantees for risk management.

The credit risk related to international accounts is managed through the availability of net arrangement between the contractual parties and by directing traffic through chosen routes in order to decrease existing exposures. 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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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3. Financial risk management (continued)

3.1. Financial risk factors (continued)

a) Credit risk (continued)

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 2019 and 2018, which amounts to respectively BGN 33,326 and BGN 32,678 thousand. The receivables are due by several counterparties, one economic group of which represents more than 50% of the total balance. As at the reporting date all of these outstanding loan receivables are impaired in full. Apart from this and the disclosed in Note 6, 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 2019 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	52,309	39,148	6,110	119	-	97,686
Borrowings and lease liabilities	11,851	8,948	96,929	806,328	70,475	994,531
Derivative contracts used for hedging	-	-	828	3,060	-	3,888
Total financial liabilities	64,160	48,096	103,867	809,507	70,475	1,096,105

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	58,586	39,246	5,838	119	-	103,789
Borrowings and lease liabilities	15,232	9,993	101,643	832,121	73,450	1,032,439
Derivative contracts used for hedging	-	-	828	3,060	-	3,888
Total financial liabilities	73,818	49,239	108,309	835,300	73,450	1,140,116

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

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3. Financial risk management (continued)**3.1. Financial risk factors (continued)**

For 2018 the financial liabilities are as follows:

For the Group:

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

For BTC

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

c) Market risk**Currency risk**

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

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

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

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

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3. Financial risk management (continued)**3.1. Financial risk factors (continued)****c) Market risk (continued)****Interest rate risk**

During 2018 and 2019 due to the European Central Bank policy the interest rates were generally negative and thus the Group/Company was paying only the applicable margin on its bank loans. As of 31 December 2019, liabilities of BTC sensitive to interest rates amount to BGN 645,082 thousand (2018: BGN 756,906 thousand) and the interest payments are principally based on EURIBOR. In 2018 the Company decided to conclude two forward starting hedge deals on the interest rate of the Senior Facilities Agreement. 70% of the initial principal amount of Term Loan A is hedged for the period from April 2020 to April 2023. 88% of the outstanding principal of Term Loan B is hedged for the period from April 2020 to April 2023.

If the variable components of the interest rate on non-fixed interest rate borrowings were 1% higher, that would have resulted in an increase of interest expenses for 2019 by BGN 4,708 thousand (2018: increase by BGN 3,269 thousand) therefore, the consolidated profit after taxation would have been BGN 133,463 thousand (2018: BGN 124,786 thousand). If the variable components of the interest rate on non-fixed interest rate borrowings were 1% lower, that would have not resulted in a change of interest expenses and consolidated profit after tax for 2019 and 2018.

3.2. Capital risk management

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

In accordance with the Bulgarian Commercial Act as a joint-stock company BTC is required to maintain equity at an amount which is higher than its registered share capital and legal reserves at an amount of minimum 10% of the registered share capital. As at 31 December 2019, the Company's equity is in excess of its registered share capital by BGN 369,325 thousand (31 December 2018: BGN 275,255 thousand).

Group's management reviews its equity structure on an annual basis. The gearing ratios as of 31 December 2019 and 2018 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Total borrowings and lease liabilities	867,425	745,695	901,356	745,658
Cash and cash equivalents	(80,920)	(37,333)	(63,152)	(30,210)
Cash deposits with maturity greater than three months	(84)	(430)	(84)	(430)
Net debt	786,421	707,932	838,120	715,018
Equity	831,385	732,837	658,090	564,020
Total capital	831,385	732,837	658,090	564,020
Gearing ratio	95%	97%	127%	127%

During the period gearing has improved for the Group and did not change for the Company, despite the adoption of IFRS 16 which increased the amount of lease liabilities. The management aims to keep the ratio below 300%.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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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 for the Group are: fixed business, mobile business, collocation business and radio and TV broadcasting business
- The time value of money represented by weighted average cost of capital (WACC).
- Perpetual growth rate (PGR).

For the last couple of years prior to 2018, the Group has been conducting annual impairment testing of its assets and no need for impairment has been identified. Taking into account the above and the fact that the Group performs in line with its projections and based on the assessment that no internal or external indicators exist affecting the recoverable amount of the assets or triggering the need for annual impairment test of assets, the Management considers that the carrying amount of the assets as of 31 December 2019 does not exceed their recoverable amount.

b) Useful lives of assets

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

Were the actual useful lives of the assets to differ by 10% from management's estimates, the carrying value of the consolidated plant and equipment and respectively consolidated depreciation and amortization charges would be estimated BGN 16,611 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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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All amounts are in thousand BGN, unless otherwise stated

4. Critical accounting estimates and judgments (continued)

Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements for 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, 2019, unless otherwise disclosed. 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 2019 the Group realized a profit of BGN 137,700 thousand (2018 – profit of BGN 127,728 thousand). The Group's net current assets as at 31 December 2019 are amounting to BGN 294,941 thousand (as at 31 December 2018: BGN 56,386 thousand). The future viability of the Group depends upon the business environment as well as upon the continuing support of the owners and providers of finance. The directors, in light of their assessment of expected future cash flows and the potential impact as disclosed in Note 4 l) below are satisfied that it is appropriate for the financial statements to be prepared on a going concern basis.

e) Revenue recognition, contract assets and liabilities

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

f) Purchase price accounting

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

4. Critical accounting estimates and judgments (continued)

h) Income tax provision

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

i) Assignment of receivables on cash deposits

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

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 9,970 thousand, net of impairment as of 31 December 2019). Despite of the validly executed transactions, the receivers of CCB have not included the cancelled assignments in the list of accepted receivables of CCB creditors.

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

j) Fair value measurement

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

4. Critical accounting estimates and judgments (continued)

j) Fair value measurement(continued)

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

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

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

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

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

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

4. Critical accounting estimates and judgments (continued)**k) Determining the lease term and the incremental borrowing rate**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

If there are significant penalties to terminate (or not extend), or any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate). Other factors including historical lease durations and the costs and business disruption required to replace the leased asset are also considered. For lease contracts with indefinite term or short-term technical site rentals the Group estimates the length of the contract to be equal to the economic useful life of non-current assets located in the leased property.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for the country and the Company and makes adjustments specific to the lease, e.g. term, currency and security.

l) COVID-19 (Coronavirus) epidemic

The rapid development of the Covid-19 virus and its social and economic impact in Bulgaria and globally, as disclosed in Note 31, may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular management expects the assumptions and estimates used in determining Trade and other receivables, Contract assets, Property, plant and equipment, Intangible assets, Right-of-use assets and the related Deferred tax assets and liabilities to be affected. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

The longer term impact may also affect trading volumes, cash flows and profitability. Nevertheless, at the date of these financial statements the Company continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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5. Cash and cash equivalents

As at 31 December 2019 and 31 December 2018 the components of the cash and cash equivalents are:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Current accounts and cash in hand				
Held in BGN	21,381	25,841	5,790	19,613
Held in EUR	58,922	10,896	57,224	10,326
Held in foreign currencies other than EUR	617	596	138	271
Total current accounts and cash in hand	80,920	37,333	63,152	30,210
Total cash and cash equivalents	80,920	37,333	63,152	30,210

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

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

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

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

Rating	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
A+	17,536	16,903	3,266	10,701
A	2,408	1,405	2,408	1,404
A-	40	8,489	40	8,101
BBB	10	-	10	-
BBB-	229	834	221	824
BB+	3,014	-	1,480	-
Not rated banks	56,964	8,928	55,012	8,407
Total cash at current accounts and term deposits	80,201	36,559	62,437	29,437

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 2019 compared to 31 December 2018.

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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6. Trade and other receivables, and contracts assets

As at 31 December 2019 and 31 December 2018 trade receivables include:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Trade receivables	219,241	221,267	181,243	188,037
<i>incl. international settlement receivables</i>	6,678	6,569	4,030	4,843
Related party receivables (Note 27)	309,323	39,600	312,262	44,817
Other receivables	33,326	32,678	32,435	32,215
<i>incl. loans</i>	27,656	27,656	27,656	27,656
Total	561,890	293,545	525,940	265,069
Provision for impairment of receivables	(97,547)	(105,512)	(87,648)	(92,381)
Total Trade and other receivables	464,343	188,033	438,292	172,688
Incl.:				
Non-current portion: trade and other receivables	100,254	102,516	98,616	98,315
Provision for impairment of receivables	(69,608)	(70,325)	(68,532)	(69,239)
Total non-current portion:	30,646	32,191	30,084	29,076
Current portion trade and other receivables	461,636	191,029	427,324	166,754
Provision for impairment of receivables	(27,939)	(35,187)	(19,116)	(23,142)
Total current portion:	433,697	155,842	408,208	143,612

Other receivables as at 31 December 2019 include BGN 84 thousand for the consolidated and for the separate financial statements term cash deposits with maturity greater than three months (as at 31 December 2018: BGN 430 thousand).

