

PrJSC “VF Ukraine”

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report

31 December 2021

PrJSC "VF UKRAINE" AND SUBSIDIARIES

TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021:

Consolidated statement of profit or loss and other comprehensive income	1
Consolidated statement of financial position	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4
Notes to the consolidated financial statements	5-44



Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Private Joint Stock Company "VF Ukraine" (the "Company" or "PrJSC VF Ukraine") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply, in all material respects, with financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine.

Our auditor's report is consistent with our additional report to the Audit Committee dated 21 April 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit of Financial Statements and Auditing that are relevant to our audit of the consolidated financial statements in Ukraine. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, we declare that services that we have provided to the Group are in accordance with the applicable law and regulations in Ukraine and that we have not provided non-audit services that are prohibited under Article 6 part 4 of the Law on Audit of Financial Statements and Auditing.

Material uncertainty relating to going concern

We draw attention to Notes 2 and 31 in the consolidated financial statements, which highlight that since 24 February 2022 the Group's operations are significantly affected by the invasion of Ukraine and the ongoing military offensive of the Russian Federation and the magnitude of the further developments is uncertain, including the intensity or the potential timing of the cessation of those actions. As stated in Notes 2 and 31, these events or conditions, along with other matters as set forth in Notes 2 and 31, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter

In accordance with the legislation in force as at the date of this audit report, the IFRS consolidated financial statements of the Group should be prepared in a single electronic format (iXBRL). As described in Note 2 to the consolidated financial statements, as of the date of this audit report management of the Group has not yet prepared the iXBRL report due to the circumstances described in Note 2 and plans to prepare and submit the iXBRL report during 2022. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall Group materiality: UAH 270 million, which represents 2.5% of Operating Income Before Depreciation and Amortization ("OIBDA").
- Our work consisted of a full scope audit of the parent company, PrJSC VF Ukraine, and risk assessment procedures and certain specified audit procedures for its subsidiaries.
- Audit coverage: Our audit covered 99% of consolidated revenues, 99% of OIBDA, 98% of profit before tax and 99% of consolidated total assets, respectively.
- Revenue recognition – accuracy and occurrence of service revenue.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table



below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	UAH 270 million
How we determined it	2.5% of OIBDA OIBDA is defined as profit before interest, tax, depreciation, amortization and non-operating impairment, net foreign exchange gains or losses and other gains/losses (EBIT, as disclosed in Note 4 to the consolidated financial statements, before depreciation and amortization).
Rationale for the materiality benchmark applied	We used OIBDA as the primary benchmark based on our analysis of the common information needs of users of the financial statements. OIBDA is predominantly used by the Company's equity and debt holders to assess the financial performance of the Group, given the volatility of the Group's profit before taxes which is impacted by significant foreign currency fluctuations. OIBDA, as a quasi-earnings and cash flow based metric that is not based on generally accepted accounting principles, is mutually useful to both debt and equity holders for different reasons, and as the Group is in a relatively capital expenditure intensive sector it provides users insight into the potential future capacity to invest. On this basis, we believe that OIBDA is an important metric for the financial performance of the Group and, as such, an appropriate materiality benchmark. We chose 2.5%, which in our experience is within the range of acceptable quantitative materiality thresholds for this benchmark.

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. In addition to the matter described in the Material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition - accuracy and occurrence of service revenue</p> <p>Refer to Note 6 to the consolidated financial statements for the related disclosures.</p> <p>The total service revenues of the Group for the year ended 31 December 2021 amounted to UAH 20,145 million, comprising a high volume of relatively small transactions in combination with multiple pricing plans.</p> <p>This significant item in terms of its amount is subject to considerable inherent risk around the</p>	<p>Our audit approach included sample-based testing of internal controls and performing substantive procedures, covering amongst others:</p> <ul style="list-style-type: none"> • Understanding and testing the IT environment in which subscriber billing and other relevant support systems reside, including the change management and restricted access procedures in place. • Testing the design and operational effectiveness of the



accuracy and occurrence of the service revenue recorded due to:

- the complexity of the billing and other operating support systems, processes and controls necessary for identifying and properly recording service revenue; and
- the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, and incentives).

The magnitude as well as the increased risk requires substantial audit attention and effort with respect to the controls and substantive test procedures to be performed over the accuracy and occurrence of service revenue. Therefore, we consider this a key audit matter.

internal controls in the service revenue and accounts receivables business process.

- Sample-based testing of the end-to-end processing of the network captured activity of subscribers, from the mediation of subscriber activity to the billing systems and ultimately to the general ledger.
- Targeted testing of material manual journal entries made in the general ledger and the period end reporting process with respect to revenue.
- Performing sample-based tests on the accuracy of pre-paid subscriber activity by assessing the nature of the services rendered and whether the appropriate tariffs were applied.
- Reconciling the consideration received for mobile services, including vouchers and other top-up transactions, to the total amount of revenue recognized from mobile subscribers.
- Generating independent subscriber events on the Group's network and reconciling these events with the billed and recorded amounts.
- Independently obtaining external third-party confirmations from a sample of corporate customers, including international roaming and interconnect partners, and reconciling these confirmations with the Group records.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the Group engagement team. No other component auditors were used to perform the audit work.

PrJSC VF Ukraine is the parent company of a group of entities, as disclosed in Note 1 of the consolidated financial statements. The financial information of this group is included in the consolidated financial statements of PrJSC VF Ukraine.

PrJSC VF Ukraine was subjected to an audit of its complete financial information as this component is individually significant to the Group. Further, LLC VF Retail, PrJSC Farlep-Invest, LLC Cable TV-Finance and VFU Funding PLC were selected for audit procedures limited to particular account balances and classes of transactions.



In total, in performing these procedures, we achieved the following coverage of the following financial line items:

Revenue	99%
OIBDA	99%
Profit before tax	98%
Total assets	99%

The remaining component represented less than 1% of total consolidated revenue, 1% of total consolidated OIBDA, 2% of total consolidated profit before tax or 1% of total consolidated assets. For the remaining component we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within this component.

By performing the procedures above at components, combined with additional procedures at the Company level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Other information including the consolidated management report

Management is responsible for the other information. The other information comprises the consolidated management report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the annual information of the issuer of securities, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, including the consolidated management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work undertaken in the course of our audit, in our opinion, the information given in the consolidated management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in consolidated management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

When we read the annual information of the issuer of securities, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management, the Supervisory Board and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine, and for such internal control as management determines is necessary to enable the preparation of the 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.

The Supervisory Board and the Audit Committee 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 scepticism 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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, actions taken to eliminate threats or safeguards applied.

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.

Report on other legal and regulatory requirements

Additional information provided in accordance with the National Securities and Stock Market Commission's Resolution N555 dated 22 July 2021

The audit of the consolidated financial statements of Private Joint Stock Company "VF Ukraine" was performed in accordance with agreement FD-22-500245 dated 10 January 2022 in the period from 10 January 2022 to the date of this report. The Company is a public interest entity in accordance with the Law on Accounting and Financial Reporting in Ukraine. The Company is neither a controller nor a member of a non-banking financial group.

Information on ultimate beneficial owner and ownership structure

In our opinion, information disclosed in Note 1 and Note 20 in the consolidated financial statements is consistent with the information on the Company's ultimate beneficial owner and ownership structure disclosed in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Associations.

Information on Company's parents and subsidiaries

Immediate parent:

LLC Telco Solutions and Investments, Ukraine.

Ultimate parent:

Telco Solutions B.V., the Netherlands.

Intermediate parent:

Telco Investments B.V., the Netherlands.

Subsidiaries:

LLC VF Retail, Ukraine;

PrJSC Farlep-Invest, Ukraine;

LLC Cable TV-Finance, Ukraine;

VFU Funding PLC, United Kingdom;

LLC IT SmartFlex, Ukraine.

Reporting on consolidated management report

As stated in the Other information including the consolidated management report section of our auditor's report, based on the work undertaken in the course of our audit, in our opinion, the information given in the consolidated management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements and we have nothing to report regarding identification of material misstatements.



Results of the revision commission's inspection

Results of the revision commission's inspection are presented in the Conclusions of the revision commission section of the consolidated management report.

Appointment

We were first appointed as auditors of the Group for the mandatory audit by the Supervisory Board resolution on 20 November 2020. Our appointment has been renewed annually by the Supervisory Board resolution representing a total period of uninterrupted engagement appointment of 2 years.

The key audit partner on the audit resulting in this independent auditor's report is Victor Vyshnevsky.

LLC AF PricewaterhouseCoopers (Audit)

LLC AF "PricewaterhouseCoopers (Audit)"
Identification number 21603903
Registration number in the Register of Auditors and
Auditing Entities 0152

A handwritten signature in blue ink, appearing to read "Vyshnevsky", with a stylized flourish at the end.

