PrJSC VF Ukraine and Subsidiaries

Consolidated Financial Statements
as of and for the Year Ended
31 December 2019

TABLE OF CONTENTS

LLC "Deloitte & Touche USC"
48, 50A, Zhylyanska Street
Kyiv, 01033, Ukraine

Tel.: +38 (044) 490 90 00
Fax: +38 (044) 490 90 01
deloitte.ua

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Private Joint Stock Company "VF Ukraine":

Opinion

We have audited the consolidated financial statements of Private Joint Stock Company "VF Ukraine" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Accuracy and timeliness of revenue recognition The Group's consolidated revenue is a material amount made up of a large number of individually insignificant transactions. The Group is using complex information systems, including automated billing systems and integrated accounting systems, to recognize revenue.	Our audit procedures for testing of revenue and assessment of IT systems included the following: 1. Analysis of the information technology environment that support proper operations of automated billing and other IT systems related to accounting for revenue; 2. Detailed analysis of IT systems and business processes relevant to revenue recognition in order to identify risks of material misstatement of the consolidated financial statements arising from IT systems and key business processes and appropriate controls that address those risks;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
We consider this to be a key audit matter due to the complexity of the information technology systems involved in the process of revenue recognition and critical importance of proper operations of those systems for accurate and timely recognition of revenue. This required an increased level of audit effort, including involvement of information technology specialists in our audit. See Note 5 "Revenue from contracts with customers".	3. Testing design, implementation, and appropriate operation of controls, both manual and automated, in the process of recording revenue, including in the following areas: recording and registering calls and their type and duration, rendering data transfer and additional services; authorizing changes in tariff plans and entering this information into automated calculation systems; 4. Testing reconciliations of information on duration, volume and monetary amounts of telecommunication services provided from initial recording of billable events by switching equipment to automated billing and other IT systems and further to the accounting records and the amounts reported in the consolidated financial statements; 5. Performing test calls to verify the correctness of data about calls (their registration, duration, and correct billing) recorded in IT systems; 6. Sample reconciling of data on the existing tariffs for communication services recorded in the billing systems to tariffs and public offer plans approved by the Group. We have also considered the appropriateness and consisted application of the Group's accounting policy with respect to recognition of revenue from the provision of services to subscribers as well as evaluated the appropriateness of revenue disclosures in the consolidated financial statements.
Useful lives of property and equipment At 31 December 2019, the Group had UAH 10,110 million of property and equipment mainly consisting of telecommunication network equipment. As discussed in Note 14 to the consolidated financial statements, the Group's property and equipment is depreciated on a straight-line basis over their estimated useful lives. Management uses its judgement to estimate useful lives of its property and equipment based on the technical data provided by the vendor, engineering data relating to the operation and performance of its network, and the Group's long-term strategy for the use of the respective assets. Auditing the Group's estimates of useful lives of network equipment involved a high degree of auditor judgement in evaluation the appropriateness of estimates developed by management and the effect of these estimates on the amounts reported in the consolidated financial statements is significant. See Note 3 "Significant accounting judgments, estimates and assumptions" and Note 14 "Property and equipment".	Our audit procedures in this area included the following: 1. Understanding and assessment of the appropriateness of the Group accounting policies and processes for developing, monitoring and revising useful lives of property and equipment. 2. Obtaining an understanding of the internal controls over the Group's processes to determine the estimated useful lives of the network equipment and assessment of their design and implementation. 3. Obtaining and evaluating audit evidence (both supportive and contradictory) relevant to the assessment of management's estimates, including ageing of equipment in service, age of equipment retired from operations, technical specifications of assets, vendor equipment swap programs and management outlook on the rollout of new telecommunication technology. 4. Verification, on a sample basis, of the information used in management analysis, including reconciliation of in-service equipment registers to network traffic data. We have also assessed the completeness and accuracy of the relevant disclosures in the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

LLC "Deloitte & Touche USC"

Olga Shamrytska
Engagement partner

LLC “Deloitte & Touche Ukrainian Services Company”
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

17 April 2020

PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2019	2018
Service revenue	5	14,938	12,531
Sales of goods	5	1,045	268
Revenue		**15,983**	**12,799**
Cost of services	6	(3,983)	(3,714)
Cost of goods	13	(999)	(261)
Selling, general and administrative expenses	7	(2,774)	(2,022)
Depreciation and amortization	14,15, 16,18	(4,703)	(4,088)
Other operating income		98	62
Operating profit		**3,622**	**2,776**
Finance income	8	186	165
Finance costs	8	(650)	(745)
Currency exchange gain		71	11
Profit before tax		**3,229**	**2,207**
Income tax expense	9	(690)	(460)
Profit for the year		**2,539**	**1,747**
Total comprehensive income for the year		**2,539**	**1,747**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Elena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 10 to 46 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2019
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property and equipment	14	10,110	9,456
Right-of-use assets	18	4,347	3,459
Other intangible assets	15	6,671	7,258
Cost to obtain contracts	16	242	200
Deferred tax assets	9	525	596
Total non-current assets		**21,895**	**20,969**
Current assets			
Inventories	13	255	188
Trade and other receivables	12,22	635	496
Accounts receivable, related parties	22,24	-	53
Short-term investments	11	436	324
Advances paid and prepaid expenses		92	109
VAT receivable		241	216
Current income tax assets		2	44
Cash and cash equivalents	10	1,434	2,629
Total current assets		**3,095**	**4,059**
Total assets		**24,990**	**25,028**
Equity and liabilities			
Equity			
Common stock	25	8	8
Reserve capital		2	2
Retained earnings		14,375	11,836
Total equity		**14,385**	**11,846**
Non-current liabilities			
Borrowings, related parties	19,24	-	2,854
Borrowings	19	-	2
Lease obligation	18	3,610	2,779
Provisions	20	287	232
Contract liabilities	23	4	1
Total non-current liabilities		**3,901**	**5,868**
Current liabilities			
Trade and other payables	17,22	1,891	1,466
Accounts payable, related parties	22,24	1,791	3,264
Contract liabilities	23	1,402	1,245
Interest on notes payable, related parties	19,24	-	97
Borrowings	19	4	45
Lease obligation	18	1,031	879
Provisions	20	352	280
Other non-financial liabilities	21	233	38
Total current liabilities		**6,704**	**7,314**
Total equity and liabilities		**24,990**	**25,028**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Elena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 10 to 46 form an integral part of these consolidated financial statements.

PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Common stock		Reserve capital	Retained earnings	Total equity
	Shares	Amount			
Balances at 1 January 2018	**781,662,116**	**8**	**2**	**10,894**	**10,904**
Profit for the year	-	-	-	1,747	**1,747**
Total comprehensive income for the year	**-**	**-**	**-**	**1,747**	**1,747**
Dividends declared	-	-	-	(805)	**(805)**
Balances at 31 December 2018	**781,662,116**	**8**	**2**	**11,836**	**11,846**
Profit for the year	-	-	-	2,539	**2,539**
Total comprehensive income for the year	**-**	**-**	**-**	**2,539**	**2,539**
Balances at 31 December 2019	**781,662,116**	**8**	**2**	**14,375**	**14,385**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Elena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 10 to 46 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	2019	2018
Cash flows from operating activities:		
Profit for the year	2,539	1,747
Adjustments for:		
Depreciation and amortization	4,703	4,088
Finance income	(186)	(165)
Finance costs	650	745
Income tax expense	690	460
Currency exchange gain	(71)	(11)
Inventory obsolescence expense	5	1
Allowance for doubtful accounts	2	14
Change in provisions	801	517
Other non-cash items (gain from disposal of PPE, IA and right-of-use assets)	(47)	(51)
Movements in operating assets and liabilities:		
(Increase)/Decrease in trade and other receivables	(162)	1,591
Increase in inventory	(75)	(147)
(Increase)/Decrease in VAT receivable	(21)	42
Decrease/(Increase) in advances paid and prepaid expenses	17	(36)
Increase in subscriber prepayments and deposits	164	128
Decrease in trade and other payables, contract liabilities and other liabilities	(771)	(839)
Income taxes paid	(577)	(402)
Interest received	195	153
Cost to obtain contracts	(133)	(95)
Interest paid	(719)	(610)
Net cash provided by operating activities	7,004	7,130
Cash flows from investing activities:		
Purchases of property and equipment	(2,754)	(2,752)
Purchases of other intangible assets (excl. cost to obtain contracts)	(1,034)	(1,456)
Purchase of 4G licenses	-	(2,433)
Proceeds from sale of property and equipment	53	31
Placement of short-term investments	(169)	(322)
Net cash used in investing activities	(3,904)	(6,932)
Cash flows from financing activities:		
(Repayment)/Proceeds from issuance of Notes	(2,745)	2,917
Notes and debt issuance cost paid	(3)	(7)
Lease obligation principal paid	(512)	(334)
Dividends paid	(920)	(730)
Repayment of loans	(26)	(36)
Net cash (used in)/provided by financing activities	(4,206)	1,810

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	2019	2018
Net (decrease) / increase in cash and cash equivalents:	**(1,106)**	**2,008**
Cash and cash equivalents, beginning of the period	**2,629**	**707**
Effect of exchange rate changes on cash and cash equivalents	(89)	(86)
Cash and cash equivalents, end of the period	**1,434**	**2,629**

For non-cash additions to property, equipment and intangible assets see Note 17.
For non-cash additions to right-of-use assets and lease obligations see Note 18.