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

In August 2015 two of the transactions concluded in 2014 for the assignment of cash deposits in CCB were terminated and as a result the assignments were cancelled with retroactive effect where BTC became a titleholder of the assigned receivables in the amount of BGN 53,033 thousand (BGN 9,970 thousand, net of impairment as of 31 December 2019 and BGN 9,680 thousand, net of impairment as of 31 December 2018).

Trade receivables for the consolidated and for the separate financial statements as of 31 December 2019 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 2019 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 2019 amounts to BGN 12,403 thousand and BGN 12,232 thousand for the consolidated and for the separate financial statements, respectively, and the accumulated impairment is respectively BGN 47,776 thousand and BGN 46,920 thousand. Net book value as of 31 December 2018 amounts to BGN 12,042 thousand and BGN 11,875 thousand for the consolidated and for the separate financial statements, respectively, and the accumulated impairment is respectively BGN 48,137 thousand and BGN 47,277 thousand.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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

Based on the data disclosed by Bulgarian Deposit Insurance Fund the management has made an assessment of the collectability of the cash in CCB as at the reporting date, which was estimated to approximate 19% (19% as of 31 December 2018). In 2018 the initially assumed recovery date has been revised. As a result, impairment related to the receivables representing cash at CCB amounting to BGN 261 thousand for the Group and BGN 257 thousand for the Company has been recognized and included under other operating expenses for 2018 (note 21).

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

	Gross receivables from finance leases		Net investment in finance leases	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Finance leases receivables with maturity:				
Within one year	50,684	49,349	47,498	46,150
In the second to fifth years inclusive	19,398	19,064	18,797	18,495
Total receivables	70,082	68,413	66,295	64,645
Less: unearned finance income	(3,787)	(3,768)	-	-
Provision for impairment of receivables	(3,329)	(4,525)	(3,329)	(4,525)
Net investment in finance leases	62,966	60,120	62,966	60,120

Movement of the allowance for impairment of accounts receivables in 2019 and 2018 is as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Balance at the beginning of the period	105,512	108,673	92,381	96,037
Adjustment of applying IFRS 9 on 01.01.2018	-	(24)	-	(82)
Accrued impairment	7,758	8,607	7,058	7,187
Unwinding of discount	(361)	(345)	(356)	(339)
Impairment of receivables written off	(15,362)	(11,399)	(11,435)	(10,422)
Balance at the end of the period	97,547	105,512	87,648	92,381

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

Business customers

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Balance at the beginning of the period	89,859	91,075	76,728	78,439
Adjustment of applying IFRS 9 on 01.01.2018	-	(24)	-	(82)
Accrued impairment	2,718	1,762	2,018	342
Unwinding of discount	(361)	(345)	(356)	(339)
Impairment of receivables written off	(6,050)	(2,609)	(2,123)	(1,632)
Balance at the end of the period	86,166	89,859	76,267	76,728

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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

Residential customers

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Balance at the beginning of the period	15,653	17,598	15,653	17,598
Accrued impairment	5,040	6,845	5,040	6,845
Impairment of receivables written off	(9,312)	(8,790)	(9,312)	(8,790)
Balance at the end of the period	11,381	15,653	11,381	15,653

The tables below present the age structure of gross book value of trade and other receivables and the expected credit loss as of 31 December 2019 and 31 December 2018.

Consolidated financial statements

	31.12.2019		31.12.2018	
	Gross	ECL	Gross	ECL
not yet due and up to 30 days	510,294	73,484	242,692	75,448
past due 31-60 days	6,652	714	5,772	746
past due 61-90 days	2,983	693	2,849	762
past due 91-365 days	16,699	6,651	20,826	7,294
over 365 days	25,262	16,005	21,406	21,262
Total	561,890	97,547	293,545	105,512

Separate financial statements

	31.12.2019		31.12.2018	
	Gross	ECL	Gross	ECL
not yet due and up to 30 days	501,427	72,145	231,460	74,092
past due 31-60 days	4,356	612	5,675	641
past due 61-90 days	1,491	589	1,911	664
past due 91-365 days	8,243	5,631	14,327	6,457
over 365 days	10,423	8,671	11,696	10,527
Total	525,940	87,648	265,069	92,381

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for the majority of the trade receivables and all lease receivables. The expected loss rates are based on the payment profiles of sales over a period of 24 months before 31 December 2019 and 31 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade and lease receivables:

Consolidated financial statements

	31.12.2019			31.12.2018		
	Gross	ECL	Loss rate	Gross	ECL	Loss rate
not yet due and up to 30 days	104,274	3,966	3.8%	108,046	5,293	4.9%
past due 31-60 days	5,060	613	12.1%	3,736	669	17.9%
past due 61-90 days	1,404	591	42.1%	1,736	684	39.4%
past due 91-365 days	7,922	5,644	71.2%	9,348	6,567	70.2%
over 365 days	3,485	3,453	99.1%	7,246	7,191	99.2%
Total	122,145	14,267		130,112	20,404	

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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

Separate financial statements

	31.12.2019			31.12.2018		
	Gross	ECL	Loss rate	Gross	ECL	Loss rate
not yet due and up to 30 days	100,840	3,962	3.9%	103,833	5,257	5.1%
past due 31-60 days	4,192	612	14.6%	3,453	641	18.6%
past due 61-90 days	1,341	589	43.9%	1,625	664	40.9%
past due 91-365 days	7,659	5,631	73.5%	9,001	6,376	70.8%
over 365 days	3,415	3,383	99.1%	6,337	6,267	98.9%
Total	117,447	14,177		124,249	19,205	

Expenses for receivables written off are recognised in Other operating expenses of the profit or loss for the period. For 2019 they amount to BGN 195 thousand for the consolidated and BGN 136 thousand for the separate financial statements (2018: BGN 174 thousand for the consolidated and BGN 168 thousand for the separate financial statements).

As of 31 December, 2019 and 31 December, 2018 receivables of the Group at the amount of BGN 434,067 thousand and BGN 165,501 thousand, respectively, were assessed individually and the accumulated impairment amounts to 83,280 thousand and 85,118 thousand.

As of 31 December, 2019 and 31 December, 2018 receivables of the Company at the amount of BGN 401,895 thousand and BGN 133,841 thousand, respectively, were assessed individually and the accumulated impairment amounts to 73,470 thousand and 73,177 thousand.

As of 31 December 2019 and 31 December 2018 the age structure of overdue receivables not impaired is as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
From 60 to 90 days	8	10	1	40
From 91 to 180 days	20	19	20	122
From 181 to 360 days	13	20	13	19
Above 1 year	14	3	14	9
Total	55	52	48	190

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	
		31.12.2019	31.12.2018
In the country		21,389	14,738
In the country		3,719	5,989
In the country		3,064	1,052
Outside the country		1,796	57
In the country		1,741	3,712

Type	Separate financial statements	Carrying amount of the receivable as of	
		31.12.2019	31.12.2018
In the country		1,057	423
Outside the country		934	17
In the country		877	997
Outside the country		666	1,025
In the country		505	437

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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

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

	31.12.2019	31.12.2018
BGN	373,297	104,976
EUR	91,025	82,950
USD	21	107
Total	464,343	188,033

Contract assets

The movement of contract assets in 2019 and 2018 is as follows:

Consolidated and separate financial statements

Contract assets	At 31.12.2017	IFRS 15 adoption	Additions	Transfers	At 31.12.2018
Book value	-	31,860	39,338	(36,909)	34,289
Accumulated impairment	-	(2,174)	(2,734)	2,497	(2,411)
Total	-	29,686	36,604	(34,412)	31,878
<i>incl.:</i>					
<i>Current portion</i>	-	21,625			22,619
<i>Non-current portion</i>	-	8,061			9,259
Contract assets	At 31.12.2018	Additions	Transfers	At 31.12.2019	
Book value	34,289	32,003	(36,772)	29,520	
Accumulated impairment	(2,411)	(1,858)	2,177	(2,092)	
Total	31,878	30,145	(34,595)	27,428	
<i>incl.:</i>					
<i>Current portion</i>	22,619			20,472	
<i>Non-current portion</i>	9,259			6,956	

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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7. Inventories

The materials and supplies as of 31 December 2019 and 31 December 2018 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Materials and supplies, net	3,818	4,907	3,115	3,657
Merchandise and other, net	34,947	40,494	34,947	40,494
Total materials and supplies	38,765	45,401	38,062	44,151

Impairment charges related to the inventory items for 2019 were BGN 1,024 thousand for the Group and the Company (2018 – BGN 508 thousand). The reversal of write-downs for the Company amounted to BGN 7 thousand (2018: BGN 38 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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Real estate, held for sale	434	13	12	13
Total assets held for sale	434	13	12	13

As of 31 December 2019 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	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Prepayments	11,644	15,768	11,601	15,612
Capitalized costs of obtaining a contract	19,686	19,731	19,686	19,731
Capitalized costs to fulfil a contract	9,990	11,781	9,990	11,781
VAT to be recovered	26	14	-	-
Intellectual rights	4	9	4	9
Total other assets	41,350	47,303	41,281	47,133
<i>Incl.</i>				
Other current assets	8,105	17,146	8,036	16,976
Other non-current assets	33,245	30,157	33,245	30,157

Incremental costs of obtaining a contract are additional costs that would have not been incurred had the contract not been concluded. They comprise mainly sales commission paid to employees and third-party retailers. Costs to fulfil a contract are costs relating directly to a contract that are incurred after contract inception and serve the purpose of fulfilling the contract but are incurred prior to fulfilment and cannot be capitalized under any other standard. The capitalized contract costs are recognised in the profit or loss as: 1) depreciation and amortization on a straight-line basis over the minimum enforceable contract period, or 2) other operating expenses when impairment loss is recognized, if their carrying amount exceeds the remaining amount of consideration that the Group expects to receive, less the costs that relate directly to providing the goods or services that have not been recognized as expenses..