Victor Vyshnevsky
Registration number in the Register of Auditors and
Auditing Entities 101817

21 April 2022


PrJSC "VF UKRAINE" AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2021	2020
Service revenue	6	19,413	17,202
Sales of goods		732	940
Revenue		20,145	18,142
Cost of services	7	(4,857)	(4,595)
Cost of goods	19	(633)	(849)
Selling, general and administrative expenses	8	(3,701)	(3,161)
Depreciation and amortization		(4,990)	(4,801)
Net (charge)/credit for operating expected credit losses of financial assets	16	(67)	3
Other operating income, net	9	24	350
Operating profit		5,921	5,089
Net credit/(charge) for non-operating expected credit losses of financial assets	16	59	(113)
Finance income	10	50	70
Finance costs	10	(1,691)	(1,492)
Net currency exchange gains/(losses)		450	(1,926)
Non-operating expenses		(1)	(32)
Profit before tax		4,788	1,596
Income tax expense	11	(956)	(395)
Profit for the year		3,832	1,201
Total comprehensive income for the year		3,832	1,201


Signed on behalf of the Group's Management:



Olga Ustynova
Chief Executive Officer



Natalia Shevchenko
Chief Finance Officer




Olena Solovyova
Head of Department for the Financial
Statements and Accounting

PrJSC "VF UKRAINE" AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2021

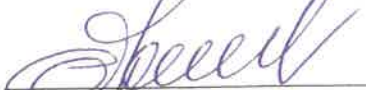
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	31 December 2021	31 December 2020
Assets			
<i>Non-current assets</i>			
Property and equipment	12	9,725	10,058
Intangible assets and goodwill	13	6,717	6,969
Right-of-use assets	14	3,687	3,966
Costs to obtain contracts	15	220	233
Deferred tax assets	11	177	341
Other financial non-current assets		3	-
Total non-current assets		20,529	21,567
<i>Current assets</i>			
Trade and other receivables	16	12,434	12,205
Cash and cash equivalents	17	2,717	2,820
Short-term investments	18	309	664
Advances paid and prepaid expenses		210	156
Inventories	19	164	159
Current income tax assets		-	63
Other non-financial current assets		118	156
Indemnification asset		13	-
Current contract assets		10	-
Total current assets		15,975	16,223
Total assets		36,504	37,790
Equity and liabilities			
<i>Equity</i>			
Common stock	20	8	8
Other components of equity		2	2
Retained earnings		15,901	15,576
Equity attributable to the owners of the Company		15,911	15,586
Non-controlling interests		2	2
Total equity		15,913	15,588
<i>Non-current liabilities</i>			
Borrowings	21	11,853	12,793
Lease obligations	14	3,289	3,687
Provisions	22	354	504
Deferred tax liabilities	11	27	-
Contract liabilities	23	1	1
Total non-current liabilities		15,524	16,985
<i>Current liabilities</i>			
Trade and other payables	24	1,152	1,441
Contract liabilities	23	1,525	1,446
Lease obligations	14	1,173	1,112
Provisions	22	594	559
Borrowings	21	291	315
Current income tax liabilities		53	18
Other financial liabilities		23	39
Other non-financial liabilities	25	256	287
Total current liabilities		5,067	5,217
Total equity and liabilities		36,504	37,790

Signed on behalf of the Group's Management:


 Olga Ustynova
 Chief Executive Officer


 Natalia Shevchenko
 Chief Finance Officer


 Olena Solovyova
 Head of Department for the Financial
 Statements and Accounting

PrJSC "VF UKRAINE" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Equity attributable to the owners of the Company			Total	Non-controlling interests	Total equity
	Common stock	Other components of equity	Retained earnings			
Balances at 1 January 2020	8	2	14,375	14,385	-	14,385
Profit for the year	-	-	1,201	1,201	-	1,201
Total comprehensive income for the year	-	-	1,201	1,201	-	1,201
Non-controlling interests	-	-	-	-	2	2
Balances at 31 December 2020	8	2	15 576	15 586	2	15,588
Profit for the year	-	-	3,832	3,832	-	3,832
Total comprehensive income for the year	-	-	3,832	3,832	-	3,832
Dividends	-	-	(3,507)	(3,507)	-	(3,507)
Balances at 31 December 2021	8	2	15,901	15,911	2	15,913

Signed on behalf of the Group's Management:



Olga Ustynova
Chief Executive Officer



Natalia Shevchenko
Chief Finance Officer



Olena Solovyova
Head of Department for the Financial Statements and Accounting

PrJSC "VF UKRAINE" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021


Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2021	2020
Cash flows from operating activities:			
Profit before tax		4,788	1,596
Adjustments for:			
Depreciation and amortization		4,990	4,801
Finance income	10	(50)	(70)
Finance costs	10	1,691	1,492
Net currency exchange (gains)/losses		(408)	1,867
Net charge for expected credit losses of financial assets	16	8	110
Gain on derecognition of trade and other payables		-	(193)
Gain from lease termination and rent concessions	9	(39)	(76)
Change in provisions		819	933
Other non-cash items, net		(15)	(54)
Movements in operating assets and liabilities:			
(Increase)/decrease in trade and other receivables		(247)	58
Decrease in inventory		-	101
Increase in current contract assets		(10)	-
Increase in other non-financial assets		(144)	(171)
Increase in advances paid and prepaid expenses		(52)	(61)
Increase in subscriber prepayments and deposits		67	70
Decrease in trade and other payables and other liabilities		(12)	(234)
Utilized provisions	22	(800)	(654)
Income taxes paid		(719)	(254)
Interest received		50	73
Interest paid	14, 21	(1,349)	(1,021)
Net cash from operating activities		8,568	8,313
Cash flows from investing activities:			
Purchases of property and equipment		(1,801)	(2,309)
Purchases of intangible assets (excluding licences)		(1,701)	(1,475)
Purchase of spectrum licences	13	-	(267)
Proceeds from sale of property and equipment		25	36
Payment for acquisition of subsidiary, net of cash acquired	5	(450)	-
Proceeds from short-term investments		310	5
Other investing activity		(67)	-
Financial aid and loan provided to related parties	16	-	(11,618)
Net cash used in investing activities		(3,684)	(15,628)
Cash flows from financing activities:			
Repayment of borrowings	21	(609)	(963)
Lease obligations principal paid	14	(596)	(524)
Dividends paid		(3,481)	-
Loan agreement amendment fee paid		(146)	-
Proceeds from borrowings	21	-	11,844
Repayment of other financial payables	24	-	(1,776)
Net cash (used in)/from financing activities		(4,832)	8,581
Cash and cash equivalents, beginning of the year	17	2,820	1,434
Net increase in cash and cash equivalents		52	1,266
Effect of exchange rate changes on cash and cash equivalents		(155)	120
Cash and cash equivalents, end of the year	17	2,717	2,820


Non-cash additions to property and equipment and intangible assets are disclosed in Notes 12, 13.

Non-cash additions to right-of-use assets and lease obligations are disclosed in Note 14.

Signed on behalf of the Group's Management:


 Olga Ustynova
 Chief Executive Officer


 Natalia Sheychenko
 Chief Finance Officer


 Olana Solovyova
 Head of Department for the Financial
 Statements and Accounting

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

1. BUSINESS DESCRIPTION

Private Joint-Stock Company "VF Ukraine" (PrJSC "VF Ukraine" or the "Company") is a company incorporated under the laws of Ukraine and having its registered address at 15, Leiptyszka 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 "ITSF" (a software developer, support and integration services provider), PLC "VFU Funding" (structured entity incorporated to issue Eurobonds), PrJSC "Farlep-Invest" (fixed-line business) and LLC "Cable TV-Finance" (telecommunications activities).

By the end of 2021, the number of full-time employees of the Group was over 4,100 persons (2020: 4,000 persons).

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, various value-added services ("VAS") through wireless, fixed-line services, pay TV, as well as the sale of equipment and accessories. The Group conducts its operational activity in Ukraine.

On 15 October 2015, PrJSC "VF Ukraine" signed a strategic agreement with Vodafone Sales and Services Limited ("Vodafone") on the cooperation and use of the Vodafone brand in Ukraine. Further, on 3 March 2020, the Company renewed the branding agreement for the period 2020-2025 with the contractual right to extend the strategic agreement for an additional year after the 2025 end date. 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 practices in its IT network operation.

Until 24 December 2020, the majority shareholder of the Company was Preludium B.V., a company incorporated under Dutch law. Since 2015 Preludium B.V. held directly 99% of the shares in the Company. Enterprise with 100% Foreign Investment "PTT TELECOM KIEV" (hereinafter "PTT Telecom Kiev") was a 1% shareholder of VF Ukraine.

Until 3 December 2019, Preludium B.V. was an indirectly controlled subsidiary of Mobile TeleSystems Public Joint-Stock Company or "MTS". On 3 December 2019, Preludium B.V., including its controlling interest in the Group, was sold to Telco Solutions and Investments LLC, whose ultimate beneficiary is Mr. Nasib Hasanov (Azerbaijan).

