

PrJSC VF Ukraine

Interim Condensed Consolidated
Financial Statements as of and for the
Six Months Ended 30 June 2020

PrJSC VF UKRAINE

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Management of Private Joint Stock Company “VF Ukraine”

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Private Joint Stock Company “VF Ukraine” and its subsidiaries (the ‘Group’) as at 30 June 2020 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, *Interim financial reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

Other matter

The comparative information for the interim condensed consolidated statement of financial position is based on the audited consolidated financial statements as at 31 December 2019. The comparative information for the interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows, and related explanatory notes, for the period ended 30 June 2019 has not been audited or reviewed.

LLC AF “PricewaterhouseCoopers (Audit)”

26 August 2020

PrJSC VF UKRAINE

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Note	Six months ended 30 June 2020	Six months ended 30 June 2019
Service revenue	6	8,076	6,869
Sales of goods		440	347
Revenue		8,516	7,216
Cost of services	7	(2,142)	(1,939)
Cost of goods		(399)	(319)
Selling, general and administrative expenses	8	(1,500)	(1,242)
Depreciation and amortization		(2,362)	(2,346)
Other operating income, net		37	44
Operating profit		2,150	1,414
Finance income		53	90
Finance costs		(676)	(351)
Currency exchange (loss)/ gain		(1,098)	70
Other expenses		(32)	(1)
Profit before tax		397	1,222
Income tax expense		(129)	(296)
Profit for the period		268	926
Total comprehensive income for the period		268	926

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

PrJSC VF UKRAINE

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2020**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	30 June 2020	31 December 2019
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	12	10,041	10,110
Right-of-use assets	14	4,134	4,347
Other intangible assets	12	6,670	6,671
Cost to obtain contracts		234	242
Deferred tax assets		515	525
Other receivables	11	11,569	-
Total non-current assets		33,163	21,895
<i>Current assets</i>			
Inventories		199	255
Trade and other receivables	11	633	635
Short-term investments	10	1,368	436
Advances paid and prepaid expenses		155	92
VAT receivable		191	241
Current income tax assets		-	2
Cash and cash equivalents	9	1,919	1,434
Total current assets		4,465	3,095
Total assets		37,628	24,990
Equity and liabilities			
<i>Equity</i>			
Common stock		8	8
Other components of equity		2	2
Retained earnings		14,643	14,375
Equity attributable to the owners of the Company		14,653	14,385
Non-controlling interests		2	-
Total equity		14,655	14,385
Non-current liabilities			
Borrowings	15	12,859	-
Lease obligation	14	3,647	3,610
Provisions	16	372	287
Contract liabilities		3	4
Total non-current liabilities		16,881	3,901
<i>Current liabilities</i>			
Trade and other payables	13	2,601	3,682
Contract liabilities		1,349	1,402
Borrowings	15	318	4
Lease obligation	14	1,047	1,031
Income tax liabilities		61	-
Provisions	16	476	352
Other non-financial liabilities		240	233
Total current liabilities		6,092	6,704
Total equity and liabilities		37,628	24,990

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

PrJSC VF UKRAINE

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

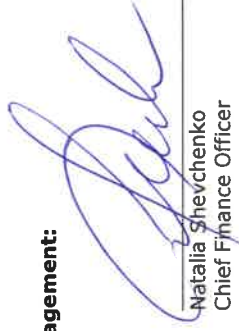
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Equity attributable to the owners of the Company						
	Common stock		Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
	Shares	Amount					
Balances at 31 December 2019	781,662,116	8	14,375	2	14,385	-	14,385
Profit for the period	-	-	268	-	268	-	268
Total comprehensive income for the period	-	-	268	-	268	-	268
Non-controlling interest	-	-	-	-	-	2	2
Balances at 30 June 2020	781,662,116	8	14,643	2	14,653	2	14,655

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

PrJSC VF UKRAINE

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Common stock		Retained earnings	Other components of equity	Total equity
	Shares	Amount			
Balances at 31 December 2018	781,662,116	8	11,836	2	11,846
Profit for the period	-	-	926	-	926
Total comprehensive income for the period	-	-	926	-	926
Balances at 30 June 2019	781,662,116	8	12,762	2	12,772

