EUROCOM CABLE MANAGEMENT BULGARIA EOOD

ANNUAL CONSOLIDATED
REPORT ON THE ACTIVITIES,
INDEPENDENT AUDITOR'S
REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

ANNUAL CONSOLIDATED REPORT ON THE ACTIVITIES FOR 2008

Management Report
of Eurocom Cable Management Bulgaria Ltd.
for the period of 01.01.2008 - 31.12.2008

This document reflects the operations of all companies under Eurocom Cable Management Bulgaria Ltd.

The Group

Eurocom Cable Management Bulgaria Ltd. ("the Company", "the Parent Company", "ECMB") is registered at the Sofia City Court on March 22, 2005 as 100% ownership of WP Private Lexington Equity, Netherlands. The Company's registered address is in 1766 Sofia, 1Business Park Sofia str., building 12B, floor 2. The capital of the organization amounts to 3 million BGN, divided into 300 000 shares with a nominal value of 10 BGN. The capital has been completely deposited by the sole owner. "Eurocom Cable Management Bulgaria" Ltd. has made no changes in terms of its legal form for the period of the accounting year.

As of December 31, 2008 the ECMB Group includes the following subsidiaries: Eurocom Trans EOOD, Eurocom Kuklen EOOD, Eurocom Karlovo EOOD, and the acquired during 2008 Intercom Bor Sat EOOD (the subsidiaries), which had a jointly contolled entity - Eurocom Chirpan OOD (the joint controlled entity).

Gigabit Net EOOD, which was one of the subsidiaries of the Group as of December 31, 2008, was liquidated on 22 December 2008. These consolidated financial statements incorporate the results of Gigabit Net EOOD up to the liquidation date.

As of December 31, 2007 the Group includes the following subsidiaries: Eurocom Trans EOOD, Eurocom Kuklen EOOD, Eurocom Karlovo EOOD, Gigabit Net EOOD - in liquidation (the Subsidiaries). The Company and its subsidiaries are hereinafter referred as to as the Group.

The Company and its subsidiaries are hereinafter referred as to as the Group.

Eurocom Cable Management Bulgaria Ltd. possesses offices in Sofia, Plovdiv, Pazardjik, Kustendil, Bansko, Pleven, Lom, Oriahovo and others. The central office is situated in Sofia, 1 "Business Park Sofia" Str., Building 12B.

Eurocom Cable Management Bulgaria Ltd. acted as a multi-service cable operator. Eurocom Cable Management Bulgaria Ltd. carries out its activity by technical and cashier's offices. Their contribution to the achieved results is different. The sales terms and conditions and the competition in the separate populated settlements and neighborhoods are different as well.

Eurocom Trans Ltd. carries out its activity in Sofia and has no developed branch network. The central office is situated in Sofia, 1 "Business Park Sofia" Str., Building 12B.

Petyo Staykov represents the company of "Eurocom Cable Management Bulgaria" Ltd. as its Chief Executive Officer.

As at December 31, 2008 the Company is a 100% subsidiary of FN CABLE HOLDINGS B.V., Netherlands. The ultimate parent of the Company is WP Private Lexington Equity, Netherlands.

In April 2008 the Company acquired from OSG Intercom cable network, cars, customer base and 1000 shares which are 100% of the capital of Intercom Bor Sat EOOD. Intercom Bor Sat EOOD is the owner of the 50% of the shares in Eurocom Chirpan OOD and according to the agreement with the other owner of the shares the entity will be jointly controlled by its shareholders and there have to be unanimous consent of the parties sharing control regarding all significant decisions related to the operations of Eurocom Chirpan OOD.

Financial results

Revenue and expenses

In 2008 Eurocom Trans Ltd. carried out transportation activities and and took insignificant part of the Group's revenue (0.07%). Eurocom Kuklen Ltd. and Eurocom Karlovo Ltd. are dormant companies with no activities. In April 2008 Eurocom Karlovo Ltd. declared liquidation.