On 24 December 2020, Preludium B.V. and Telco Solutions and Investments LLC signed the hand over protocol and on 28 December Preludium B.V. transferred its shares. From this time on Telco Solutions and Investments LLC holds 99% of the shares in the Company. "PTT Telecom Kiev" still owns 1% of the shares (Note 20). The ultimate beneficiary of the Company remains the same after these changes.

On 6 February 2020, the Group raised funds by issuing Eurobonds ("the Notes") with a five year maturity in the amount of USD 500 million (UAH 12,259 million as of the issue date). The proceeds from the Notes issued by PLC "VFU Funding" were provided to the Company in the form of an intragroup loan, which further used the funds for the refinancing of a USD 464 million bridge facility obtained by LLC "Telco Solutions and Investments" in order to acquire Preludium B.V. from MTS Group. On 10 February 2020, the Group provided interest-free financial aid to LLC "Telco Solutions and Investments" in the amount of UAH 11,569 million (Note 16). The loan is refundable within 10 days after a written request of the Group.

According to the corporate reorganisation plan, LLC "Telco Solutions and Investments" are expected to be merged by accession (the "Merger") with the Company. The Merger was originally expected to be completed by the end of 2021 that reflected the detailed plan and management expectations for its implementation. Therefore, the financial aid provided to the parent company was presented within the current assets in the consolidated statement of financial position as at 31 December 2020. However, due to quarantine and other operational matters, the time frame of the merger process has been

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

extended until the end of 2022. Following the completion of the Merger, the Company will be the surviving entity and shall be the full legal successor of all its assets, rights and obligations. As at 31 December 2021, the management believed that the Merger will be completed within one year after the current reporting date and therefore considered that the financial aid provided to the parent company should be presented within the current assets in the Group consolidated statement of the financial position. The Merger qualifies as a capital reorganisation of businesses under common control and is expected to be accounted for prospectively, using the predecessor accounting method from the date of the Merger. There is no guidance for accounting for capital reorganisations in IFRS, so the choice of approach to accounting for such transactions is a matter of significant judgement. The assets and liabilities of PrJSC "VF Ukraine" and LLC "Telco Solutions and Investments" will be combined at their carrying standalone values. Intragroup balances, including the interest-free financial aid in the amount of UAH 11,569 million, will be eliminated with any difference between the shares of " to be issued to Telco Investments B.V., which will become the immediate parent company after the Merger, and Telco Solutions and Investments LLC's carrying value of the net assets to be accounted for within retained earnings. This will lead to a significant decrease of the Company's equity after the Merger. The results of Telco Solutions and Investments LLC will be included into financial statements of PrJSC "VF Ukraine" from the date of the capital reorganisation.

On 8 September 2021, the Company completed the acquisition of 99.99% of the shares of PrJSC "Farlep-Invest" operating under the Vega brand, as well as 95% of the authorized capital of LLC "Cable TV-Finance", including 5% of the authorized capital of LLC "Cable TV-Finance" owned by PrJSC "Farlep-Invest". PrJSC "Farlep-Invest" provides fixed access services to the Internet and fixed telephone services. LLC "Cable TV-Finance" provides fixed Internet access services. PrJSC "Farlep-Invest" and LLC "Cable TV-Finance" have a radio frequency resource in the 2.3 GHz band (15 MHz in 6 regions), as well as in the 2.5-2.7 GHz, 5 GHz, 14-15 GHz bands. The Group plans to continue to carry out the same types of economic activities that are currently carried out by PrJSC "Farlep-Invest" and LLC "Cable TV-Finance". The purpose of the acquisition of these companies for the Group is to further develop the telecommunications business, including fixed line services. See also Note 5 for more details of the acquisition.

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

The accounting policies applied in the preparation of these consolidated financial statements are presented further in the relevant notes.

In accordance with p.5 Article 121 of the Law of Ukraine "On Accounting and Reporting in Ukraine", all mandatory IFRS reporters should prepare and submit their financial statements based on the taxonomy of financial statements under IFRS in a single electronic format (referred to as "iXBRL"). As of the date of issuing these consolidated financial statements, the 2021 UA XBRL IFRS taxonomy has not been published yet and the process for submitting 2021 financial statements in the single electronic format has not been initiated yet by the National Securities and Stock Market Commission. Management of the Group is planning to prepare the iXBRL report and submit it during 2022.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Going concern

Subsequent to the date of these consolidated financial statements, on 24 February 2022, the Russian Federation started an unprovoked full-scale military offensive in Ukraine. This was followed up by the immediate enactment of martial law by the government of Ukraine and the corresponding introduction of the related temporary restrictions that impact the economic environment. See also Note 31 for more details of these subsequent events.

Since the Russian military invasion of Ukraine is taking place from multiple directions, some regions of Ukraine remain under intense hostilities or temporary occupation. The Group operates and provides services throughout Ukraine except the Autonomous Republic of Crimea, hence these events have a material adverse effect on the Ukrainian economy and consequently, on the Group's business, financial condition, and results of operations.

As at the date of the issue of these consolidated financial statements, no critical assets preventing the Group from continuing operations have been damaged. The approximate share of assets located in the temporarily occupied territories of Ukraine was up to 15%.

Since 24 February 2022, network and base station equipment has been constantly monitored, especially in areas of mass downtime. Traffic redistribution, capacity addition and other measures designed to restore network coverage and to maintain a reasonable level of network performance are being carried out. The Group performs the necessary maintenance and repair work, as well as network optimization using both existing equipment, including equipment from the reserve fund, and external supplies. The Group has existing contracts with suppliers of network equipment and its delivery is currently possible by transport routes in the western and central parts of Ukraine, which are less affected by hostilities.

On 7 March 2022, three largest mobile operators of Ukraine, including PrJSC "VF Ukraine", together with the Ministry of Digital Transformation of Ukraine, the State Service for Special Communications and Information Protection of Ukraine and the National Commission for State Regulation in the Fields of Electronic Communications, Radio Frequency Spectrum and Provision of Postal Services announced the launch of national roaming in Ukraine. This means that subscribers can manually switch to the network of other operators if it is not possible to use the signal of their own mobile operator. In the context of the Russian military aggression, mobile operators have joined efforts to ensure the continuity of communication services for their subscribers. National roaming is now available for voice calls, SMS messages and 2G / 3G mobile Internet within Ukraine from all mobile operators. This initiative helps ensure the continuity of communication services for its subscribers, even if the Group's network infrastructure on some territories of Ukraine has been destroyed or disabled.

As at 31 December 2021 the Group was in compliance with all debt covenants. Management plans to service the Group's financial liabilities in a timely manner in accordance with the debt agreement. However, the Group would be prohibited from making its scheduled interest payments in 2022 even if adequate cash exists, assuming the moratorium on cross border foreign currency payments is still in place at the time of the next interest payment due date in August 2022. In this case, the Group may seek to obtain a waiver of the event giving rise to the event of default from the bondholders. Based on management forecasts, it's expected that the Group will be able to meet the covenants for the upcoming twelve months from the date of these consolidated financial statements with sufficient headroom for the existing financial ratio.

In the event of a worst-case scenario in which intense hostilities take place throughout Ukraine, it can be assumed that the Group's operations could be affected for an unpredictable period of time. This represents an uncertainty that is beyond the control of the Group.

Management has taken appropriate actions to ensure the continuity of communication services and operations, and has made the following assumptions in its forecast for the twelve months from the date of these consolidated financial statements:

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

- the degree of intensity of hostilities and the scope of the territories of Ukraine invaded by Russian troops will not increase significantly;
- the Group will be able to carry out maintenance and repair work to maintain a reasonable level of network performance in those territories of Ukraine where it is possible from the point of view of the physical security of technical specialists;
- the Group will be able to secure continuity of its critical IT infrastructure in accordance with the measures taken by management and incident response and disaster recovery plans;
- the amount of revenue from sales of services and goods will allow us to cover the level of operating expenses and to maintain debt servicing.

Management has reviewed the Group's ability to continue as a going concern at the date of issue of these consolidated financial statements and has concluded that there is a material uncertainty about further significant escalation in hostilities that can disrupt infrastructure and the Group's operations that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may be unable to realize its assets and discharge its liabilities in the normal course of business. Based on these factors, management has a reasonable expectation that the Group has sufficient resources to manage the business for the next twelve months from the date of these consolidated financial statements. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

Based on these and other steps, the management of the Group has concluded that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Basis of consolidation

These 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 these 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 Company and its subsidiaries is 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. The subsequent unrealized gain or loss from remeasuring the foreign currency item into the functional currency is recognized in profit or loss.

