

**BULGARIAN TELECOMMUNICATIONS
COMPANY AD**

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH IFRS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
AND ANNUAL REPORT ON THE ACTIVITY**

DECEMBER 31, 2006

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**ANNUAL REPORT ON THE ACTIVITY OF
BTC GROUP**

2006



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2. Important events after the conclusion of the financial year
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This document reflects the operations of all companies under BTC AD.

FINANCIAL CONDITION

Cash and cash equivalents amounted to BGN 195,730 thousand at December 31, 2006.

The major component of cash and cash equivalents are term deposits. The company holds BGN- and Euro-denominated cash and cash equivalents to meet short term obligations in these currencies. This allows for management of foreign currency exchange risk and for minimizing potential losses from adverse currency movements.

Tangible fixed assets of BGN 623,159 thousand are pledged as collateral for the syndicated loan granted to BTC in 2006. This pledge will be increased to the amount of BGN 844,766 thousand, in accordance to the Loan Agreement requirements.

The net effect of the ongoing transformation and modernization of the Group's fixed line business translated into a 16.8 % increase (in annual terms), of the net consolidated profit of the Group, compared to 2005; ultimately resulting in a net consolidated profit of approximately BGN 132 million for the whole of 2006.

The BTC Group's credit exposure amounts to the total of the commercial and other receivables, and of the short-term deposits. There is a limited risk as regards receivables at present.

The liquidity risk arises from the time difference in the stipulated maturity dates for the cash assets and liabilities, and the chance that debtors may not be in condition to settle their liabilities to the company within the standard terms. The issuer uses planning techniques to manage this risk, including daily liquidity reports, short-term and middle-term cash-flow prognosis.

On March 13, 2006 BTC sold its entire stake of 143,355 shares in Post Bank for BGN 7.22 per share amounting to BGN 1,035 thousand.

On January 18, 2006 the syndicated credit facility of EUR 285 million, which was granted to BTC on April 18, 2005, was refinanced. The new syndicated credit facility of EUR 350 million is designed to refinance the liabilities of BTC under the EUR 285 million facility and to provide access to additional borrowing in order to fund the implementation of the business program of BTC.

The interest rate on the EUR 350 million facility equals 3 month EURIBOR plus a margin. The margin is based on the ratio of "Consolidated Net Debt to Consolidated EBITDA" and ranges from 1% to 1.65%. Current margin on the loan is 1%.

Net cash provided by operating activities was BGN 287,578 thousand for 2006, or 12.7% more than in 2005.

Net cash used in investing activities was BGN 358,357 thousand in 2006, including for investments in the fixed and mobile network, BGN 239,303 thousand for purchasing of property, plant and equipment and BGN 120,687 thousand for other non-current assets.

The Annual General Meeting of Shareholders, held on June 22, 2006, voted to distribute out of BTC's 2005 distributable reserves dividends of BGN 0.64 per each share of the share capital of BTC. The dividends were paid.

CAPITAL EXPENDITURES

Digitization commitments made for 2006 have been already fully met. Within a year, BTC's investments brought about tangible growth in digitization across the country's national telecommunications network. So far 57.9% of the national telecommunications network has become digital.

REVENUE

The consolidated revenue of more than BGN 1,008 million is roughly at the same level as 2005.

Although BTC's fixed line services portfolio follows the revenue trends of the global telecommunications industry, especially on fixed-to-mobile substitution, BTC managed to limit its fixed telephone lines loss to 4.3% on a year-to-year comparison. This rather moderate decline was mainly achieved through attractive retention offerings and promotions as well as the success in diverting a significant portion of its fixed lines churn to its GSM operator Vivatel.

Total revenue decreased by 1.1% in 2006, mainly due to traffic revenue decline.

The success of BTC's new service offerings will significantly impact the company's market share. Current market conditions show intense competition in the voice and data transmission markets. Increases in revenue from new services are will also be driven by the rate at which residential and business customers increase the proportion of disposable income spent on new PCs and information technology.

In 2006, BTC operated in two major market sectors:

- regulated services, and

- non-regulated services.

Service regulation is mandated by the requirements of the Telecommunications Act and Bulgaria's commitments under Chapter 19 of the negotiations for EU accession.

The highly encouraging market response to BTC's ADSL offer contributed to a year-end subscribers' base of 93 thousand. The rapid increase of the ADSL subscribers' base was the main factor for this year's 75.8% consolidated data transmission revenue increase to nearly BGN 54 million on an annual basis.

Vivatel subscribers' number increased from nearly 215 thousand at the 2005 year-end to nearly 700 thousand on December 31, 2006, which represents a corresponding increase of 226% annually.

Revenue from regulated services was a substantial part of the total BTC revenues in 2006. It included traffic revenue, monthly rental, installation fees, leased lines revenue, and revenue from interconnection agreements with other licensed telecommunications companies

Telephone services revenue

Revenue from telephone services (outgoing traffic and monthly rental and installation fees) decreased by 4.1% (or BGN 31,562 thousand) in 2006.

The price rebalancing approved by CRC will further influence the regulated services revenue in 2007.

Interconnect and Leased Line Revenue

Leased Line revenue decreased 5.3 % (or BGN 6,073 thousand) compared to 2005.

The decrease in revenue was mainly driven by the trend for mobile operators to build their own networks and Vivatel's influence on the market.

Data Transmission Revenue

Data transmission exhibited strong growth in 2006 (75.8%) mainly driven by growing internet revenue, both retail and wholesale, via leased lines and ADSL.

Revenue growth in this segment is in line with global market trends and is expected to be a major driver of BTC's market share in 2007 through its impact on new service offerings.

International Settlement Revenue

International settlement revenue is similar to 2005. Stabilizing this revenue is a result of the very dynamic market, traffic variations, and the increasing international connectivity of mobile operators.

Other Revenue

In 2006, the other revenue increased by 4.6% compared to 2005.

OPERATING EXPENSES

General Issues

On the expense side, the interconnect and settlements expense decreased by 8.6% during 2006 mainly due to changing trends in the traffic. This was further accentuated by the decrease of 28.2 % on an annual basis of the leased lines and data transmission costs.

Many of the other operating expense items of the Group went up by various degrees, mostly because of the efforts incurred for the launch and positioning of Vivatel. Noteworthy, and as planned, the advertising, customer service, billing and collection expense increased by 80.1 % in 2006 which was predominantly incurred by the mobile division of the Group to promote its new products extensively in 2006, thus managing to increase its customer base and brand awareness accordingly.

The operating expenses in 2006 are BGN 669,963 thousand and have decreased by 10.3% compared to 2005.

A. Staff Costs

Lower staff costs – a decrease by 37.5%, or BGN 98,231 thousand, due to personnel optimization, based on digitalization. The factors affecting staff costs were:

1. Total salaries and remuneration costs decreased by 14.7% due to lower number of the staff.
2. Pension, healthcare expense, and Unemployment fund payments decreased by 31.3% from BGN 44,011 thousand in 2005 to BGN 30,244 thousand in 2006 due to the aforementioned staff reduction.

B. Interconnect and settlement cost

The interconnect and settlement expense decreased by 8.6% (BGN 13,537thousand) compared to 2005. The factors affecting interconnection costs were:

1. Mobile interconnection – interconnect expenses for outgoing traffic to national mobile operators
2. International settlements – interconnection costs for outgoing traffic to international operators

C. Other operating expenses

Other operating expenses increased in 2006 by BGN 26,492 thousand (9.6 %), mainly due to:

1. The advertising, customer care and billing, and collection expenses increased by BGN 35,249 thousand or 80.1%, and in 2006 were BGN 79,265 thousand, compared to BGN 44,016 thousand in 2005. The increase is mainly due to the increased advertising connected with Vivatel.
2. The increase by 18.1 % , by BGN 5,523 thousand expenses for maintenance and repairs due to the large digitalized network and new IT equipment.
3. The increase by BGN 3,931 thousand (28.4 %) expenses for facilities.

Income Tax

The income tax expense decreased by 14.9 %, and was BGN 16,061 thousand mainly due to the tax rate decrease to 10% since January 01, 2007.

IMPORTANT EVENTS AFTER THE CONCLUSION OF THE FINANCIAL YEAR

On December 14, 2006 the Communications Regulation Commission (CRC) issued a decision approving BTC proposal on tariff rebalancing of the fixed-voice telephony service. The new tariffs became effective from February 1, 2007.

Cash contributions to BTC Mobile of BGN 36,000 thousand and BGN 50,546 thousand were made respectively in January and March 2007.

EXPECTED DEVELOPMENT OF BTC

Overview

The Group's GSM operator, Vivatel, achieved a quick expansion of its coverage, a significant number of new subscriber additions and a strong brand recognition.

During 2006, BTC increased the digitalization of its fixed lines to 57.9%, exceeding once again the EU accession and privatization agreement requirements.

This was reinforced by attractive broadband and MAN offerings which resulted in over 90 thousand ADSL subscribers at year end 2006.

In addition, the Group furthered the implementation of strategic IT systems; strengthened and diversified its distribution organization; and expanded its fixed and mobile network reach. All these investments together amounted to BGN 345 million and will enable the Group to provide its clients in Bulgaria with the full range of modern telecommunications services.

BTC's overall strategy focuses on the transformation of the former state-owned fixed-line monopolist into an efficient telecommunication provider with international standards, as well as building and enhancing its GSM operator, Vivatel.

The personnel was additionally optimized due to increased digitalization and a lesser need of servicing the fixed network.

The company was among the leading ones with respect to investors' interest.

In July, the new CEO, Mr. Martin Staub, took duties.

Business Reorganization

The Bulgarian telecommunications market continued to be as competitive. In 2006 it was additionally influenced by the emergence and operations of Vivatel, whose service were accepted very well by the customers. The quick addition of GSM subscribers partially offset the churn on the fixed side. Vivatel built its offerings on the basis of SMS, MMS, Voicemail, Data, Roaming, WAP portal, and other

services.