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

9. Other assets (continued)

Consolidated and separate financial statements

	Capitalized costs to fulfil a contract	Capitalized costs of obtaining a contract	Intellectual rights	Total
<i>Gross Book Value</i>				
At 1 January 2018	27,951	50,547	715	79,213
Additions	12,856	20,953	384	34,193
Disposals	(2,371)	(2,900)	-	(5,271)
At 31 December 2018	38,436	68,600	1,099	108,135
Additions	10,403	20,912	375	31,690
Disposals	(17,541)	(34,385)	-	(51,926)
At 31 December 2019	31,298	55,127	1,474	87,899
<i>Accumulated depreciation and impairment</i>				
At 1 January 2018	15,430	31,714	711	47,855
Amortization charged	12,187	18,673	380	31,240
Disposals	(962)	(1,518)	-	(2,480)
At 31 December 2018	26,655	48,869	1,091	76,615
Depreciation charged	11,121	19,649	379	31,149
Disposals	(16,468)	(33,077)	-	(49,545)
At 31 December 2019	21,308	35,441	1,470	58,219
<i>Net book value</i>				
At 31 December 2018	11,781	19,731	8	31,520
At 31 December 2019	9,990	19,686	4	29,680

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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 2019 and 31 December 2018 is as follows:

	Switching	Transmission	Land	General support	Construction in progress	Total
<i>Gross Book Value</i>						
At 1 January 2018	1,311,060	807,840	5,455	293,813	48,536	2,466,704
Revaluation	-	-	236	(1)	-	235
Additions	2,807	-	-	24	127,739	130,570
Transfers	78,880	17,870	339	21,936	(119,025)	-
Impairment	-	-	-	-	(358)	(358)
Transfers to assets held for sale	-	-	-	(1,129)	-	(1,129)
Transfers to investment property	-	-	(38)	(1,074)	-	(1,112)
Disposals	(112,768)	(2,949)	-	(10,315)	(382)	(126,414)
At 31 December 2018	1,279,979	822,761	5,992	303,254	56,510	2,468,496
Additions	1,164	-	-	1,806	111,158	114,128
Transfers	75,019	16,994	-	22,450	(114,463)	-
Impairment	-	-	-	-	(914)	(914)
Transfers to assets held for sale	-	-	(631)	(1,316)	-	(1,947)
Transfers to investment property	-	-	-	(737)	-	(737)
Disposals	(104,282)	(5,759)	-	(12,109)	(400)	(122,550)
At 31 December 2019	1,251,880	833,996	5,361	313,348	51,891	2,456,476
<i>Accumulated depreciation and impairment</i>						
At 1 January 2018	998,407	526,112	-	190,696	-	1,715,215
Depreciation charged	76,350	24,832	-	18,369	-	119,551
Impairment	-	-	-	3	-	3
Transfers to assets held for sale	-	-	-	(22)	-	(22)
Transfers to investment property	-	-	-	(1,071)	-	(1,071)
Disposals	(110,642)	(2,679)	-	(9,807)	-	(123,128)
At 31 December 2018	964,115	548,265	-	198,168	-	1,710,548
Depreciation charged	73,969	24,433	-	19,984	-	118,386
Transfers to assets held for sale	-	-	-	(91)	-	(91)
Transfers to investment property	-	-	-	238	-	238
Disposals	(102,682)	(5,630)	-	(11,793)	-	(120,105)
At 31 December 2019	935,402	567,068	-	206,506	-	1,708,976
<i>Net book value</i>						
At 31 December 2018	315,864	274,496	5,992	105,086	56,510	757,948
At 31 December 2019	316,478	266,928	5,361	106,842	51,891	747,500

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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

a) Property, plant and equipment (continued)

The composition of property, plant and equipment on BTC standalone basis as of 31 December 2019 and 31 December 2018 is as follows:

	Switching	Transmission	Land	General support	Construction in progress	Total
<i>Gross Book Value</i>						
At 1 January 2018	1,304,915	795,501	2,726	257,676	47,593	2,408,411
Revaluation			401	(1)		400
Additions	2,807	-	-		125,832	128,639
Transfers	78,087	17,855	-	21,060	(117,002)	-
Impairment	-	-	-	-	(358)	(358)
Transfers to assets held for sale	-	-	-	(12)	-	(12)
Transfers to investment property	-	-	(38)	(1,074)	-	(1,112)
Disposals	(112,668)	(2,910)	-	(9,958)	(375)	(125,911)
At 31 December 2018	1,273,141	810,446	3,089	267,691	55,690	2,410,057
Additions	1,164	-	-	927	108,797	110,888
Transfers	73,191	16,994	-	21,502	(111,687)	-
Impairment	-	-	-	-	(914)	(914)
Transfers to assets held for sale	-	-	-	(921)	-	(921)
Transfers to investment property	-	-	-	314	-	314
Disposals	(104,204)	(5,744)	-	(11,805)	(369)	(122,122)
At 31 December 2019	1,243,292	821,696	3,089	277,708	51,517	2,397,302
<i>Accumulated depreciation and impairment</i>						
At 1 January 2018	995,459	523,432	-	182,737	-	1,701,628
Depreciation charged	75,533	23,779	-	16,414	-	115,726
Impairment	-	-	-	3	-	3
Transfers to assets held for sale	-	-	-	(12)	-	(12)
Transfers to investment property	-	-	-	(1,071)	-	(1,071)
Disposals	(110,552)	(2,678)	-	(9,732)	-	(122,962)
At 31 December 2018	960,440	544,533	-	188,339	-	1,693,312
Depreciation charged	73,087	23,653	-	18,005	-	114,745
Transfers to assets held for sale	-	-	-	(8)	-	(8)
Transfers to investment property	-	-	-	277	-	277
Disposals	(102,614)	(5,628)	-	(11,554)	-	(119,796)
At 31 December 2019	930,913	562,558	-	195,059	-	1,688,530
<i>Net book value</i>						
At 31 December 2018	312,701	265,913	3,089	79,352	55,690	716,745
At 31 December 2019	312,379	259,138	3,089	82,649	51,517	708,772

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the SFA by establishing a pledge on real estate properties, which net book value as of 31 December 2019 amounted to BGN 7,007 thousand. As of 31 December 2017, their net book value amounted to BGN 7,217 thousand.

Measurement of fair value*Fair value hierarchy*

Land is measured at fair value, in accordance with the revaluation model of IAS 16. The fair value of land was determined as at 31 December 2018 by external, independent property valuers, having appropriate recognized professional qualification and recent experience in the location and category of the property being valued.

The fair value measurement for land of BGN 5,361 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 2019	5,992
Transfers to assets held for sale	(631)
Balance at 31 December 2019	5,361

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. The level of usage of each building is being assessed as at the end of each reporting period. Where the Group uses only part of a property it owns, utilisation of less than 25% is regarded as immaterial and the property is presented as an investment property. The movement in Investment property is presented below:

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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

b) Investment property (continued)

Consolidated financial statements

Balance at 1 January 2018	145,401
Transfers from Property, plant and equipment	43
Revaluation to fair value, recognised in other comprehensive income	3,276
Additions	32
Disposals	(3)
Gain/(loss) on property revaluation	3,661
Property reclassified as held for sale	(823)
Balance at 31 December 2018	151,587
Transfers from Property, plant and equipment	975
Revaluation to fair value, recognised in other comprehensive income	(1,164)
Additions	9
Disposals	(20)
Gain/(loss) on property revaluation	(2,039)
Property reclassified as held for sale	(5,266)
Balance at 31 December 2019	144,082

Separate financial statements

Gross Book Value

At 1 January 2018	48,352
Transfers from Property, plant and equipment	1,113
Additions	32
Impairment	102
Disposals	(2)
Property reclassified as held for sale	(92)
Balance at 31 December 2018	49,505
Transfers from Property, plant and equipment	(314)
Additions	9
Impairment	(254)
Disposals	(1)
Property reclassified as held for sale	(2,698)
Balance at 31 December 2019	46,247

Accumulated depreciation and impairment

At 1 January 2018	38,109
Transfers from Property, plant and equipment	1,070
Impairment	(49)
Property reclassified as held for sale	(72)
Depreciation charged	266
Balance at 31 December 2018	39,324
Transfers from Property, plant and equipment	(277)
Impairment	20
Property reclassified as held for sale	(778)
Depreciation charged	267
Disposals	(1)
Balance at 31 December 2019	38,555

Net book value

At 31 December 2018	10,181
At 31 December 2019	7,692

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

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

The fair value of the investment properties as at 31 December 2019 in the separate financial statements amounts to BGN 140,918 thousand (2018: BGN 149,775 thousand) and was determined by external, independent property valuers, having appropriate recognized professional qualification and experience.