Ownership interests in the Group's subsidiaries were the following:

	Accounting method	31 December 2021	31 December 2020
LLC "VF Retail"	Consolidated	100.0%	100.0%
LLC "ITSF"	Consolidated	100.0%	100.0%
LLC "Cable TV-Finance"	Consolidated	100.0%	-
PrJSC "Farlep-Invest"	Consolidated	99.9%	-
PLC "VFU Funding" *	Consolidated	0.0%	0.0%

* Starting from 6 February 2020 the Group consolidated PLC "VFU Funding", a special purpose entity (the "SPE"), incorporated in England and Wales for the purpose of issuing the Notes (Note 21). The Group has no legal ownership of the SPE but exercises control over the entity according to the

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

requirements of IFRS 10 *Consolidated Financial Statements*. The Group will cease consolidation of PLC "VFU Funding" after the repayment date of the Notes.

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

Certain comparative information presented in these consolidated financial statements as at and for the year ended 31 December 2020 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2021. For instance, the operating foreign exchange differences were separated and included in the calculation of the operating profit within Other operating income, net. These reclassifications were not considered material and had no impact on net profit or operating cash flows.

Standards, interpretations and amendments adopted on 1 January 2021

The accounting policies, method of computation applied, critical estimates and judgements in the preparation of these consolidated financial statements are consistent with those disclosed in the consolidated statements of the Group for the year ended 31 December 2020.

None of the interpretations and amendments to standards adopted by the Group on 1 January 2021 had a 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 consolidated financial statements, the following standards and interpretations, as well as amendments to the standards that have been issued and are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted:

- IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current* - the amendments are effective for annual reporting periods beginning on or after 1 January 2023.
- IFRS 17 *Insurance Contracts* - effective for annual periods beginning on or after 1 January 2023;
- IFRS 17 *Insurance Contracts* (amendments) - effective for annual periods beginning on or after 1 January 2023;
- IAS 1 and IFRS *Practice Statement amendments on accounting policy to disclose in financial statements* - effective for annual periods beginning on or after 1 January 2023;
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* - amendments that help to distinguish between accounting policies and accounting estimates - effective for annual periods beginning on or after 1 January 2023.
- IAS 12 *Income taxes* - amendments on Deferred Tax related to Assets and Liabilities arising from a Single Transaction - effective for annual periods beginning on or after 1 January 2023.
- IAS 16 *Property, Plant and Equipment - Proceeds before Intended Use* - effective for annual periods beginning on or after 1 January 2022;
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* - effective for annual periods beginning on or after 1 January 2022;
- IFRS 3 *Business Combinations* - Reference to the Conceptual Framework - effective for annual periods beginning on or after 1 January 2022;
- *Annual Improvements to IFRS 2018 - 2020 Cycle* - effective for annual periods beginning on or after 1 January 2022.
- IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - effective date to be determined by the IASB.

Management is currently evaluating the impact of the adoption of these standards and interpretations, as well as the amendments to Standards. The management believes that these changes will likely have no material effect on the Group.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 that 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 depreciation/amortization method. 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 the amortization or depreciation charges respectively. Technological developments are difficult to predict taking into account that 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 non-current assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of tangible and 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 12, 13 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 future lease payments. The lease term corresponds to the non-cancellable period of each contract, however, in most cases, the Group is reasonably certain of exercising renewal options and therefore lease terms are extended to 10-20 years for sites related to placement of network and base station equipment (Note 14). When assessing the lease term, management considers all facts and circumstances that create the economic incentive for the Group to exercise 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 as well as costs to terminate or enter into lease contracts. The Group determined the incremental borrowing rates based on government bonds yield curve adjusted on the credit spreads of the Group's loan offers from banks.

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

Allowances for expected credit losses

The Group uses a provision matrix to calculate allowances for expected credit losses ("ECL") for trade receivables. The provision rates are based on days past due for groupings of various customer

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience for forward-looking information. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions, the Group's historical credit loss experience and forecast of economic conditions.

The Group also estimates the ECL on the financial aid provided to the parent company considering assumed recovery through the sale of its investment in the Company. This calculation involves certain assumptions related to the annual volatility of the share price of comparable listed telecommunication companies and the expected recovery period.

If these assumptions prove to be incorrect, the Group's actual conversion rate of recorded revenue to cash may be lower than expected and we may be required to increase our allowance for expected credit losses. The information about ECL on trade and other receivables, including sensitivity analysis for ECL on other receivables is included in Note 16.

Provision for decommissioning and restoration

The Group makes a provision for the future decommissioning and restoration cost of masts, towers and poles constructions. This provision represents the present value of decommissioning costs, which are expected to be incurred when the related assets will be dismantled. Provisions are measured at the managements' best estimates of the input costs associated with decommissioning assets, including labour and restoration costs. The estimates are reviewed regularly based on the economic environment and other internal factors. The major assumptions used in determining the provision are included in Note 22.

Classification of the financial aid provided to a related party

On 10 February 2020, the Group provided interest-free financial aid in the amount of UAH 11,569 million to Telco Solutions and Investments LLC. The aid is repayable within 10 days after a written request by the Group. According to the corporate reorganisation plan, LLC "Telco Solutions and Investments" is expected to be merged with the Company in 2022 (the "Merger"). Following the completion of the Merger, the Company will be the surviving entity and shall be the full legal successor of all its assets, rights and obligations. As the reporting date, the management believed that the Merger will be completed within one year after the reporting date (Note 1) and therefore believed that the financial aid provided to the parent company should be presented within the current assets in the consolidated statement of the financial position. As the loan is expected to be settled through the Merger, there is no expectation to call the loan from the parent. The timeframe for the merger process may need to be extended due to the impact of events after the reporting date related to the Russian invasion of Ukraine (Note 31) on the availability and prioritization of state government services and other elements of the merger plan. Management will assess the impact of these events on the timing of the merger process, as well as the presentation of the financial aid provided to the parent company in the consolidated statement of the financial position at the next reporting date.

Identifying the cash-generating unit

The Group is required to perform impairment tests for those cash-generated units where impairment indicators are identified. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. Prior to the acquisition of PrJSC "Farlep-Invest" and LLC "Cable TV-Finance" that was completed on 8 September 2021 (Note 5), the Group considered its consolidated business as a single cash-generating unit. Following this acquisition, the Group considers two cash-generating units: the core mobile business and the fixed line business (handled solely by PrJSC "Farlep-Invest"). The Group's subsidiaries operations, other than PrJSC "Farlep-Invest" until the convergence of services with the rest of the Group, are considered as the extension of the core mobile business.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

4. SEGMENT INFORMATION

The Group's steering committee (chief operating decision makers or "CODM"), consisting of the chief executive officer and the senior management team, examines the Group's performance and has identified one reportable segment of its business, which encompasses services rendered to customers across Ukraine, including voice and data services, fixed-line services, retail sales of phones, smartphones and other related goods (Note 6).

The steering committee uses a measure of revenue and, since 2021, earnings before interest and taxes ("EBIT") to assess the performance of the operating segment. Management defines EBIT as profit before interest, tax, non-operating impairment, net non-operating foreign exchange gains or losses and other non-operating gains/losses from the consolidated statement of profit or loss and other comprehensive income (i.e. operating profit).

Financial information of the reportable segment is presented below:

	<u>2021</u>	<u>2020</u>
Revenue	20,145	18,142
EBIT (Operating profit)	5,921	5,089

5. BUSINESS COMBINATION

Business combinations (except for acquisition of businesses from entities under common control or the ultimate controlling party) are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree at fair value. Acquisition-related costs are expensed as incurred and included in selling, general and administrative expenses.

The Group determines that it has acquired a business when the acquired set of activities and assets include an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

On 8 September 2021 the Group acquired 99,9929% of the voting shares of PrJSC "Farlep-Invest" and 95% of the authorized capital of LLC "Cable TV-Finance" (together referred to as "Vega"), including 5% of the authorized capital of LLC "Cable TV-Finance" owned by PrJSC "Farlep-Invest". Both companies are based in Ukraine and are specialising in the fixed line telephony and Internet operations under the "Vega" brand. The Group acquired Vega for the further development of the

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

telecommunications business, in particular fixed-line services, and plans to provide converged services to its customers. The Group has elected to measure the non-controlling interests in the acquiree at fair value. Non-controlling interests related to the Vega acquisition are insignificant for the Group's consolidated financial statements and not disclosed further in the consolidated financial statements.

The purchase consideration for business combination comprised of UAH 517 million and was fully settled by cash on the date of acquisition.