BTC plans to focus on volume retention and expansion in business and residential customer segments by introducing active product marketing, tariff specials and schemes. Customer and service orientation in all areas and on all levels and full engagement of high quality local management expertise are being implemented. Stringent OPEX and CAPEX control in all areas and departments and improvement of operational processes and procedures and implementation of effective internal controls is imposed.

A real estate management program was put in place and the first steps were voted by the shareholders in its 2006 Annual General Meeting.

Network Modernization

BTC has always met and exceeded the digitalization targets set by the EU and the privatization agreement. The current fixed network digitalization level reached 57.9%, securing excellent technical base for new products and services development.

The ADSL network has been extended to cover 218 cities, out of 250 total. The MAN network covers 70 cities. New modern centralized Network Operations Center was established. A fixed network investment plan is under successful implementation.

Marketing

The company relies on well qualified specialists for the promotion of its products and continues its pro-active marketing strategy. Surveys were made and their results were applied to the offering of BTC's products and services

Products

The company aims to expand its product range and will increase the range of value added services that accompany the access services. Moreover, a number of promotions on its existing portfolio proved very popular with customers and encouraged the new management to further elaborate these possibilities.

Sales and Distribution

BTC is changing the sales and distribution strategy to expand the company's ability to maintain its existing customer base and to expand its revenue base by selling additional services into the existing customer base. Therefore, a complete reorganisation of BTC's sales and distribution infrastructure and the implementation of new strategies is in progress.

Customer Service

A complete reorganisation of BTC's customer care operations is in process in order to transform the company into a customer and service-oriented business. Currently the focus lies on the consolidation and improvement of BTC's customer service operations. In this respect, the opening of brand new call centers in Bourgas and Plevna in March 2006 has given much better visibility of customer issues thus allowing faster and more efficient service.

Engineering, Network & IT

At 2006 year-end, the fixed network digitalization level was 57.9% (9.1% in 1999), which provides an excellent technical platform for development and offering new services. 100% of the fixed network of the 27 largest cities is now digital.

The implementation of the IT systems of the company and of the CC&B, based on SAP, continued. Several SAP modules were implemented.

Appendix 1

PROGRAM FOR APPLICATION OF INTERNATIONALLY ACCEPTED STANDARDS OF GOOD CORPORATE GOVERNANCE

BTC AD is listed on the Bulgarian Stock Exchange (BSE) and has complied in all material respects throughout the period under review with the listing rules of BSE and best custom and practice appropriate to Bulgarian companies.

Board

The board of BTC AD includes a balance of executive and independent non-executive directors.

Committees

In accordance with principles of good corporate governance a finance & audit and IT committees have been established.

Internal Control

The Board of BTC AD exercises independent and supervisory role over the activities and internal control of BTC AD. An Internal Audit Department has been established in 2005 and began operating efficiently. The objective of these systems of internal control is to manage and mitigate the risk of failure to achieve business objectives. Accordingly, it can only provide reasonable, but not absolute, assurance against possible misstatements.

The board of BTC AD has implemented an ongoing process for identifying, evaluating and managing the material risks faced by the business.

Going Concern

The directors of BTC AD, having made appropriate enquiries, consider that adequate resources exist for the business to continue in operational existence for foreseeable future and that, therefore it is appropriate to adopt the going concern basis in preparing financial statements.

Appendix 2

OTHER INFORMATION. INFORMATION REGARDING THE SUPERVISORY AND MANAGEMENT BOARDS

1. BTC has no branches in the country or abroad.
2. General information for the capital structure of the Company, the rights and the obligations of the shareholders, the managing and the supervisory bodies of the Company can be found in the articles for incorporation of BTC and also in the document prepared in accordance with Appendix 11 of Ordinance #2 of 17.09.2003 regarding the prospects of publicly traded securities and information disclosure from publicly listed companies and others issuing securities.
3. Managing Board Members of BTC list:
 - Joanna James
 - Martin Staub
 - Plamen Vachkov
 - CSIF AD represented by Danail Kamenov
 - Jeremy Thompson
 - Bruce McInroy
 - Kevin Smith
 - Urs Kamber
4. Members of the Supervisory Board list:
 - Krasimira Stoyanova
 - Anton Andonov
 - Anna Rizova-Clegg
5. The Managing Board members and the Supervisory Board members of BTC have not received remunerations during 2006.
6. The Managing Board members and the Supervisory Board members of BTC have not acquired, held and transferred BTC shares and debentures during 2006.
7. The Managing Board members and the Supervisory Board members of BTC have not acquired rights to acquire shares and debentures in the company during 2006.
8. The participation of the Managing Board members and the Supervisory Board members in any companies as unlimited liability partners, holdings of over 25 per cent of the equity in any other company, and their participation in the management of other companies or cooperatives as procurators, managers or board members is duly disclosed to the Supervisory Board of BTC,

respectively the General Meeting of Shareholders of BTC in accordance with Article 237, Para. 3 of the Commerce Act.

9. The Managing Board members and the Supervisory Board members have not executed contracts referred to in Article 240b of the Commerce Act in 2006.



Finance Director,



CEO,

E. Georgieva

Martin Staub

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bulgarian Telecommunications Company AD

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bulgarian Telecommunications Company AD (the "Company"), which comprise the balance sheet as of December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Bulgarian accounting legislation, which has adopted the International Financial Reporting Standards (IFRS), edition 2005, endorsed for application by the European Union Commission, and approved for application in the Republic of Bulgaria by Decree of the Council of Ministers No 207/7.08.2006. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and of its financial performance and its cash flows for the year then ended, in accordance with the Bulgarian accounting legislation which has adopted the International Financial Reporting Standards, edition 2005, endorsed for application by the European Union Commission, and approved for application in the Republic of Bulgaria by Decree of the Council of Ministers No 207/7.08.2006.

Other reports on regulatory requirements – Annual Management Report on the activity of the Company according to Article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, Article 38, Paragraph 4, we have read the accompanying Annual Report. The Annual Report of the activities is not a part of the consolidated financial statements. The historical financial information, presented in the Annual Report of the activities of the Company, prepared by the management is consistent, in all material respects, with the annual financial information, disclosed in the consolidated financial statements of the Company as of December 31, 2006, prepared in accordance with the Bulgarian accounting legislation which has adopted the International Financial Reporting Standards, edition 2005, endorsed for application by the European Union Commission, and approved for application in the Republic of Bulgaria by Decree of the Council of Ministers No 207/7.08.2006. Management is responsible for the preparation of the Annual Report of the activities of the Company, dated March 27, 2007.

Deloitte Audit OOD
Deloitte Audit OOD

A. Dimov
Assen Dimov
Managing Director
Registered Certified Public Accountant



March 27, 2007
Sofia

CONSOLIDATED BALANCE SHEET

As of December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Notes	As of 31.12.2006	As of 31.12.2005 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	4	195,730	240,039
Accounts receivable and prepayments, net	5	107,094	99,944
Materials and supplies	6	54,600	43,541
Non-current assets classified as held for sale	7	1,029	-
Total current assets		358,453	383,524
Non-current assets			
Property, plant and equipment	8	1,271,833	1,168,706
Intangible assets	9	265,044	207,594
Investments	10	342	1,827
Deferred tax assets, net	14	13,324	5,046
Other assets	13	6,873	1,534
Total non-current assets, net		1,557,416	1,384,707
TOTAL ASSETS		1,915,869	1,768,231
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable	11	134,191	134,699
Other current liabilities	12	78,402	107,496
Current portion of long-term debt	13	61,585	72,142
Total current liabilities		274,178	314,337
Long-term liabilities			
Long-term borrowings	13	429,838	198,301
Deferred tax liabilities, net	14	49,131	66,111
Long-term employee benefits	15	7,585	10,044
Other long-term liabilities	16	2,402	-
Total long-term liabilities		488,956	274,456
EQUITY			
Share capital	17	551,901	551,901
Reserves		135,232	114,784
Retained earnings		465,602	512,753
Total equity		1,152,735	1,179,438
TOTAL LIABILITIES AND EQUITY		1,915,869	1,768,231

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements were approved on March 27, 2007.

Chief Executive Officer

Chief Financial Officer

Registered certified public accountant

A. Dimov 27.03.2007

Deloitte Audit OOD

Assen Dimov, Managing Director



CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Notes	Year ended 31.12.2006	Year ended 31.12.2005
Revenues	18	1,008,655	1,020,076
Interconnect and settlements expense		(144,035)	(157,572)
Other operating expenses	19	(302,590)	(276,098)
Materials and consumables		(59,366)	(51,042)
Staff costs	20	(163,972)	(262,203)
Depreciation and amortization		(168,475)	(131,455)
Financial expenses, net	21	(21,840)	(11,384)
Negative goodwill		-	1,867
Profit before tax		148,377	132,189
Income tax expense	22	(16,061)	(18,873)
Profit for the period		132,316	113,316
Earnings per share in BGN	17	0.46	0.39

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements were approved on March 27, 2007.

Chief Executive Officer



Chief Financial Officer



Registered certified public accountant

A. Dimov 27.03.2007

Deloitte Audit OOD

Assen Dimov, Managing Director



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Share premium	Legal reserve	Revaluation reserve	Retained earnings	Total
Consolidated balance as of January 1, 2005	551,901	64,274	25,524	22,490	548,492	1,212,681
Gain on interest rate swap transaction	-	-	-	-	1,534	1,534
Revaluation reserves on impaired assets	-	-	-	(856)	-	(856)
Other movements	-	-	-	-	(550)	(550)
Net income (expense) recognised directly in equity	-	-	-	(856)	984	128
Profit for the period	-	-	-	-	113,316	113,316
Total recognised income and expense	-	-	-	(856)	114,300	113,444
Dividends	-	-	-	-	(146,687)	(146,687)
Profit distribution	-	-	3,352	-	(3,352)	-
Consolidated balance as of December 31, 2005	551,901	64,274	28,876	21,634	512,753	1,179,438
	Share capital	Share premium	Legal reserve	Revaluation reserve	Retained earnings	Total
Consolidated balance as of January 1, 2006	551,901	64,274	28,876	21,634	512,753	1,179,438
Gain on interest rate swap transaction	-	-	-	-	7,138	7,138
Revaluation of land	-	-	-	21,311	-	21,311
Deferred tax on revaluation	-	-	-	(2,131)	-	(2,131)
Revaluation reserve of assets written off	-	-	-	(4)	4	-
Effect of change of the tax rate	-	-	-	1,272	-	1,272
Net income (expense) recognised directly in equity	-	-	-	20,448	7,142	27,590
Transfer to profit on cash flow hedges	-	-	-	-	(1,799)	(1,799)
Profit for the period	-	-	-	-	132,316	132,316
Total recognised income and expense	-	-	-	20,448	137,659	158,107
Dividends	-	-	-	-	(184,810)	(184,810)
Consolidated balance as of December 31, 2006	551,901	64,274	28,876	42,082	465,602	1,152,735

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements were approved on March 27, 2007.