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

PrJSC VF UKRAINE


INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2020 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	Notes	30 June 2020	30 June 2019
Cash flows from operating activities			
Profit before tax		397	1,222
Adjustments for:			
Depreciation and amortization		2,362	2,346
Finance income		(53)	(90)
Finance costs		676	351
Currency exchange loss/(gain)		1,098	(70)
Change in provisions		565	340
Other non-cash items		(25)	(26)
Movements in operating assets and liabilities:			
Decrease/(Increase) in trade and other receivables		54	(74)
Decrease/(Increase) in inventory		56	(100)
Decrease/(Increase) in VAT receivable		20	(7)
Increase in advances paid and prepaid expenses		(59)	(3)
Decrease in contract liabilities		(51)	(16)
Decrease/(Increase) in trade and other payables and other liabilities		(209)	315
Utilized provision	16	(456)	(338)
Income taxes paid		(55)	(78)
Interest received		45	98
Cash paid to obtain contracts		(70)	(63)
Interest paid		(307)	(433)
Net cash provided by operating activities		3,988	3,374
Cash flows from investing activities			
Purchases of property and equipment		(1,131)	(1,300)
Purchases of other intangible assets (excl. cost to obtain contracts)		(494)	(433)
Purchase of spectrum licenses	12	(265)	-
Proceeds from sale of property and equipment		14	27
Financial aid provided to related party	3, 11	(11,569)	-
Placement of short-term investments		(792)	5
Net cash used in investing activities		(14,237)	(1,701)
Cash flows from financing activities			
Proceeds from Borrowings	12	11,844	-
Repayment of Borrowings	12	(70)	(2,759)
Repayment of other financial payables	3, 13	(801)	-
Lease obligation principal paid	14	(243)	(231)
Dividends paid		-	(8)
Net cash provided by/(used in) financing activities		10,730	(2,998)
Net increase/(decrease) in cash and cash equivalents		481	(1,325)
Cash and cash equivalents, beginning of the period		1,434	2,629
Effect of exchange rate changes on cash and cash equivalents		4	(80)
Cash and cash equivalents, end of the period		1,919	1,224

Signed on behalf of the Group's Management:


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Chief Executive Officer


Natalia Shevchenko
Chief Finance Officer


Elena Solovyova
Head of Department for the Financial
Statements and Accounting

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

1. BUSINESS DESCRIPTION

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.

VF Ukraine is the parent company that exercises control over the following subsidiaries (together referred to as the "Group"): LLC VF Retail (retail sales of phones and smartphones), LLC IT SmartFlex (a software developer, support and integration services provider) and VFU Funding PLC (structured entity incorporated to issue Eurobonds - Note 3).

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 the 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 the Vodafone brand in Ukraine. After the subsequent renewal of the branding agreement dated 3 March 2020, VF Ukraine renewed it for the period 2020-2025 with the contractual right to extend the strategic agreement for a further period of 1 year. Under the newly extended partnership agreement, the Group plans to work together on the rollout of 5G and IoT (Internet-of-Things) digital services and products in Ukraine, receive access to Vodafone's central procurement services and incorporate global best practice in IT network operation.

The majority shareholder of PrJSC "VF Ukraine" is Preludium B.V. (hereinafter "Preludium"), a company incorporated under Dutch law. Since 2015 Preludium holds directly 99% of the shares in VF Ukraine along with "PTT Telecom Kyiv" (hereinafter "PTT Telecom Kiev") which is a 1% shareholder of VF Ukraine. Until 3 December 2019 Preludium was an indirect subsidiary of Mobile TeleSystems Public Joint-Stock Company or "MTS".