The fair values of the identifiable assets and liabilities of Vega as at the date of acquisition were:

	Fair value recognised on acquisition
Assets	
Property and equipment (Note 12)	344
Intangible assets (Note 13)	185
Right-of-use assets (Note 14)	144
Cash and cash equivalents (Note 17)	67
Trade and other receivables (Note 16)	51
Inventories (Note 19)	5
Advances paid and prepaid expenses	4
Other non-financial current assets	13
Indemnification asset	13
	826
Liabilities	
Lease obligations (Note 14)	(181)
Trade and other payables (Note 24)	(52)
Deferred tax liabilities (Note 11)	(27)
Current income tax liabilities	(26)
Contract liabilities (Note 23)	(19)
Provisions, current (Note 22)	(14)
Other non-financial liabilities, current (Note 25)	(10)
	(329)
Total identifiable net assets at fair value	497
Goodwill arising from the acquisition (Note 13)	20
Purchase consideration transferred	517

The fair values of assets and liabilities acquired were measured at the acquisition date using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of property and equipment and intangible assets (other than radio frequencies licences) are measured using a depreciated replacement cost valuation approach with further testing for economic impairment. The fair values of radio frequencies licences are measured using a comparative valuation approach. The valuation of property and equipment and identifiable intangible assets was performed by an independent professional appraiser. Based on the appraisal report the following assets were included in the purchase price allocation among others:

- non-operating licences valued at UAH 153 million, which are expected to be used in the core mobile business;
- operating licences valued at UAH 18 million.

The valuation of the non-operating licenses provides for consent to an early change of the radio technology "Multiservice radio access" in the frequency bands 2575 - 2610 MHz and assumes a

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

positive outcome of the early implementation of a new wireless technology by LLC "Cable TV-Finance".

The fair value of acquired trade receivables is UAH 51 million. The gross contractual amount of trade receivables due is UAH 106 million, with an expected credit losses allowance of UAH 55 million recognised on acquisition.

The deferred tax liability mainly comprises the tax effect of the revaluation of property and equipment and intangible assets.

The goodwill of UAH 20 million comprises the value of expected synergies arising from the acquisition, which is not separately recognised. Goodwill is allocated entirely to the assets purchased for subsequent usage in the core mobile business. None of the goodwill recognised is expected to be deductible for income tax purposes.

A contingent liability at fair value of UAH 11 million (included within Provisions, current) was recognised at the acquisition date resulting from a lawsuit with the State Tax Service of Ukraine for the adjustment of accumulated tax losses of PrJSC "Farlep-Invest" for UAH 58 million. On 3 November 2021 Supreme Court of Ukraine ordered PrJSC "Farlep-Invest" to reduce accumulated tax losses and pay income tax for the amount of UAH 11 million, income tax liability has been settled within 2021. Respectively, at the acquisition date the Group recognised an Indemnification asset for UAH 13 million, subsequently refunded by the seller in January 2022.

From the date of acquisition, Vega contributed UAH 152 million of revenue and UAH 48 million to losses before tax of the Group. If the combination had taken place at the beginning of the year, revenue would have been UAH 497 million.

Purchase consideration – cash outflow

Outflow of cash to acquire subsidiary, net of cash acquired

Cash consideration	(517)
Less: balances acquired	
Cash and cash equivalents	67

Net outflow of cash on acquisition – investing activities

(450)

Acquisition-related costs of UAH 41 million were expensed and are included in selling, general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income and in operating cash flows in the consolidated statement of cash flows.

Goodwill

For impairment testing goodwill acquired through business combinations is allocated to the core mobile business CGU, which represents the lowest level within the Group at which the goodwill is monitored by management and which is not larger than a segment. Since the acquisition occurred close to the reporting date and the value of goodwill is insignificant, the Group concluded that no impairment of goodwill should be recognised as at 31 December 2021.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is measured based on the consideration the Group expects to be entitled to in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer. Revenue is measured at the fair value of the consideration receivable, exclusive of 20% value added tax, 7.5% special pension fund charge and discounts.

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

Revenue for access charges, voice calls, messaging, interconnect fees and fixed and mobile broadband 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 the customer consumes the services. This leads to the recognition of what is known as contract liabilities in the consolidated statement of financial position and higher cash inflows from operations in the period when the prepaid credit is received from customers while consumption takes place in subsequent periods.

Revenue from the provision of TV and music content is recognized as the Group renders the service and is recorded net in the amount of the commission fee receivable by the Group (acting 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 established a spend-based loyalty program that offers loyalty points to customers for mobile services purchase. These loyalty points may be spent on mobile services, smartphones, vouchers, other goods and charity within 12 months from the points being accrued. Customer loyalty points are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award points and deferred, based on the estimated number of award credits that will actually be redeemed by the customer. This is then recognized as revenue in the period that the award points are redeemed.

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 control of the goods has been transferred to the customer.

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 to the total agreed price. 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 both earns and provides retrospective volume discounts under mutual roaming agreements with international mobile operators. To estimate the variable consideration in relation to

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

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 and the additional discount is included within trade and other payables in the accompanying consolidated statement of financial position.

Revenue for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Revenue from mobile subscribers	14,978	13,272
Interconnect revenue	3,380	3,280
Roaming revenue	605	414
Other revenue	450	236
Total service revenue	19,413	17,202
Sales of goods	732	940
Total revenue	20,145	18,142

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

7. COST OF SERVICES

Cost of services for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Interconnect expenses	2,230	2,261
Electricity and other production costs	1,096	881
Radio frequency usage tax	903	856
Salaries	298	219
Roaming expenses	177	284
Social contributions	55	42
Other expenses	98	52
Total cost of services	4,857	4,595

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Salaries	1,570	1,158
Advertising and marketing expenses	521	484
Dealers commission	353	317
General office expenses	267	233
Billing and data processing	260	193
Social contributions	222	205
Consulting expenses	190	282
Taxes other than income tax	141	130
Other personnel expenses	92	74
Other expenses	85	85
Total selling, general and administrative expenses	3,701	3,161

Selling, general and administrative expenses increased mainly due to the Vega acquisition.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

9. OTHER OPERATING INCOME, NET

Other operating income, net for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Lease termination and rent concessions	39	76
Effect of exchange rate changes	(42)	59
Other income, net	27	215
Total other operating income, net	<u>24</u>	<u>350</u>

10. FINANCE INCOME AND COSTS

Finance income and costs for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Accrued interest on borrowings (Note 21)	878	827
Accrued interest on lease obligations (Note 14)	575	605
Loan agreement amendment fee (Note 21)	146	-
Unwinding of discounts on provision for decommissioning and restoration (Note 22)	42	43
Change in fair value of derivatives	50	17
Total finance costs	<u>1,691</u>	<u>1,492</u>
Total finance income	<u>50</u>	<u>70</u>
Net finance costs	<u>1,641</u>	<u>1,422</u>

Loan amendment fee refers to the covenant change agreement entered into by the Group on 3 September 2021, which allows the payment of dividends and other restricted payments provided that there is no event of default and the consolidated leverage ratio is not exceeding 2.0 because of such payments.

11. INCOME TAX

The corporate income tax rate in Ukraine is 18% (2020: 18%).

During 2020 the Group attracted funds through the Notes issued by PLC "VFU Funding" (Note 21). The proceeds were transferred to the Company in the form of an intragroup loan. Interest on the respective loan is subject to withholding tax according to Ukrainian legislation, the Group applied a reduced withholding tax rate of 5%.

Income tax expense for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Current income tax charge	752	173
Withholding tax charge	40	38
Deferred tax charge	164	184
Total income tax expense	<u>956</u>	<u>395</u>

The Group does not have a legally enforceable right to offset the current tax assets of one Group member against a current tax liability of another member as well as to settle net withholding tax

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

obligations within one tax authority. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and estimates based on historic taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Movements in the deferred tax assets and liabilities for the year ended 31 December 2021 were as follows:

	<u>31 December 2020</u>	<u>Acquisition of subsidiaries</u>	<u>Credit/ (Charged)</u>	<u>31 December 2021</u>
Property and equipment, and intangible assets	131	-	(127)	4
Provision for decommissioning and restoration	91	-	(27)	64
Allowance for ECL	72	-	1	73
Other provisions	48	-	(12)	36
Other	(1)	-	1	-
Recognised deferred tax asset	<u>341</u>	<u>-</u>	<u>(164)</u>	<u>177</u>
Property and equipment, and intangible assets	-	(27)	-	(27)
Recognised deferred tax liability	<u>-</u>	<u>(27)</u>	<u>-</u>	<u>(27)</u>
Net deferred tax asset	<u>341</u>	<u>(27)</u>	<u>(164)</u>	<u>150</u>

As at 31 December 2021, the net recognised deferred tax asset of UAH 109 million related to the allowance for ECL and other provisions is expected to be recovered or settled within twelve months after the reporting period (31 December 2020: UAH 112 million).