Chief Executive Officer

Chief Financial Officer

Registered certified public accountant

A. Dimov 27.03.2007

Deloitte Audit OOD

Assen Dimov, Managing Director



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Notes	Year ended 31.12.2006	Year ended 31.12.2005
Operating activities			
Profit before tax		148,377	132,189
Adjustments for:			
Depreciation and amortization	8, 9	168,475	131,455
Allowances for bad debts and impairment of receivables		12,159	6,075
Impairment of assets		22,682	24,188
Loss from disposals of fixed assets		19,192	9,256
Loss from disposals of materials		2,558	2,360
Investment income		(148)	(5,635)
Interest expenses, net		21,468	17,989
Increase/(Decrease) in provisions		(9,778)	44,263
Changes in operating assets and liabilities:			
Increase in operating assets		(39,316)	(58,817)
Increase/(Decrease) in operating liabilities		(3,156)	7,433
Cash generated from operations		342,513	310,756
Interest received		3,203	4,797
Interest paid		(24,670)	(23,589)
Income tax paid		(33,468)	(36,820)
Net cash from operating activities		287,578	255,144
Cash flows from investing activities			
Acquisition of investment, net of cash acquired		-	(8,070)
Purchase of property, plant and equipment		(239,303)	(101,813)
Purchase of other non-current assets		(120,687)	(116,535)
Proceeds from sale of investment		1,633	7,830
Net cash used in investing activities		(358,357)	(218,588)
Cash flows from financing activities			
Payments of long-term debt		(266,173)	(216,198)
Payment of dividends		(181,283)	(146,687)
Proceeds from long-term debt		472,127	283,717
Proceeds from hedging transactions		1,799	-
Net cash from/(used) in financing activities		26,470	(79,168)
Net (decrease) in cash and cash equivalents		(44,309)	(42,612)
Cash and cash equivalents at the beginning of the period	4	240,039	282,651
Cash and cash equivalents at the end of the period	4	195,730	240,039
Less restricted cash		-	(391)
Unrestricted cash and cash equivalents at the end of the period		195,730	239,648

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements were approved on March 27, 2007.

Chief Executive Officer

Chief Financial Officer

Registered certified public accountant

A. Dimov 27.03.2007

Deloitte Audit OOD

Assen Dimov, Managing Director



1. ORGANIZATION AND OPERATIONS

The Parent Company – Bulgarian Telecommunications Company AD

Bulgarian Telecommunications Company AD ('BTC' or the 'Parent Company'), previously Bulgarian Telecommunications Company EAD, is a public joint stock company, domiciled in Bulgaria with its registered address Sofia, 8 Totleben Boulevard. BTC's activities include development, operation and maintenance of the national fixed and mobile data and other telecommunications network and data system for the Republic of Bulgaria.

BTC's activities are carried out at two regional organizational levels. Level 1 is the headquarters, based in Sofia, Bulgaria. Level 2 consists of 11 regional offices, consolidated in 4 administrative regions. There are also a number of other entities carrying out a variety of activities, including the operation of the radio and television network and maintenance of the existing trunk cable network. During 2005 and 2006 the Parent Company implemented significant restructuring activities, which lead to the closure of several subdivisions and the streamlining of the remaining structure. As of December 31, 2006 and 2005, the Parent Company had 9,370 and 14,736 employees, respectively.

As a result of the privatization transaction concluded on February 20, 2004 between the Privatization Agency of Republic of Bulgaria and Viva Ventures Holding GmbH, Austria ('Viva') which was finalized on June 11, 2004, 65% of the Parent Company's registered shares are owned by Viva. Viva is 100% owned by Advent International Corporation, a leading global private equity investment fund.

Viva acquired 65% of BTC through a combination of paying to the government EUR 230 million for existing shares in BTC and by subscribing for a EUR 50 million share capital increase in BTC. Under the terms of the Share Sale Agreement, Viva has made several commitments. These include the undertaking to insure that capital investments of at least EUR 400 million are made in BTC over the course of the five years following the finalization of the privatization transaction. Viva should also insure the fulfillment of the Parent Company's and country's digitalization obligations towards the European Union. Viva has also agreed to undertake to insure that BTC maintains certain clearly defined employment levels at the Parent Company over the coming years. Furthermore, Viva agreed to organize the re-financing of long-term debt on BTC's balance sheet, provided by three multinational banks and guaranteed by the government. Viva has duly fulfilled this commitment during the course of the third quarter of 2004.

The Group

As of December 31, 2006 the Group includes the following subsidiaries: BTC Net EOOD, RTC EOOD, BTC Security EOOD, BTC Mobile EOOD and Bulfon EAD.

BTC Net EOOD

BTC Net EOOD, initially operating under the name of Global One Communications and Informational Services (GOCIS), was established as a joint venture between BTC and Global One, holding 40% and 60%, respectively. In June 2001 BTC acquired Global One's shares, thus becoming the sole owner of BTC Net EOOD. 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 systems for the provision of such services, participation in the development and operation of other telecommunications network facilities and provision of other telecommunications services, as well as any other commercial activities. BTC is merging the operational functionality of BTC Net into BTC. As a result, currently BTC Net is providing mainly VOIP services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

1. ORGANIZATION AND OPERATIONS (CONTINUED)

RTC EOOD

Radio Telecommunication Company OOD (RTC OOD) was established in 1992 as joint venture between Cable and Wireless Ltd., BTC and Radio Electronic Systems EOOD (RES), holding 49%, 39% and 12% respectively. In January 2005 BTC acquired Cable and Wireless's and RES's shares and became the sole owner of RTC EOOD. The main activity of the subsidiary is provision of mobile services.

BTC Security EOOD

This subsidiary was registered in the Register of commercial companies of Sofia City Court on October 27, 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 single owner of this company.

BTC Mobile EOOD

BTC Mobile EOOD was registered in the Register of commercial companies of Sofia City Court on November 25, 2004 with share capital of BGN 5 thousand. As of December 31, 2006 the share capital of BTC Mobile amounts to BGN 501,711 thousand. The scope of its activities includes: construction, operation and maintenance of a mobile cellular digital network – GSM Standard, with national coverage and provision of the corresponding telecommunication services; construction, operation and maintenance of communication systems in Bulgaria and abroad and provision of the corresponding telecommunication services. BTC is the single owner of this company.

BTC Mobile launched its GSM mobile service in November, 2005 under the brand name 'Vivatel'.

Bulfon EAD

Bulfon AD was established in 1995 as a joint venture between Intracom SA, Greece and BTC, holding 66% and 34% respectively. In May 2005 BTC completed its acquisition of Bulfon from Intracom. The company is engaged in the provision of payphone services. Following the acquisition, it is 100% owned by BTC.

Bulfon is the sole owner of BTC Contact EOOD (previously "Global Net"). BTC Contact's main activity is provision of call center services.

2. REGULATIONS

Regulatory framework for Fixed Line Telecommunications

The regulatory framework is driven by the Telecommunications Act of October 2003, plus the relevant European Union Chapter.

In January 2003, exclusive rights for the provision of local, long distance national, international fixed voice, as well as leased lines, were removed. Carrier selection and obligations for universal telecommunications service were enforced from October 2003.

BTC is designated as a Significant Market Power (SMP) operator and has been obliged to work out Reference Offers for Interconnect, Leased Lines and Local Loop Unbundling (LLU) access for other operators. These were approved by the Communications Regulation Commission (CRC or the Commission) as follows: Reference Interconnect Offer (RIO) in June 2004, Reference Offer for Leased Lines in July 2004 and Reference Offer for the LLU access in December 2004.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. REGULATIONS (CONTINUED)

BTC submitted prices for the fixed telephony services that were approved by the CRC and were effective from April 1, 2005 till January 31, 2007. During 2005 BTC submitted to the CRC new General terms and conditions for the services provided through the fixed network, the Commission approved them and they are effective as of July 1, 2005. In 2005 BTC seized to provide the services through the telegraphic network and started a process, which aimed to transfer the network for wire radio transmission to the local municipalities.

The implementation of the 2002 EU Communications Framework (the "Framework") into Bulgarian law is scheduled for January 1, 2007. The draft of the Electronic Communications Act (ECA) was submitted by the Council of Ministers to the National Assembly for adoption in September 2006. The Bulgarian Parliament approved the Draft ECA on first reading and currently the bill is being revised text-by-text in the Parliamentary Commission for Transport and Communications. Till the end of February 2007 the approved version has to be submitted for a second reading approval of the Parliament. The ECA is likely to be in place (promulgated in State Gazette and operative) in the beginning of March 2007.

Interconnection

The RIO includes a description of services for the interconnection of each network, terms and conditions of their provision; quality requirements for the interconnection; location points of interconnection, conditions and terms of opening and closing; conditions relating to the provisioning of additional services; conditions of assembly, maintenance and training; technical requirements and interfaces for interconnection; acceptance tests; management of interconnect traffic; methods of payment; terms of notice for amendment, annexes, and termination of contract; liabilities; sharing of premises and equipment; confidentiality clauses. The Reference Offer was challenged and repealed by the court in the end of 2005. A public discussion on the initial draft was carried out by the regulator, based on the instructions given by the court. The results of the public consultation were incorporated in obligatory instructions for amendment of the Reference Offer. The instructions were imposed through a decision of the CRC for adoption and amendment of the 2004 Reference Offer.