Valuation technique and significant unobservable inputs

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

As disclosed in note 16 BTC has signed an agreement to secure payments related to the Parent company's liabilities under the SFA by establishing a pledge on real estate properties presented as investment property, which value as of 31 December 2019 amounted to BGN 13,314 thousand in the consolidated financial statements and BGN 1,116 thousand in the separate financial statements (2018: BGN 13,862 thousand and BGN 1,166 thousand respectively).

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

11. Intangible assets and right-of-use assets

As of 31 December 2019 and 31 December 2018 intangible assets of the Group are as follows

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
<i>Gross book value</i>					
At 1 January 2018	144,651	581,769	19,733	4,601	750,754
Additions (Transfers)	539	34,757	373	4,657	40,326
Disposals	-	(48,508)	-	(115)	(48,623)
At 31 December 2018	145,190	568,018	20,106	9,143	742,457
Additions (Transfers)	396	39,863	423	4,499	45,181
Disposals	-	(14,415)	-	(6)	(14,421)
At 31 December 2019	145,586	593,466	20,529	13,636	773,217
<i>Accumulated amortization and impairment</i>					
At 1 January 2018	80,959	474,534	16,816	-	572,309
Amortization charge	9,384	35,222	1,786	-	46,392
Disposals	-	(48,439)	-	-	(48,439)
At 31 December 2018	90,343	461,317	18,602	-	570,262
Amortization charge	9,473	37,694	682	-	47,849
Disposals	-	(14,391)	-	-	(14,391)
At 31 December 2019	99,816	484,620	19,284	-	603,720
<i>Net book value</i>					
At 31 December 2018	54,847	106,701	1,504	9,143	172,195
At 31 December 2019	45,770	108,846	1,245	13,636	169,497

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

11. Intangible assets and right-of-use assets (continued)

As of 31 December 2019 and 31 December 2018 intangible assets on BTC stand alone bases are as follows:

	Licenses	Software	Other intangible assets	Intangible assets under construction	Total
<i>Gross book value</i>					
At 1 January 2018	144,400	581,562	19,074	4,593	749,629
Additions(Transfers)	538	34,750	429	(35,717)	40,381
Disposals	-	(48,508)	-	(115)	(48,623)
At 1 January 2019	144,938	567,804	19,503	9,142	741,387
Additions(Transfers)	396	39,863	423	4,499	45,181
Disposals	-	(14,411)	-	(6)	(14,417)
At 31 December 2019	145,334	593,256	19,926	13,635	772,151
<i>Accumulated amortization and impairment</i>					
At 1 January 2018	80,877	474,405	16,764	-	572,046
Amortization charge	9,360	35,167	1,666	-	46,193
Disposals	-	(48,439)	-	-	(48,439)
At 31 December 2018	90,237	461,133	18,430	-	569,800
Amortization charge	9,451	37,671	571	-	47,693
Disposals	-	(14,389)	-	-	(14,389)
At 31 December 2019	99,688	484,415	19,001	-	603,104
<i>Net book value</i>					
At 31 December 2018	54,701	106,671	1,073	9,142	171,587
At 31 December 2019	45,646	108,841	925	13,635	169,047

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

11. Intangible assets and right-of-use assets (continued)

As of 31 December 2019 and 31 December 2018 right-of-use assets of the Group and the Company are as follows:

Consolidated financial statements

	Property	Network infrastructure	Vehicles	Software	Total
At 31 December 2018	-	-	-	-	-
IFRS 16 adoption	193,526	51,235	13,915	258	258,934
At 1 January 2019	193,526	51,235	13,915	258	258,934
Additions	12,031	3,364	1,413	503	17,311
Amortization/depreciation charge	(30,364)	(10,677)	(5,611)	(670)	(47,322)
Disposals	(3,832)	(130)	-	-	(3,962)
At 31 December 2019	171,361	43,792	9,717	91	224,961

Separate financial statements

	Property	Network infrastructure	Vehicles	Software	Total
At 31 December 2018	-	-	-	-	-
IFRS 16 adoption	228,773	51,235	13,880	258	294,146
At 1 January 2019	228,773	51,235	13,880	258	294,146
Additions	12,535	3,364	1,406	503	17,808
Amortization/depreciation charge	(35,782)	(10,677)	(5,580)	(670)	(52,709)
Disposals	(3,720)	(130)	-	-	(3,850)
At 31 December 2019	201,806	43,792	9,706	91	255,395

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

12. Investments

Investments as of 31 December 2019 and 31 December 2018 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Investments				
Equity securities – at fair value through other comprehensive income				
Intersputnik	395	386	395	386
Sofia Commodity Exchange	75	70	75	70
Viva Telecom Bulgaria OOD	-	260,148	-	260,148
Total equity securities at fair value through other comprehensive income	470	260,604	470	260,604
Derivative contracts for hedging	26	1,105	26	1,105
Subsidiaries				
NURTS Bulgaria	-	-	39,922	39,922
Net Is Sat	-	-	1,097	1,097
BTC Net	-	-	799	799
Total investments in subsidiaries	-	-	41,818	41,818
Total investments	496	261,709	42,314	303,527
<i>Incl.</i>				
Current investments	-	-	-	-
Non-current investments	496	261,709	42,314	303,527

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

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 EOOD.

On 17 April 2019 a joint venture (Paytech OOD) between BTC and Bulgarian-American Credit Bank AD was registered in the Bulgarian Commercial Register following competition clearance by the Bulgarian Competition Protection Commission granted on 28 March 2019. On 7 October 2019 BTC sold its 50% share in Paytech OOD to Bulgarian-American Credit Bank AD.

With a notice dated 6 July 2019 BTC notified Viva Telecom Bulgaria OOD that it terminates its participation as a shareholder in Viva Telecom Bulgaria OOD upon expiry of 4 (four) months as of receipt of the notice. According to the provisions of the Commercial Act the receivable of BTC was determined on the basis of the balance sheet of Viva Telecom Bulgaria OOD as of 30 November 2019, as disclosed in Note 27. The change in the fair value of the investment for the ten months ended 31 October 2019 amounts to BGN 18,412 thousand. The total accumulated fair value reserve, net of tax, as of the date of termination of the participation, amounting to BGN 23,632 thousand was transferred in retained earnings in 2019.

The other changes in values of the investments in equity securities are due to their measurement to fair value.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

13. Trade payables

The payables to suppliers as of 31 December 2019 and 31 December 2018 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Payables to suppliers of non-current assets	43,143	51,480	42,898	51,064
Payables to international telecom operators - interconnect	7,981	4,961	5,254	3,017
Payables to suppliers of equipment and goods for customers	4,972	5,433	4,972	5,433
Payables to suppliers of network maintenance	2,372	2,733	2,372	2,733
Payables to domestic telecom operators	1,149	1,467	632	707
Payables to related parties (Note 27)	-	-	10,890	15,160
Others	38,069	50,038	36,771	48,263
Total trade payables	97,686	116,112	103,789	126,377
<i>Incl.</i>				
Non-current portion	119	2,020	119	2,020
Current portion	97,567	114,092	103,670	124,357

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

14. Other payables and contract liabilities

Other payables as of 31 December 2019 and 31 December 2018 are as follows:

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Payables to employees	27,134	23,863	27,034	23,758
Social securities	4,943	4,582	4,933	4,573
VAT	4,819	2,032	4,282	1,847
Derivative contracts used for hedging	3,676	1,965	3,676	1,965
Personal income tax payable	1,835	1,799	1,828	1,791
Payables for license fee	335	303	315	284
Withholding and other taxes	161	171	161	171
Advances from clients	39	3	39	3
Others	2,209	2,220	2,144	2,096
Total other payables	45,151	36,938	44,412	36,488
<i>Incl.</i>				
Non-current portion	3,676	1,965	3,676	1,965
Current portion	41,475	34,973	40,736	34,523

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

14. Other payables and contract liabilities (continued)

The movement of contract liabilities for 2019 and 2018 is as follows:

Consolidated financial statements

	IFRS 15 adoption					At 31.12.2018
	At 31.12.2017	Remeasu rement	Reclassifi cation	Additions	Disposals	
Contract liabilities	-	609	23,810	237,357	(235,583)	26,193
<i>incl.:</i>						
<i>Current portion</i>	21,702					23,723
<i>Non-current portion</i>	2,717					2,470
	At 31.12.2018		Additions		Disposals	At 31.12.2019
Contract liabilities	26,193		256,637		(254,795)	28,035
<i>incl.:</i>						
<i>Current portion</i>	23,723					24,182
<i>Non-current portion</i>	2,470					3,853