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated statements of the Group for the year ended 31 December 2019.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in annual consolidated financial statements for the year ended 31 December 2019, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures of significant events occurred subsequent to the issuance of its annual consolidated statements of the Group for the year ended 31 December 2019.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated statements of the Group for the year ended 31 December 2019 and the notes related thereto. In the opinion of management, the interim condensed financial statements reflect all adjustments necessary to present fairly the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results as of and for the six months ended 30 June 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020.

These interim condensed consolidated financial statements are 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.

PrJSC VF UKRAINE

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

Amounts in these interim condensed consolidated financial statements are stated in millions of Ukrainian Hryvnias unless indicated otherwise.

Change in the Group structure

Starting from 6 February 2020 the Group consolidated a special purpose entity - VFU Funding PLC, incorporated in England and Wales for the purpose of issuing Eurobonds (see Note 3). The Group will cease consolidation of VFU Funding Plc after repayment date of the Eurobonds.

Significant accounting policies

The accounting policies, method of computation applied, critical estimates and judgements in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated statements of the Group for the year ended 31 December 2019 except for income tax expense which is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full year.

None of interpretations and amendments to standards adopted by the Group on 1 January 2020 had a significant effect on the Group's interim condensed consolidated financial statements

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ⁽¹⁾
2018 -2020 annual improvements cycle	<i>Annual Improvements to IFRS Standards 2018–2020</i> ⁽¹⁾
Amendments to IAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use</i> ⁽¹⁾
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ⁽²⁾
IFRS 17	<i>Insurance Contracts</i> ⁽²⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2022.

⁽²⁾ Effective for annual periods beginning on or after 1 January 2023.

3. SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

On 6 February 2020, the Group raised funds by issuing Eurobonds ("the Notes") through a structured entity VFU Funding PLC for five years in the amount of USD 500 million (UAH 12,259 million as of the date of the issue) with a coupon rate of 6.2%. At initial recognition, the Notes were accounted for on the balance sheet at fair value less transaction costs that are directly attributable to the issue. Subsequently, the financial liability is measured at amortized costs by using the effective interest rate method (approximated effective interest rate is 7.1%). As a result of the devaluation of the Ukrainian Hryvnia against US dollar mostly during March 2020, the Group incurred significant foreign currency exchange losses in the amount of UAH 1,051 million. As of 30 June 2020, the Group did not use derivative financial instruments for currency risk management.

The proceeds from the Notes issued by VFU Funding were provided to VF Ukraine in the form of an intragroup loan, which further used the funds for refinancing of USD 464 million bridge facility obtained by Telco Solutions and Investments LLC in order to acquire Preludium B.V. from MTS Group. On 10 February 2020, the Group provided an interest-free financial aid to Telco Solutions and Investments LLC refundable during 10 days after written request of the Group in the amount of UAH 11,569 million. Management estimated the allowance for expected credit losses ("ECL") on this financial aid based on the assumption that the financial aid is demanded at the reporting date. Considering that Telco Solutions and Investments LLC has no sufficient highly liquid assets and its major asset is the indirect investment in the Company, the expected manner of recovery of the respective financial aid is based on repayment through the sale of this investment. Management determined that there is no need to create the allowance for expected credit losses as the calculated amount is insignificant for these financial statements and there are corporate reorganisation plans as outlined below.

The table below shows the sensitivity of the ECL to the key assumptions applied:

PrJSC VF UKRAINE

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

Assumption	Estimated value	Assumed change		Effect to ECL
Annual volatility of the share price	30%	Increase by 10%	Increase by	UAH 235 million
Recovery period	1 year	Increase by 6 months	Increase by	UAH 145 million

The following corporate reorganisations are planned by management and shareholders:

(i) liquidation of the direct shareholder of the Company – Preludium B.V., as a result of which Telco Solutions and Investments LLC, being the sole shareholder of Preludium B.V., will become the owner of 99% of shares of the Company; and

(ii) merger by accession of Telco Solutions and Investments LLC into the Company (the “Merger”).