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Elena Solovyova
Head of Department for the Financial Statements and Accounting

1. General information and DESCRIPTION OF BUSINESS

VF Ukraine Private Joint-Stock Company (PrJSC "VF Ukraine" or "the Company") is a company incorporated under the laws of Ukraine and having its registered address at 15, Leiptsyzka Street, 01601, Kyiv, Ukraine.

The consolidated financial statements include the Company's and its subsidiaries' ("the Group" or "VF Ukraine") results as of 31 December 2019 and 2018, and for the years ended 31 December 2019 and 2018.

Business of the Group

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, various value added services ("VAS") through wireless, pay TV, as well as the sale of equipment and accessories. The Group conducts operational activity in Ukraine. On 15 October 2015, PrJSC "VF Ukraine" signed a strategic agreement with Vodafone Sales and Services Limited on the cooperation and use of Vodafone brand in Ukraine. After signing of Memorandum of Understanding on 22 November 2019 and subsequent renewal of branding agreement dated 3 March 2020 (see Note 29) PrJSC "VF Ukraine" renewed it for the period 2020-2025 with the contractual right to extend for a further period of 1 year. Under the new extended partnership agreement, the Group plans to work together on rollout of 5G and IoT (Internet-of-Things) digital services and products in Ukraine, receive the access to Vodafon's central procurement services and incorporate global best practice in IT network operation.

PrJSC "VF Ukraine" is the parent company that exercises control over the following subsidiaries: LLC VF Retail, LLC IT SmartFlex and until 31 March 2019 also Capital Valentine B.V., established in the Netherlands, as a consolidated structured company in order to raise the funds for the benefit of PrJSC "VF Ukraine" (issue of notes to a related party for a total amount of EUR 90 million and granting a loan to PrJSC "VF Ukraine" for a total amount of EUR 90 million for a period of 35 months). As the loan and respective notes (principal and coupon) were fully repaid in March 2019 (see Note 19), the Group ceased consolidating operations of this special purpose entity after the repayment date.

The purpose of the Limited Liability Company VF Retail ("VF Retail") is to stimulate the sales of phones and smartphones for smartphonization of the Ukrainian population.

Limited Liability Company IT SmartFlex ("IT SmartFlex"), a software developer, support and integration services provider, started its operation in February 2019 and during the year focused its activities on providing services for the Group.

By the end of 2019 the number of full-time employees of the Group had reached over 4,400 persons (2018: 3,400 persons).

PrJSC "VF Ukraine"'s majority shareholder is Preludium B.V. (hereinafter "Preludium"), a company incorporated under Dutch law. Since 2015 Preludium holds directly 99% of the shares in VF Ukraine and 100% of the shares in enterprise with 100% foreign investment "PTT Telecom Kiev" (hereinafter "PTT Telecom Kiev") which is a 1% shareholder of PrJSC "VF Ukraine". As of 31 December 2018 and until 3 December 2019 Preludium was indirect subsidiary of Mobile TeleSystems Public Joint-Stock Company or MTS.

On 3 December 2019 Preludium was sold to Telco Solutions and Investments LLC, whose ultimate beneficiary is Nasib Hasanov (Azerbaijan).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, unless disclosed otherwise. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Amounts in the consolidated financial statements are stated in millions of Ukrainian Hryvnias ("UAH million"), unless indicated otherwise.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved only where the Company has power over the entity, is exposed and has rights to variable returns, and is able to use the power to affect its amount of variable returns. The results of the controlled entities acquired or disposed of during the reporting period are included in the consolidated financial statements from the date the Group achieves control over the entity, or until the date on which the Company ceases to control the entity. If necessary, the accounting policies of controlled entities are aligned with the accounting policy applied by the Group. All intra-group assets and liabilities, and equity, income, expenses and cash flows are eliminated on consolidation.

Functional currency

The functional currency of the Group is the Ukrainian Hryvnia. Foreign-currency transactions are translated into the functional currency at the exchange rates at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are translated at the closing rate, whereas non-monetary items are stated at the exchange rate at the date of their recognition. Exchange rate differences are recognized in profit or loss.

Effective ownership interests in the Group's significant subsidiaries were the following:

	Accounting method	31 December 2019	31 December 2018
LLC "VF Retail"	Consolidated	100.0%	100.0%
LLC "ITSF"	Consolidated	100.0%	100.0%

As of 31 December 2018, the Group also consolidated special purpose entity – Capital Valentine B.V., that was established according to the Netherlands law for the Group's financing purposes (issue of notes to a related party for a total amount of EUR 90 million and granting a loan to PrJSC "VF Ukraine" for a total amount of EUR 90 million for a period of 35 months). As the loan and respective notes (principal and coupon) were fully repaid in March 2019 (see Note 19), the Group ceased consolidating operations of this special purpose entity after the repayment date.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Reclassifications in the consolidated statement of financial position and in the consolidated statement of cash flows

Certain items of current liabilities in the corresponding consolidated statement of financial position as of 31 December 2018 and the related changes in operating liabilities in the corresponding consolidated cash flow amounts for the year then ended were reclassified compared to the amounts previously reported to conform to current year presenation. These reclassifications were not deemed material by management.

Standards, interpretations and amendments adopted on 1 January 2019

The Group has adopted IFRIC 23, *Uncertainty over Income Tax Treatments*, ("IFRIC 23") for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - if yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings;
  - if no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

None of interpretations and amendments to standards adopted by the Group on 1 January 2019 had significant effect on the Group's consolidated financial statements.

Standards and Interpretations in issue, but not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 *Business Combinations* – Business definition	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors* – Materiality definition	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021

Management is currently evaluating the impact of the adoption of these Standards and Interpretations, as well as the amendments to Standards.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgments, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an on-going basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each.

Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. The actual economic lives of intangible assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of intangible assets with finite lives.

The Group continues to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Notes 14, 15 for further information.

Right-of-use assets and lease liabilities

The value of right-of-use assets and lease liabilities is based on management estimates of lease terms as well as an incremental borrowing rate used to discount lease payments. The lease term corresponds to the non-cancellable period of each contract, however, in the most cases the Group is reasonably certain of exercising renewal options and therefore lease terms are extended to 10-20 years for sites for placement of network equipment and base stations and up to 6 years for retail stores (see Note 18). When assessing the lease term the management considers all facts and circumstances that create the economic incentive for the Group to excise the option to extend the lease, such as the useful life of the asset located on the leased site, statistics on sites replacement, sequence of technology change, marginality of retail stores as well as costs to terminate or enter into lease contracts. The incremental borrowing rate of the Group is determined based on the credit spreads of the Group's loan offers from banks in relation to zero-coupon yield curve for government securities.

Changes in these factors could affect the estimated lease term and the reported value of right-of-use assets and lease liabilities.

Critical judgements

Provisions and contingencies

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, tax positions, where the outcomes are subject to significant uncertainty. The management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Note 26 for further information.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

4. SEGMENT INFORMATION

The chief operating decision makers (CEO and senior management team) analyze and review results of the Group's operating segments separately based on the nature of products and services. The chief operating decision makers evaluate the segments' performance based on revenue and OIBDA (operating income before depreciation and amortization). The chief operating decision makers do not analyze assets or liabilities by reportable segments.

Mobile business segment represents the result of mobile operations, which encompasses services rendered to customers across Ukraine, including voice and data services.

Retail segment represents the results of retail sales of goods by the Group.

Other category does not constitute reportable segment. It includes the results of LLC IT SmartFlex that does not meet the quantitative thresholds for separate reporting.

The intercompany eliminations presented below primarily consist of sales transactions conducted under the normal course of operations.

Financial information by reportable segment is presented below:

Year ended 31 December 2019:	**Mobile business**	**Retail**	**Other**	**HQ and elimination**	**Consolidated**
Revenue					
External customers	15,018	959	6	-	15,983
Intersegment	18	209	35	(262)	-
Total revenue	**15,036**	**1,168**	**41**	**(262)**	**15,983**
OIBDA	**8,712**	**(341)**	**(1)**	**(45)**	**8,325**
Depreciation and amortization					(4,703)
Operating profit					**3,622**
Finance income					186
Finance costs					(650)
Currency exchange gain					71
Profit before tax					**3,229**

Year ended 31 December 2018:	**Mobile business**	**Retail**	**HQ and elimination**	**Consolidated**
Revenue				
External customers	12,623	176	-	12,799
Intersegment	13	105	(118)	-
Total revenue	**12,636**	**281**	**(118)**	**12,799**
OIBDA	**6,978**	**(103)**	**(11)**	**6,864**
Depreciation and amortization				(4,088)
Operating profit				**2,776**
Finance income				165
Finance costs				(745)
Currency exchange gain				11
Profit before tax				**2,207**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Disaggregation of revenue:

Year ended 31 December 2019:	Mobile business	Retail	Other	Total
Revenue				
Mobile services	14,844	-	-	**14,844**
Other services	49	39	6	**94**
Sales of goods	125	920	-	**1,045**
Total revenue	**15,018**	**959**	**6**	**15,983**

Year ended 31 December 2018:	Mobile business	Retail	Total
Revenue			
Mobile services	12,526	5	**12,531**
Sales of goods	97	171	**268**
Total revenue	**12,623**	**176**	**12,799**

All revenue is generated in Ukraine, including revenue from roaming and interconnect (as services are rendered in Ukraine).

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognized to the extent that the Group has delivered goods or rendered services under an agreement, the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration receivable, exclusive of value added taxes, 7.5% State Pension Fund tax and discounts.