Separate financial statements

	IFRS 15 adoption					At 31.12.2018
	At 31.12.2017	Remeasu rement	Reclassifi cation	Additions	Disposals	
Contract liabilities	-	609	23,804	237,349	(235,571)	26,191
<i>incl.:</i>						
<i>Current portion</i>	21,696					23,721
<i>Non-current portion</i>	2,717					2,470
	At 31.12.2018		Additions		Disposals	At 31.12.2019
Contract liabilities	26,191		256,636		(254,797)	28,030
<i>incl.:</i>						
<i>Current portion</i>	23,721					24,177
<i>Non-current portion</i>	2,470					3,853

Contract liabilities relate to unperformed performance obligations mainly referred to IRU contracts, prepaid airtime and other prepaid services. The most significant portion of the amounts presented as non-current will be recognized as revenues within 15 to 26 years and relates to IRU contracts.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

15. Provisions for other liabilities and charges

Consolidated financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2018	12,180	1,504	1,569	15,253
Charged to profit or loss	-	85	48	133
Recognised in the statement of financial position	2,810	-	-	2,810
Used during the year	(34)	(389)	(344)	(767)
Unwinding of discount	122	-	(42)	80
At 31 December 2018	15,078	1,200	1,231	17,509
Charged to profit or loss	-	185	8,206	8,391
Recognised in the statement of financial position	1,164	-	-	1,164
Used during the year	(79)	(612)	(193)	(884)
Unwinding of discount	123	-	-	123
Transfer	200	-	(200)	-
At 31 December 2019	16,486	773	9,044	26,303

Analysis of provisions in consolidated financial statements

	31.12.2019	31.12.2018
Non-current (decommissioning costs)	16,486	15,078
Current	9,817	2,431
Total	26,303	17,509

Separate financial statements

	Decommissioning	Restructuring	Legal claims	Total
At 1 January 2018	12,180	1,504	1,512	15,196
Charged to profit or loss	-	85	48	133
Recognised in the statement of financial position	2,810	-	-	2,810
Used during the year	(34)	(389)	(334)	(757)
Unwinding of discount	122	-	-	122
At 31 December 2018	15,078	1,200	1,226	17,504
Charged to profit or loss	-	185	(375)	(190)
Recognised in the statement of financial position	1,164	-	-	1,164
Used during the year	(79)	(612)	(193)	(884)
Unwinding of discount	123	-	-	123
Transfer	200	-	(200)	-
At 31 December 2019	16,486	773	458	17,717

Analysis of provisions in separate financial statements

	31.12.2019	31.12.2018
Non-current (decommissioning costs)	16,486	15,078
Current	1,231	2,426
Total	17,717	17,504

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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15. Provisions for other liabilities and charges (continued)

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 2019 and 2018 is 0.6% and 1%.

Restructuring

The provision for employment termination is related to the decision for restructuring the activities of the Group in 2020 and is recognised as a staff cost in the profit or loss for the year ended 2019.

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 and lease liabilities

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

	Consolidated financial statements		Separate financial statements	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Syndicated credit facility	636,326	700,440	636,326	700,440
Lease liabilities	231,099	2,211	265,030	2,174
<i>incl. due lease payables to related parties</i>	-	-	2,873	-
Revolving credit facility	-	43,031	-	43,031
Trade credits	-	13	-	13
Total Borrowings and lease liabilities	867,425	745,695	901,356	745,658
Including:				
Current borrowings and lease liabilities	89,888	45,399	97,663	45,362
Non-current borrowings and lease liabilities	777,537	700,296	803,693	700,296

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

	31.12.2017	Financing cash flows	Non cash changes		31.12.2018
			New borrowings	Other changes	
Syndicated credit facility	-	713,875	-	(13,435)	700,440
Secured bond issue	784,950	(782,332)	-	(2,618)	-
Revolving credit	-	43,031	-	-	43,031
Lease liabilities	3,162	(2,389)	1,436	2	2,211
Trade credits	39	(26)	-	-	13
Total Borrowings and lease liabilities	788,151	(27,841)	1,436	(16,051)	745,695

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

16. Borrowings and lease liabilities (continued)

	31.12.2018	Financing cash flows	Non cash changes		31.12.2019
			New borrowings	Other changes	
Syndicated credit facility	700,440	(68,793)	-	4,679	636,326
Revolving credit	43,031	(43,031)	-	-	-
Lease liabilities	2,211	(41,876)	14,224	256,540	231,099
Trade credits	13	(13)	-	-	-
Total Borrowings and lease liabilities	745,695	(153,713)	14,224	261,219	867,425
Dividends payable	-	(11,904)	51,348	(17,127)	22,317
			(165,617)		

Separate financial statements

	31.12.2017	Financing cash flows	Non cash changes		31.12.2018
			New borrowings	Other changes	
Syndicated credit facility	-	713,875	-	(13,435)	700,440
Secured bond issue	784,950	(782,332)	-	(2,618)	-
Revolving credit	-	43,031	-	-	43,031
Lease liabilities	3,125	(2,389)	1,436	2	2,174
Trade credits	39	(26)	-	-	13
Total Borrowings and lease liabilities	788,114	(27,841)	1,436	(16,051)	745,658

	31.12.2018	Financing cash flows	Non cash changes		31.12.2019
			New borrowings	Other changes	
Syndicated credit facility	700,440	(68,793)	-	4,679	636,326
Revolving credit	43,031	(43,031)	-	-	-
Lease liabilities	2,174	(44,071)	14,720	292,207	265,030
Trade credits	13	(13)	-	-	-
Total Borrowings and lease liabilities	745,658	(155,908)	14,720	296,886	901,356
Dividends payable	-	(11,904)	51,348	(17,127)	22,317
			(167,812)		

Other changes comprise interest accrual and payments and foreign exchange adjustments. The recognised lease liabilities on adoption of IFRS 16, as disclosed in note 2.1 are also included there.

In November 2013 BTC announced the successful completion of its debut bond offering of EUR 400 million 6^{5/8} % 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 was payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2014. In relation to the admission of the Notes the Company received a credit rating of B1 by Moody's and BB- by Standard & Poor's Ratings Services. On 29 March 2018 and 16 May 2018 respectively, Moody's upgraded the long-term corporate credit rating of the Company to Ba3 and S&P Global Ratings reconfirmed it as BB- and in November 2019 both agencies placed the corporate credit ratings on review. On 27 March 2020 S&P Global Ratings downgraded the corporate credit rating to B+.

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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

16. Borrowings and lease liabilities (continued)

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

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

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

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

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

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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16. Borrowings and lease liabilities (continued)

Lease liabilities

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

Maturity analysis - contractual undiscounted cash flows	Consolidated financial statements 31.12.2019	Separate financial statements 31.12.2019
Less than one year	55,070	64,210
One to five years	145,931	171,724
More than five years	70,475	73,450
Total undiscounted lease liabilities	271,476	309,384
Lease liabilities included in the statement of financial position	231,099	265,030
including:		
Current borrowings and lease liabilities	45,684	53,458
Non current borrowings and lease liabilities	185,415	211,572

17. Deferred tax assets and liabilities

As of 31 December 2019 and 2018 the deferred tax, are as it follows:

Consolidated financial statements:

Deferred tax assets	Tax loss carried forward	Allowance for impairment of receivables and contract assets	Property, plant, equipment and intangible assets	Expense accruals	Total
At 1 January 2018	591	1,064	2,327	-	3,982
Charged/(credited) to the profit/(loss) for the year	(591)	88	585	2	84
At 31 December 2018	-	1,152	2,912	2	4,066
Charged/(credited) to the profit/(loss) for the year	3	(239)	(254)	(1)	(491)
Transferred from DTL	-	75	(354)	920	641
At 31 December 2019	3	988	2,304	921	4,216

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

17. Deferred tax assets and liabilities (continued)

Deferred tax liabilities	Retirement benefit obligations	Allowance for impairment of receivables and contract assets	Property, plant, equipment and intangible assets	Expense accruals	Financial assets at FVOCI	Cash flow hedges	Total
At 1 January 2018	(299)	(10,015)	24,005	(3,634)	296	(68)	10,285
Charged/(credited) to the profit/(loss) for the year	(134)	377	4,441	(67)	-	-	4,617
Charged/(credited) to other comprehensive income for the year	-	-	367	-	495	(327)	535
At 31 December 2018	(433)	(9,638)	28,813	(3,701)	791	(395)	15,437
Charged/(credited) to the profit/(loss) for the year	(55)	588	2,480	(1,224)	(2,626)		(837)
Charged/(credited) to other comprehensive income for the year	-	-	(114)		1,843	(279)	1,450
Transferred to DTA	-	75	(354)	920	-	-	641
At 31 December 2019	(488)	(8,975)	30,825	(4,005)	8	(674)	16,691
Deferred tax (charge)/credit to the profit/(loss) for the year					2019		2018
Deferred tax liabilities					837		(4,617)
Deferred tax assets					(491)		84
Total (charged)/credited to the profit/(loss) for the year					346		(4,533)