In the course of the Merger, the debt of Telco Solutions and Investments LLC under the financial aid will be extinguished by the operation of law as the debtor and creditor will be the same entity (the Company). Following the completed Merger, Telco Solutions and Investments LLC shall cease to exist and the Company, as a surviving entity, shall be full legal successor of all its assets, rights and obligations. The above-mentioned corporate reorganisation procedures are complex and time-consuming as they require significant involvement of various Ukrainian state authorities and bodies.

The intragroup loan between VFU Funding Plc and VF Ukraine includes certain covenants, the breach of which would lead to the cross-default under the Notes.

On 15 April 2020, the Group signed an agreement with J.P. Morgan Securities plc to repurchase the Notes from the open market for up to USD 30 million of the principal amount. During the reporting period, the Group repurchased and cancelled the Notes in the amount of USD 3 million (UAH 70 million). Management assessed whether repurchase of the Notes may result in significant modification of the financial liability. According to IFRS 9 requirements, the modification is considered to be substantial when the net present value of the future cash flows under the new terms (using the original effective interest rate) differs by at least 10 per cent from the present value of the remaining cash flows under the original terms. The Group assessed such modification as not substantial, therefore no extinguishment of old liability and recognition a new liability were posted.

In December 2019, under the conditions of dividend’s reassignment agreement between MTS and Telco Solutions and Investments LLC as part of the sale of Preludium B.V., the Group paid out UAH 406 million to Telco Solutions and Investments LLC and the remaining dividends payable in the amount of UAH 1,776 million were reassigned from MTS to Telco Solutions and Investments LLC. Upon the reassignment of the respective financial liability the Group paid appropriate withholding taxes, therefore, management decided to classify the obligation to Telco Solutions and Investments LLC as other financial payables in these interim condensed consolidated financial statements. During the first half of 2020, the Group repaid UAH 801 million of the outstanding amount to Telco Solutions and Investments LLC.

4. SEASONALITY

The Group does not view its business as highly seasonal as defined by IAS 34, *Interim Financial Reporting*. The financial results of the Group insignificantly impacted by seasonality through the calendar year: higher consumption of roaming services in May-September and increased demand for handsets and accessories at the year-end before winter holidays increase revenue from services and sales of goods for the second half of the year.

5. SEGMENT INFORMATION

The chief operating decision makers (CEO and the senior management team) analyze and review the 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.

PrJSC VF UKRAINE

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

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

The retail segment represents the results of retail sales of phones and smartphones to drive an increase in smartphone penetration among the Ukrainian population.

Financial information by reportable segment is presented below:

Six months ended 30 June 2020:	Mobile business	Retail	Other	HQ and elimination	Consolidated
Revenue					
External customers	8,106	409	1	-	8,516
Intersegment	6	118	22	(146)	-
Total revenue	8,112	527	23	(146)	8,516
OIBDA	4,629	(99)	(9)	(9)	4,512
Depreciation and amortization					(2,362)
Operating profit					2,150
Finance income					53
Finance costs					(676)
Currency exchange loss					(1,098)
Other non-operating expenses					(32)
Profit before tax					397
Six months ended 30 June 2019:	Mobile business	Retail	Other	HQ and elimination	Consolidated
Revenue					
External customers	6,909	304	3	-	7,216
Intersegment	16	85	-	(101)	-
Total revenue	6,925	389	3	(101)	7,216
OIBDA	3,932	(148)	(9)	(15)	3,760
Depreciation and amortization					(2,346)
Operating profit					1,414
Finance income					90
Finance costs					(351)
Currency exchange gain					70
Other non- operating expense					(1)
Profit before tax					1,222

PrJSC VF UKRAINE

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

Disaggregation of revenue:

Six months ended 30 June 2020:	Mobile business	Retail	Other	Total
Revenue				
Mobile services	8,024	-	-	8,024
Sales of goods	48	392	-	440
Other services	34	17	1	52
Total revenue	8,106	409	1	8,516
Six months ended 30 June 2019:	Mobile business	Retail	Other	Total
Revenue				
Mobile services	6,826	-	-	6,826
Sales of goods	56	291	-	347
Other services	27	13	3	43
Total revenue	6,909	304	3	7,216