The results of the Group for the year ended December 31, 2008 as reported in the consolidated income statement are as follows:

	Notes	Year ended 31.12.2008	Year ended 31.12.2007 (restated)
Revenue from sales	4	57,030	47,614
Raw materials, consumables and services used	5	(21,150)	(17,009)
Employee benefits expense	6	(10,448)	(9,330)
Depreciation and amortization expense	11, 13	(11,570)	(7,205)
Other expense	7	(2,372)	(1,931)
Other income	8	433	522
Loss from sale of equipment	8	(51)	-
Finance cost	9	(16,327)	(11,722)
Profit / (Loss) before tax		(4,455)	939
Tax income / (expense)	10	405	(228)
Profit / (Loss) for the year		(4,050)	711
Attributable to:			
Equity holders of the parent company		(4,050)	711

The consolidated income statement shows an increase of revenues from sales in 2008 with 19.77% compared to 2007. The Group is also reporting an increase of the raw materials, consumables and services with 24.34% compared to 2007, which is due to the increase of the business; and increase of the finance costs with 39.28%.

The negative financial result of the Group is due to the significant financial costs directly related to the loans obtained by "Eurocom Cable Management Bulgaria" Ltd.

Assets and liabilities

Cash and cash equivalents as of December 31, 2008 amounted to BGN 4,176 thousand, and mainly comprises of current bank accounts.

The significant part of the assets of the Group comprises of property, plant and equipment and intangible assets, all representing 88.07% of the total assets of the Group. The share of the group "Cables and elements" takes the biggest share of the structure of the property, plant and equipment. As far as the intangible assets are concerned, "the Customer base" takes the biggest share.

The significant part of the liabilities of the Group comprises of intercompany loans and bank loans, which are 88.28% from the total liabilities of the Group. As a collateral for the bank loans a special pledge of the whole Company (ECMB) is established.

Financial risks

The companies from the Group hold 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.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The biggest exposure for the Company is the bank loan, which bears floating interest rate. In 2006 the Company entered into a interest rate swap transactions to mitigate the risk of rising interest rates. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the start of the financial year.

The liquidity risk results from the time differences of the contracted maturity dates of monetary assets and liabilities and the possibility borrowers to be unable to meet their obligations to the Company within standard terms. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities like bank overdrafts, and by continuously monitoring forecast.

Financial assets, which potentially expose the Company to credit risk, are mainly trade receivables and long-term loans. The Company is exposed to credit risk in case counterparty do not pay their liabilities. Due to the large number of clients the Company has no significant concentration of credit risk. Credit risk, or the risk of counterparties defaulting, is controlled by the application of monitoring procedures. The Company has no policy of obtaining collateral from its debtors. The Company does not have any significant credit risk exposure to any single counterparty.

The Company manages its capital in order to operate as a going concern and to optimize the return by optimization the ration debt-capital. The capital structure of the Company comprise related party loans, bank loans, cash and bank balances and equity including share capital and retained earnings.

Personnel

The number of the employees of "Eurocom Cable Management Bulgaria" Ltd. is 693 as of December 31, 2008, and 661 as of December 31, 2007. The employees of the Company possess the necessary job qualification for this type of business.

The employees of "Eurocom Trans" Ltd. are 24 people as of December 31, 2008.

In 2008 the labour cost of the Group amounted to BGN 10,448 thousand.

Expected development

Through purchase of several cable and LAN networks in some settlements, the Parent company has broaden its presence on the territory of Sofia and Bulgaria.

These basic goals were related to significant growth of the CATV subscribers and fast development of the service – high-speed Internet access by a cable. The Company has made significant investments in the expansion of the cable network and the acquisition of new cable networks and telecommunication equipment.

In 2009 the tendency for the increase of the subscribers number of "Eurocom Cable Management Bulgaria" Ltd. will be continued, following our main priorities of:

- development of the existing cable networks and entering new regions;
- increase of the corporate customers number;
- investigation in terms of the opportunities related to the provision of new telecommunication services;
- increase of the market share in the field of the broadband internet and telephony over IP (VOIP);
- increase of the services portfolio concerning the digital TV, PPV an HDTV;
- provision of packages of telecommunication services (multi-play services);
- improvement of the customer service.

The main business goal of the Company in 2008 would be the rapid development and keeping its leading market position.

Important events after the conclusion of the financial year

During April 2009 the Group's management decided to discontinue the operations of Eurocom Trans EOOD and the operations of the subsidiary to be carried by Eurocom Cable Management Bulgaria EOOD.

Research and development

N/A

April, 30, 2009, Petyo Staykov

Sofia /Director of Eurocom Cable Management Bulgaria Ltd./

INDEPENDENT AUDITOR'S REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Owner of
Eurocom Cable Management Bulgaria EOOD

Report on the consolidated financial statements

1. We have audited the accompanying consolidated financial statements of Eurocom Cable Management Bulgaria EOOD (the "Parent Company"), and its subsidiaries (together referred to as "the Group"), which comprise the consolidated balance sheet as of December 31, 2008, and the consolidated 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

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union Commission. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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

3. 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.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

Opinion

6. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2008, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union Commission.