The Group obtains revenue from providing mobile telecommunication services (access charges, messaging, interconnect fees, TV and musical content and connection fees), as well as selling equipment, accessories. Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts.

Revenue for access charges, messaging, interconnect fees is recognized as services are rendered. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or passage of time (monthly subscription fees). Revenue from the sale of prepaid credit is deferred until such time as the customer consumes the services or the credit expires. This leads to the recognition of what is known as a contract liabilities on the statement of financial position and higher cash flows from operations in the year the prepaid credit is provided to the customer while consummation takes place in subsequent years.

Revenue from the provision of TV and music content is recognized as the Group renders the service and is recorded in the amount of commission fee receivable by the Group (acts as an agent) under IFRS 15, *Revenue From Contracts with Customers* as the Group does not control such services before transfer to the customer.

The Group recognizes initial connection fees on its prepaid tariff plans from the activation of subscribers over the terms of the contract, during which the parties have existing rights and obligations secured by legal protection that is a month under Ukrainian legislation.

Revenue from sales of goods (mainly mobile handsets and other mobile devices) is recognized when the significant risks and rewards of ownership have been transferred to the customer.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

For bundled packages, the Group accounts for individual products and services separately if they are distinct, which means that a product or service, as well as the customer benefit, is separately identifiable from other items in the bundled package and a customer can benefit from it.
The arrangement consideration is allocated to each separate product and service, based on its relative fair value. The determined fair value of individual elements is generally based on prices at which the deliverable is regularly sold on a stand-alone basis after considering any appropriate volume discounts. Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both trade receivables and service revenue.

The Group recognizes revenue from telecommunication services over time and revenue from sales of goods at a point in time.

The Group provides retrospective volume discounts under roaming agreements with international mobile operators. To estimate the variable consideration in relation to these discounts, the Group uses original data traffic adjusted on a monthly basis to reflect newly-available information.
The resulting liability for the expected future discounts is recognized as a reduction of revenue within trade and other payables in the accompanying consolidated statement of financial position.

Service revenue for the years ended 31 December 2019 and 2018 comprised the following:

	2019	2018
Revenue from mobile subscribers	12,010	9,687
Interconnect revenue	2,518	2,479
Other revenue	410	365
Total	**14,938**	**12,531**

Other revenue relates to revenue from roaming of guest subscribers, fixed line services comissons and other revenues.

Total sales of goods for year ended 31 December 2019 amounted UAH 1,045 million (31 December 2018: UAH 268 million).

6. COST OF SERVICES

Cost of services for the years ended 31 December 2019 and 2018 comprised the following:

	2019	2018
Interconnect expenses	1,667	1,494
Electricity and other production costs	935	834
Radio frequency usage costs	824	794
Roaming expenses	295	363
Salaries and social contributions, production	221	199
Cost of value added services and other direct costs	41	30
Total	**3,983**	**3,714**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2019 and 2018 comprised the following:

	2019	2018
Salaries and social contributions	1,340	845
Advertising and marketing expenses	451	355
Dealers commission	338	272
General office expenses	243	187
Billing and data processing	167	172
Taxes other than income tax	107	105
Other	128	86
Total	**2,774**	**2,022**

The growth of salaries and social contributions is driven by extension of Group's retail trading activity (LLC VF Retail). The Group increased its total store count by 104 outlets over the year, standing at 249 stores at the end of the year followed by the increase in selling personnel by 590 persons.

8. FINANCE INCOME AND COSTS

Finance income and costs for the years ended 31 December 2019 and 2018 comprised the following:

	2019	2018
Interest expense:		
– Notes payable and vendor financing (financial liabilities at amortized cost)	62	205
– Amortization of debt issuance costs	2	7
– Lease obligations	551	503
– Provisions: unwinding of discount	35	30
Total finance costs	**650**	**745**
– Interest income on bank deposits (financial assets at amortized cost)	186	165
Total finance income	**186**	**165**
Net finance costs	**(464)**	**(580)**

9. INCOME TAX

Income taxes of the Group have been calculated in accordance with Ukrainian legislation and are based on the taxable profit for the period. The corporate income tax rate in Ukraine is 18%.

Standard Ukrainian withholding tax rate applicable to dividend distribution is 15%, however, the Double Tax Treaty between Ukraine and the Netherlands on the avoidance of double taxation (the DTT) provides a possibility to apply reduced 0% or 5% tax rate to dividend income. During dividend distribution in favor of Preludium B.V. the Company applied reduced withholding tax rate of 5% under the DTT.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Significant components of income tax expense for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Current income tax charge	619	244
Deferred tax	71	216
Total tax expense for the period	**690**	**460**

The statutory income tax rates in Ukraine for 2018 and 2017 was at the rate 18%:

	2019	2018
Statutory income tax rate for the year	**18.0**	**18.0**
Adjustments:		
Loss of subsidiary VF Retail for which no deferred tax asset was recognised	3.3	1.2
Expenses not deductible for tax purposes	0.1	0.1
Effect of lease non-deductible expenses	-	1.5
Effective income tax rate	**21.4**	**20.8**

The Group reported the following deferred income tax assets and liabilities in the consolidated statement of financial position:

	31 December 2019	31 December 2018
Deferred tax assets	525	596
Net deferred tax assets	**525**	**596**

Movements in the deferred tax assets and liabilities for the year ended 31 December 2019 were as follows:

	31 December 2018	Recognised in profit/loss	31 December 2019
Assets/(liabilities) arising from tax effect of:			
Depreciation of property and equipment	296	(48)	248
Provision for receivables from factor and cash balance in distressed bank	218	-	218
Accrued expenses	57	(56)	1
Assets retirement obligations	41	10	51
Allowance for doubtful accounts	12	(3)	9
Deferred connection fees and subscriber prepayments	5	(5)	-
Capitalization of cost to obtain contracts	(40)	26	(14)
Other	7	5	12
Net deferred tax asset	**596**	**(71)**	**525**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Movements in the deferred tax assets and liabilities for the year ended 31 December 2018 were as follows:

	31 December 2017	Adjustment on initial application of new IFRS standards	Recognised in profit/loss	31 December 2018
Assets/(liabilities) arising from tax effect of:				
Provision for receivables from factor and cash balance in distressed bank	364	-	(146)	218
Depreciation of property and equipment	319	-	(23)	296
Deferred connection fees and subscriber prepayments	66	-	(61)	5
Accrued expenses	76	-	(19)	57
Allowance for doubtful accounts	12	1	(1)	12
Assets retirement obligations	11	-	30	41
Capitalization of cost to obtain contracts	-	(35)	(5)	(40)
Other	(2)	-	9	7
Net deferred tax asset	**846**	**(34)**	**(216)**	**596**

Tax losses of subsidiary VF Retail, for which deferred tax assets were not recognized in the consolidated statement of financial position as of 31 December 2019 amounted to UAH 646 million (2018: UAH 148 million) and have no expiration date. According to Ukrainian legislation, the current Group structure does not allow to set off tax losses of one Group's company against taxable profit of another Group's company.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash on hand and in bank accounts, as well as short-term bank deposits, which have original maturities of less than three months. As of 31 December 2019, cash on current bank accounts was held in four reputable banks – JSC "Raiffeisen Bank Aval", JSC "Credit Agricole Bank", JSC "Ukrsibbank", JSC "ING Bank Ukraine" located in Ukraine (as of 31 December 2018: in five reputable banks located in Ukraine, respectively). Cash equivalents include cash in transit in amount of UAH 126 million (as of 31 December 2018: UAH 65 million) which is cash paid by subscribers but not yet received from financial institutions.

Cash and cash equivalents comprised the following:

	Deposit rates	31 December 2019	Deposit rates	31 December 2018
Cash and cash equivalents at banks and on hand in:				
Ukrainian Hryvnia		613		560
Euro		125		467
US Dollars		24		4
Short-term deposits with an original maturity of less than 92 days:				
Ukrainian Hryvnia	8.5%-13.3%	672	17.5%-18.5%	1,233
Euro		-	0.25%	365
Total cash and cash equivalents		**1,434**		**2,629**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

In connection with acquisition of Preludium B.V. by Telco Solutions and Investments LLC, in December 2019, PrJSC "VF Ukraine" entered into the pledge agreement with Raiffeisen Bank International AG to secure obligations of Telco Solutions and Investments LLC under the bridge facility from J.P. Morgan Securities plc and Raiffeisen Bank International AG. Obligations of Telco Solutions and Investments LLC were secured by PrJSC "VF Ukraine"'s cash and deposit accounts at banks, including short-term investments (with the total amount of UAH 1,595 million as of 31 December 2019). After the settlement of the bridge facility, on 2 March 2020 the pledge over cash and deposit accounts was terminated.

11. SHORT-TERM INVESTMENTS

Short-term investments represent time deposits, which have original maturities of longer than three months and are repayable in less than twelve months. As of 31 December 2019 time deposits were nominated in EUR at interest rate 0.1% and amounted to UAH 436 million. As of 31 December 2018 time deposits were nominated in EUR at interest rate 0.25% and amounted to UAH 324 million. Short-term investments of the Group are measured at amortized cost.

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at transaction price. The carrying value of all trade receivables is reduced by appropriate allowances for expected credit losses (ECL).

For trade receivables the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses. For receivables from subscribers the allowance for ECL is computed using the provision matrix. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and all reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, receivables from subscribers are written-off if past due for more than 180 days.

ECL on receivables other than from subscribers are measured on individual basis based on past information (historical losses) and forward-looking information, when available. Receivables other than from subscribers are written-off upon the expiration of the limitation period or before based on results of internal investigations.