Separate financial statements:

Deferred tax liabilities	Retirement benefit obligations	Allowance for impairment of receivables and contract assets	Property, plant, equipment and intangible assets	Expense accruals	Financial assets at FVOCI	Cash flow hedges	Total
At 1 January 2018	(299)	(9,813)	14,502	(3,800)	296	(68)	818
Charged/(credited) to the profit/(loss) for the year	(134)	333	4,017	(86)	-	-	4,130
Charged/(credited) to other comprehensive income for the year	-	-	37	-	495	(327)	205
At 31 December 2018	(433)	(9,480)	18,556	(3,886)	791	(395)	5,153
Charged/(credited) to the profit/(loss) for the year	(55)	506	2,465	(164)	(2,626)	-	126
Charged/(credited) to other comprehensive income for the year			(27)		1,843	(279)	1,537
At 31 December 2019	(488)	(8,974)	20,994	(4,050)	8	(674)	6,816

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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17. Deferred tax assets and liabilities (continued)

Deferred tax (charge)credit to the profit/(loss) for the year	2019	2017
Deferred tax liabilities	(126)	(4,130)
Total charged to the profit/(loss) for the year	(126)	(4,130)

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 2019 and 2018 are calculated in these financial statements at 10% tax rate which is effective as of 1 January 2007.

The last period audited by the tax authorities for BTC is 2013. On 05 June 2015 a tax assessment act has been issued for a tax audit, covering the period January 2007 - December 2009, assessing BGN 10,235 thousand corporate income tax and interest due. On 23 April 2018 the Supreme Administrative Court has repealed the tax assessment act for the majority of the assessed tax in the amount of BGN 10,070 thousand and for the remaining assessed tax the case has been returned to the lower administrative court for further review. On 22 December 2015 a tax assessment act has been issued for a tax audit, covering the period January 2010 – December 2013, assessing BGN 2,278 thousand corporate income tax and interest due. On 14 November 2018 the Supreme Administrative Court has repealed the tax assessment act.

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

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

18. Retirement benefit obligations

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

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

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

The movement of the liability, recognized in the statement of financial position, is as follows:

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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18. Retirement benefit obligations (continued)

	Consolidated and separate financial statements	
	31.12.2019	31.12.2018
Liability at the beginning of the period	7,445	6,187
<i>Past service cost</i>	107	106
<i>Current service cost</i>	721	618
<i>Interest cost</i>	73	85
Total cost recognized in profit or loss	901	809
Remeasurements – actuarial loss/(gain) recognised in OCI	851	670
Payments to retirees	(355)	(221)
Liability at the end of the period	8,842	7,445

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

	31.12.2019	31.12.2018
Discount rate at 31 December	0.6%	1%
Future salary increases per year:		
-next year	4.7%	5%
-subsequent years	4.3%	4%
Average age of retirement – male employees	65	65
Average age of retirement – female employees	63	63

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 2016 – 2018.

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

<i>Effect in thousands of BGN</i>	Defined benefit obligation		Interest and current service costs	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	(957)	1,166	(28)	31
Future salary growth (1% movement)	1,119	(942)	122	(102)

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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19. Share capital, reserves and dividends

	31.12.2019	31.12.2018
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:	31.12.2019	%
<i>Number of ordinary shares:</i>	31.12.2018	%
Viva Telecom Bulgaria EOOD	288,764,840	100%
Other shareholders	-	-
Total ordinary shares	288,764,840	100%

As of 31 December 2019, 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 EOOD.

The resolution of this matter in relation to the above-referred attachment does not affect these financial statements as the imposed security measure is imposed over asset of Viva Telecom Bulgaria EOOD.

Earnings per share	Consolidated financial statements		Separate financial statements	
	Year ended		Year ended	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Profit for distribution	137,700	127,728	132,442	110,121
Weighted average number of ordinary shares	288,765	288,765	288,765	288,765
Earnings per share (BGN (basic and diluted))	0.48	0.44	0.46	0.38

Dividends payable

During the reporting period the sole owner of the share capital of BTC took a decision for distribution of dividend amounting to BGN 51 348 144, representing part of the distributable reserves of the Company as at 31 December 2017 corresponding to the part of the share capital of the Company over which no attachments are imposed (as disclosed above). BGN 17,127 thousand of the dividend payable was set off against the loan receivables from Viva Telecom Bulgaria EOOD (ref. note 27):

	31.12.2019	31.12.2018
Dividend approved by the sole owner	51,348	-
Dividend set-off	(17,127)	-
Dividend paid	(11,904)	-
Total dividends payable	22,317	-

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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

19. Share capital, reserves and dividends (continued)**Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income until the investments are derecognised or impaired.

Hedging reserve

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

Other reserves

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

Consolidated and separate financial statements

	Remeasurements of retirement benefit obligation	Cost of hedging reserves	Total
At 1 January 2018	(2,441)	-	(2,441)
Remeasurements – actuarial gain/(loss) recognised in OCI for the year	(671)	-	(671)
Cash flow hedges – costs of hedging recognised in OCI for the period	-	(1,795)	(1,795)
At 31 December 2018	(3,112)	(1,795)	(4,907)
Remeasurements – actuarial gain/(loss) recognised in OCI for the year	(851)	-	(851)
Cash flow hedges – costs of hedging recognised in OCI for the period	-	(972)	(972)
At 31 December 2019	(3,963)	(2,767)	6,730

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

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20. Revenue

Revenue of the Group and the Company for the years ended 31 December 2019 and 2018 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Service revenue				
Mobile	480,880	449,307	478,495	446,937
Fixed	350,829	339,842	307,943	299,132
Total service revenue	831,709	789,149	786,438	746,069
Equipment revenue				
Mobile	134,302	137,426	134,302	137,426
Fixed	7,769	5,802	7,769	5,802
Total equipment revenue	142,071	143,228	142,071	143,228
Total revenue from contracts with customers				
	973,780	932,377	928,509	889,297
Other revenue	19,433	15,666	32,831	29,693
Total revenue	993,213	948,043	961,340	918,990

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

As of 31 December 2019, the total transaction price of the unfulfilled (or partly unfulfilled) performance obligations related to multiple-element arrangements amounts to BGN 222,842 thousand and will be realized over the remaining term of the service contracts concluded (31 December 2018: BGN 193,098 thousand). Since most service contracts have a minimum contract term of 24 months, an average remaining term of approximately 12 months can be assumed. The transaction price of unfulfilled performance obligations and timing of revenue recognition are not disclosed for performance obligations recognized at the amount to which the Group has a right to invoice.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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21. Other operating expenses, depreciation and amortization

Other operating expenses for the years ended 31 December, 2019 and 2018 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Advertising, customer service, billing and collection	73,002	75,490	73,109	75,582
Maintenance and repairs	26,462	27,144	26,386	27,060
License fees	16,258	15,842	15,165	14,742
Facilities	10,729	44,330	10,483	50,331
Administrative expenses	10,710	11,467	10,502	11,210
Professional fees	4,431	4,181	4,286	3,989
Leased lines and data transmission	4,413	7,418	4,362	7,367
Vehicles and transport	1,711	8,342	1,703	8,342
Other, net	21,996	9,245	13,124	8,460
<i>Including:</i>				
<i>Provisions for legal claims</i>	8,207	48	(375)	48
<i>Scrap of assets</i>	2,638	3,354	2,475	3,019
<i>Impairment of other current assets</i>	1,017	470	1,017	470
<i>Impairment of non-current assets</i>	915	539	915	173
<i>Other</i>	9,219	4,834	9,092	4,750
Total other operating expenses	169,712	203,459	159,120	207,083

The breakdown of Depreciation and amortization is as follows:

Note	Consolidated financial statements		Separate financial statements		
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018	
Depreciation of Property, Plant, Equipment and Investment Property	10	118,266	119,510	114,863	115,937
Amortization of Intangible assets	11	47,849	46,393	47,692	46,193
Depreciation of Right-of-use assets		47,322	-	52,709	
Amortization of capitalized costs of obtaining a contract	9	19,649	18,673	19,649	18,673
Amortization of capitalized costs to fulfil a contract	9	11,122	13,596	11,122	13,596
Amortization of intellectual rights	9	379	380	379	380
Total depreciation and amortization	244,587	198,552	246,414	194,779	

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2019

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22. Staff costs

Staff costs for the years ended 31 December 2019 and 2018 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Salaries and wages	111,410	106,343	110,924	105,592
Pension, health and unemployment fund contributions	20,554	19,380	20,502	19,288
Other benefits	4,135	4,348	4,130	4,341
Other staff costs	2,591	2,756	2,590	2,755
Total staff costs	138,690	132,827	138,146	131,976

As stated in Note 18 the amounts of post-employment termination benefits included in salaries and wages above for the consolidated and separate financial statements for 2019 are BGN 828 thousand (2018: respectively BGN 724 thousand).