Emphasis of a matter

7. Without qualifying our opinion, we draw attention to Note 28 to the accompanying consolidated financial statements. The subsidiaries within the Group have contracts for broadcasting rights with content providers. According to most of the contracts, the provider retains the right to audit the accounting records of the subsidiaries and to verify the actual number of subscribers and in case of underpayment, the subsidiaries are obliged to pay all additional fees as well as 5% interest on them. As there is no history of such audits requested and performed, management considers that it is not likely that additional charges, including unpaid fees and interest thereon will arise. Therefore, no provision has been accrued for such potential liabilities as of December 31, 2008.

8. Without qualifying our opinion, we draw attention to Note 2.24. to the financial statements which indicates that the Group's financial statements are prepared on a going concern basis. As disclosed also in Note 2.24 as a result of the global economic crisis the parent of the Group (FN Cable Group) will presumably be unable to fulfill the financial covenant indicators set out in the credit agreement during 2009, and the shareholders are considering restructuring of the FN Cable Group. In addition, the Group, as part of the FN Cable Group, is also impacted by the financial turbulences and the financing structure includes cross-default obligations.

   These conditions, along with the other matters as set forth in Note 2.24., and the fact that the Group incurred net loss of BGN 4,050 thousand for the year ended December 31, 2008 and as of that date its current liabilities exceed its current assets by BGN 7,822 thousand, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The accompanying consolidated financial statements do not include adjustments that would have been necessary had the Group been unable to continue as a going concern.

Other reports on regulatory requirements – Annual consolidated report on the activities of the Group according to article 33 of the Accountancy Act

9. Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual consolidated report on the activities of the Group. The Annual consolidated report on the activities of the Group is not a part of the consolidated financial statements. The historical financial information presented in the Annual consolidated report on the activities of the Group, prepared by the management is consistent, in all material respects, with the annual financial information disclosed in the consolidated financial statements of the Group as of December 31, 2008, prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union Commission. Management is responsible for the preparation of the Annual consolidated report on the activities of the Group, dated April 30, 2009.

Deloitte Audit OOD

Deloitte Audit OOD

A. Dimov

Assen Dimov
Managing Director
Registered Auditor

May 26, 2009
Sofia

EUROCOM CABLE MANAGEMENT BULGARIA

CONSOLIDATED INCOME STATEMENT
AT DECEMBER 31, 2008
All amounts are in thousand BGN unless otherwise stated

	Notes	Year ended 31.12.2008	Year ended 31.12.2007 (restated)
Revenue from sales	4	57,030	47,614
Raw materials, consumables and services used	5	(21,150)	(17,009)
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Profit / (Loss) before tax		(4,455)	939
Tax income / (expense)	10	405	(228)
Profit / (Loss) for the year		(4,050)	711
Attributable to:			
Equity holders of the parent company		(4,050)	711

These consolidated financial statements have been approved on behalf of Eurocom Cable Management Bulgaria EOOD on 30.04.2009.

Chief Executive Officer **Chief Financial Officer**

The accompanying notes are an integral part of these consolidated financial statements

EUROCOM CABLE MANAGEMENT BULGARIA

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2008
All amounts are in thousand BGN unless otherwise stated

	Notes	As of 31.12.2008	As of 31.12.2007 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	11	56,576	40,257
Goodwill	12	7,096	6,730
Other intangible assets	13	82,162	71,465
Deferred tax assets, net	10	1,059	639
Other non-current assets	14	13	13
TOTAL NON-CURRENT ASSETS		146,905	119,104
CURRENT ASSETS			
Inventories	15	2,679	2,180
Trade and other receivables	16	3,762	7,810
Cash and bank balances	17	4,176	3,828
TOTAL CURRENT ASSETS		10,616	13,817
TOTAL ASSETS		157,521	132,921
EQUITY			
Issued capital	18	3,000	3,000
Retained earnings		(3,931)	119
TOTAL EQUITY		(931)	3,119
NON-CURRENT LIABILITIES			
Bank loans	19	61,838	41,847
Finance lease liabilities	20	137	65
Loans from related parties	21	78,039	70,048
TOTAL NON-CURRENT LIABILITIES		140,014	111,960
CURRENT LIABILITIES			
Trade and other payables	22	15,408	15,625
Finance lease liabilities	20	309	156
Bank loans	19	978	700
Deferred revenue	23	1,743	1,361
TOTAL CURRENT LIABILITIES		18,438	17,842
TOTAL EQUITY AND LIABILITIES		157,521	132,921

These consolidated financial statements have been approved on behalf of Eurocom Cable Management Bulgaria EOOD on 30.04.2009.