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

6. SERVICE REVENUE

Service revenue for the six months of 2020 and 2019 comprised the following:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Revenue from mobile subscribers	6,355	5,467
Interconnect revenue	1,511	1,201
Other revenue	210	201
Total	8,076	6,869

7. COST OF SERVICES

Cost of services for the six months ended 30 June 2020 and 30 June 2019 comprised the following:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Interconnect expenses	1,040	784
Electricity and other production costs	430	476
Radio frequency usage costs	419	408
Salaries and social contributions	122	105
Roaming expenses	108	146
Other	23	20
Total	2,142	1,939

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended 30 June 2020 and 30 June 2019 comprised the following:

	Six months ended 30 June 2020	Six months ended 30 June 2019
Salaries and social contributions	751	601
Advertising and marketing expenses	187	195
Dealers commission	154	148
Consulting expenses	119	18
General office expenses	92	113
Billing and data processing	89	85
Taxes other than income tax	67	42
Other	41	40
Total	<u>1,500</u>	<u>1,242</u>

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at banks and cash on hand, as well as short-term bank deposits, which have original maturities of less than three months. As of 30 June 2020, 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 in the amount of UAH 1,907 million (as of 31 December 2019: in four reputable banks located in Ukraine in the amount of UAH 1,308 million). Cash equivalents include cash in transit in the amount of UAH 12 million (as of 31 December 2019: UAH 126 million) which is cash paid by subscribers but not yet received from financial institutions.

Cash and cash equivalents comprised the following:

	<u>Deposit rates</u>	<u>30 June 2020</u>	<u>Deposit rates</u>	<u>31 December 2019</u>
Cash at banks and on hand denominated in:				
UAH		644		613
USD		505		24
Euro		375		125
Short-term deposits with an original maturity of less than 92 days:				
UAH	4.75%-6.3%	<u>395</u>	8.5%-13.3%	<u>672</u>
Total cash and cash equivalents		<u>1,919</u>		<u>1,434</u>

PrJSC VF UKRAINE

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

10. 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. Short-term investments comprised the following:

	<u>Deposit rates</u>	<u>30 June 2020</u>	<u>Deposit rates</u>	<u>31 December 2019</u>
USD	1.5%	536	-	-
	2.0%	457	-	-
Euro	2.5%	255	0.1%	436
	0.1%	120	-	-
Total short-term investments		<u>1,368</u>		<u>436</u>

11. TRADE AND OTHER RECEIVABLES

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.

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

No ECL was recognized on financial aid provided to Telco Solutions and Investments (see Note 3). Receivables from the factor for sold investments in distressed banks Delta Bank and Kyivskaya Rus and cash balance in distressed bank Platinum Bank remained 100% credit-impaired.

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 interim condensed consolidated statement of financial position. Such receivables are settled once a year.

Trade and other receivables comprised of the following:

	<u>30 June 2020</u>	<u>31 December 2019</u>
Roaming	412	361
Interconnect	142	135
Subscribers	72	82
Dealers	29	42
Other trade receivables	21	59
Allowance for ECL	(46)	(49)
Total trade receivables	<u>630</u>	<u>630</u>

PrJSC VF UKRAINE

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2020

Amounts in millions of Ukraine Hryvnias unless otherwise stated

	30 June 2020	31 December 2019
Financial aid provided to "Telco Solutions and Investments LLC" (see Note 3)	11,569	-
Receivables from the factor for sold investments in distressed banks Delta bank and Kyivskaya Rus	961	961
Cash balance in distressed bank Platinum bank	250	250
Other receivables	3	5
Allowance for ECL	(1,211)	(1,211)
Total other receivables	11,572	5
Total trade and other receivables	12,202	635

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 customer.