The Group receives volume discounts under roaming agreements with international mobile operators and accounts for discounts received as a reduction of roaming expenses. The resulting receivable is recognized within trade and other receivables in the accompanying consolidated statement of financial position. Such receivables are settled once a year.

Trade and other receivables current comprised the following:

	31 December 2019	**31 December 2018**
Roaming	361	186
Interconnect	135	140
Subscribers	82	154
Other trade receivables	59	18
Dealers	42	51
Other receivables	5	13
Allowance for ECL	(49)	(66)
Receivables from factor for sold investments in distressed banks Delta bank and Kyivskaya Rus to a factor (100% credit-impaired)	961	961
Cash balance in distressed bank Platinum bank	250	250
Allowance for ECL on distressed banks credit impaired receivables	(1,211)	(1,211)
Trade and other receivables total	**635**	**496**
Trade and other receivables current	**635**	**496**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

The majority of the Group's trade receivable balances are settled within 30 days. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits separately for each individual customer.

In 2015 the company entered in a factoring agreement in respect to cash balances deposited in distressed banks Delta Bank (UAH 1,627 million) and Kyivska Rus (UAH 328 million), under which the factor is obliged to reimburse the Group for 50% and 45% of cash balance, accordingly. As of 31 December 2017 receivables from factor in amount of UAH 961 million and cash in distressed bank in Platinum bank (UAH 250 million) were fully impaired due to high credit risk of counterparties. As of December 2018 recognized the lifetime ECL was estimated in the same amount as 100% credit-impaired significantly overdue receivables.

Trade receivables from roaming as of 31 December 2019 are presented net of UAH 70 million set off with respective trade payables for roaming (see Note 17) (as of 31 December 2018: UAH 79 million). Trade receivables from interconnect as of 31 December 2019 are presented net of UAH 95 million set off with respective trade payables for interconnect (see Note 17) (as of 31 December 2017: UAH 92 million).

The analysis of the age of trade and other accounts receivables and the respective allowance for ECL as of 31 December 2019:

Receivables from subscribers assesed for impairement based on provision matrix	**Weighted-average loss rate**	**Gross carrying amount**	**Loss allowance (based on provision matrix)**	**Credit-impaired**
Current	1%	37	(1.0)	No
1 - 30 days past due	14%	5	(0.7)	No
31 - 60 days past due	29%	3	(0.8)	No
60 - 90 days past due	53%	1	(0.5)	No
90 - 120 days past due	67%	1	(0.5)	No
120 - 150 days past due	73%	1	(1.0)	No
150 - 180 days past due	85%	1	(0.5)	No
More than 180 days past due	100%	33	(33.0)	Yes
Total	**30%**	**82**	**(38)**	

As of 31 December 2019 the Group recognized ECL in the amount of UAH 1,222 million for receivables other than from subscribers with gross carrying amount of UAH 1,813 million which was measured on individual basis based on past and forward-looking information.

The following table summarizes changes in the allowance for expected credit losses for the year ended 31 December 2019:

	2019
Balance, beginning of the year, calculated under IFRS 9	**(1,277)**
Allowance for ECL	(2)
Accounts receivable written off	19
Balance, end of the nine months	**(1,260)**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

The analysis of the age of trade and other accounts receivables and the respective allowance for ECL as of 31 December 2018:

Receivables from subscribers assessed for impairment based on provision matrix	Weighted-average loss rate	Gross carrying amount	Loss allowance (based on provision matrix)	Credit-impaired
Current	1%	99	(0.9)	No
1-30 days past due	19%	8	(1.5)	No
31-60 days past due	35%	3	(1.1)	No
61-90 days past due	60%	1	(0.7)	No
91-120 days past due	75%	1	(0.5)	No
121-150 days past due	85%	1	(1)	No
151-180 days past due	90%	1	(0.9)	No
More than 180 days past due	100%	40	(39.8)	Yes
Total	**30%**	**154**	**(46.4)**	

As of 31 December 2018 the Group recognized ECL in the amount of UAH 1,231 million for receivables other than from subscribers with gross carrying amount of UAH 1,619 million which was measured on individual basis based on past and forward-looking information.

The following table summarizes changes in the allowance for expected credit losses for the year ended 31 December 2018:

	2018
Balance, beginning of the year calculated under IAS 39	**(1,277)**
Additional allowance required under IFRS 9	(4)
Balance, beginning of the year, calculated under IFRS 9	**(1,281)**
Allowance for ECL	(14)
Accounts receivable written off	18
Balance, end of the year	**(1,277)**

13. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Inventory comprised the following:

	31 December 2019	31 December 2018
Handsets and accessories	225	159
Advertising and other materials	17	20
SIM cards and prepaid phone cards	13	9
Total inventories	**255**	**188**

Inventories at the end of 2019 increased due to extension of Group's retail trading activity. As of 31 December 2019 249 stores are in operation (2018: 145).

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Other materials mainly consist of automotive and IT components, advertising, stationery, fuel and auxiliary materials.

Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss.

For the years ended 31 December 2019 and 2018, cost of goods comprised the following expenses:

	2019	2018
Cost of goods sold	994	260
Inventory obsolescence provision	5	1
Total cost of goods	**999**	**261**

14. PROPERTY AND EQUIPMENT

Property and equipment, including improvements, are stated at cost less impairment. Property and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life, as follows:

Network and base station equipment:	
Network infrastructure	3-20 years
Other	3-15 years
Land and buildings:	
Buildings	20-50 years
Leasehold improvements	Shorter of the expected useful life or the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-20 years
Vehicles	3-7 years
Other	3-20 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal of an item of property and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Pursuant to IAS 36, property and equipment are tested for impairment when circumstances indicate that there may be a potential impairment.

Recoverable amounts of assets and cash generating units ("CGUs") are based on evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). A change of assumptions, particularly in relation to the discount rate and growth rate used to estimate the recoverable amounts of assets, could significantly impact results of the Group's impairment evaluation.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

The Group calculates a provision for decommissioning and restoration (ARO) when the Group has a legal or constructive obligation in connection with the retirement of property and equipment (see Note 20).

The net book value of property and equipment as of 31 December 2019 and 2018 was as follows:

	Network and base station equipment	**Land and buildings**	**Office equipment, vehicles and other**	**Construction in progress and equipment for installation**	**Total**
Cost					
31 December 2017	**18,117**	**620**	**2,148**	**1,041**	**21,926**
Additions	844	16	85	1,867	**2,812**
Transferred into use	2,033	44	174	(2,251)	**-**
Disposal	(582)	(2)	(25)	(6)	**(615)**
31 December 2018	**20,412**	**678**	**2,382**	**651**	**24,123**
Additions	952	13	22	1,938	**2,925**
Transferred into use	1,564	55	276	(1,895)	**-**
Disposal	(4,212)	(180)	(832)	(19)	**(5,243)**
31 December 2019	**18,716**	**566**	**1,848**	**675**	**21,805**
Accumulated amortisation and impairment					
31 December 2017	**(11,403)**	**(247)**	**(1,658)**	**-**	**(13,308)**
Charge for the year	(1,696)	(69)	(197)	-	**(1,962)**
Disposal	578	1	24	-	**603**
31 December 2018	**(12,521)**	**(315)**	**(1,831)**	**-**	**(14,667)**
Charge for the year	(1,943)	(35)	(242)	-	**(2,220)**
Disposal	4,181	180	831	-	**5,192**
31 December 2019	**(10,283)**	**(170)**	**(1,242)**	**-**	**(11,695)**
Net book value					
31 December 2018	**7,891**	**363**	**551**	**651**	**9,456**
31 December 2019	**8,433**	**396**	**606**	**675**	**10,110**

The reasons for the significant disposals are a large-scale update of network elements due to a change in technology, obtaining new types of licenses, and the need to ensure an increased demand for data services. As a result of a change in technology in the telecommunication services market, the Company constantly needs to significantly update network elements. For example, in 2015, the transition to 3G technology was carried out, in 2018-2019 - 4G in the 1800 MHz range, in 2020 it is planned to switch to 4G in the 900 MHz range.

In the end of 2019, the Group has performed revision of its fully depreciated property and equipment to identify and write-off assets which are not in use (total gross book value of such assets is UAH 4,336 million). Cost of fully depreciated property and equipment as of 31 December 2019 was UAH 5,041 million (31 December 2018: 9,300 million).

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

15. OTHER INTANGIBLE ASSETS

Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity and licenses. These assets are assets with finite useful lives. They are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Pursuant to IAS 36, other intangible assets with indefinite useful lives and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate that there may be a potential impairment.

Recoverable amounts of assets and cash generating units ("CGUs") are based on evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). A change of assumptions, particularly in relation to the discount rate and growth rate used to estimate the recoverable amounts of assets, could significantly impact results of the Group's impairment evaluation.