Chief Executive Officer **Chief Financial Officer**

The accompanying notes are an integral part of these consolidated financial statements

EUROCOM CABLE MANAGEMENT BULGARIA

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008
All amounts are in thousand BGN unless otherwise stated

	Notes	Year ended 31.12.2008	Year ended 31.12.2007 (restated)
Cash flows from operating activities			
Loss for the year		(4,455)	939
Depreciation and amortization	11, 13	11,570	7,205
Impairment loss of receivables		1,267	1,780
Finance costs recognised in income statement	9	16,327	11,722
(Gains) / Losses from sale of property, plant and equipment		51	(3)
Movements in working capital			
(Increase) / decrease in inventories		3,163	(1,132)
(Increase) in trade and other receivables		(499)	(4,003)
Increase / (decrease) in trade and other payables		2,700	(4,235)
CASH GENERATED FROM OPERATIONS		30,124	12,273
Income taxes paid		(159)	(103)
Interest paid		(12,665)	(14,159)
NET CASH GENERATED BY / (USED IN) OPERATING ACTIVITIES		17,300	(1,989)
Cash flows from investing activities			
Payment for property, plant and equipment		(16,307)	(13,661)
Proceeds from sale of property		66	85
Payment for other intangible assets		(344)	(136)
Acquisitions through business combinations, net of cash and cash equivalents acquired	12	(20,451)	(6,290)
Cash paid for acquisition payables	22	(7,768)	-
Other		170	(68)
NET CASH USED IN INVESTING ACTIVITIES		(44,634)	(20,070)
Cash flows from financing activities			
Proceeds from bank loans		19,965	16,547
Repayments of bank loans		-	(1,172)
Proceeds from related party loans		7,823	-
Payment of finance lease liabilities		(105)	(64)
Proceeds from interest, commission and dividends		-	3,006
NET CASH GENERATED BY FINANCING ACTIVITIES		27,683	18,317
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		349	(3,742)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	17	3,734	7,476
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	17	4,083	3,734

These consolidated financial statements have been approved on behalf of Eurocom Cable Management Bulgaria EOOD 30.04.2009.

Chief Executive Officer **Chief Financial Officer**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008
All amounts are in thousand BGN unless otherwise stated

	Issued capital	Retained earnings	Total
BALANCE AS OF 1 JANUARY 2007	17,607	(524)	17,083
Loss for the year	-	(297)	(297)
Buy-back of ordinary shares (note 14)	(14,607)	-	(14,607)
Other movements	-	(68)	(68)
BALANCE AS OF 31 DECEMBER 2007	3,000	(889)	2,111
Effect of errors (note 2.8)	-	1,008	1,008
BALANCE AS OF 31 DECEMBER 2007 (restated)	3,000	119	3,119
Loss for the year	-	(4,050)	(4,050)
BALANCE AS OF 31 DECEMBER 2008	3,000	(3,931)	(931)

These consolidated financial statements have been approved on behalf of Eurocom Cable Management Bulgaria EOOD on on 30.04.2009.

Chief Executive Officer

Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements

All amounts are in thousand BGN unless otherwise stated

1. General information

Legal status

Eurocom Cable Management Bulgaria EOOD ("the Company", "the Parent Company", "ECMB") was registered at the Sofia City Court on March 22, 2005 as 100% ownership of WP Private Lexington Equity, Netherlands. The Company's registered address is in 1766 Sofia, 1 Business Park Sofia str., building 12B, floor 2.

As of December 31, 2008 the Company is a wholly owned subsidiary of FN CABLE HOLDINGS B.V., Netherlands ("the FN Cable Group"). The ultimate parent is WP Private Lexington Equity, Netherlands.

Scope of activity

The Company and its subsidiaries are operating as a cable television operator and broadband internet provider.

The ECMB Group

As of December 31, 2008 the ECMB Group includes the following subsidiaries: Eurocom Trans EOOD, Eurocom Kuklen EOOD, Eurocom Karlovo EOOD, and the acquired during 2008 Intercom Bor Sat EOOD (the subsidiaries), which had a jointly contolled entity - Eurocom Chirpan OOD (the joint controlled entity).