BTC concluded interconnect agreements with telecommunications operators, licensed for the provision of fixed voice services, as follows: Orbitel EAD, CableTel AD, Nexcom Bulgaria EAD, Spectrum Net AD, Gold Telecom Bulgaria AD, BTC NET EOOD, Trans Telecom EOOD, BT Net AD, Telecom Partners Network AD, Vestitel BG AD, ITD Network AD, Eastern Telecommunications Company AD, Eurocom Cable Management Bulgaria EOOD, Novo EOOD, Telecom 1 OOD, Skat TV OOD, CBM as Fixed, Cosmo Bulgaria Mobile EAD as Fixed, Net Is Sat OOD. BTC has interconnection agreements with the following operators licensed for provision of mobile telephone services: Cosmo Bulgaria Mobile EAD, BTC Mobile EOOD, Mobiltel EAD and RTC EOOD.

Leased lines

BTC's reference offer for leased lines was approved on July 15, 2004. The Reference Offer includes a description of service, provision, requirements for quality; point of connection; connection, usage and maintenance of equipment; technical requirements and interfaces; acceptance tests; prices and method of payment; contract terms; shared use of resources. Prices must be cost oriented. The 64 Kbit/s and 2MB/s analogue and digital leased lines form the minimum set under the Ordinance for the conditions and terms for provision of leased lines service. The minimum set has not been amended till the present moment and will be preserved till the enforcement of the review under the new ECA.

2. REGULATIONS (CONTINUED)

Local Loop Unbundling access

The Reference Offer includes means of provision, usage and termination of access; conditions relating to location of physical access, free subscriber capacity and subscriber lines; technical specifications for unbundled access to subscriber lines; conditions for joint usage of premises and telecommunications equipment; conditions for access to information; acceptance tests; protection from interference; prices and method of payment; changes in access; terms of contract. Prices must be cost oriented.

The reference offer was challenged and repealed by SAC. As a result of the fulfilment of the court instructions, after a public discussion procedure held, the CRC issued decision amending the initial version of the reference offer adopted by the Regulator in December 2004. The decision for approval of the Reference Offer for LLU access was approved in the summer of 2006

BTC concluded 3 agreements for provision of unbundled access to the local loop in 2005 with the following operators: Orbitel EAD, Nexcom Bulgaria EAD and Spectrum Net AD.

Co-location

As per the Telecommunications Act every public operator may request for co-location of premises and facilities used by another public telecommunications operator. The conditions and the order of co-location shall be negotiated between the operators. BTC prepared draft General conditions for the use of BTC's local duct infrastructure and draft General conditions for shared use of premises, equipment and masts. These General conditions were submitted to the CRC for approval in October 2005.

Cost Oriented Prices

In order to comply with the requirements for cost orientation of the prices a system for determining the costs for the provision of the local loop unbundling access and interconnection services was presented and approved by the CRC in April 2004. In 2005 Mc'Kinsey & Co audited the methodology of the system and introduced modifications which were presented to CRC.

Telecommunications Services Price Regulation

On 18 April 2006, BTC submitted a proposal for new tariffs to the CRC to be effective as of June 1, 2006. CRC refused the rebalancing of the retail prices because of possible price squeeze. In July BTC submitted new offer, which was rejected by the Regulator without any clear motives. BTC continued working with the CRC on the rebalancing proposal, and after several meetings and discussions the Regulator took final decision in December 2006 approving the price amendments proposed by BTC. The new tariffs will be effective from February 1, 2007.

Licenses

On January 28, 2005, the CRC re-issued BTC's license for usage and development of telecommunications network on the territory of Bulgaria and rendering of telecommunication services through the network. The term of the license is until February, 2019 and is subject to continuation and renewal in agreement with Telecommunications Act.

An annual license fee at 0.5% of annual revenue from telecommunication services billed to subscribers is payable quarterly in arrears. During 2006 and 2005 the amounts charged were equivalent to BGN 3,008 thousand and BGN 3,969 thousand, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

2. REGULATIONS (CONTINUED)

A fixed annual fee is to be paid to the CRC for access to limited resources such as the radio-frequency spectrum. This fee is calculated on the basis of technical data and is payable quarterly in arrears as well. During 2006 and 2005 the fee was BGN 2,995 thousand and BGN 3,499 thousand, respectively.

The fees are regulated by the CRC and relevant Council of Ministers Ordinances.

On January 30, 2007 the Communications Regulation Commission issued BTC an individual license for carrying out communications through public telecommunications network from the mobile radio service from the type point to many points in the frequency band of 26 GHz with national coverage.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), edition 2005 issued by the International Accounting Standards Board (IASB), approved by the European Union Commission and the interpretations, issued by the IASB and International Financial Reporting Interpretations Committee, respectively, applicable for the reporting periods, starting January 1, 2006. The Bulgarian Accountancy Act (AA) requires the application of International Financial Reporting Standards, adopted by the European Union Commission, which should be officially translated in Bulgarian language, approved also by the Council of Ministers, and published in State Gazette (SG). As of the date of these consolidated financial statements the official edition in Bulgarian language is approved by the Council of Ministers with Decree No 207/07.08.2006 and published in SG, issue 66 of 15.08.2006.

Consolidated financial statements include the financial statements of the Parent Company and the companies controlled by the Parent Company (subsidiaries) as of December 31 of each year.

Subsidiary companies and consolidation

A subsidiary is an entity that is controlled by the Parent Company. Control is the power to manage the financial and operational policy of the subsidiary for obtaining benefits from its activities.

For consolidation purposes, the financial statements of the Parent Company and its subsidiaries have been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Intra-group transactions and resulting profits or losses as of December 31, 2006 and 2005, including unrealized profits at the year end, have been eliminated in full.

Functional and Presentation Currency

These consolidated financial statements are prepared in thousand Bulgarian Levs (BGN), unless otherwise stated.

Effective from January 1, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Between 1991 and 1997 Bulgaria experienced severe hyperinflation. General price indexes varied from 33% to 579% annually to reach a cumulative general price index of 138,740% as of December 31, 1997. As a result, Bulgarian Lev could not be used as reliable measurement currency for the purpose of financial reporting. Therefore the Group had chosen German Mark (DEM) as measurement and reporting currency in its financial statements for the periods to December 31, 2001, inclusive. The policy adopted by the Group was that non-monetary and related assets and liabilities were valued at the historical rate DEM/BGN, monetary assets and liabilities were valued at the balance sheet rate and income and revenue items were valued at the rate of the date of transaction. No hyperinflation adjustments were made to the financial statements for the periods when German Mark was used as a measurement and reporting currency.

In 2002, the Group changed its measurement and reporting currency from German Mark to Bulgarian Lev.

BTC's management believes that the non-application of hyperinflation accounting for the periods prior to December 31, 1997 have not resulted in material misstatements in the accompanying consolidated financial statements.

Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention, as discussed above, except for the class of assets "Land" that was revalued and recorded at fair value as of 2006.

Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results could differ from those estimates.

Financial instruments

All regular purchases and sales of financial instruments are accounted for at the trade date.

Financial assets and financial liabilities carried on the balance sheet include (among others) cash and cash equivalents, equity investments classified as available-for-sale, trade and other accounts receivable and payable and long-term payables.

Measurement

The accounting policies on and measurement of these items are as follows:

<u>Caption</u>	<u>Classified as</u>	<u>Measurement Principle</u>
Cash	Cash	Fair value
Trade receivables	Receivables originated by the enterprise	Cost, less provision for impairment
Investments	Available-for-sale	Cost less provision for impairment
Trade payables	Financial liabilities other than held-for-trading	Expected settlement value
Long-term payables	Financial liabilities other than held-for-trading	Amortized cost

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments that do not have a market price on an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable are measured at amortized cost, if they have a fixed maturity, or at cost, if they have no fixed maturity.

Credit and liquidity risks

Credit risks or the risk of counter-parties defaulting, is controlled by the application of initial subscription, limits and monitoring procedures. The Group has no policy of obtaining collateral from its debtors.

The extent of the Group's credit exposure is represented by the aggregate balance of trade and other receivables and short-term deposits and loans. Credit risk in relation to international settlement is managed through the ability to settle net with counter-parties and the ability to direct traffic under favorable terms so as to limit the outstanding exposures. There is no significant concentration of credit risk related to accounts receivable.

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

Interest rate and foreign currency exchange risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates or that the interest flows on a variable rate instrument may change due to changes in reference interest rates. In order to hedge against interest rate risks, BTC has entered into interest rate SWAP transactions.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group's major exposures are disclosed in these notes.

Revenue recognition

The Group earns revenue by providing local, long distance and international fixed telephone service to customers, leased lines and radio and TV broadcasting, data transmission and sales of subscriber telephone equipment and Internet services.

Customers are billed in advance for monthly subscription and in arrears for monthly usage.

Revenue from traffic is recognized for the period it is earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions

Transactions in foreign currencies are translated into Bulgarian Levs by applying the exchange rate existing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies as of December 31, 2006 and 2005 are revalued at the exchange rate in effect on those dates.

Exchange rate differences on reporting foreign currency transactions at rates different from those at which they were originally recorded are included in the income statement as they occur.

Financial instruments in foreign currency as of December 31, 2006 and 2005 are carried in these consolidated financial statements at the closing exchange rate of the BNB.

Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and amounts that are readily convertible into cash (see Note 4).

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Assets acquired prior to January 1, 2002 are measured at recognition in German Marks at the exchange rate as of the date of the purchase and/or occurrence of related expense. At the conversion of the cost, accumulated depreciation and net book value in Bulgarian Lev as of December 31, 2001, a rate of DEM 1 = BGN 1 was applied (see also Note 3 above).

Subsequent to the initial recognition, the class of assets "Land" is stated at the revalued amounts, being the fair value at the date of revaluation, less any impairment losses. The fair values are measured on the basis of valuations, performed by independent certified appraisers.