Net book value of other intangible assets as of 31 December 2019 and 2018 was as follows:

	Licenses	Billing and other software	Numbering capacity	Total
Useful life, years	**1 to 19**	**1 to 15**	**1 to 15**	
Cost				
31 December 2017	**4,066**	**5,131**	**49**	**9,246**
Additions	2,849	1,144	-	**3,993**
Disposal	(81)	(508)	-	**(589)**
31 December 2018	**6,834**	**5,767**	**49**	**12,650**
Additions	6	1,011	-	**1,017**
Disposal	(356)	(3,462)	(3)	**(3,821)**
31 December 2019	**6,484**	**3,316**	**46**	**9,846**
Accumulated amortisation and impairment				
31 December 2017	**(896)**	**(3,658)**	**(46)**	**(4,600)**
Charge for the year	(372)	(1,008)	(1)	**(1,381)**
Disposal	81	508	-	**589**
31 December 2018	**(1,187)**	**(4,158)**	**(47)**	**(5,392)**
Charge for the year	(474)	(1,108)	(1)	**(1,583)**
Disposal	342	3,455	3	**3,800**
31 December 2019	**(1,319)**	**(1,811)**	**(45)**	**(3,175)**
Net book value				
31 December 2018	**5,647**	**1,609**	**2**	**7,258**
31 December 2019	**5,165**	**1,505**	**1**	**6,671**

The reasons for the significant disposals are a large-scale update of network elements and related software due to a change in technology, obtaining new types of licenses, and the need to ensure an increased demand for data services and new types of communication services. The reasons for the significant disposals are an emergence of new services and requirements on the network and release of new software versions.

In the end of 2019, the Group has performed revision of its fully depreciated intangible assets to identify and write-off assets which are not in use (total gross book value of such intangible assets is UAH 3,497 million). Cost of fully depreciated intangible assets as of 31 December 2019 was UAH 907 million (31 December 2018: 3,507 million).

In connection with providing telecommunication services, the Group has been issued with various GSM, UMTS, LTE radio frequencies licenses by the National Commission For The State Regulation Of Communications And Informatization. The amount of intangible assets generated internally was not significant.

In March 2015, the Group acquired a nationwide license for the provision of UMTS (3G) telecommunications services through an open tender. In accordance with the terms of the license, the Group also concluded agreements to convert the provided frequencies for commercial use with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. For the conversion of frequencies, the Group paid UAH 657 million before 1 January 2018, and UAH 230 million in 2018 (2019: nil). Conversion costs were capitalized and included in gross book value of licenses.

In January and March 2018, the Group secured a 4G LTE licenses in the 2510-2520/2630-2640 and 1780-1785/1875-1880 MHz bands as the result of a national auction. Period of licenses is 15 years. Under the terms and conditions of the LTE licenses, VF Ukraine is obligated to deliver LTE services to not less than 90% of the population in each regional center of Ukraine (with certain exceptions) within 12 months from the date when the licenses were effective. VF Ukraine is also obligated to deliver LTE services to at least 90% of the population in each population center with over 10,000 inhabitants (with certain exceptions) within 42 months from the issuance of the licenses. For the conversion of frequencies, VF Ukraine paid UAH 146 million in 2018 (2019: nil).

The management believes that as of 31 December 2019, the Group is in compliance with conditions of the aforementioned licenses.

16. COSTS TO OBTAIN CONTRACTS

The Group capitalizes certain incremental costs incurred in acquiring a contract with a customer if the management expects these costs to be recoverable.

Costs of acquiring a contract include commissions paid to a third-party distributors as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortized on a straight-line basis over the average subscriber life (28 months).

The Group uses a practical expedient from IFRS 15 which allows to expense contract costs as incurred when the expected contract duration is one year or less.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

As of 31 December 2019 and 2018 the balances of cost to obtain contracts capitalized by the Group amounted to:

	Costs to obtain contracts
Useful life, months	**28**
Cost	
31 December 2017	**-**
Effect on adoption of IFRS 15	334
Additions	165
31 December 2018	**499**
Additions	207
Disposal	(264)
31 December 2019	**442**
Accumulated amortisation and impairment	
31 December 2017	**-**
Effect on adoption of IFRS 15	(154)
Charge for the year	(145)
31 December 2018	**(299)**
Charge for the year	(165)
Disposal	264
31 December 2019	**(200)**
Net book value	
31 December 2018	**200**
31 December 2019	**242**

17. TRADE AND OTHER PAYABLES

Trade and other payables current comprised the following:

	31 December 2019	**31 December 2018**
Trade accounts payable	595	486
Accounts payable for property, equipment and intangible assets	885	714
Accrued liabilities	373	240
Accrued payroll and vacation	38	26
Trade and other payables total	**1,891**	**1,466**

Accounts payable increased year-over-year mainly due to increased capital purchases for network costruction and of payables for inventories in order to satisfy demand of retail business.

18. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The Group's lease contracts largely relate to leases of cellular sites (i.e. land, space in cell towers or rooftop surface areas), network infrastructure, and retail stores as well as buildings used for administrative or technical purposes. The Group chose to apply IFRS 16, *Leases* to its leases of intangible assets (other than rights held under licensing agreements within the scope of IAS 38, *Intangible Assets*).

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements, which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with a lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expenses over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate the non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the Group.
The incremental borrowing rate of the Group is determined based on the credit spreads of the Group's loan offers from banks in relation to zero-coupon yield curve for government securities. The weighted average borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application (as at 1 January 2018) was 17.46%. The lease payments include fixed payments, variable payments that depend on index or rate, amounts expected to be paid under residual value guarantee, the exercise price under a purchase option the Group is reasonably certain to exercise as well as early termination fees unless the Group is reasonably certain not to terminate earlier. Variable payments that depend on external factors (such as sale volume of a particular retail store) are expensed as incurred.

Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of right-of-use asset had been reduced to zero.

Right-of-use assets are initially measured at cost, which is the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred less any lease incentives receivedRight-of-use assets are subsequently amortized on a straight-line basis over the expected lease term. The lease term corresponds to the non-cancellable period of each contract, however, in the most cases the Group is reasonably certain of exercising renewal options and therefore lease terms are extended to terms as described below. When assessing the lease term, the Group considers all facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, such as useful life of the asset located on the leased site, sites replacement statistics, sequence of technology change, profitability of our retail stores as well as costs to terminate or enter into lease contracts.

The table below summarises the estimated terms, over which the right-of-use assets are amortized:

Lease of:	
Sites for placement of network equipment and base stations on rooftops or inside the buildings	10 years
Sites for placement of network equipment and base stations on land	20 years
Channels	Up to 2 years
Retail stores	Up to 6 years
Administrative offices, warehouses, parking garages	Not less than 3 years
Vehicles	5 years
Exclusive rights for trademarks	8 years

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

The average effective interest rate for 2019 approximates 20.7 per cent for Ukrainian Hryvnya obligations (2018: 18.6 per cent), 7.37 per cent for USD obligations per annum (2018: 7.14 per cent), and 5.7 per cent per annum for modification of EUR obligation for the exclusive right for trademark.

Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

The following table presents a summary of net book value of right-of-use assets:

Lease of:	**31 December 2019**	**31 December 2018**
Sites for placement of network and base station equipment	2,369	2,408
Exclusive rights for trademarks	1,480	600
Retail store	338	375
Administrative buildings	151	57
Vehicles	9	16
Channels	-	3
Rights-of-use assets, net	**4,347**	**3,459**

Due to signing of Memorandum of Understanding on 22 November 2019 and subsequent renewal of branding agreement, dated 3 March 2020 (see Note 29), the Group modified right-of-use asset for exclusive rights trade mark and related lease obligation for additional period of 6 years. The contract period is 5 years and the Group has an extention option of one year. It is reasonably certain to exercise one year option to extend the lease.

Depreciation charge of the right-of-use assets for the years ended 31 December 2019 and 31 December 2018 was as follows:

	For year ended 31 December	
	2019	**2018**
Sites for placement of network and base station equipment	265	231
Exclusive rights for trademarks	300	300
Retail store	127	28
Administrative buildings	39	26
Vehicles	3	3
Channels	1	12
Depreciation charge, total	**735**	**600**

Additions to the assets leased during the years ended 31 December 2019 and 31 December 2018 amounted to UAH 488 million and UAH 881 million, respectively.

Interest expense accrued on lease obligations the the years ended 31 December 2019 and 31 December 2018 amounted to UAH 551 million and UAH 503 million, respectively.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as at 31 December 2019 and 31 December 2018:

	31 December 2019	31 December 2018
Minimum lease payments, including:		
Current portion (less than 1 year)	1,104	1,046
More than 1 to 5 years	3,866	2,965
Over 5 years	3,240	2,978
Total minimum lease payments	**8,210**	**6,989**
Less amount representing interest	(3,569)	(3,331)
Present value of minimum lease payments, including:		
Current portion (less than 1 year)	1,031	950
More than 1 to 5 years	2,559	1,808
Over 5 years	1,051	900
Total present value of minimum lease payments	**4,641**	**3,658**
Less current portion of lease obligations	(1,031)	(879)
Non-current portion of lease obligations	**3,610**	**2,779**

The table below represents changes in the Group's lease obligations during the year ended 31 December 2019 and 2018:

	Lease obligations
1 January 2018	**3,143**
New obligations arising during the year	852
Modifications of existing leases	40
Accrued interest	503
Payment of principal	(334)
Payment of interest	(503)
Foreign exchange gain	(43)
31 December 2018	**3,658**
New obligations arising during the year	488
Modifications of existing leases	1,302
Termination of leases	(202)
Accrued interest	551
Payment of principal	(512)
Payment of interest	(551)
Foreign exchange gain	(93)
31 December 2019	**4,641**

Following the Group's intention to right-size its retail footprint to 200 stores in 2020, estimated lease term for related lease obligations was revised accordingly.

The Group's lease contracts include typical restrictions and covenants common for local business practice, such as the responsibility of the Group for regular maintenance and repair of the lease assets and their insurance, redesign and conduction of permanent improvements only with the consent of the lessor, and use of the leased asset in accordance with current legislation.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

19. BORROWINGS

Group's borrowings represent vendor financing and notes issued in the capital markets. Borrowings are initially recorded at fair value plus transaction costs that are directly attributable to the issue of the financial liability.