Gigabit Net EOOD in liquidation, which was one of the subsidiaries of the Group as of December 31, 2008, was liquidated on December 22, 2008. These consolidated financial statements incorporate the results of Gigabit Net EOOD up to the liquidation date.

The Company, its subsidiaries and the jointly controlled entity are hereinafter referred to as the Group.

Details of the Group as of December 31, 2008 are as follows:

Name of subsidiary	Place of operations	Proportion of ownership interest	Principal activity
Eurocom Cable Management Bulgaria EOOD	Bulgaria	Parent	cable tv and internet services
Eurocom Trans EOOD	Bulgaria	100%	transport services
Eurocom Kuklen EOOD	Bulgaria	100%	cable tv and internet services
Eurocom Karlovo EOOD	Bulgaria	100%	cable tv and internet services
Intercom Bor Sat EOOD	Bulgaria	100%	cable tv and internet services
Eurocom Chirpan OOD – joint venture	Bulgaria	50%	cable tv and internet services

As of December 31, 2007 the ECMB Group includes the following subsidiaries: Eurocom Trans EOOD, Eurocom Kuklen EOOD, Eurocom Karlovo EOOD, Gigabit Net EOOD – in liquidation.

2. Summary of significant accounting policies

2.1 Basis of accounting

The Group prepares and presents its financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the "EU") and applicable in the Republic of Bulgaria. IFRS as adopted by the EU do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of December 31, 2008, except for certain requirements for hedge reporting in accordance with the IAS 39 Financial Instruments: Recognition and Measurement, which has not been adopted by the EU. The management believes that if the hedge requirements have been approved by the EU it would have no influence on these financial statements.

During 2008 the Group has adopted all new and revised IFRS by IASB, as approved by the EU, effective for 2008, which refer to the Company's business, such as:

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (effective as of July 1, 2008);

The adoption of the above amendments has not resulted in changes in the accounting policies of the Group.

Changes in IFRS

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by EU were in issue but not yet effective:

- Amendments to IFRS 1 First-time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after January 1, 2009);
- IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 2009);
- IAS 1 (revised) Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009);
- IAS 23 (revised) Borrowing Costs (effective for annual periods beginning on or after January 1, 2009);
- Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009);
- Improvements to IFRS 2008 (effective for annual periods beginning on or after 1 January 2009) affecting presentation, recognition or measurement principles, set in IFRS 5, IFRS 7, IAS 1, IAS 7, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 32, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41;
- IFRIC 11, IFRS 2: Group and Treasury Transactions (effective for annual periods beginning on or after March 1, 2008);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after March 30, 2009);
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after January 1, 2009);
- IFRIC 14, IAS 19: The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2009).

2. Summary of significant accounting policies (continued)

2.1 Basis of accounting (continued)

As of the date of authorization of these financial statements, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendment to the existing standards and interpretations, which were not yet endorsed for use:

- IFRS 1 (revised) First-time Adoption of IFRS (effective for annual periods beginning on or after 1 July 2009);
- IFRS 3 (revised), Business Combinations (effective for annual periods beginning on or after July 1, 2009);
- Amendment to IFRS 7 Financial Instruments: Disclosure (effective for annual periods beginning on or after 1 January 2009);
- Amendments to IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009);
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement regarding reclassification of financial assets (effective for annual periods beginning on or after 1 July 2008);
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement regarding eligible hedged items (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRIC 9"Reassessment of Embedded derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" regarding embedded derivatives (effective for annual periods beginning on or after 30 June, 2009);
- IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008);
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18 Transfer of Assets from Customers (effective on or after 1 July 2009).

Most of the IFRS and IFRIC stated above are not applicable to the Company's activity and will have no material effect on the financial statements.

The following amendments to the standards and interpretations might have material effect on the financial statements:

- The Revised IAS 1 Presentation of Financial Statements, which requires information in the financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income.

- The Revised IAS 23 Borrowing Costs, which eliminates the option of recognizing borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

- The Revised IFRS 3 Business Combinations, which extends the specifics regarding the recognition and measurement of the business combinations.

2. Summary of significant accounting policies (continued)

2.2 Basis of preparation

The consolidated financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments and for the valuation of network equipment and other machinery and equipment, and certain intangible assets, acquired through business combinations, which are measured at fair value, as disclosed in note 11 "Property, plant and equipment", note 12 "Goodwill" and note 13 "Intangible assets".