Acquisitions of assets in the Group, subsequent to the establishment of the Parent Company, are recorded at cost. The cost of maintenance, repairs, and replacement of minor items of property, plant and equipment is charged to maintenance expense as incurred. Renewals and improvements are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation is removed from the accounts.

The Parent Company has applied provisional values with respect to acquired fixed assets as a result of business combinations.

Optic cables

BTC has entered into agreements with various public telephone operators to fund certain amounts for the construction of fiber optic submarine networks in the Black, Adriatic and Mediterranean Seas. As a result, BTC has the right to a specified capacity on the networks, in general, for a period of twenty-five years. The optic cables are classified as an investment in jointly controlled assets and presented in property, plant and equipment.

Donated assets

Property, plant and equipment donated from the State, municipalities and the CRC are accounted for by deducting the grant in arriving at the carrying amount of the asset. The dominant group of these assets is written off from the balance sheet as of January 1, 2006 by transferring the Military entity's assets to The State agency for information technologies and communications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Depreciation**

Property, plant and equipment are depreciated using the straight-line method over the estimated useful life of the asset (see Note 8).

The estimated useful lives of the major classes of property, plant and equipment in the Group as of December 31, 2006 and 2005 are, as follows:

Class	Useful life
Analog switches	10 years
Digital switches	12 years
Transmission, distribution and remote switching	15 - 25 years
Optic cables	20 - 25 years
General support	5 - 20 years

Intangible assets

Software, GSM and UMTS 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 measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed annually at each financial year-end.

Impairment of assets

An asset is considered as impaired if its carrying amount exceeds the amount to be recovered through the use or sale of the asset. Impairment loss is recognized for the excess of carrying amount over the recoverable amount of the asset.

Non-current assets classified as held for sale

According to IFRS 5 "Non-current assets held for sale and discontinued operations" non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Leasing

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group as lessee

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 balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with BTC's general policy on borrowing costs (see below). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognised 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. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs

According to IFRS 23 "Borrowing Costs", borrowing costs should be recognized as an expense in the period in which they are incurred. Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction or production of an asset could be accounted for as an asset. Such borrowing costs can be capitalized as assets when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs should be recognized as expenses in the period in which they are incurred. Through 1997, the Group incurred borrowing costs for the acquisition of assets under the Investment Program totaling BGN 9,475 thousand, which were recorded in property, plant and equipment. Since that date, all borrowing costs are expensed as incurred (see Note 13).

Accruals and deferrals

Accruals and deferrals are recorded to recognize revenues and costs as they are earned or incurred.

Materials and supplies

Materials and supplies are principally composed of network establishment and maintenance materials valued at lower of cost or net realizable value. Materials and supplies are expensed when utilized, using the weighted-average method.

Prepayments

Prepayments are composed primarily of advances paid by the Group to suppliers of telecommunications equipment related to the Investment Program as well as to suppliers of energy. Prepayments are recorded at historical cost.

Investments

Other investments are classified as financial assets available-for-sale and due to lack of an active market are accounted for at cost less impairment. Any subsequent recovery of the initial carrying amount of such investments is credited to the current period result to the extent of the previously recognized impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

The income taxes are based on the results for the year and take into consideration deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. 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.

Deferred tax liabilities and deferred tax assets reflect the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse.

Deferred tax assets are recognized when it is probable that sufficient taxable income will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax asset to be utilized.

A deferred tax liability is recognized for all taxable temporary differences.

Employee benefits

Defined contribution plan

According to local legislation, the Group is obliged to pay contributions to Social Security Funds. This obligation relates to full-time employees and provides for paying contributions by the employer and by the employee in the amount of certain percentages determined in the Social Security Code.

These contributions are charged to income in the period to which they relate.

Long-term employee benefits

Long-term employee benefits are determined using the projected unit credit method, with valuations being carried out at each balance sheet date. The amount recognized in the balance sheet represents the present value of the long-term obligations.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when future economic benefits are probable.

Subsequent events

Events after the balance sheet that provide evidence of conditions existed at the balance sheet date (adjusting events) are reflected in the financial statements. Those events that are considered non-adjusting are disclosed in the notes when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

4. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of December 31, 2006 and 2005 is as follows:

	As of 31.12.2006	As of 31.12.2005
Current accounts and cash on hand		
Held in BGN	139,188	111,064
Held in EUR	32,640	66,466
Held in foreign currencies other than EUR	4,376	2,272
Total current accounts and cash on hand	<u>176,204</u>	<u>179,802</u>
Term deposits		
Held in BGN	18,006	59,846
Held in foreign currencies other than EUR	1,520	-
Total term deposits	<u>19,526</u>	<u>59,846</u>
Restricted cash		
Held in BGN	-	49
Held in EUR	-	342
Total restricted cash	<u>-</u>	<u>391</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>195,730</u>	<u>240,039</u>

Restricted cash

Restricted cash as of December 31, 2005 of BGN 49 thousand is related to the campaign, arranged for helping people, suffering from the summer floods.

Restricted cash in 2005 of BGN 342 thousand is for bank guarantee, related to participation in an auction for selling production of PRST in Syria.

5. ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET

The composition of receivables, net of provisions for impairment and uncollectability, as of December 31, 2006 and 2005 is, as follows:

	As of 31.12.2005	As of 31.12.2005
Trade receivables	82,430	62,960
International settlement receivables	19,005	21,586
Other receivables	23,907	28,687
Prepayments	14,083	13,202
Total accounts receivable	139,425	126,435
Allowances for bad debts	<u>(32,331)</u>	<u>(26,491)</u>
TOTAL ACCOUNTS RECEIVABLE AND PREPAYMENTS, NET	<u>107,094</u>	<u>99,944</u>

International revenues are derived from incoming traffic to Bulgaria. These are payments from foreign network operators for traffic terminating in or transferring through Bulgaria. In the opposite direction, BTC must pay a portion of its international outbound traffic revenue, received from local customers to transit and destination network operators in other countries. The majority of the net receivables are denominated in EUR and SDR (special drawing rights) with increasing share of the EUR. Accounts receivable and payable from the same operator are stated net in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

6. MATERIALS AND SUPPLIES

The composition of materials and supplies as of December 31, 2006 and 2005 is as follows:

	As of 31.12.2006	As of 31.12.2005 (restated)
Materials and supplies	46,467	37,151
Merchandise and other	8,133	6,390
TOTAL MATERIALS AND SUPPLIES	54,600	43,541

Equipment of BGN 28,877 thousand as of December 31, 2005 is reclassified from Materials and Supplies to Construction in Progress under Property, Plant and Equipment.

7. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The Group is committed to a plan to sell assets that were previously used in production business. On February 8, 2007 a contract for the sale was signed. The negotiated price for the assets is EUR 1,259 thousand. These assets are shown in the balance sheet at net book value.

The Group is committed to a plan to sell mobile network equipment due to enhancement of 3G network. The contract for the sale was signed on November 15, 2006 and the price negotiated for the whole equipment is EUR 4,000 thousand. As of December 31, 2006 the assets that are part of this contract and are classified as held for sale are shown in the balance sheet at sales price less costs to sell.

Non-current assets classified as held for sale as of December 31, 2006 and 2005 are as follows:

	As of 31.12.2006	As of 31.12.2005
Assets related to production business	601	-
Equipment for the mobile business	428	-
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	1,029	-

8. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2006 freehold land is recognized at fair value determined by independent licensed appraiser. This resulted in recording BGN 21,311 thousand revaluation reserves and BGN 762 thousand reversal of previously recognized impairment.

Tangible fixed assets of BGN 623,159 thousand are pledged as collateral for the syndicated loan granted to BTC in 2006. This pledge will be increased to the amount of BGN 844,766 thousand, in accordance to the Loan Agreement requirements.

Restated amounts for Construction in Progress as of December 31, 2005 include: BGN 28,877 thousand transferred from Materials and Supplies to Construction in Progress and BGN 6,995 thousand of Intangible assets not put in operation, transferred from Construction in Progress to Intangible Assets.

The loss from disposal of Property, plant and equipment recognised in the income statement for the year ended December 31, 2006 is BGN 2,657 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The composition of property, plant and equipment as of December 31, 2006 and 2005 is as follows:

	Switching	Transmission, Distribution and Remote Switching	General Support	Construction in Progress (restated)	Total
Gross Book Value					
December 31, 2004	856,776	831,966	342,614	94,778	2,126,134
Acquisition of RTC and Bulfon	-	483	4,317	41	4,841
Additions	-	-	-	197,555	197,555
Transfers	88,584	24,849	14,693	(128,126)	-
Impairment	(8,716)	(17,747)	(16,017)	(1,986)	(44,466)
Disposals	(17,495)	(1,261)	(7,082)	(4,806)	(30,644)
December 31, 2005 (restated)	919,149	838,290	338,525	157,456	2,253,420
Revaluation of land	-	-	21,311	-	21,311
Additions	-	32	18	229,605	229,655
Transfers	184,706	11,355	42,550	(238,611)	-
Impairment	-	-	-	(5,382)	(5,382)
Reversed impairment	-	-	763	2,073	2,836
Assets classified as held for sale	(9,102)	(3)	(1,299)	(104)	(10,508)
Assets classified as held for sale – impairment	-	-	-	15	15
Disposals	(23,161)	(4,413)	(22,653)	(1,167)	(51,394)
December 31, 2006	1,071,592	845,261	379,215	143,885	2,439,953
Accumulated depreciation					
December 31, 2004	346,115	517,316	161,636	-	1,025,067
Depreciation charge	67,334	17,878	21,618	-	106,830
Impairment	(5,756)	(12,917)	(7,158)	-	(25,831)
Disposals	(13,608)	(1,254)	(6,490)	-	(21,352)
December 31, 2005	394,085	521,023	169,606	-	1,084,714
Depreciation charge	93,918	4,862	22,386	-	121,166
Assets classified as held for sale – depreciation	(1,706)	(3)	(529)	-	(2,238)
Assets classified as held for sale – impairment	(6,753)	-	(478)	-	(7,231)
Impairment	17,369	-	1,075	-	18,444
Disposals	(21,078)	(3,977)	(21,680)	-	(46,735)
December 31, 2006	475,835	521,905	170,380	-	1,168,120
Net Book Value					
December 31, 2005 (restated)	525,064	317,267	168,919	157,456	1,168,706
December 31, 2006	595,757	323,356	208,835	143,885	1,271,833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