Movements in the deferred tax assets and liabilities for the year ended 31 December 2020 were as follows:

	<u>1 January 2020</u>	<u>Credit/ (Charged)</u>	<u>31 December 2020</u>
Property and equipment, and intangible assets	248	(117)	131
Provision for decommissioning and restoration	51	40	91
Allowance for ECL	227	(155)	72
Other provisions	14	34	48
Other	(15)	14	(1)
Net deferred tax asset	<u>525</u>	<u>(184)</u>	<u>341</u>

Reconciliation of income tax expense and accounting profit presented below:

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

	<u>2021</u>	<u>2020</u>
Profit before tax	4,788	1,596
Income tax expense at statutory rate of 18%	862	287
Unrecognised deferred tax on loss-making subsidiary	46	70
Withholding tax charge	40	38
Not deductible expenses for tax purposes	8	-
Income tax expense	956	395

The Group has not recognised in the consolidated statement of financial position the deferred tax asset on the loss-making subsidiary. Accumulated tax losses of LLC "VF Retail" as of 31 December 2021 amounted to UAH 1,218 million (31 December 2020: UAH 1,021 million). According to Ukrainian legislation deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Current Ukrainian tax legislation does not provide any time limits on utilisation of tax loss carryforwards.

12. 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 are 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 5-25 years
Other 2-5 years

Land and buildings:

Buildings 20-50 years
Shorter of the expected useful life or the term of the lease

Leasehold improvements

Office equipment, vehicles and other:

Office equipment 3-20 years
Vehicles 5-7 years
Other 3-4 years

The estimated useful lives and depreciation method are reviewed in each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. As of 31 December 2021, the effect of such revision on depreciation charge was about UAH 80 million (decrease).

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 and other comprehensive income.

Construction in progress and equipment held for installation is not depreciated until ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized when future economic benefits associated will flow to the Group and the cost of the item can be measured reliably.

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's ("CGUs") fair value less costs to sell and its value in use. Where the carrying amount of the CGU exceeds its recoverable amount, the carrying amount should be written down to its recoverable amount.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. If calculation results in impairment, the impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired assets. The impairment reversal is limited so that the carrying amount does not exceed recoverable amount.

The provision for decommissioning and restoration arises as a result of a constructive obligation in connection with the retirement of property and equipment (Note 22).

The movements of property and equipment were as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment held for installation	Total
Cost					
1 January 2020	18,717	566	1,847	675	21,805
Additions	975	3	23	1,267	2,268
Transferred into use	1,310	18	171	(1,499)	-
Disposal	(1,175)	(4)	(162)	(12)	(1,353)
31 December 2020	19,827	583	1,879	431	22,720
Acquisition of subsidiaries, net book value	214	40	69	21	344
Additions	441	6	23	1,156	1,626
Transferred into use	808	32	221	(1,061)	-
Disposal	(313)	(16)	(97)	(9)	(435)
31 December 2021	20,977	645	2,095	538	24,255
Accumulated depreciation					
1 January 2020	(10,270)	(184)	(1,241)	-	(11,695)
Charge for the year	(2,039)	(33)	(213)	-	(2,285)
Disposal	1,158	4	156	-	1,318
31 December 2020	(11,151)	(213)	(1,298)	-	(12,662)
Charge for the year	(2,031)	(32)	(204)	-	(2,267)
Disposal	296	12	91	-	399
31 December 2021	(12,886)	(233)	(1,411)	-	(14,530)
Net book value					
31 December 2020	8,676	370	581	431	10,058
31 December 2021	8,091	412	684	538	9,725

The reasons for the significant additions and disposals are a large-scale update of network elements due to a change in technology, obtaining new types of licences, and the need to ensure an adequate infrastructure for increasing data demand. As a result of a change in technology in the telecommunication services market, the Company constantly needs to significantly update network elements. In 2018-2019 the Group implemented 4G in the 1800 MHz range, while in 2020 the Group implemented 4G in the 900 MHz range.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Cost of fully depreciated property and equipment as of 31 December 2021 was UAH 6,008 million (31 December 2020: UAH 5,340 million).

13. INTANGIBLE ASSETS AND GOODWILL

Intangible assets primarily consist of billing, telecommunication, accounting and office software as well as licences with finite useful lives. Such assets are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives. Other intangibles assets are represented by prepayments for intangible assets, capital expenditures in billing and other software for future periods.

The intangible assets should be tested for impairment when indicators exist that there may be a potential impairment.

The movements of intangible assets were as follows:

	Licences	Billing and other software	Other intangible assets	Goodwill	Total
Useful life, years	2 to 15	2 to 15	-	-	
Cost					
1 January 2020	6,480	3,278	101	-	9,859
Additions, net of transfers	267	1,629	52	-	1,948
Disposal	(64)	(767)	-	-	(831)
31 December 2020	6,683	4,140	153	-	10,976
Acquisition of subsidiaries, net book value	174	11	-	20	205
Additions, net of transfers	-	1,360	15	-	1,375
Disposal	(1)	(1,409)	-	-	(1,410)
31 December 2021	6,856	4,102	168	20	11,146
Accumulated amortization					
1 January 2020	(1,315)	(1,873)	-	-	(3,188)
Charge for the year	(460)	(1,184)	-	-	(1,644)
Disposal	64	761	-	-	825
31 December 2020	(1,711)	(2,296)	-	-	(4,007)
Charge for the year	(464)	(1,367)	-	-	(1,831)
Disposal	-	1,409	-	-	1,409
31 December 2021	(2,175)	(2,254)	-	-	(4,429)
Net book value					
31 December 2020	4,972	1,844	153	-	6,969
31 December 2021	4,681	1,848	168	20	6,717

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Cost of fully amortised intangible assets as of 31 December 2021 was UAH 752 million (31 December 2020: UAH 1,230 million).

In connection with providing telecommunication services, the Group has obtained various GSM, UMTS, and LTE radio frequencies licences from the National Commission for The State Regulation of Communications and Information.

At the beginning of 2020 as the result of a national spectrum re-allocation process among the three leading operators, the Group secured the 4G LTE licences in the 900-905/945-950 MHz bands, which have historically been allocated for 2G mobile services. The Group also purchased an additional frequency range in the 900 MHz band for further deployment of LTE technology. All 900 MHz licences were renewed for 15 years. Such licences obligate the Group to provide 4G network coverage to 90% of Ukraine's population within the next two years. The Group paid UAH 267 million for technical neutrality, new frequency range and renewal of spectrum licences, such expenses were capitalised into licences fee. The Group started usage of the licences, and related amortization cost, from 1 July 2020.

The management believes that as of 31 December 2021, the Group complied with the conditions of all aforementioned licences.

14. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The Group's lease contracts are largely related to 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 the 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 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 Ukrainian government bonds yield curve adjusted on the credit spreads of the Group's loan quotes from banks. The weighted average borrowing rate applied to lease liabilities recognised in the consolidated 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 an 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 received. Right-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 most cases, the Group is reasonably certain of exercising renewal options and

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

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 as well as costs to terminate or enter into lease contracts. Right-of-use assets are required to be tested for impairment in accordance with IAS 36 *Impairment of Assets*.

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
Retail stores	Up to 3 years
Administrative offices, warehouses, parking garages	Up to 5 years
Vehicles	5 years
Exclusive rights for trademarks	8 years

As disclosed in Note 1, the Group signed a Memorandum of Understanding on 22 November 2019 and further renewed the original branding agreement with Vodafone on 3 March 2020. Due to the extension of the branding agreement, the Group modified the right-of-use asset related to the exclusive rights and extended the lease obligation for an additional period of 6 years. The contract period is 5 years and the Group has an extension option of one year. It is reasonably certain to exercise the one-year option to extend the lease.

During the reporting period, the operating environment of the retail sector has been impacted due to the COVID-19 pandemic. As the result, the number of stores decreased from 182 stores as at 31 December 2020 to 122 stores as at 31 December 2021. The termination of the retail stores rent resulted in the derecognition of the right-of-use assets for the total amount of UAH 6 million and the lease liability for UAH 7 million.

The average effective interest rate for 2021 approximates from 12.7% to 15.2% for Ukrainian Hryvnia lease obligations (2020: 17.4%), from 5.9% to 6.4% for USD lease obligations (2020: 7.4%) and from 5.7% to 5.9% for Euro lease obligations (2020: 6.7%).

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

Lease of:	31 December 2021	31 December 2020
Sites for placement of network and base station equipment	2,389	2,330
Exclusive rights for trademarks	994	1,237
Administrative buildings	220	314
Retail store	68	75
Vehicles	16	10
Rights-of-use assets, net	3,687	3,966

Depreciation charge of the right-of-use assets for the years ended 31 December 2021 and 2020 was as follows:

	For the year ended 31 December	
	2021	2020
Sites for placement of network and base station equipment	303	276
Exclusive rights for trademarks	243	243
Administrative buildings	86	54
Retail store	78	109
Vehicles	6	4
Total depreciation charge for the period	716	686

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Additions to the right-of-use assets during the years ended 31 December 2021 and 2020 were as follows:

	For the year ended 31 December	
	2021	2020
Sites for placement of network and base station equipment	100	136
Retail store	8	12
Administrative buildings	3	143
Vehicles	-	3
Total additions	111	294

The table below represents changes in the Group's lease obligations:

	2021	2020
1 January	4,799	4,641
New obligations arising during the year	111	265
Acquisition	181	-
Modifications of existing leases	203	100
Termination of leases	(58)	(132)
Retail and other rent concessions	(15)	(32)
Accrued interest	575	605
Payment of principal	(583)	(495)
Payment of interest	(575)	(605)
Currency exchange losses/(gains)	(176)	452
31 December	4,462	4,799

The payment in 2020 of principal for lease obligations is lower than reported in the consolidated statement of cash flows by UAH 13 million, as the Group made the prepayment before the commencement date of the lease of the administrative building.