12. PROPERTY, PLANT AND EQUIPMENT AND OTHER INTANGIBLE ASSETS

The table below represents changes in the Group's property, plant and equipment during the six months ended 30 June 2020:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
1 January 2020	8,448	381	606	675	10,110
Additions	454	-	9	607	1,070
Transferred into use	544	8	25	(577)	-
Depreciation	(1,001)	(16)	(111)	-	(1,128)
Disposals (net book value)	(1)	(1)	(2)	(7)	(11)
30 June 2020	8,444	372	527	698	10,041

The table below represents changes in the Group's other intangible assets during the six months ended 30 June 2020:

	Licenses	Billing software and other	Other	Total
1 January 2020	5,165	1,506	-	6,671
Additions	-	538	265	803
Amortization	(231)	(570)	-	(801)
Disposals (net book value)	(1)	(2)	-	(3)
30 June 2020	4,933	1,472	265	6,670

Other intangible assets consist of LTE-900 licenses purchased during the first six months of 2020 which was put into operation since 1 July 2020.

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13. TRADE AND OTHER PAYABLES

Trade and other payables comprised of the following balances:

	30 June 2020	31 December 2019
Accounts payable for property, equipment and intangible assets	775	885
Trade accounts payable	483	609
Accrued liabilities	332	373
Accrued payroll and vacation	36	39
Total trade payables	1,626	1,906
Other financial payables (see Note 3)	975	1,776
Total other payables	975	1,776
Total trade and other payables	2,601	3,682

14. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The table below represents changes in the Group's right-of-use assets during the six months ended 30 June 2020:

	Sites for placement of network and base- station equipment	Retail stores	Exclusive rights for trademarks	Other	Total
1 January 2020	2,369	338	1,480	160	4,347
Additions	66	10	-	1	77
Lease modifications	107	7	-	-	114
Depreciation	(136)	(59)	(122)	(23)	(340)
Disposals (net book value)	(2)	(61)	-	(1)	(64)
30 June 2020	2,404	235	1,358	137	4,134

The table below represents changes in the Group's lease obligations during the six months ended 30 June 2020:

	Lease obligations
1 January 2020	4,641
New obligations arising during the six months ended 30 June 2020	77
Modifications of existing leases	114
Termination of leases	(73)
Retail and other rent concessions	(21)
Accrued interest	306
Payment of principal	(243)
Payment of interest	(306)
Currency exchange loss	199
30 June 2020	4,694

Since April 2020 as a result of the coronavirus (COVID-19) pandemic retail and other rent concessions have been granted to the Group. The Group applied an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, as provided by the

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amendment to IFRS 16 from May 2020 and elected to account for such rent concessions as variable lease payments not depending on an index or a rate. The effect of such rent concessions for the reporting period was a reduction in rental costs of UAH 21 million.

15. BORROWINGS

The Group's borrowings comprise the following:

	30 June 2020	31 December 2019
Notes (see Note 3)	13,176	-
Vendor financing	1	4
Total borrowings	13,177	4
Less: current portion	(318)	(4)
Total borrowings, non-current	12,859	-

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

	Borrowings
31 December 2019	4
Notes issued	11,844
Accrued interest	349
Notes repurchased and cancelled	(70)
Payment of interest	(1)
Currency exchange loss	1,051
30 June 2020	13,177

The maturity analysis of borrowings disclosed in the table below represents undiscounted cash flows. Future cash flows were translated using the exchange rate as of 30 June 2020 where applicable:

Due within six months	1,127
Due from six months to twelve months	391
Due from 1 year to 2 years	778
Due from 2 years to 5 years	14,879
Total future payments, including principal and interest	17,175

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16. PROVISIONS

The following table summarizes movements in provisions for the six months ended 30 June 2020:

	Tax provisions other than for income tax and social contribution	Provision for decom- missioning and restoration	Employee bonuses and other rewards	Material rights and other provisions	Total
31 December 2019	36	287	240	76	639
Current	36	-	240	76	352
Non-current	-	287	-	-	287
Arising during the period	39	4	263	280	586
Utilized	(31)	(1)	(239)	(185)	(456)
Change in estimates	-	62	-	-	62
Unwinding of discount	-	21	-	-	21
Unused amounts reversed	(1)	(1)	(2)	-	(4)
30 June 2020	43	372	262	171	848
Current	43	-	262	171	476
Non-current	-	372	-	-	372

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are represented by trade and other receivables, cash and cash equivalents, short-term investments, trade and other payables and borrowings. All these financial instruments are carried at amortized cost using the effective interest method. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 30 June 2020 fair values of the Group's financial instruments that are not carried at fair value in the interim condensed consolidated statement of financial position approximate their carrying value.