23. Finance income and costs

Financial income and costs for the years ended 31 December 2019 and 2018 consist of:

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Finance costs				
Interest expense:	(41,623)	(40,021)	(43,166)	(40,021)
- <i>Bank borrowings</i>	(29,509)	(20,165)	(29,509)	(20,165)
- <i>Leases</i>	(11,918)	(95)	(13,461)	(95)
- <i>Provisions</i>	(196)	(208)	(196)	(208)
- <i>Bond issues</i>	-	(19,553)	-	(19,553)
Foreign exchange loss	(760)	(22)	(764)	(15)
Loss on cash flow hedges - ineffective portion of changes in fair value	-	(82)	-	(82)
Other finance costs	(609)	(739)	(590)	(720)
Total finance cost	(42,992)	(40,864)	(44,520)	(40,838)
Finance income				
Interest income:	8,085	7,456	8,012	7,396
- <i>Bank deposits</i>	49	37	28	23
- <i>Finance lease</i>	4,915	4,661	4,915	4,661
- <i>Other</i>	3,121	2,758	3,069	2,712
<i>Incl impaired financial assets:</i>	361	344	356	339
Equity investments income	807	73	632	73
Foreign exchange gains	-	6	-	-
Total finance income	8,892	7,535	8,644	7,469
Net finance costs	(34,100)	(33,329)	(35,876)	(33,369)

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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24. Other gains, net

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Gains from sales of non-current assets and assets held for sale	6,735	4,349	8,434	3,149
Incl.: income	13,249	7,031	11,080	3,756
net book value	(6,514)	(2,682)	(2,646)	(607)
Gain/(loss) from sales of materials	-	(15)	(2)	(15)
Incl.: income	14	7	-	7
net book value	(14)	(22)	(2)	(22)
Gain/(Loss) on changes in fair value of Investment properties	(2,040)	3,673	-	-
Other gains	80	9,595	80	9,307
Total other gains, net	4,775	17,602	8,512	12,441

25. Tax expense

Income tax expenses for the years ended 31 December 2019 and 2018 consist of:

a) amounts recognised in profit or loss

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Current income tax charge	16,119	3,901	14,796	2,817
Deferred tax	(346)	4,533	126	4,130
Total income tax expense	15,773	8,434	14,922	6,947

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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25. Tax expense (continued)

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

	Consolidated financial statements		Separate financial statements	
	Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
Profit before tax	153,473	136,162	147,364	117,068
Tax rate	10%	10%	10%	10%
Tax at the applicable tax rate	15,347	13,616	14,736	11,707
Non-deductible expenses	173	3,979	166	3,972
Tax exempt income	(1)	(932)	(1)	(932)
Effect of current tax from previous periods, accounted during the year	-	(7,761)	-	(7,761)
Effect of tax offsets not recognised as deferred tax assets	325	(327)	-	-
Effect of previously unrecognised and unused tax losses now recognised as deferred tax assets	(75)	-	-	-
Change in recognised deductible temporary differences	4	(141)	21	(39)
Income tax expense	15,773	8,434	14,922	6,947
Effective tax rate	10.28%	6.19%	10.13%	5.93%
Income tax expense in the profit or loss	15,773	8,434	14,922	6,947

b) amounts recognised in other comprehensive income

Consolidated financial statements:

	Year ended 31.12.2019			Year ended 31.12.2018		
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Revaluation of land and investment property	(1,139)	114	(1,025)	3,665	(367)	3,298
Cash flow hedges	(2,791)	279	(2,512)	(3,277)	327	(2,950)
Defined benefit plan actuarial gains (losses)	(851)	-	(851)	(671)	-	(671)
Financial assets at fair value through other comprehensive income	18,427	(1,843)	16,584	4,954	(495)	4,459
	13,646	(1,450)	12,196	4,671	(535)	4,136

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For the year ended 31 December 2019

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25. Tax expense (continued)**Separate financial statements:**

	Year ended 31.12.2019			Year ended 31.12.2018		
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Revaluation of land and investment property	(273)	27	(246)	366	(37)	329
Cash flow hedges	(2,791)	279	(2,512)	(3,277)	327	(2,950)
Defined benefit plan actuarial gains (losses)	(851)	-	(851)	(671)	-	(671)
Financial assets at fair value through other comprehensive income	18,427	(1,843)	16,584	4,954	(495)	4,459
	14,512	(1,537)	12,975	1,372	(205)	1,167

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 and pay TV (both DTH and IPTV);
- 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 2019 and 2018 is presented below.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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26. Segment information (continued)

Year ended 31.12.2019	Mobile line of business	Fixed line of business	NURTS business	Eliminations	Total
Revenue	626,109	351,400	36,248	(20,544)	993,213
<i>Incl. inter-segment revenue</i>	<i>4</i>	<i>13,654</i>	<i>6,886</i>	<i>(20,544)</i>	
Cost of sales	(199,464)	(74,839)	(581)	587	(274,297)
Gross margin	426,645	276,561	35,667	(19,957)	718,916
Operating expenses					(143,050)
Net impairment losses on financial and contract assets					(9,616)
Staff costs					(138,690)
Depreciation and amortization					(244,587)
Financial expenses, net					(34,100)
Other gains, net					4,775
Share of loss of joint ventures					(175)
Profit before tax					153,473
Income tax expense					(15,773)
Net profit for the year					137,700
Year ended 31.12.2018	Mobile line of business	Fixed line of business	NURTS business	Eliminations	Total
Revenue	596,591	335,155	37,805	(21,508)	948,043
<i>Incl. inter-segment revenue</i>	<i>4</i>	<i>14,620</i>	<i>6,884</i>	<i>(21,508)</i>	<i>-</i>
Cost of sales	(200,301)	(74,543)	(576)	582	(274,838)
Gross margin	396,290	260,612	37,229	(20,926)	673,205
Operating expenses					(178,595)
Net impairment losses on financial and contract assets					(11,342)
Staff costs					(132,827)
Depreciation and amortization					(198,552)
Financial expenses, net					(33,329)
Other gains, net					17,602
Profit before tax					136,162
Income tax expense					(8,434)
Net profit for the year					127,728

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.

BULGARIAN TELECOMMUNICATIONS COMPANY EAD

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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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).

Balances

The following table summarizes the balances of receivables and payables with related parties as of 31 December 2019 and 31 December 2018:

For the Group:	Note	Receivables		Payables	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
Viva Telecom Bulgaria EOOD	Parent	279,300	5	-	-
Total for BTC group		279,300	5	-	-
For BTC:	Note	Receivables		Payables	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018
BTC Net EOOD	Subsidiary	344	427	9,416	6,406
NURTS Bulgaria EAD	Subsidiary	2,538	4,484	4,332	8,753
Net Is Sat EOOD	Subsidiary	44	294	15	1
NURTS Digital EAD	Subsidiary	13	12	-	-
Viva Telecom Bulgaria EOOD	Parent	279,300	5	-	-
Total for BTC group		282,239	5,222	13,763	15,160

The balance of the receivable from NURTS Bulgaria EAD includes principal and interest on loan provided by BTC to the subsidiary entity. The applicable interest rate is 6.5% p.a. and the total outstanding principal amount and accumulated interest were agreed to be fully repaid on 20 May 2016. The loan is secured with first ranking non-possessory pledges in accordance with the Special Pledges Act on the going concerns of NURTS Bulgaria EAD and NURTS Digital EAD, which includes among other certain real estates and other assets of the companies. In November 2015 NURTS Bulgaria failed to repay one of the instalments due to BTC and as a result the Company has appointed a manager of the going concern of NURTS Digital EAD. The interest income recognised for the year ended 31 December 2019 in the separate financial statements amounts to BGN 61 thousand (BGN 131 thousand for the year ended 31 December 2018).

The increase in the balance of the receivable from Viva Telecom Bulgaria EOOD is due to the termination of the participation of BTC, as disclosed in Note 12. After the reporting date the receivable was agreed to be settled as per the terms of a loan, with interest rate determined as the aggregate of 12M Euribor plus a margin of 7% p.a. and due date 17.07.2021.

Transactions

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

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
BTC Net EOOD	Subsidiary	-	-	13,358	12,299
NURTS Bulgaria EAD	Subsidiary	-	-	6,880	6,883
Net Is Sat EOOD	Subsidiary	-	-	5	5
Total for BTC		-	-	20,243	19,187

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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27. Related parties (continued)

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

	Note	Consolidated financial statements		Separate financial statements	
		Year ended 31.12.2019	Year ended 31.12.2018	Year ended 31.12.2019	Year ended 31.12.2018
BTC Net EOOD	Subsidiary	-	-	5,194	5,759
NURTS Bulgaria EAD	Subsidiary	-	-	12,766	13,731
NURTS Digital EAD	Subsidiary	-	-	892	892
Net Is Sat EOOD	Subsidiary	-	-	500	542
Viva Telecom Bulgaria EOOD	Parent	9	9	9	9
Total for BTC		9	9	19,361	20,933

The intercompany transactions comprise collocation and other telecommunication services, international interconnect traffic, network maintenance and administrative services.