In 2021 as a result of the coronavirus (COVID-19) pandemic, retail and other rent concessions have been granted to the Group. The Group applied the exemption provided by amendment to IFRS 16. During the reporting period, UAH 15 million (2020: UAH 32 million) were forgiven and the corresponding effect was recognized in the consolidated statement of profit or loss and other comprehensive income (non-cash movement).

As of the acquisition date of Vega on 8 September 2021 (Note 5), the net book value of right-of-use assets and lease obligations were UAH 144 million and UAH 181 million respectively.

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 leased 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.

15. COSTS TO OBTAIN CONTRACTS

The Group capitalizes certain incremental costs incurred in acquiring a contract with a customer if management expects these costs to be recoverable. Costs of acquiring a contract include commissions paid to third-party distributors as well as the associated incremental 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 of 30 months (2020: 28 months).

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

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The movements of the costs to obtain contracts were as follows:

	<u>2021</u>	<u>2020</u>
1 January	233	242
Additions	163	177
Amortization charge	(176)	(186)
31 December	220	233

16. TRADE AND OTHER RECEIVABLES

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

For trade receivables from subscribers 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 fully impaired when past due for more than 180 days.

ECL on receivables other than from subscribers is measured on an 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 analysis.

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 consolidated statement of financial position. Such receivables usually are settled within 15 months.

Trade and other receivables comprised the following:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Roaming	548	417
Subscribers	201	78
Interconnect	185	167
Dealers	20	28
Other trade receivables	73	47
Allowance for ECL	(160)	(41)
Total trade receivables	867	696
Financial aid and loan provided to related parties (Note 27)	11,616	11,618
Cash balance in distressed bank	247	247
Other receivables	5	4
Allowance for ECL	(301)	(360)
Total other receivables	11,567	11,509
Total trade and other receivables	12,434	12,205

The majority of the Group's trade receivable balances from subscribers are settled within 30-45 days. Before accepting any new contract and corporate customer, the Group assesses the potential customer's credit quality and defines credit limits separately for each individual customer.

The following table provides information about the exposure to credit risk and ECL for trade receivables from subscribers based on the provision matrix as at 31 December 2021:

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

	<u>Expected loss rate</u>	<u>Gross carrying amount</u>	<u>Lifetime ECL</u>	<u>Credit-impaired</u>
Current	2%	84.1	(1.5)	No
1 - 30 days past due	11%	16.9	(1.8)	No
31 - 60 days past due	22%	7.3	(1.6)	No
61 - 90 days past due	54%	2.4	(1.3)	No
91 - 120 days past due	60%	1.0	(0.6)	Yes
121 - 150 days past due	65%	1.7	(1.1)	Yes
151 - 180 days past due	75%	0.8	(0.6)	Yes
More than 180 days past due	100%	86.4	(86.4)	Yes
Total		200.6	(94.9)	

The following table provides information about the exposure to credit risk and ECL for trade receivables from subscribers based on the provision matrix as at 31 December 2020:

	<u>Expected loss rate</u>	<u>Gross carrying amount</u>	<u>Lifetime ECL</u>	<u>Credit-impaired</u>
Current	1%	40.4	(0.4)	No
1-30 days past due	6%	5.3	(0.3)	No
31-60 days past due	14%	2.8	(0.4)	No
61-90 days past due	33%	1.2	(0.4)	No
91-120 days past due	50%	0.6	(0.3)	Yes
121-150 days past due	67%	0.6	(0.4)	Yes
151-180 days past due	75%	0.4	(0.3)	Yes
More than 180 days past due	100%	27.0	(27.0)	Yes
Total		78.3	(29.5)	

On 10 February 2020, the Group provided interest-free financial aid in the amount of UAH 11,569 million to Telco Solutions and Investments LLC. The aid is repayable within 10 days after a written request from the Group. Management estimated the allowance for 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 insufficient highly liquid assets and its major asset is the direct investment in the Company, the recovery of the respective financial aid is assessed based on its assumed repayment from proceeds from the sale of this investment.

The table below shows the sensitivity of the ECL on financial aid to Telco Solutions and Investments LLC related to the key assumptions applied:

<u>Assumption</u>	<u>Estimated value</u>	<u>Assumed change</u>	<u>Effect to ECL</u>
Annual volatility of the share price	30%	Increase by 10% Increase by 6	Increase by UAH 151 million
Recovery period	1 year	months	Increase by UAH 124 million

Management and shareholders plan the following step in the corporate reorganization via merger by accession of Telco Solutions and Investments LLC with the Company (the "Merger"). Following the Merger, Telco Solutions and Investments LLC shall cease to exist and the Company, as the surviving entity, shall be the full legal successor of all its assets, rights and obligations.

The above-mentioned corporate reorganization procedures are complex and time-consuming as they require significant involvement of various Ukrainian state authorities and bodies. As at 31 December 2021, management expected to complete this corporate reorganization within one year after the reporting date.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

In 2015 the Company entered into a factoring agreement in respect of cash balances deposited in distressed banks Delta Bank (UAH 1,627 million) and Kyivska Rus (UAH 328 million), under the respective agreement the factor is obliged to reimburse the Group 50% and 45% of cash balances deposited, accordingly. As of 31 December 2017, the receivables from the factor in the amount of UAH 961 million and cash in the distressed bank (UAH 250 million) were fully impaired due to the high credit risk of the counterparties. During 2020 there was a partial recovery in the amount of UAH 3 million. In 2020 the uncollected UAH 961 million was written off against the allowance created in prior periods.

The following table provides information about the exposure to credit risk and ECL for roaming, other trade and other receivables as at 31 December 2021:

Description	Expected loss rate	Gross carrying amount	Lifetime ECL	Credit-impaired
Financial aid and loan provided to related parties	0.46%	11,616	(54)	Yes
Roaming	7,7%	548	(42)	Yes
Cash balance in distressed bank	100%	247	(247)	Yes
Other trade receivables	31.5%	73	(23)	Yes
Total		12,484	(366)	

The following table provides information about the exposure to credit risk and ECL for other trade and other receivables as at 31 December 2020:

Description	Expected loss rate	Gross carrying amount	Lifetime ECL	Credit-impaired
Financial aid and loan provided to related parties	0.97%	11,618	(113)	Yes
Cash balance in distressed bank	100%	247	(247)	Yes
Other trade receivables	23.4%	47	(11)	Yes
Total		11,912	(371)	

Movements in the allowance for ECL for trade and other receivables were as follows:

	2021	2020
Allowance for ECL at 1 January	(401)	(1,260)
Charge for ECL allowance on trade receivables from roaming partners, subscribers and other trade receivables	(67)	-
Acquisition of subsidiary	(56)	-
Reversal of allowances on financial aid and loan provided to related parties	59	3
Charge for ECL allowance on financial aid and loan provided to related parties	-	(113)
Receivables from the factor for sold investments in distressed banks written off	-	961
Trade receivables from subscribers written off	4	8
Allowance for ECL at 31 December	(461)	(401)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reflected in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Trade receivables from roaming and interconnect are presented net of set off with respective trade payables for roaming and interconnect. The applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2021:

	Gross amounts before offsetting in the consolidated statement of financial position (a)	Gross amounts set off in the consolidated statement of financial position (b)	Net amount after offsetting in the consolidated statement of financial position (c) = (a) - (b)
ASSETS			
Trade receivables from:			
- Roaming	625	77	548
- Interconnect	283	98	185
TOTAL	908	175	733
LIABILITIES			
Trade payables and other accruals from:			
- Roaming	(205)	(77)	(128)
- Interconnect	(113)	(98)	(15)
TOTAL	(318)	(175)	(143)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2020:

	Gross amounts before offsetting in the consolidated statement of financial position (a)	Gross amounts set off in the consolidated statement of financial position (b)	Net amount after offsetting in the consolidated statement of financial position (c) = (a) - (b)
ASSETS			
Trade receivables from:			
- Roaming	464	47	417
- Interconnect	252	85	167
TOTAL	716	132	584
LIABILITIES			
Trade payables and other accruals from:			
- Roaming	(174)	(47)	(127)
- Interconnect	(99)	(85)	(14)
TOTAL	(273)	(132)	(141)