The Group estimated the fair value of the Notes using the Level 1 valuation technique based on quoted market prices as of 30 June 2020 in the amount of UAH 13,160 million (carrying amount: UAH 13,176 million).

18. 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.

List of major related parties	Nature of relations with the Group
Preludium B.V. (Netherlands) Enterprise with 100% foreign investment "PTT Telecom Kyiv"	Direct shareholders
Mobile TeleSystems PJSC (until 3 December 2019) NEQSOL Holding Azerbaijan LLC (management services) (starting 3 December 2019) Telco Solutions and Investments LLC (reassigned dividends, financial aid) (starting 3 December 2019)	The Group's indirect parent companies

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List of major related parties	Nature of relations with the Group
Sitronics Telecom Solutions Ukraine (billing, data processing services and repair and maintenance services) (until 3 December 2019)	Entities under common control and ownership with the Group
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)	

Terms and conditions of transactions with related parties

Outstanding balances as of 30 June 2020 and 31 December 2019 were unsecured and settlements are made on a cash basis.

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 interim condensed consolidated statement of financial position.

As at 30 June 2020 and 31 December 2019, balances from and to related parties were as follows:

Description	30 June 2020	31 December 2019
The Group's indirect parent companies	11,569	-
Total other receivables	11,569	-
The Group's indirect parent companies (provisions)	101	-
Entities under common control and ownership with the Group	15	15
Trade payables	116	15
The Group's indirect parent companies	975	1,776
Other financial payables	975	1,776
Total trade and other payables	1,091	1,791

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

Description	Six months ended 30 June 2020	2019
Entities under common control and ownership with the Group	-	266
Total purchases of property and equipment and intangible assets	-	266

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Turnovers with related parties were as follows:

Description	Six months ended 30 June	
	2020	2019
The Group's indirect parent companies	-	190
Entities under common control and ownership with the Group	(35)*	(28)
Total service revenue	(35)	162
The Group's indirect parent companies	-	(183)
Entities under common control and ownership with the Group	-	(21)
Total costs of services	-	(204)
The Group's indirect parent companies	(101)	(6)
Entities under common control and ownership with the Group	-	(26)
Total selling, general and administrative expenses	(101)	(32)
Entities under common control and ownership with the Group	-	(57)
Total finance expenses	-	(57)

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

As disclosed in Note 1, on 3 December 2019 Preludium B.V. was sold to Telco Solutions and Investments LLC. In the event the results of the Group achieve certain performance criteria for the period starting 2019 and ending 2022 as specified in an 'earn-out' clause of the sale agreement, additional consideration will be payable by Telco Solutions and Investments LLC. Through the sale agreement, the Company guaranteed all present and future payment obligations of Telco Solutions and Investments LLC to MTS Group regarding earn-out consideration.

Transaction costs related to the Notes (consulting on legal, financial and tax matters) in the amount of USD 1.5 million were paid to NEQSOL Holding Azerbaijan LLC. These transaction costs were deducted from the carrying amount of the Notes and accounted for using the effective interest method.

Remuneration of key management personnel

During the six months ended 30 June 2020 the key management personnel's total remuneration amounted to UAH 73 million (2019: UAH 133 million).

19. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 30 June 2020, the Group had unexecuted purchase agreements of approximately UAH 666 million to network equipment, tangible and intangible assets that were still in progress (31 December 2019: UAH 605 million).

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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), a 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 exceed UAH 10 million.