2.3 Basis of consolidation

These consolidated financial statements include the separate financial statements of the Parent Company and the companies, controlled by the Parent Company (its subsidiaries) as of December 31 of the respective year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The result of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies applied into line with those used by the Parent Company. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

These consolidated financial statements incorporate the financial statements of Eurocom Cable Management Bulgaria EOOD, Eurocom Trans EOOD, Eurocom Kuklen EOOD, Eurocom Karlovo EOOD, Gigabit Net EOOD in liquidation (up to date of liquidation), Intercom Bor Sat EOOD and the Group's share of the jointly controlled assets, liabilities and financial results of Eurocom Chirpan OOD (see note 2.4. below). The consolidated financial statements also incorporate the assets, liabilities and the financial results of the former ECMB's subsidiary Eurocom Plodviv EOOD, which was legally merged into ECMB in October, 2007. The consolidated financial statements also incorporate the assets, liabilities and the financial results of the former ECMB's subsidiaries Vitinia OOD, Inter BG Com OOD and Eurocom Co EOOD, which were legally merged into ECMB in January, 2007.

2.4 Interests in joint ventures

A joint venture is contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operational policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

2. Summary of significant accounting policies (continued)

2.4 Interests in joint ventures (continued)

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising from business combinations (see notes 2.9. and 2.10. below).

2.5. Functional and presentation currency

In accordance with the Bulgarian accounting legislation, the Company keeps its records and prepares its consolidated financial statements in the national currency of the Republic of Bulgaria – Bulgarian Lev (BGN), which from the beginning of January 1, 1999 is fixed to the EUR at: BGN 1.95583 for EUR 1. The present consolidated financial statements are stated in thousands of Bulgarian Levs ("BGN'000").

2.6. Transactions denominated in foreign currency

Transactions denominated in foreign currency are initially recorded at the official rate of exchange of the Bulgarian National Bank (BNB) as of the date of the transaction. The foreign exchange rate differences, arising upon settlement of the monetary positions or at retranslation of these positions at rates, different from those when initially recorded, are reported as financial income or financial expenses for the period in which they arise. Monetary positions denominated in foreign currency as of December 31, 2008 are stated in these financial statements at the closing exchange rate of BNB.

2.7. Accounting assumptions and accounting 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 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.

The critical accounting judgements and key sources of estimation uncertainty are disclosed in note 3 below.

2.8. Restatement of comparative figures

During 2008 the Group has identified the following error related to 2007:

a) Accounting error: depreciable amount for part of the property, plant and equipment acquired in previous years through business combinations has not been properly determined by the Group at the date of acquisition, and as a result the depreciation expense for 2007 has been overstated by BGN 1,120 thousand.

In 2008 the Group has reported the effect of the above described error by using the benchmark treatment, regulated in IAS 8 "Accounting policies, changes in accounting estimates and errors" and the comparative information has been restated.

All amounts are in thousand BGN unless otherwise stated

2. Summary of significant accounting policies (continued)

2.8. Restatement of comparative figures (continued)

As a result, the following changes in comparative information have occurred:

	Adjustment
Error a)	
Depreciation and amortization	(1,120)
Property, plant and equipment – accumulated depreciation	1,102
Intangible assets – accumulated depreciation	18
Tax expense	112
Deferred tax asset	(112)

The changes in the comparative information following adjustments "a" and "b", described above, are summarized below:

	As of 31.12.2007	Adjustment	As of 31.12.2007 (restated)
Consolidated balance sheet			
Property, plant and equipment	39,155	1,102	40,257
Intangible assets	71,447	18	71,465
Deferred tax assets	751	(112)	639
Equity	(2,111)	(1,008)	(3,119)
Consolidated income statement			
Depreciation and amortization	8,325	(1,120)	7,205
Tax income / (expense)	(116)	(112)	(228)
Profit / (loss) for the period	(297)	1,008	711
Consolidated cash-flow statement			
Profit / (loss) before tax	(181)	1,120	939
Depreciation and amortization	8,325	(1,120)	7,205

2.9. Business combinations

The acquisition of subsidiaries and businesses are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of the exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

2. Summary of significant accounting policies (continued)

2.9. Business combinations (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2.10. Goodwill

Goodwill is measured initially as the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition. After initial recognition, the Company measures the goodwill at cost less any accumulated impairment loss.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