The Group's borrowings comprise the following:

	31 December 2019	31 December 2018
Notes, related parties	-	2,951
Vendor financing	4	47
Total borrowings	**4**	**2,998**
Less: current portion	(4)	(142)
Total borrowings, non-current	**-**	**2,856**

Notes

As of 31 December 2018 the Group's notes consisted of Capital Valentine B.V. international notes in EUR due 2021 at interest rate 9.20%.

	Currency	Interest rate (actual at 31 December 2018)	31 December 2018
Notes due 2021	EUR	9.2%	2,951
Total notes			**2,951**
Including:			
- principal debt			2,854
- accrued interest			97
Total			**2,951**
Less: current portion			(97)
Total notes, non-current			**2,854**

In March 2019, the Group repaid principal and coupon (interest accrued to date) of Notes due in 2021 in the amount of EUR 90 million (UAH 2,745 million as of the repayment date).

The table below represents changes in the Group's borrowings:

	Notes	Vendor financing
31 December 2017	**-**	**85**
Principal received	2,917	**-**
Accrued interest	195	10
Payment of principal	-	(36)
Payment of interest	(96)	(11)
Foreign exchange gain	(65)	(1)
31 December 2018	**2,951**	**47**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

	Notes	**Vendor financing**
Principal received	-	-
Accrued interest	57	5
Payment of principal	(2,745)	(26)
Payment of interest	(150)	(18)
Foreign exchange gain	(113)	(4)
31 December 2019	**-**	**4**

According to the scheduled maturities of principal and interests on vendor financing (gross of debt issuance costs) they will be fully repaid in 2020.

20. PROVISIONS

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the managements' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The main provisions the Group holds are in relation to employees' bonuses, decommissioning and restoration obligation, tax provisions as well as legal claims.

Provision for decommissioning and restoration

The Group calculates a provision for decommissioning and restoration when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group records the present value of provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.

The following table summarizes totals in provisions as at 31 December 2019 and 2018:

	Tax provisions other than for income tax and social contribu-tion	**Provision for decom-missioning and restoration**	**Employee vacations, bonuses and other rewards**	**Material rights and other provisions**	**Total**
At 31 December 2017	**21**	**61**	**151**	**90**	**323**
Arising during the year	29	140	239	348	**756**
Utilised	(26)	(3)	(205)	(306)	**(540)**
Imputed interest (unwinding of discount)	-	30	-	-	**30**
Unused amounts reversed	-	-	(3)	(54)	**(57)**
At 31 December 2018	**24**	**228**	**182**	**78**	**512**
Current 2018	24	-	178	78	**280**
Non-current 2018	-	228	4	-	**232**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

	Tax provisions other than for income tax and social contribu-tion	Provision for decom-missioning and restoration	Employee vacations, bonuses and other rewards	Material rights and other provisions	Total
At 1 January 2018	**24**	**228**	**182**	**78**	**512**
Arising during the year	65	26	387	425	**903**
Utilised	(28)	(23)	(318)	(387)	**(756)**
Imputed interest (unwinding of discount)	-	39	-	-	**39**
Discount rate adjustment (change in estimates)	-	17	-	-	**17**
Unused amounts reversed	(25)	-	(11)	(40)	(76)
At 31 December 2019	**36**	**287**	**240**	**76**	**639**
Current 2019	36	-	240	76	**352**
Non-current 2019	-	287	-	-	**287**

Compliance with the law requires the Group to recalculate annually a rate on non-refundable VAT over current year purchases. The Group establishes a provision which is remeasured each year which is included in tax provisions other than for income tax and social contribution (2019: the provision was reversed in the amount of UAH 19 million for non-refundable VAT and in the amount of UAH 6 million for social contribution).

Change in discount rate used for calculation of provision for decommissioning and restoration in 2019 is driven by transition from WACC to risk-free rate, with effect of about UAH 17 million.

Since 2018 the accrued vacations have been reclassified from trade and other payables to provisions.

Starting 3 December 2019 a provision for other employees' rewards has not been recognized due to closing of motivation program and full payment of obligation in amount of UAH 61 million to the participants of the program.

Material rights and other provisions include recognized provision in connection with awarded loyalty points to the customers (considered a "material right"), which are redeemed against purchases of third party (partners) goods and services. They also consist of estimated present obligation to dealers with variable consideration, which to be settled in the future.

Other provisions included UAH 40 million which is a provision for present liability on a claim on protection against unfair competition initiated by the Antimonopoly Committee of Ukraine. The gain was recognized due to reverse of provision as the result of the termination of the claim without negative consequences for the Group.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

21. OTHER NON-FINANCAIL LIABILITIES

Other non-financial liabilities comprised the following:

	31 December 2019	31 December 2018
VAT payable	165	29
Taxes payable other than income tax	68	9
Total other non-financial liabilities	**233**	**38**

Taxes payable at 31 December 2019 in amount of UAH 68 million mainly consist of a present liability on a fee for the use of radio frequency resource of Ukraine in amount of UAH 55 million (at 31 December 2018: nil).

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, investments (mainly deposits with original maturity of more than three months). Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes notes, trade and other payables, lease obligations. Financial instruments are recognized as soon as the Group becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or liability accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently they are measured either at amortized cost or fair value depending on the classification of those assets and liabilities.

Financial assets can be classified as 1) financial assets at amortized cost; 2) financial assets at fair value through other comprehensive income; 3) financial assets at fair value through profit or loss. If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, it is classified as carried at amortized cost. If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for potential sale, they are classified as measured at fair value through other comprehensive income. All other financial assets are classified as measured at fair value through profit or loss.

Financial liabilities can be classified as measured at fair value or at amortized costs.

Management of the Group believes that the fair values of financial instruments as of 31 December 2019 and 2018 approximate their carrying amounts.

The Group offsets its financial assets and financial liabilities only if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets and financial liabilities of the Group are measured at amortized costs.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

As of 31 December 2019 and 2018 financial assets and financial liabilities of the Group comprised:

Financial assets

	31 December 2019	31 December 2018
Trade and other receivables (Note 12)	635	496
Accounts receivable, related parties (Note 24)	-	53
Cash and Cash equivalents (Note 10)	1,434	2,629
Short-term investments (Note 11)	436	324
Total financial assets at amortized cost	**2,505**	**3,502**
Total current financial assets	**(2,505)**	**(3,502)**
Total non-current financial assets	**-**	**-**

Financial liabilities

	31 December 2019	31 December 2018
Trade and other payables (Note 17)	1,844	1,420
Accounts payable, related parties (Note 24)	1,791	3,264
Loans and borrowings:		
Lease obligations (Note 18)	4,641	3,658
Notes, related parties (Note 19)	-	2,951
Vendor financing (Note 19)	4	47
Total loans and borrowings	**4,645**	**6,656**
Total financial liabilities at amortized cost	**8,280**	**11,340**
Total current financial liabilities	(4,670)	(5,705)
Total non-current financial liabilities	**3,610**	**5,635**

Maturity analysis

	31 December 2019		
	Trade and other payables	Accounts payable, related parties	Vendor financing
Due within three months	1, 787	14	3
Due from three months to twelve months	57	1,777	1
Due from 1 year to 5 years	-	-	-
Less: future interest payments	-	-	-
Total	**1,844**	**1,791**	**4**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

	31 December 2018			
	Trade and other payables	**Accounts payable, related parties**	**Vendor financing**	**Notes, related parties**
Due within three months	1,317	126	11	132
Due from three months to twelve months	103	3,138	36	130
Due from 1 year to 5 years	-	-	5	3,249
Less: future interest payments	-	-	(5)	(560)
Total	**1,420**	**3,264**	**47**	**2,951**

For maturity analysis for lease obligations see Note 18.

There were no transfers between the accounting categories of financial instruments during the years ended 31 December 2019 and 2018.

23. CONTRACT LIABILITIES

Contract balances include trade receivables related to the recognized revenue and contract liabilities.

Trade receivables represent an unconditional right to receive consideration (primarily in cash).

Contract liabilities represent amounts paid by customers to the Group before receiving services promised in the contract. This is the case for advances received from customers or amounts invoiced and paid for goods or services that are yet to be transferred. Typically, subscribers make payments on a monthly basis and which are immediately debited to the monthly fee. Therefore, all contract liabilities are short-term. The credit period for subscribers is mainly 30 days, therefore, all receivables from subscribers are short-term.

The following table provides information about receivables and contract liabilities from contracts with customers:

	As of	
	31 December 2019	**31 December 2018**
Trade receivables	635	496
Total assets	**635**	**496**
Contract liabilities	1,406	1,246
Thereof:		
Mobile telecommunication services	1,353	1,205
Other services	40	29
Loyalty programme	13	12
Total liabilities	**1,406**	**1,246**
Less current portion	(1,402)	(1,245)
Total non-current liabilities	**4**	**1**

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Changes in the contract liabilities balances are as follows:

	Contract liabilities
Balance as of 1 January 2018	1,142
Revenue recognised that was included in the contract liability balance at the beginning of the period	(1,095)
Increase due to cash received, excluding amount recognised as revenue during the period	1,199
Balance as of 31 December 2018	**1,246**
Revenue recognised that was included in the contract liability balance at the beginning of the period	(1,223)
Increase due to cash received, excluding amount recognised as revenue during the period	1,383
Balance as of 31 December 2019	**1,406**

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2019 as follows:

	2020	**2021**
Mobile bundle packages and other services	1,389	-
Loyalty programme	13	4

Amount of performance obligations that were unsatisfied (or partially unsatisfied) for postpaid subscribers is not material. This is due to the fact that in most cases, contracts with postpaid subscribers are concluded for a non-determined period and can be terminated at any time without penalties.