9. INTANGIBLE ASSETS

Intangible assets as of December 31, 2006 and 2005 are as follows:

	License	Software	Intangible assets not in operation	Total intangible assets
Gross book value as of December 31, 2004	54,511	97,167	2,435	154,113
Acquisition of RTC and Bulfon	4,135	565	-	4,700
Additions	42,287	61,046	36,458	139,791
Disposals	-	(3,810)	(4)	(3,814)
Impairment	(8,804)	(1,693)	(672)	(11,169)
Gross book value as of December 31, 2005 (restated)	92,129	153,275	38,217	283,621
Additions	-	-	121,300	121,300
Transfers	7,688	137,051	(144,739)	-
Assets classified as held for sale	(35)	(28)	-	(63)
Disposals	-	(19,003)	(3,489)	(22,492)
Gross book value as of December 31, 2006	99,782	271,295	11,289	382,366
Accumulated amortization as of December 31, 2004	106	61,682	-	61,788
Amortization charge	1,882	22,743	-	24,625
Impairment	(5,198)	(1,515)	-	(6,713)
Disposals	-	(3,673)	-	(3,673)
Accumulated amortization as of December 31, 2005	(3,210)	79,237	-	76,027
Amortization charge	5,047	42,262	-	47,309
Assets classified as held for sale	(31)	(26)	-	(57)
Disposals	-	(5,957)	-	(5,957)
Accumulated amortization as of December 31, 2006	1,806	115,516	-	117,322
Net book value as of December 31, 2005 (restated)	95,339	74,038	38,217	207,594
Net book value as of December 31, 2006	97,976	155,779	11,289	265,044

Intangible assets not put in operation as of December 31, 2005 consists of BGN 31,222 thousand previously shown as Software and BGN 6,995 thousand, previously shown as Construction in Progress. Separate presentation of this item provides additional information for the structure of Intangible Assets as does Construction in Progress with Property, Plant and Equipment.

The loss from disposal of intangible assets recognised in the income statement for the year ended 31, December 2006 is BGN 16,535 thousand.

10. INVESTMENTS

The composition of investments as of December 31, 2006 and 2005 is as follows:

Company	As of 31.12.2006	As of 31.12.2005
Other, net		
Bulgarian Post Bank	-	1,015
Other	342	812
TOTAL INVESTMENTS	342	1,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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10. INVESTMENTS (CONTINUED)

The major components of the subsidiaries' financial positions as of December 31, 2006 and 2005 are as follows:

BTC Mobile EOOD

	As of 31.12.2006	As of 31.12.2005 (restated)
Current assets	63,995	114,861
Non-current assets	352,113	229,353
Current liabilities	(92,437)	(65,341)
Long-term liabilities	(2,574)	(100)
NET ASSETS	321,097	278,773
TOTAL EQUITY AND LIABILITIES	321,097	278,773
Revenues	78,446	3,458
Loss for the period	(148,338)	(32,275)

RTC EOOD

	As of 31.12.2006	As of 31.12.2005
Current assets	9,841	21,411
Non-current assets	-	573
Current liabilities	(2,403)	(5,053)
NET ASSETS	7,438	16,931
TOTAL EQUITY AND LIABILITIES	7,438	16,931
Revenues	20,377	27,506
Loss for the period	(8,703)	(6,971)

BTC Net EOOD

	As of 31.12.2006	As of 31.12.2005
Current assets	4,568	6,940
Non-current assets	175	322
Current liabilities	(165)	(174)
NET ASSETS	4,578	7,088
TOTAL EQUITY AND LIABILITIES	4,578	7,088
Revenues	1,914	7,110
Profit for the period	159	687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

10. INVESTMENTS (CONTINUED)**Bulfon EAD**

	As of 31.12.2006	As of 31.12.2005
Current assets	5,782	2,718
Non-current assets	1,502	2,585
Current liabilities	(5,303)	(1,770)
Long-term liabilities	(84)	(31)
NET ASSETS	1,987	3,502
TOTAL EQUITY AND LIABILITIES	1,987	3,502
Revenues	9,530	7,016
Profit/(Loss) for the period	(1,157)	3,508

BTC Security EOOD

	As of 31.12.2006	As of 31.12.2005
Current assets	173	533
Non-current assets	116	95
Current liabilities	(735)	(689)
Long-term liabilities	(71)	(50)
NET ASSETS	(517)	(111)
TOTAL EQUITY AND LIABILITIES	(517)	(111)
Revenues	4,971	4,550
Loss for the period	(407)	(111)

Other investments

In January 2006 Bulfon sold by investment intermediary its 329,500 shares in Dophin Technologies at price of USD 0.73 per share for a consideration of USD 241 thousand (BGN 397 thousand).

On March 13, 2006 BTC sold the whole package of 143,355 shares in Postbank at BGN 7.22 per share for a consideration of BGN 1,035 thousand.

Other investments are classified as financial assets available-for-sale and due to the lack of an active market are accounted for at cost less impairment. Any subsequent recovery of the initial carrying amount of such investments is credited to the current period result to the extent of the previously recognized impairment losses.

11. ACCOUNTS PAYABLE

Accounts payable as of December 31, 2006 and 2005 are as follows:

	As of 31.12.2006	As of 31.12.2005
Payables to mobile operators	17,711	14,562
Payables to suppliers for investment expenditure	71,397	76,506
Network maintenance payables	4,638	2,707
Technical consultants and management services	4,008	5,788
International settlements payable	3,474	1,794
Other payables	32,963	33,342
TOTAL ACCOUNTS PAYABLE	134,191	134,699

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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12. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2006 and 2005 are as follows:

	As of 31.12.2006	As of 31.12.2005
Payables to employees	24,979	41,569
Provision for employment termination	10,000	36,000
Deferred revenue	8,124	6,074
VAT payable	6,702	5,980
Social security	6,247	5,594
Cable projects MECMA	5,255	-
Corporate income taxes payable	5,345	2,008
Customer advances	4,351	804
Payables from valuation of derivatives	2,107	-
Personal income tax payable	1,143	1,523
Payables for license fee	856	1,031
Alternative taxes on social expenses	420	3,159
Interest payable	335	238
Other payables	2,538	3,516
TOTAL OTHER CURRENT LIABILITIES	78,402	107,496

The Provision for employment termination of BGN 10,000 thousand is related to the decision for restructuring the BTC's activities for 2007 (see Note 15).

The liabilities under Cable projects MECMA of BGN 5,255 thousand arose as a result of BTC's role as a Central Billing Party in the MECMA 2004 Agreement for maintenance of all submarine cables in the Mediterranean Sea, Red Sea and Black Sea area.

As of December 31, 2006 Payables from valuation of derivatives of BGN 2,107 thousand represent the effect of the call option of the interest rate swap (see Note 13).

As of December 31, 2006, the other current liabilities include a provision of BGN 199 thousand for legal claims, related to labor disputes. The outcome of such claims is not certain. Management believes that it will not have a material effect on these financial statements.

13. LONG-TERM BORROWINGS

As of December 31, 2006 and 2005 long-term borrowings outstanding are as follows:

	As of 31.12.2006	As of 31.12.2005
New Syndicated credit facility	472,758	-
Syndicated credit facility	-	243,567
Finance lease	6,530	-
Other	12,135	26,876
Current portion	(61,585)	(72,142)
TOTAL LONG-TERM BORROWINGS	429,838	198,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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13. LONG-TERM BORROWINGS (CONTINUED)

On December 9, 2005, the General Meeting of Shareholders of BTC approved BTC as a borrower of a syndicated credit facility for EUR 350 million, designed to refinance the liabilities of BTC under the previous EUR 285 million syndicated credit facility and to provide access to additional borrowing in order to fund the implementation of the business program of BTC. The EUR 350 million syndicated credit facility and the related security agreement were entered into on January 17, 2006. The balance outstanding under the syndicated facility dated April 18, 2005, was fully refinanced with the new loan.

The current loan facility has 3 parts: 2 term facilities and a revolving facility. The first term facility amounts to EUR 150 million, the second term facility amounts to EUR 125 million, and the revolving facility amounts to EUR 75 million. As of December 31, 2006, EUR 133.652 million of the first term facility and EUR 113 million of the second term facility were utilized.

The interest rate on the current syndicated loan equals 3 month EURIBOR plus margin. The margin is based on the ratio of "Consolidated Net Debt to Consolidated EBITDA" and ranges from 1% to 1.65%.

BTC uses interest rate swaps to hedge the risk of adverse movements in interest rates on its bank borrowings. The notional amount of the swap contracts is BGN 443,292 thousand. Fixed interest rate payments are at an average rate of 3.482% and floating interest receipts are at 3 month EURIBOR plus margin ranging from 1% to 1.65%. The average tenor of the deals is four years with an option for cancellation by the floating rate payer at the end of each quarter of the final year. All swaps are treated as fully effective cash flow hedges with fair value of BGN 6,873 thousand shown in the Balance sheet as Other assets and Equity. The effect of the call options is shown as Financial Expenses of BGN 2,107 thousand on the Income statement.

Obligations under Finance lease

Certain part of BTC's software is leased under the terms of finance lease. The average lease term is 3 years. The average effective borrowing rate is 6.10%. The fair value of BTC's lease obligations approximates their carrying amount.

	Minimum lease payments		Present value of minimum lease payments	
	As of 31.12.2006	As of 31.12.2005	As of 31.12.2006	As of 31.12.2005
Amounts payable under finance leases:				
Within one year	3,514	-	3,168	-
In the second to fifth years inclusive	3,513	-	3,362	-
TOTAL PAYABLES	7,027	-	6,530	-
Less: future finance charges	(497)	-	-	-
PRESENT VALUE OF LEASE OBLIGATIONS	6,530	-	6,530	-

The amount of other long-term debt is scheduled for payment on installments over a period of two to four years in accordance with agreed repayment schedules.