In accordance with the requirements of IFRS 3 "Business combinations", goodwill has been tested for impairment as of December 31, 2008 and no impairment loss has been considered incurred.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.11. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Assets acquired through business combination are valued at their fair value at the date of acquisition. These consolidated financial statements incorporate the property, plant and equipment of ECMB and its subsidiaries as disclosed in 2.3. above, as well as the property, plant and equipment of the following companies, acquired through business combinations:

- Centrum Group Kabel OOD and Koel EOOD, acquired through business combination in 2007;
- Eurocom Plovdiv, acquired in 2006 and legally merged in ECMB in 2007;
- Centrum Group BG, acquired in 2006;
- Eurocom Cable and Eurocom Impass, merged in ECMB via BBB in 2006.
- TOMEKOM EOOD, acquired in 2008;
- OSG Intercom OOD, acquired in 2008;
- Insight Com OOD, acquired in 2008.

2. Summary of significant accounting policies (continued)

2.11. Property, Plant and Equipment (continued)

The property, plant and equipment of the described above companies has been measured at fair value based on external valuation performed by a licensed appraiser. The fair values of these assets are regarded as deemed cost and further caried less accumulated depreciaiton and impairment loss.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are charged to the income statement in the period, in which the costs are incurred, unless these increase the useful life of the assets.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction of property and equipment and other direct costs. Construction in progress is not depreciated until the respective assets are completed and put into operation.

Property, plant and equipment primarily represent costs incurred to construct the cable television network system. This includes cables and elements, appliances and amplifiers. Property, plant and equipment also include other machinery and equipment, e.g. computers and measuring appliances.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment are depreciated using the straight-line method of depreciation. The useful life of the assets is as follows:

Group of assets	Years
Cable network	10
Machines	4
Equipment	4
Fixtures and fittings	6.7

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease if there is no reasonable certainty that the ownershipwill be obtained at the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.12. Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets represent costs incurred to obtain licenses for the provision of cable television services and for construction and exploitation of cable television networks. For the latter the useful life is considered to be the term of the license.

2. Summary of significant accounting policies (continued)

2.12. Intangible assets (continued)

Intangible assets are measured initially at cost with exception of Customer base, acquired through business combinations. The Company recognized in 2008 the Customer base acquired through the purchase of the network of TOMEKOM EOOD, OSG Intercom OOD, Insight Com OOD. The Customer base was accounted for following the requirements of IFRS 3 "Business combinations".

In previous years the Company has recognized the Customer base acquired through the purchase of Eurocom Plovdiv, Centrum Group BG, Eurocom Cable and Eurocom Impass via BBB, Koel EOOD and Centrum Group Kabel OOD. The fair value of the Customer base has been determined by a licensed appraiser.

The useful life of the Customer base is estimated at 25 years based on the Company's own data for Customer base dynamics. The asset is amortized based on the estimated useful life.

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost, or fair value at businees combinations, of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment loss.

2.13. Impairment of property, plant and equipment, and intangible assets excluding goodwill

At each balance sheet date the Company reviews the carrying amounts of its property, plant and equipment, and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as revaluation increase.

2. Summary of significant accounting policies (continued)

2.14. Inventories

Inventories consist of merchandise and materials related to the construction of the cable television network system.

Inventories are stated at the lower of cost and net realisable value. Costs comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Weighted average method of accounting is used for writing off inventory.

For imported materials the exchange rate applicable at the date of issue of the invoice is used.

2.15. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle an obligation are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.16. 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.

Assets held under finance leases are recognised 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 liability. Finance charges are charged directly against income statement.

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.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2. Summary of significant accounting policies (continued)

2.17. Income and expense recognition

Income from sales of goods and services are accrued at the moment of their occurrence, regardless of cash receipts and cash payments, when the Group fulfils the terms of sales and the significant risks and benefits, related to the ownership of the goods, are transferred to the buyer.

Cable network revenue is recognized for the provision of cable tv, telephone and internet access services over the Group's cable network to customers in the period the related services are provided. Installation fees related to services over the cable network are recognized as revenue in the period in which the installation occurs to the extent these fees are equal to or less than direct selling costs, which costs are expensed as incurred. To the extent installation revenue exceeds direct selling costs, the excess revenue is deferred and amortized over the average expected subscriber's contract lenght. Costs related to reconnections and disconnections are recognized in the consolidated financial statements as incurred.