24. RELATED PARTIES

Related parties include shareholders of the Group, the Group's indirect parent companies, entities under common control and ownership with the Group as well as key management personnel.

PJSC "VF Ukraine" majority shareholder is Preludium B.V., a company incorporated under Dutch law. Preludium B.V. holds since 2015 directly 99% of the shares in VF Ukraine and 100% of the shares in Enterprise with 100% foreign investment "PTT Telecom Kiev" (hereinafter "PTT Telecom Kiev"). As of 31 December 2018 and until 3 December 2019 Preludium was indirect subsidiary of Mobile TeleSystems Public Joint-Stock Company or MTS.

On 3 December 2019 Preludium was sold to Telco Solutions and Investments LLC, whose ultimate beneficiary is Nasib Hasanov (Azerbaijan).

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Name of the Related Party	**Nature of relations with the Group**
Preludium B.V. (Netherlands) Enterprise with 100% foreign investment "PTT Telecom Kiev"	Direct shareholders
Mobile TeleSystems PJSC (until 3 December 2019) Telco Solutions and Investments LLC (starting 3 December 2019)	The Group's indirect parent companies
Sitronics Telecom Solutions Ukraine (billing, data processing services and repair and maintenance services) (until 3 December 2019) ITM Ukraine (billing, data processing services and repair and maintenance services) (until 3 December 2019) MTS Armenia CJSC (telecommunication and interconnect services) (until 3 December 2019) Dega Retail Holding Limited (notes payable) (until 3 December 2019) Bakcell LLC (telecommunication services) (starting 3 December 2019) Stream Ukraine LLC (before July 2019)/ Smart Digital Solutions LLC (renamed on July 2019) (telecommunication services)	Entities under common control and ownership with the Group

Terms and conditions of transactions with related parties

Outstanding balances as of 31 December 2019 and 2018 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables.

As of 31 December 2019 and 2018, the Group had no impairment of receivables relating to significant amounts owed by related parties or expenses recognized during the years ended 31 December 2019 and 2018 in respect to bad or doubtful debts from related parties.

The Group receives and provides volume discounts under roaming agreements with MTS (the indirect parent company until 3 December 2019) and accounts for discounts as a reduction of roaming expenses and revenue. The resulting receivable and payable are recognized in the accompanying consolidated statement of financial position.

As at 31 December 2019 and 2018, balances from and to related parties were as follows:

	31 December 2019		**31 December 2018**	
Description	**Balances and transactions with related parties**	**Total per category**	**Balances and transactions with related parties**	**Total per category**
Accounts receivable				
The Group's indirect parent companies	-		51	
Entities under common control and ownership with the Group	-		2	
Total accounts receivable	**-**	**635**	**53**	**549**
Advances paid and prepaid expenses				
Entities under common control and ownership with the Group	-		6	
Total advances paid and prepaid expenses	**-**	**92**	**6**	**109**
Borrowings				

	31 December 2019		31 December 2018	
Description	**Balances and transactions with related parties**	**Total per category**	**Balances and transactions with related parties**	**Total per category**
Entities under common control and ownership with the Group	-		2,854	
Total borrowings	-	**4**	**2,854**	**2,901**
Accounts payable				
The Group's indirect parent companies	1,776		49	
Entities under common control and ownership with the Group	15		113	
Total accounts payable excluding dividends	**1,791**	**3,682**	**162**	**1,627**
Interest on notes payable				
Entities under common control and ownership with the Group	-		97	
Total interest on notes payable	-	-	**97**	**97**
Dividends payable				
Shareholders	-		805	
Indirect parent company (till 3 December 2019)	-		2,297	
Total dividends payable	**-**	**-**	**3,102**	**3,102**

As of 31 December 2018 the Group's borrowings represented interest bearing notes issued (EUR 90 million with interest rate 9.20%) in the capital markets by structured entity Capital Valentine B.V. The noteholder of Capital Valentine B.V. International Notes due 2021 was Dega Retail Holding Limited, a subsidiary of MTS.

In March 2019, the Group had repaid principal and coupon (interest accrued to date) of Notes (see Note 19).

In December 2019, in accordance to the conditions of dividend's reassignment agreement between MTS PJSC and Telco Solutions and Investments LLC the Group paid out UAH 406 million to Telco Solutions and Investments LLC million. Withholding tax at a rate of 5% in the amount of UAH 115 million was paid in relation to reassigned dividends in question. The remaining payable in the amount of UAH 1,776 million reclassified from dividend obligations towards MTS PJSC to payable to Telco Solutions and Investments LLC.

The Group makes advances to related parties for the purchase of property and equipment, intangible assets and other assets. Advances given for property, equipment and intangible assets to related parties as of 31 December 2019 is null (2018: UAH 13 million).

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Transactions related to purchases of non-current assets were as follows:

	2019		**2018**	
Description	**Transactions with related parties**	**Total per category**	**Transactions with related parties**	**Total per category**
Purchases of property and equipment, intangible assets and other assets:				
The Group's indirect parent companies	6		16	
Entities under common control and ownership with the Group	510		689	
Total purchases of property and equipment, intangible assets and other assets	**516**	**3 788**	**705**	**6 641**

Operating transactions

For the years ended 31 December 2019 and 2018, operating transactions with related parties were as follows:

	2019		**2018**	
Description	**Transactions with related parties**	**Total per category**	**Transactions with related parties**	**Total per category**
Revenues				
The Group's indirect parent companies	374		378	
Entities under common control and ownership with the Group	(61)		(60)	
Total revenues	**313**	**15,983**	**318**	**12,799**
Costs of services and goods				
The Group's indirect parent companies	(356)		(366)	
Entities under common control and ownership with the Group	(39)		(42)	
Total costs of services and goods	**(395)**	**(4,982)**	**(408)**	**(3,975)**
Selling, general and administrative expenses and costs				
The Group's indirect parent companies	(13)		(18)	
Entities under common control and ownership with the Group	(41)		(53)	
Total SG&A	**(54)**	**(2,774)**	**(71)**	**(2,022)**
Finance expenses				
Entities under common control and ownership with the Group	(57)		(202)	
Total finance expenses	**(57)**	**(650)**	**(202)**	**(745)**

Negative amounts of revenue represent costs of content services which are presented net with the related revenue under IFRS 15.

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

Remuneration of key management personnel

During the years ended 31 December 2019 and 2018 key management personnel's total remuneration amounted to UAH 133 million and UAH 54 million, respectively.

25. SHAREHOLDER'S EQUITY

The Company has a legal status of a Private Joint-Stock Company at 31 December 2019 and 2018.

Share capital (ordinary shares)

The Group had 781,662,116 authorized ordinary shares with par value UAH 0.01 as of 31 December 2019 and 2018, for a total amount of UAH 8 million.

The Company's major shareholders at 31 December 2019 and 2018 are presented in the table below:

		Ownership, %	
	Number of shares	31 December 2019	31 December 2018
Preludium B.V. (Netherlands)	773,845,495	99.0%	99.0%
Enterprise with 100% foreign investment "PTT Telecom Kiev"	7,816,621	1.0%	1.0%
Total	**781,662,116**	**100%**	**100%**

The declared capital of the Company as per its Charter was contributed in full at 31 December 2019 and 2018.

There were no share capital changes during the year ended 31 December 2019 and 2018.

As of 31 December 2018 and until 3 December 2019 Preludium B.V and PTT Telecom Kiev were ultimately controlled by MTS.

On 25 November 2019, MTS PJSC and Telco Solutions and Investments LLC signed a binding agreement according to which Telco Solutions and Investments LLC acquired Preludium B.V. (fully owing PrJSC VF Ukraine) from MTS. The deal was closed on 3 December 2019. Since then, Nasib Hasanov is ultimate beneficiary of Telco Solutions and Investments LLC, NEQSOL Holding international group of companies and Bakcell LLC.

Dividends

In accordance with Ukrainian laws, earnings available for dividends are limited to profits determined under Ukrainian statutory accounting regulations, denominated in Ukrainian Hryvnia, after certain deductions.

The following table summarizes the Group's declared cash dividends for the years ended 31 December 2019, and 2018:

	2019	2018
Dividends declared	-	805
Dividends per share, UAH	-	1.03

Dividends declared in 2018 year were fully repaid in 2019. In June 2019 dividends in the amount of UAH 8 million were paid to PTT Telecom Kiev. In October 2019 dividends in the amount of UAH 797 million were paid to Preludium B.V. (including withholding tax at a rate of 5% in the amount of UAH 40 million).

On 3 December 2019 the Group paid withholding tax at a rate of 5% in the amount of UAH 115 million from dividends payable towards MTS PJSC (amount due UAH 2,297 million declared in 2014). The obligations of the Group were fulfilled through the disposal by MTS PJSC of its monetary right to receive such dividends in connection with deed of assignment with Telco Solutions and Investments LLC. Since dividends obligation of the Group towards MTS PJSC ceased to exist at the moment of assignment, the remaining dividend payable in the amount of UAH 1,776 million presented in the financial statement as payables to related parties.

26. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 31 December 2019, the Group had unexecuted purchase agreements of approximately UAH 605 million to network equipment, tangible and intangible assets that were still in progress (31 December 2018: UAH 602 million).