Borrowings

As per Loan Agreement dated 22 April 2014 BTC provided to Viva Telecom Bulgaria EOOD a revolving credit facility for the amount of up to EUR 2,000 thousand. The applicable interest rate was initially agreed to be the aggregate of 6M Euribor plus a margin of 6.5% p.a. Effective from 30 November 2016 the margin is renegotiated to 7% p.a. and the amount of the loan increased to up to EUR 3,800 thousand. During 2017 and 2018 the amount of the loan has been increased and as at the reporting date amounts to up to EUR 24,000 thousand and the interest rate is based on 12M Euribor. The total outstanding principal amount and accumulated interest are guaranteed by future dividends payable and shall be fully repaid on 30 June 2020. The amounts related to the loan are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest	Interest
				income	receivable
Viva Telecom Bulgaria EOOD	Parent	2018	38,923	2,214	477
			2019	2,641	351

As per Loan Agreement dated 2 July 2018 BTC provided a credit facility to its beneficial owner. The applicable interest rate is 7% p.a. and the total outstanding principal amount and accumulated interest are agreed to be fully repaid on 18 December 2020. The amounts related to the loan are shown below:

	Note	As of and for the year ended 31 December	Loan principal	Interest	Interest
				income	receivable
UBO		2018	188	7	7
			2019	117	5

Management remuneration

Remuneration amounting to BGN 5,073 thousand relating to the members of the Managing Board and to key management personnel has been accrued as of 31 December 2019 (2018: BGN 3,772 thousand) from which BGN 2,796 thousand is payable as of 31 December 2019 (2018: BGN 1,706 thousand).

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

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28. Commitments**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 2019, for the Group and the Company is presented in the table below:

For the Group

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2019	Commitments outstanding
Hardware and software	13,445	3,857	9,588
Construction and assembly works of the network of BTC	30,253	13,454	16,799
Network equipment	32,831	24,985	7,846
TOTAL	76,529	42,296	34,233

For BTC

Equipment description	Aggregate contracted amount	Delivered up to 31.12.2019	Commitments outstanding
Hardware and software	13,445	3,857	9,588
Construction and assembly works of the network of BTC	30,171	13,439	16,732
Network equipment	32,782	24,949	7,833
TOTAL	76,398	42,245	34,153

29. 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. In 2018 and 2019 judgments were rendered by two instance courts in Luxembourg which declared the request of LIC Telecommunications S.à r.l inadmissible and declined jurisdiction, which entered into force. BTC considers the legal proceedings in both Bulgaria and Luxembourg as being unmeritorious and devoid of any proper legal basis.

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

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29. Contingencies (continued)

On 14 May 2018 the first instance court cast a decision, as a result of which the NURTS set-offs against CCB were declared partially null and void and partially invalid vis-à-vis the creditors of CCB. The decision has not entered into force and has been appealed before the Sofia Court of Appeal.

On 12 December 2019 CCB has withdrawn its claim against NURTS and on 20 December 2019 has initiated a procedure for the sale of the bonds held by CCB within which the above-referred issues between CCB and NURTS were finally resolved after the reporting date. As a result, a provision was recognized by NURTS as disclosed in Note 15.

Based on the information available, management is satisfied that there is no unprovided liability arising from the outstanding lawsuits and administrative proceedings, however there are inherent uncertainties related to the outcome of the 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 2,738 thousand as of 31 December 2019 (2018: BGN 2,359 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, 2019, 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.

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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

31 December 2019	Note	Carrying amount					Fair value			
		Fair value – hedging instruments	Loans and receivables	At fair value			Level 1	Level 2	Level 3	Total
				through OCI	Other financial liabilities	Total				
Financial assets measured at fair value										
Derivative contracts used for hedging	12	26	-	-	-	26		26		26
Equity securities at fair value through other comprehensive income	12	-		470	-	470			470	470
		26	-	470		496				
Financial assets not measured at fair value										
Trade and other receivables	6	-	464,343	-	-	464,343				
Cash and cash equivalents	5	-	80,920	-	-	80,920				
		-	545,263	-	-	545,263				
Financial liabilities measured at fair value										
Derivative contracts used for hedging		3,676				3,676				
		3,676	-	-	-	3,676		3,676		3,676
Financial liabilities not measured at fair value										
Secured bank loans	16			636,326	636,326			636,326	636,326	
Lease liabilities	16			231,099	231,099			231,099	231,099	
Trade payables	13			97,686	97,686			97,686	97,686	
				965,111	965,111			965,111	965,111	

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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30. Financial instruments (continued)

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

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)

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30. Financial instruments (continued)

Separate financial statements

31 December 2019	Note	Carrying amount					Fair value			
		Fair value – hedging instruments	Loans and receivables	At fair value through OCI			Total	Level 1		
				Other financial liabilities	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value										
Derivative contracts used for hedging	12	26	-	-	-	26				26
Equity securities at fair value through other comprehensive income		-		470	-	470				470
		26	-	470		496				496
Financial assets not measured at fair value										
Trade and other receivables	6	-	438,292	-	-	438,292				438,292
Cash and cash equivalents	5	-	63,152	-	-	63,152				63,152
		-	501,444	-	-	501,444				501,444
Financial assets measured at fair value										
Derivative contracts for hedging		3,676				3,676				3,676
		3,676	-	-	-	3,676				3,676
Financial liabilities not measured at fair value										
Secured bank loans	16			636,326	636,326					636,326
Lease liabilities				265,030	265,030					265,030
Trade payables	13			103,789	103,789					103,789
				1,005,145	1,005,145					1,005,145

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30. Financial instruments (continued)

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

BULGARIAN TELECOMMUNICATIONS COMPANY EAD**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2019

All amounts are in thousand BGN, unless otherwise stated

30. Financial instruments (continued)

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

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

Other financial liabilities above include lease liabilities and trade credits. Market interest rates applied for the valuation of the financial instruments are in the range of 2.2% and 6.8%.

31. Subsequent events

After the reporting period the sole owner of the share capital of BTC took a decision for distribution of dividend amounting to BGN 82 882 602, representing part of the distributable reserves of the Company as at 31 December 2018 corresponding to the part of the share capital of the Company over which no attachments are imposed (as disclosed in Note 19)

As a preventive measure against the outburst of COVID-19 (Coronavirus) in Europe, on 13 March 2020 the Parliament of Republic of Bulgaria adopted a resolution declaring a state of emergency in the territory of Bulgaria with effect until 13 April 2020, which was subsequently prolonged until 12 May 2020. On the same day the Minister of Healthcare issued an order suspending all visits in certain commercial establishments such as restaurants, shopping centres, entertainment and gaming halls, etc. On 23 March 2020 Law on measures and actions during a state of emergency was adopted, aimed at mitigating the negative consequences of the epidemic on citizens and businesses. While the core activities of the Group are not directly affected by these measures, potential negative impact on its financial position might be expected after the reporting period. As of the date these consolidated and separate financial statements were authorised for issue, no reasonable estimate of the financial effect of the coronavirus outbreak can be made.

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 (23.April 2020).



Deloitte Audit OOD
UIC 121145199
103, Al. Stambolijski Blvd.
Sofia 1303
Bulgaria

Делойт Одит ООД
ЕИК 121145199
бул."Ап.Стамболовски" 103
София 1303
България

Tel: +359 (2) 80 23 300
Fax: +359 (2) 80 23 350
www.deloitte.bg

Тел: +359 (2) 80 23 300
Факс: +359 (2) 80 23 350

INDEPENDENT AUDITOR'S REPORT

To the sole shareholder of Bulgarian Telecommunications Company 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 Company 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, 2019, and 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, 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for 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.

Emphasis of Matter

We draw attention to the following notes to the separate and consolidated financial statements, disclosing:

a) Uncertainties related to future outcome of litigations:

- Note 4c – contingent liabilities related to lawsuits and administrative proceedings,
- Note 4i – cancellation of two assignments of cash deposits of BGN 9,970 thousand,

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- Note 12 – attachment over 43% of the shares of the Parent Company in BTC Net EOOD,
- Note 19 – attachment over 43% of Parent Company's shares,
- Note 29 – stepping into debt of BGN 24,057 thousand,

b) Effects of the initial application of IFRS 16 Leases:

- Note 2.1 Basis of preparation, Initial application of new amendments to the existing standards effective for the current reporting period,

Our opinion is not modified in respect of these matters.

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, 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 the Audit Committee (“Those charged with governance”) are responsible for overseeing the Group's financial reporting process.

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

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

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, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act, applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual 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.

Deloitte Audit OOD

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Desislava Dinkova
Statutory Manager
Registered Auditor, in charge of the audit

103, Al. Stambolijski Blvd
1303 Sofia, Bulgaria

April 28, 2020