In case of promotional discounts for subscriber promotions, such as discounted or free services during an introductory period, revenue is recorded at the discounted monthly rate, if any, charged to the subscriber.

Subscriber advance payments and deposits received in advance for distribution services are deferred and recognized as revenue when the associated services are provided. Deposits are recorded as a liability upon receipt and refunded to the subscriber upon disconnection.

Interest income is accrued on a time basis, by reference to the loan outstanding and at the effective interest rate applicable.

Expenses are accrued at the moment of their occurrence. Income and expenses are reported according to the matching concept.

2.18. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The current tax payable is based on the individual taxable profit for the year of the Parent Company and the subsidiaries. Taxable profit differs from profit as reported in the separate income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

2. Summary of significant accounting policies (continued)

2.18. Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the respective entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Current tax expense represents the amount of corporate taxes due based on the Bulgarian legislation and the tax rates enacted at the date of the financial statements. According to the Bulgarian legislation corporate income tax rate, applicable for the year ended December 31, 2008 is 10%.

2.19. Financial instruments

Financial instruments of the Company include cash and bank balances, trade and loan receivables, loans obtained and trade payables. The Company's management believes that the financial instruments' fair value is close to their carrying amount. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

2.20. Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2. Summary of significant accounting policies (continued)

2.20. Financial assets (continued)

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method less any impairment loss. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate impairment losses for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The impairment losses recognised are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Based on the historical pattern of collecting trade amounts receivable, the general policy for recognition of impairment losses prescribes for 100% impairment of all receivables outstanding for more then 90 days. This policy is particularly attributable to household subscribers. Toward corporate customers the impairment assessment and recognition policy may vary as the Company seeks for reasonable negotiation and rescheduling of payments in a proper way for each particular case.

Cash and cash equivalents

Cash includes cash on hand and current accounts with banks. The Company considers all highly liquid financial instruments with maturity of three months or less to be cash equivalents. For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash and cash equivalents, as described above.

2.21. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

2. Summary of significant accounting policies (continued)

2.21. Impairment of financial assets (contuned)

For financial assets carried at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively adhered to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

2.22. Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings and trade payables, are initially measured at fair value, net of transaction costs, and subsequently are measured at amortized cost.

2.23. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 26 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

2. Summary of significant accounting policies (continued)

2.24. The Group's operations on a going concern basis

Despite the global economic crisis hit the Central and Eastern European economies in the 4th Quarter of 2008, the FN Cable Group management believes it will not have a material impact on the operations and the operating profit of the FN Cable Group and Eurocom Group in terms of local currency due to the nature of the cable TV industry. These expectations are also supported by the financial performance of the first months in 2009.

On the other hand, the Hungarian forint and Ukrainian Hryvnia devaluated significantly (approx. by 17% and 28% respectively) compared to the EUR since the beginning of the 4th Quarter of 2008. The FC Cable Group and Eurocom Group have its bank loans and debt service denominated in EUR therefore the devaluation of the Hungarian forint increased the indebtedness and the realized and non-realized foreign exchange loss. In spite of it operates in Bulgaria and the Bulgarian currency has not devaluated against the EUR, the ECMB Group (as part of the FN Cable group) is also impacted by the financial turbulences because it is part of the FN Cable group and the financing structure including cross-default obligations. However due to the stable cash-flow and cash balance of the Eurocom Group, the liquidity position in short and medium-term is very solid.

Besides the FN Cable Group management is aware that based on the business plan prepared in accordance with the current market expectations, the FN Cable Group will presumably be unable to fulfil the covenant indicators set out in the credit agreement during 2009. In order to avoid the related risks, the FN Cable Group management initiated negotiations with the financing banks, implemented a strict cost efficiency program and the shareholders are considering the restructuring of the FN Cable Group.

Management believes that the FN Cable Group's and ECMB Group's short and medium-term liquidity is stable and the above steps will ensure the long-term liquidity and repayment of the bank loans - in case if needed - through the renegotiation of the current terms and conditions with the banks. As a conclusion management believes that the ECMB Group will be able to continue its operations on a going concern basis.

3. Critical accounting judgements and key sources of estimation uncertainty

The following are the key assumptions concerning the furure, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3.2. Useful life of customer base

As disclosed in note 2.10. above the management has estimated the useful life of the Customer base to be 25 years, which is based on analysis of Customer base dynamics. However, increased competition, or other factors may cause in the future the management to reconsider their assumptions regarding the estimates of the useful life.