Compliance with tax and customs 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 VF Ukraine submitted corrections to its CIT return for 2015, the open period for tax audits as of 30 June 2020 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 interest of the tax authorities to cross-border transactions, as well as Ukraine's attempts to implement the measures outlined in the OECD's Base Erosion and Profit Shifting framework ("BEPS"), tax authorities may scrutinize these transactions and interpret them differently. The effect of any such claim may be significant and may materially affect the financial results of the Group.

The management analyzed and monitored the transactions on a regular basis and believes they 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 a 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

In 2019, the Ukrainian economy was showing signs of stabilisation after years of political and economic tensions. The year on year inflation rate in Ukraine has decreased to 4.1% during 2019 (as compared to 9.8% in 2018 and 13.7% in 2017) while real GDP continued to grow at 3.2% (after 3.3% growth in 2018).

However, internal and external factors that began to impact the Ukrainian economy in the second half of 2019 and increased in the first half of 2020 resulted in Hryvnia devaluation against USD and EUR.

The following table summarizes exchange rates of UAH against USD and Euro:

	<u>USD/UAH</u>	<u>Euro/UAH</u>
31 December 2019	23,69	26,42
30 June 2020	26,69	29,95
Average for 6m 2019	26,93	30,43
Average for 6m 2020	25,98	28,61

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Real GDP decreased by around 6.5% during the six months ended 30 June 2020.

Ukraine remains vulnerable to external shocks and commodity price cycles due to its reliance on commodity exports.

The National Bank of Ukraine continued easing of the monetary policy with a respective gradual decrease of the discount rate from 13.5% as at 31 December 2019 to 6% at the date of these interim condensed consolidated financial statements.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund ("IMF"). The IMF announced a new three-year USD 5,5 billion arrangement to the country and in June 2020 first tranche in the amount of USD 2,1 billion was received. Continuation of cooperation with the IMF depends on Ukraine's success in implementing policies and reforms that underpin a new IMF-supported programme.

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. 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.

Ukraine had presidential elections in March-April 2019, and then early parliamentary elections in July 2019. Later, in August 2019 new Cabinet of Ministers was formed, which, however, was dismissed and replaced with a new one in March 2020. Amid these political changes, the degree of uncertainty including in respect of the future direction of the reforms in 2020 remains very high.

In March 2020, most of the governments in the world (including the governments of all of the countries in which the Group operates) introduced various restrictive measures to prevent the spread of the virus. Most commonly, the restrictions imposed were of quarantine nature such as the ban on public transportation and air traffic between certain countries, limitations on work of public institutions, the shutdown of most of the public places including most or all non-food stores. The governments encourage businesses to switch to working from home for their employees. Further, during May-July the government moved to adoptive quarantine with weakening the regime and relax of the restrictions early adopted, the adaptive quarantine prolonged till 31 August 2020. The Group may face the 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 the Ukrainian economy.

Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects. In the second half of 2020, the Group does not expect an essential increase in roaming revenues from its own subscribers. General economic downturn due to COVID-19 impact could have a negative impact on the Group's financial results. Management is expecting further devaluation of the Ukrainian Hryvnia against the USD and/or Euro, which could result in the Group's foreign exchange losses due to the Notes issued in February 2020 increasing.

20. PENSIONS AND RETIREMENT PLANS

The Group's contributions to the State Pension Fund for the six months ended 30 June 2020 and 30 June 2019 amounted to UAH 139 million and UAH 109 million, respectively.

21. SUBSEQUENT EVENTS

The buyback of Eurobonds

In July 2020 the Group redeemed and cancelled additional Notes for the total amount of USD 14 million face value (UAH 388 million).

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Reforming the radio frequency spectrum

Since 1 July 2020, the Group has begun reforming the radio frequency spectrum in the 900 MHz band. As a result of reforming, the Group will be able to use contiguous radio frequency bands sufficient to enable implementation and use of the modern standard of 4G mobile communications.

Repayment of other financial payables

On 21 August 2020, the Group repaid UAH 250 million as part of the outstanding amount to Telco Solutions and Investments LLC in accordance with the dividend's reassignment agreement (see Note 3).

22. AUTHORISATION OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorized for issue by the Management of the Group on 26 August 2020.