The net book value of the assets acquired under finance lease arrangements as of December 31, 2006 is BGN 8,915 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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14. DEFERRED TAX ASSETS AND LIABILITIES

As of December 31, 2006 and 2005 deferred taxes, net, are comprised of the following:

	Deferred tax assets, net		Deferred tax liabilities, net	
	As of 31.12.2006	As of 31.12.2005	As of 31.12.2006	As of 31.12.2005
Deferred tax assets				
Long-term employee benefits	32	34	726	1,483
Allowance for impairment and uncollectability	432	151	2,518	3,202
Loss carry forward	7,202	3,735	-	-
Property, plant and equipment	3,101	660	5,105	-
Expense accruals	2,649	466	-	12,759
Total deferred tax assets	<u>13,416</u>	<u>5,046</u>	<u>8,349</u>	<u>17,444</u>
Deferred tax liabilities				
Property, plant and equipment	(92)	-	(57,480)	(83,555)
Total deferred tax liabilities	<u>(92)</u>	<u>-</u>	<u>(57,480)</u>	<u>(83,555)</u>
Total deferred tax assets/(liabilities), net	<u>13,324</u>	<u>5,046</u>	<u>(49,131)</u>	<u>(66,111)</u>

Deferred tax assets and liabilities for different taxable entities are not offset as they can not be settled on a net basis and it is not expected that the assets will be realized 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 December 31, 2006 are calculated in these financial statements at 10% tax rate, which will be effective as of January 1, 2007.

15. LONG-TERM EMPLOYEE BENEFITS

In accordance with the Bulgarian Labor Code, BTC owes severance payments to its employees on retirement. The severance payment for employees who have worked for more than 10 years with BTC is 6 gross monthly salaries. Employees who have worked for less than 10 years with BTC are entitled to 2 gross monthly salaries.

In 2006 the restructuring of BTC's activities continued and the employees were given the option of compensation for terminating their employment as per Art. 331 of the Labor Code. Also there were employees whose contract termination under the Voluntary Departure Program (VDP) 2005 was postponed for 2006. The total number of employees that have taken advantage of these compensations as at December 31, 2006 is 4,537. As a result, the provision for severance payments on retirement was reduced by BGN 3,479 thousand as of December 31, 2006.

Additionally, according to the Collective Labor Agreement between BTC and its employees currently in force, compensations are payable to employees released due to lay-offs. Such compensations vary between 2 and 10 monthly salaries depending on the length of service with BTC.

At present no assets have been allocated to cover long-term employee benefits and there are no statutory requirements for such fund to be formed. These financial statements contain a provision for such benefits, computed using the projected unit credit method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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15. LONG-TERM EMPLOYEE BENEFITS (CONTINUED)

The movements in the liability recognized in the balance sheets are as follows:

	As of 31.12.2006	As of 31.12.2005
Liability at the beginning of year	10,044	10,570
Past service cost	8	55
Current service cost	600	728
Interest cost	406	545
Total cost recognized in the income statement	<u>1,014</u>	<u>1,328</u>
Payments to retirees	(38)	(228)
Released as a result of the Voluntary program	<u>(3,435)</u>	<u>(1,626)</u>
LIABILITY AT THE END OF YEAR	<u><u>7,585</u></u>	<u><u>10,044</u></u>

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

	As of 31.12.2006	As of 31.12.2005
Discount rate at December 31	6.265%	6.265%
Future salary increases per year	1%	1%
Average age of retirement – male employees	63	63
Average age of retirement – female employees	58.5	58

Management has estimated the liability for long-term employee benefits assuming that voluntary leave of personnel, without any compensation, will be negligible.

16. OTHER LONG-TERM LIABILITIES

Other long term-liabilities as of December 31, 2006 and 2005 are as follows:

	As of 31.12.2006	As of 31.12.2005
Provision for Site dismantling	<u>2,402</u>	<u>-</u>
OTHER LONG-TERM LIABILITIES	<u><u>2,402</u></u>	<u><u>-</u></u>

As of December 31, 2006 Other long-term liabilities consist of provision for dismantling of BTC Mobile sites that has been recognized in the cost of Property, plant and equipment.

17. SHARE CAPITAL AND DIVIDENDS

Registered share capital consists of the following:

	As of 31.12.2006	As of 31.12.2005
Number of shares	288,764,840	288,764,840
Par value in BGN per share	1	1
Share capital per BTC's registration, BGN'000	288,764	288,764
Adjustment due to the use of DEM as functional currency (Note 3)	<u>263,137</u>	<u>263,137</u>
SHARE CAPITAL	<u><u>551,901</u></u>	<u><u>551,901</u></u>

As previously described in Note 3, BTC used DEM as the measurement and reporting currency for the periods prior to December 31, 2001. As a result, share capital in these consolidated financial statements differs from the share capital as per BTC's registration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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17. SHARE CAPITAL AND DIVIDENDS (CONTINUED)**Shareholder's structure**

	December 31, 2006	%
Number of common shares		
Public owners	101,067,694	35%
VIVA	187,697,145	65%
SHARE CAPITAL PER BTC'S REGISTRATION	<u>288,764,839</u>	<u>100%</u>
Number of preference shares		
The Republic of Bulgaria	1	100%
TOTAL NUMBER OF SHARES IN THE SHARE CAPITAL	<u>288,764,840</u>	<u>100%</u>

The Share Sale Agreement (the Share Sale Agreement) between Viva and the Privatization Agency of the Republic of Bulgaria (the PA) was signed on February 20, 2004 and was completed on June 11, 2004. Viva acquired 5,362,775 common voting shares of BTC, representing 65% of BTC's share capital.

The acquisition was implemented through a transfer of existing shares of BTC from the PA to Viva and through a subscription by the latter of new shares, issued as a result of an increase of the share capital of BTC. The new emission of shares contained one preferential share, which was acquired by the Republic of Bulgaria and which gives it certain rights, among which are the right to one vote at the General Meeting, the veto right to approve particular resolutions of the General Meeting, as specified in the Statutes approved on February 20, 2004, the right to nominate for appointment, removal and substitution of one member of the Supervisory Board and two members of the Managing Board, the right to receive dividends or a liquidation quote, if any, etc.

On November 10, 2004, BTC was registered as a public company. As part of the governmental project to privatize the remaining state-owned 35% of the share capital of BTC, the Bulgarian government subsequently floated its nearly 35% stake on January 27, 2005 through a public offering on the Bulgarian Stock Exchange and since then the shares are freely traded on it.

The Annual General Meeting of the Shareholders, held on June 24, 2005, agreed that the nominal value per share would change from BGN 35 to BGN 1, so that the total number of the shares issued will equal BTC's registered capital, which amounts to BGN 288,765 thousand. This means that effective from June 30, 2005 (the date of the court resolution for registration of the changes), BTC has 288,764,839 ordinary registered shares and a single preference share, held by the Government through the Ministry of Transport.

Earnings per share

	Year ended 31.12.2006	Year ended 31.12.2005
Profit	132,316	113,316
Average weighted number of ordinary shares	<u>288,765</u>	<u>288,765</u>
EARNINGS PER SHARE IN BGN	<u>0.46</u>	<u>0.39</u>

Earnings per share have been calculated using the weighted average number of ordinary shares increased after the share split made in June 2005. Earnings per share for the comparative periods were adjusted retrospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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17. SHARE CAPITAL AND DIVIDENDS (CONTINUED)**Dividends**

The Annual General Meeting of Shareholders, held on June 22, 2006, voted to distribute out of BTC's 2005 distributable reserves dividends at the amount of BGN 0.64 per each share of the share capital of BTC. The dividends were paid in July, 2006.

Reserve fund

Article 246 of the Law on Commerce governs reserve requirements for joint stock companies. It states that a reserve fund is required to equal at least one-tenth of the authorized share capital. The source of such reserve fund is not less than one-tenth of the current period earnings, premiums on issue of shares and other sources established by the articles of association of a company or general meeting. The reserve fund may only be used to offset current year and prior year losses. The balance of the reserve fund as of December 31, 2006 and 2005 amounts to BGN 28,876 thousand.

Share premium

Share premium, amounting to BGN 64,274 thousand, is resulting from the issue of 957,638 new shares in 2004, at nominal price of BGN 35 and issue price of BGN 102.11 per share.

18. REVENUES

Revenues of the Group for the years ended December 31, 2006 and 2005 consist of the following:

	Year ended 31.12.2006	Year ended 31.12.2005
Outgoing traffic	427,319	460,185
Monthly rental and installation fees	312,240	310,936
Interconnect and leased lines	108,967	115,040
Radio and TV broadcasting	32,616	31,145
Data transmission	53,586	30,480
International voice services	35,597	35,634
Other	38,330	36,656
TOTAL REVENUES	1,008,655	1,020,076

19. OTHER OPERATING EXPENSES

Other operating expenses incurred by the Group for the years ended December 31, 2006 and 2005 consist of the following:

	Year ended 31.12.2006	Year ended 31.12.2005
Cost of services (VAS)	5,034	8,942
Leased lines and data transmission	6,911	9,629
Maintenance and repairs	35,992	30,469
License fees	16,037	16,403
Facilities	17,765	13,834
Professional fees	50,700	69,486
Vehicles and Transports	11,730	4,251
Administration Expenses	17,721	21,754
Advertising, customer service, billing and collection	79,265	44,016
Impairment of receivables and bad debts written off	12,159	7,983
NBV of fixed assets and materials written off	23,354	11,587
Impairment of assets	22,682	35,629
Other	3,240	2,115
TOTAL OTHER OPERATING EXPENSES	302,590	276,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

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19. OTHER OPERATING EXPENSES (CONTINUED)

From June 2004 professional fees include services, in accordance with signed management and technical service agreements with related parties – Sycamore EOOD and Advent BTC UK Limited. Services provided include among others: commercial, technical and operational advice, analysis, selection and project management services, progressing modernization of the network and improving its quality, procuring material, equipment, software and supplies, related training, etc.