Taxation

Application of taxes and duties in Ukraine is regulated by the Tax Code of Ukraine. The taxes applicable to the Company's activity include VAT, income tax (profits tax), fee for the use of radio frequency resource of Ukraine, payroll (social) taxes and other. Transactions with non-resident related parties may be subject to transfer pricing compliance, in case the transactions with related non-resident per year exceeds UAH 10 million.

Compliance with tax and custom legislation is subject to review and investigation by a number of authorities, which are enabled by law to collect unpaid liability as well as impose penalties and fines. Since Ukrainian tax law and practice are relatively new with little existing precedent, the tax authorities approaches and interpretation may rapidly change, comparing to the countries with more stable and developed tax systems.

Generally, according to Ukrainian tax legislation, the tax period remains open for tax audits for three years after the respective tax return submission. Given that in 2018 PrJSC "VF Ukraine" submitted corrections to CIT return for 2015, the period open for tax audit for PrJSC "VF Ukraine" as of 31 December 2019 covers 2015, and 2017-2019 tax periods.

During the year ended 31 December 2019 and preceding periods, the Group paid dividends to non-resident shareholder. Taking into account an interest of the tax authorities to cross-border transactions, as well as due to Ukraine's attempts to implement BEPS measures, tax authorities may scrutinize these transactions and interpret them differently. The effect of any such claim may be significant and may materially affect financial results of the Group.

The management analyzed and monitored the transactions on a regular basis and believes them fully comply with the applicable tax laws.

In case of a different interpretation by the tax authorities of this issue, the Group estimated the risk of possible claim of tax liabilities in the amount of not more than UAH 268 million and a penalty of UAH 67 million.

Litigation

In the ordinary course of business, the Group is a party to various legal, tax and customs proceedings, and subject to claims.

However, such processes either as a whole or separately, did not have a material adverse effect on the Group. The Group assessed the risks of the negative issue and, in the case of a high level of risk, made a provision for such litigation.

Operating environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of the national currency (appreciation of the national currency by around 5% to USD and 11% to EUR comparing to previous year averages).

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. As a result of this, the Ukrainian economy is refocusing on the European Union (the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (the "NBU") starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019 and gradually decreased its discount rate for the first time during the recent two years, from 18.0% in April 2019 to 11.0% in January 2020.

The degree of macroeconomic uncertainty in Ukraine in 2019 still remains high due to a significant amount of public debt scheduled for repayment in 2019-2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through the period of presidential and parliamentary elections. All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from 'B-' to 'B', with a positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the "IMF").

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

In the first half of 2020 the Group foresees sharp decline in roaming revenues from own subscribers and retail business due to regulatory and organizational mandates. The continuation of the conditions associated with a general economic downturn could have a prolonged negative impact on the Group's financial results. The significant weakening of the Ukrainian Hryvnia against the USD and/or EUR could result in significant foreign exchange losses on Eurobonds issued in February 2020 (Note 29).

(Amounts in millions of Ukraine Hryvnias unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT

As part of its business the Group is exposed to several types of financial risks: foreign currency risks, credit (or counterparty) risks, and liquidity risks.

Foreign currency risks

Foreign currency risk is the negative impact of foreign currency fluctuations on the Group's finance results (in UAH) as its incomes and expenses are dependent on foreign currency rates. The Group does not use derivative financial instruments for currency risk management.

As of 31 December, the exchange rates used for translating foreign currency balances were as follows:

In Ukrainian Hryvnias	**2019**	**2018**
UAH/USD	23.6862	27.6883
UAH/EUR	26.4220	31.7141

The average exchange rates for the years ended 31 December were as follows:

In Ukrainian Hryvnias	**2019**	**2018**
UAH/USD	25.8373	27.2016
UAH/EUR	28.9406	32.1341

The weakening of the Hryvnia against the USD and/or EUR can increase expenses denominated in both Hryvnia and foreign currency. However, strengthening of the Hryvnia against the USD and/or EUR decreases revenues denominated in foreign currency.

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant.

	Change in rate		**USD – effect on profit before tax**	**EUR – effect on profit before tax**
	USD	**EUR**	**UAH million**	**UAH million**
	+30%	+30%	(26)	(159)
2019	-30%	-30%	26	159
	+5%	+5%	(3)	(88)
2018	-5%	-5%	3	88

The movement in the pre-tax effect is a result of a change in monetary assets and liabilities denominated in US dollars and Euro, where the functional currency of the entity is a currency other than US dollars and Euro.

There will be no material impact on equity.

The Group's exposure to foreign currency changes for all other currencies is not material.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

In 2018 Capital Valentine B.V. issued international notes in amount of EUR 90 millions at 9.2% per annum with semi-annual interest payment due in February 2021 (see Note 19). On 26 March 2019 VF Ukraine announced the redemption and cancellation of outstanding loan in full. The Group has complied with covenants imposed by the loan agreement.

In December 2019 VFU Funding PLC (Great Britain) was established with the aim to act as issuer of the Eurobonds in 2020 (see Note 29).

As of 31 December 2019 current liabilities exceeded current assets by UAH 3,609 million (31 December 2018: UAH 3,255 million). Current liabilities include non-financial liabilities in amount of UAH 1,402 million (see Note 23).

During previous years the Group demonstrated positive trends in operating cash flows and made early repayment of Notes in 2019 which indicated the Group's ability to avoid bankruptcy and continue its business as going concern. Management believes the Group has existing and continuing access to liquidity through both operating cash flows and credit facilities.

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations arising from entering into financial instrument, leading to a financial loss. Credit risk is not considered to be significant for the Group.

In March 2015, the NBU declared PJSC "Delta Bank" and PJSC "Kyivska Rus Bank" insolvent. At 31 December 2015 the funds placed in PJSC "Platinum Bank" fell in value and at the beginning of January 2017, PJSC "Platinum Bank" was declared insolvent too and liquidation procedure was initiated. In 2015 the company entered in a factoring agreement in respect to cash balances deposited in distressed banks Delta Bank (UAH 1,627 million) and Kyivska Rus Bank (UAH 328 million) (see Note 12). In July 2017, the confirmation was obtained that company was included in the Platinum Bank' list of creditors of the 7th line (amount of UAH 250 million).

The banking crisis, bankruptcy or financial insolvency of the banks wherein PrJSC "VF Ukraine" places its funds may lead to the loss of deposits or may have a negative impact on the Company's capability to perform the banking transactions that may cause the substantive negative consequences for business, financial position and results of activities.

28. PENSIONS AND RETIREMENT PLANS

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund are recorded in the consolidated statement of profit or loss and other comprehensive income on the accrual basis. The Group companies are not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

Due to legislation of Ukraine contributions to the State Pension Fund include also obligatory payments for other kinds of social insurance related to loss of capacity for work incidents and others. The Group's contributions to the State Pension Fund during the years ended 31 December 2019 and 2018 amounted to UAH 237 million and UAH 164 million, respectively.

29. SUBSEQUENT EVENTS

Eurobond issue

On 5 February 2020 the Group has raised funding in the form of a Eurobond issue for the period of five years with a two-year option in amount of USD 500 million (UAH 12,426 millions as of the date of issue) with a coupon rate of 6.2% through its structured entity VFU Funding PLC (Great Britain), which was incorporated in December 2019.

The proceeds from the bond placement has been used for refinancing of USD 464 million bridge facility obtained by Telco Solutions and Investments LLC in order to aquire Preludium B.V. from PJSC MTS. For these purporses on 10 February 2020 the Group entered into Financial aid agreement to provide Telco Solutions and Investments LLC with a refundable interest-free financial aid in the total amount of UAH 11,569 million.

Due to settlement by Telco Solutions and Investments LLC of the bridge facility, on 2 March 2020 the pledge over cash and deposit accounts and shares of PrJSC "VF Ukraine" was terminated.

The Loan Agreement implies compliance with covenants such as limitation for restricted payments (dividends, etc.), limitation on incurrence of indebtedness, liens, sale of asset, transactions with affiliates, finance and other reporting (in certain timeframes established), listing etc. However, specific conditions for each restricted operation are defined in relevant covenants.

The restrictions include ratio (Consolidated Leverage Ratio) and some business activity restrictions: keeping the corporate existence; conditions for merger; requirements for asset maintenance; insurance; payment of taxes and other claims; other conditions and restrictions for conduct of business.

Compliance with conditions and covenants on that Agreement require the permanent control by the Group's management as failure to perform the covenants has sufficient finance and image risks as well as the significant ongoing business risks.

Reallocation of radiofrequencies spectrum

On 5 February 2020 the Cabinet of Ministers of Ukraine allowed reallocation frequencies in the 800-900 MHz bands to facilitate deployments of 4G /LTE networks. Subsequently, in February – March 2020 the Group obtained 4 exteneded licenses for 2G and 4G communications in the 900 MHz band. Start of their use is scheduled for 1 July 2020. From the beginning of the license, the Group must comply with the license conditions (requirements for quality and data rate level, coverage schedule, etc.). The total cost of licenses is UAH 265 million.

Extension of cooperation with Vodafone Group

From 1 February 2020 the Group has extended its branding and access partnership with Vodafone Group for next 5 years with extension option for one year. The deal grants direct access to Vodafone procurement and other services and further ability to cooperate with Vodafone on consumer and enterprise products. A new strategic partnership gives the Group an access to Vodafone's international expertise in areas such as IT transformation, Internet-of-Things and 5G digital services.

30. AUTHORISATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Management of the Group on 17 April 2020.