20. STAFF COSTS

Compensation incurred by the Group for the years ended December 31, 2006 and 2005 consists of the following:

	Year ended 31.12.2006	Year ended 31.12.2005
Salaries and wages	126,268	147,996
Pension, health and unemployment fund contributions	30,244	44,011
Provision for employment termination	(11,830)	52,719
Other benefits to employees	9,973	14,862
Other staff costs	9,317	2,615
TOTAL STAFF COSTS	163,972	262,203

The Provision for employment termination cost is related to the decision for restructuring BTC's activities, where the employees are compensated for terminating their employment between 6 and 17 monthly salaries as per Art. 331 of the Labor Code. Also there were employees whose contract termination under the Voluntary Departure Program (VDP) 2005 was postponed for 2006. The total number of employees that have taken advantage of these compensations as at December 31, 2006 is 4,537.

21. FINANCIAL EXPENSES, NET

Financial expenses, net for the years ended December 31, 2006 and 2005 consists of the following:

	Year ended 31.12.2006	Year ended 31.12.2005
Interest expenses	24,767	22,689
Interest income	(3,607)	(4,700)
Call option effect from interest swap	2,107	-
Gains from transactions with financial instruments, net	(1,744)	(861)
Foreign currency (gains)/losses, net	169	(307)
Revenue from investment participations	(201)	(6,041)
Other financial expenses, net	349	604
TOTAL FINANCIAL EXPENSES, NET	21,840	11,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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All amounts are in thousand Bulgarian Levs, unless otherwise stated

22. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2006 and 2005 is as follows:

	As of 31.12.2006	As of 31.12.2005
Current tax expense/(income)	42,175	33,711
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(11,382)	(14,597)
Effect of changes in tax rates	(15,566)	-
Write-downs (reversal of write-downs of deferred tax assets)	834	-
Tax expense/(income) associated with changes in accounting policies	-	(241)
INCOME TAX EXPENSE	16,061	18,873
The total charge for the year can be reconciled to the accounting profit:		
PROFIT BEFORE TAX	148,377	132,189
Tax rate	15%	15%
Tax at the applicable tax rate	22,256	19,828
Effect of permanent tax differences	628	529
Impairment losses of goodwill that are not deductible	-	1,716
Effect of unrecognised and unused tax losses and tax offsets not recognised as deferred tax assets	8,743	(3,200)
Effect of the change in the tax rate	(15,566)	-
INCOME TAX EXPENSE	16,061	18,873
EFFECTIVE TAX RATE	10.82%	14.28%

Income tax legislation

Bulgaria currently has a number of laws related to various taxes. Applicable taxes include value added tax, corporate tax, and payroll (social) taxes, together with others. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretations exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose fines, penalties and interest charges. These facts create tax risks in Bulgaria substantially more significant than typically found in countries with more developed tax systems.

Generally, tax periods remain open and subject to inspection for not more than five-year period. During 2005 the tax authorities audited the period January 2004 to February 2005 for VAT purposes while the period January 2002 to December 2003 was subject to full tax audit. The amount of the additional tax assessments have been recorded in BTC's income statement for 2005 and paid to the tax authorities.

In February 2007 a tax audit of calendar years 2004 and 2005 has been initiated for BTC's compliance with corporate income tax and personal income tax obligations. The period March 2005 – December 2006 is being audited for VAT compliance. The tax audit is to be finalized in May 2007, unless prolonged by the tax authorities for another 3 months.

The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review, even though the risks of additional assessments relating to tax years already reviewed is reduced. The management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Income tax rate for 2006 and 2005 is 15% on the taxable profit. The tax rate for 2007 has been reduced to 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

23. BUSINESS SEGMENTS

For management purposes, the Group is currently organized into two lines of business – Fixed line of business and Mobile line of business. Principal activities are as follows:

Fixed line of business – voice and data services over the fixed network;

Mobile line of business – mobile services (GSM and NMT Standards).

Segment information about the Group's operations as of and for the year ended December 31, 2006 is presented below.

Revenue

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
External sales	931,385	77,270	-	1,008,655
Inter-segment sales	62,042	14,400	(76,442)	-
TOTAL REVENUE FROM CONTINUING OPERATIONS	993,427	91,670	(76,442)	1,008,655

Result

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
Segment result from continuing operations	336,686	(166,723)	254	170,217
Interest expenses, net				(21,160)
Other, net				(680)
Profit before tax				148,377
Income tax expense				(16,061)
PROFIT FROM CONTINUING OPERATIONS				132,316

Other information

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
Capital additions	205,800	187,160	(42,055)	350,905
Depreciation and amortization	135,316	33,159	-	168,475
Impairment losses recognized in profit or loss	6,103	28,738	-	34,841

Balance sheet

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
Assets				
Segment assets	1,504,526	412,735	(22,224)	1,895,037
Unallocated assets				20,832
CONSOLIDATED TOTAL ASSETS				1,915,869
Liabilities				
Segment liabilities	142,044	95,189	(22,401)	214,832
Unallocated liabilities				548,301
CONSOLIDATED TOTAL LIABILITIES				763,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

23. BUSINESS SEGMENTS (CONTINUED)

Segment information about the Group's operations as of and for the year ended December 31, 2005 is presented below.

Revenue

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
External sales	998,425	21,651	-	1,020,076
Inter-segment sales	21,589	4,364	(25,953)	-
TOTAL REVENUE FROM CONTINUING OPERATIONS	1,020,014	26,015	(25,953)	1,020,076

Result

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
Segment result from continuing operations	196,690	(54,712)	(272)	141,706
Interest expenses, net				(17,989)
Other, net				6,605
Negative goodwill				1,867
Profit before tax				132,189
Income tax expense				(18,873)
PROFIT FROM CONTINUING OPERATIONS				113,316

Other information

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
Capital additions	229,132	202,610	(123,273)	308,469
Acquisition of RTC and Bulfon	9,541	-	-	9,541
Depreciation and amortization	123,143	8,312	-	131,455
Impairment losses recognized in profit or loss	24,397	17,241	-	41,638

Balance sheet

	Fixed line of business	Mobile line of business	Eliminations	Total for continuing operations
Assets				
Segment assets	1,430,074	359,834	(35,453)	1,754,455
Unallocated assets				13,776
CONSOLIDATED TOTAL ASSETS				1,768,231
Liabilities				
Segment liabilities	217,015	68,590	(35,374)	250,231
Unallocated liabilities				338,562
CONSOLIDATED TOTAL LIABILITIES				588,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

24. RELATED PARTY TRANSACTIONS

The following table summarizes the balances with related parties as of December 31, 2006 and 2005:

	Receivables		Payables	
	As of 31.12.2006	As of 31.12.2005	As of 31.12.2006	As of 31.12.2005
Sycamore EOOD	569	181	1,004	2,980
Advent BTC UK Ltd.	-	434	3,004	2,808
TOTAL	569	615	4,008	5,788

The following table summarizes the revenue realized and services received from related parties for the years ended December 31, 2006 and 2005:

	Revenue		Expense	
	As of 31.12.2006	As of 31.12.2005	As of 31.12.2006	As of 31.12.2005
Sycamore EOOD	-	-	5,413	14,077
Advent BTC UK Ltd.	-	-	34,833	35,944
TOTAL	-	-	40,246	50,021

Management remunerations

BTC and Sycamore have signed a management service agreement under which Sycamore renders consulting and management services to BTC and therefore the management remunerations and social costs are charged as services.

25. COMMITMENTS AND CONTINGENCIES**Collective Labor Agreement**

The Collective Labor Agreement defines the labor and social insurance legal relations in BTC, which are not defined in imperative orders of the Labor Code. The current one came into effect on July 1, 2006 and will be effective up to December 31, 2007. It defines the labor employment, labor remuneration, health and safety work conditions, working time and leaves, compensations; professional qualification and prequalification, social partnership and relationships between the parties.

Investment Program

In accordance with the Share Sale Agreement, VIVA has undertaken to direct the Parent Company to invest an amount of at least EUR 400 million (BGN 782 million) during a period of 5 years, starting at completion for the implementation of the capital expenditures program, intended for, including among others, the achievement of the annual digitalization targets set out in an Annex to the Share Sale Agreement.

Contractual commitments for the acquisition of property, plant and equipment

The Group has entered into agreements with various suppliers relating to the capital expenditures as approved in the investment program. Certain agreements have not been completed as of the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2006

All amounts are in thousand Bulgarian Levs, unless otherwise stated

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

A brief summary of commitments to acquire equipment on such contracts, as of December 31, 2006 is presented in the table below:

Equipment description	Aggregate contracted amount	Delivered till 31.12.2006	Commitment
Network equipment	232,340	80,088	152,252
Hardware and software	58,506	27,275	31,231
Construction and assembly works of the BTC Network	66,957	37,803	29,154
TOTAL	357,803	145,166	212,637

26. OPERATING LEASE ARRANGEMENTS

	As of 31.12.2006	As of 31.12.2005
Minimum lease payments under operating leases recognized as an expense in the period	8,297	730
TOTAL	8,297	730

As of December 31, 2006 BTC Group has outstanding commitments under non-cancelable operating leases, which fall due as follows:

	As of 31.12.2006	As of 31.12.2005
Within one year	9,668	4,713
In the second to fifth years inclusive	11,925	8,557
TOTAL COMMITMENTS UNDER OPERATING LEASES	21,593	13,270

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

27. SUBSEQUENT EVENTS

On December 14, 2006 the Communications Regulation Commission (CRC) issued a decision approving BTC proposal on tariff rebalancing of the fixed-voice telephony service. The new tariffs will be effective from February 1, 2007.

In January and March 2007 cash contributions to BTC Mobile at the total amount of BGN 86,546 thousand have been made. These contributions completed the BGN 210,000 thousand financing for BTC Mobile, approved by the Annual General Meeting of BTC, held on June 22, 2006.