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Cash on current accounts	2,667	2,517
Cash in transit and on hand	50	57
Short-term deposits	-	246
Total cash and cash equivalents	<u>2,717</u>	<u>2,820</u>

Term bank deposits and other short-term highly liquid investments with an initial maturity of less than three months are classified as cash equivalents. Other short-term highly liquid investments are treated as cash equivalents only if they are held for the purpose of meeting short-term cash commitments and strengthening the Group's foreign currency position, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

Cash and cash equivalents comprised the following currencies:

	Interest rates	<u>31 December 2021</u>	Interest Rates	<u>31 December 2020</u>
Cash on current bank accounts, on hand and in transit:				
Euro (in Ukrainian Hryvnia equivalent)		1,467		868
USD (in Ukrainian Hryvnia equivalent)		864		971
Ukrainian Hryvnia	0%-3.5%	386		735
Short-term deposits:				
Ukrainian Hryvnia		-	3.0%-4.7%	246
Total cash and cash equivalents		<u>2,717</u>		<u>2,820</u>

Cash and cash equivalents are held mainly in large banks located in Ukraine that have a reliable reputation. As of 31 December 2021, 97% of cash and cash equivalents were held in four banks – subsidiaries of the large international banking groups (31 December 2020: 92% in four banks located in Ukraine, respectively).

The analysis of cash and cash equivalents and short-term investments by credit quality based on Fitch and Moody's rating agencies comprised the following:

	<u>31 December 2021</u>		<u>31 December 2020</u>	
	Cash and cash equivalents	Short-term investments (Note 18)	Cash and cash equivalents	Short-term investments (Note 18)
A rating	530	-	157	-
B rating	1,136	309	2,046	664
Non-rated*	1,051	-	617	-
Total	<u>2,717</u>	<u>309</u>	<u>2,820</u>	<u>664</u>

* Non-rated banks rank in the top 10 Ukrainian banks by size of total assets and capital (per data from the National Bank of Ukraine).

The impact of allowances for ECL on cash and cash equivalents balances is insignificant.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

18. SHORT-TERM INVESTMENTS

Short-term investments represent term deposits and government bonds, which have original maturities of longer than three months and are repayable in less than twelve months. Any investment or term deposit with an initial maturity of more than three months does not become a cash equivalent when the remaining maturity period reduces to under three months. Short-term investments comprised the following:

	<u>Deposit rates</u>	<u>31 December 2021</u>	<u>Deposit rates</u>	<u>31 December 2020</u>
Euro (in Ukrainian Hryvnia equivalent)	1.0%	309	1-1.5%	296
USD (in Ukrainian Hryvnia equivalent)		-	0.01%	368
Total short-term investments		309		664

The impact of allowances for ECL on short-term investments balances is insignificant.

19. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. The Group regularly assesses its inventories for obsolete and slow-moving stock. Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss and other comprehensive income.

Inventories comprised the following:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Handsets and accessories	133	127
Office and other administrative materials	8	9
Other inventories	23	23
Total inventories	164	159

As of 31 December 2021, 122 stores are in operation (2020: 182 stores).

Cost of goods for the years ended 31 December 2021 and 2020 comprised the following:

	<u>2021</u>	<u>2020</u>
Cost of handsets and accessories sold	634	854
Reversal of obsolescence provision	(1)	(5)
Total cost of goods	633	849

20. COMMON STOCK

The Company has a legal status of a Private Joint-Stock Company at 31 December 2021 and 2020.

The Group had 781,662,116 authorized ordinary shares with a par value of UAH 0.01 as of 31 December 2021 and 2020, for the total amount of UAH 8 million.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The Company's major shareholders as at 31 December 2021 and 2020 are presented in the table below:

	Number of shares	Ownership, %	
		31 December 2021	31 December 2020
Telco Solutions and Investments LLC (Ukraine) Enterprise with 100% foreign investment "PTT Telecom Kyiv" (Ukraine)	773,845,495	99.0%	99.0%
	7,816,621	1.0%	1.0%
Total	781,662,116	100%	100%

On 24 December 2020, Preludium B.V and Telco Solutions and Investments LLC signed the handover protocol according to which 99% of the shares (773,845,495 ordinary registered shares with a nominal value UAH 0,01) of the Company were transferred to Telco Solutions and Investments LLC. As at 31 December 2021 and 2020, the Company's ultimate parent company was Telco Solutions B.V.

Dividends declared

In 2021, the Company declared dividends in the total amount of UAH 3,507 million or UAH 4.49 per share. As of 31 December 2021, the total amount of unpaid dividends is UAH 26.3 million.

There were no declared dividends in 2020.

21. BORROWINGS

Borrowings are initially recorded at fair value plus transaction costs that are directly attributable to the issuance of financial liability. Further, the borrowings are carried at amortized cost using the effective interest method.

The Group's borrowings comprise the following:

	31 December 2021	31 December 2020
Notes	12,142	13,108
Other	2	-
Total borrowings	12,144	13,108
Less: Interest accrued	(291)	(315)
Total borrowings, non-current	11,853	12,793

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

	2021	2020
1 January	13,108	4
Notes issued	-	11,844
Acquisition of subsidiaries	2	-
Accrued interest	878	827
Notes repurchased and cancelled	(609)	(963)
Payment of interest	(774)	(416)
Currency exchange losses/(gains)	(461)	1,812
31 December	12,144	13,108

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

On 6 February 2020, the Group raised funds by issuing Eurobonds (the "Notes") through a structured entity, PLC "VFU Funding". The Notes have a five year term and 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 at fair value less transaction costs that were directly attributable to the issue. Subsequently, the financial liability is measured at amortized cost using the effective interest rate method (approximate effective interest rate is 7.1%). The Group has complied with all debt covenants as at 31 December 2021 and 2020 and during the respective reporting periods.

In 2020, the Group agreed with J.P. Morgan Securities plc to repurchase certain Notes from the open market for up to USD 49 million of the principal amount. During 2020, the Group repurchased and cancelled Notes in the amount of USD 34 million (UAH 963 million). Later, in the first half of 2021, the Group repurchased and cancelled Notes in the amount of USD 15 million (UAH 425 million).

In May 2021, the Group agreed with J.P. Morgan Securities plc to repurchase additional Notes from the open market for up to USD 45 million of the principal amount and further, in the second half of 2021, the Group repurchased and cancelled Notes in the amount of USD 7 million (UAH 184 million).

During 2020 the Ukrainian Hryvnia significantly devaluated against the USD, thus the Group incurred significant foreign currency exchange losses on the Notes in the amount of UAH 1,812 million. For management of currency risk in relation to the interest payments in 2021, the Group entered into currency derivative agreements for the total notional amount of USD 26 million (UAH 789 million), which was equal to the amount of interests repaid in 2021. As at 31 December 2020, the Group recognised a derivative liability in the amount of UAH 17 million measured at FVTPL, included in other financial liabilities in the consolidated statement of financial position. Forward contracts were closed in February and August 2021.

To manage currency risk and purchase foreign currency, the Group has made investments into government bonds issued by the Ministry of Finance of Ukraine denominated in USD with a maturity of not more than six months. As of December 31, 2021, all respective government bonds have been settled.

22. PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of the 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 and decommissioning and restoration obligations.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Movements in provisions were as follows:

	Provision for decom- missioning and restoration	Employee bonuses and other rewards	Material rights	Social contri- butions	Other provisions	Total
1 January 2020	287	176	74	20	7	564
Arose during the period	9	330	329	32	274	974
Utilised	(3)	(219)	(337)	(29)	(66)	(654)
Unwinding of discount	43	-	-	-	-	43
Change in estimates	180	-	-	-	-	180
Unused amounts reversed	(12)	(16)	-	(1)	(15)	(44)
31 December 2020	504	271	66	22	200	1,063
Current	-	271	66	22	200	559
Non-current	504	-	-	-	-	504
Arose during the period	13	512	324	113	116	1,078
Utilised	(1)	(329)	(319)	(31)	(120)	(800)
Unwinding of discount	42	-	-	-	-	42
Change in estimates	(200)	-	-	-	-	(200)
Unused amounts reversed	(4)	(33)	-	(23)	(175)	(235)
31 December 2021	354	421	71	81	21	948
Current	-	421	71	81	21	594
Non-current	354	-	-	-	-	354

During 2020, the Group implemented a new profit-sharing bonus program for the senior management team and in 2021 this program was extended to members of the Supervisory Board. The effect of such program was recognized within employee bonuses and other rewards in the amount of UAH 337 million as at 31 December 2021 (31 December 2020: UAH 130 million).

Provision for decommissioning and restoration

The Group recognises a provision for decommissioning and restoration when there is a legal or constructive obligation in connection with the retirement of property and equipment. The Group's obligations relate primarily to the cost of removing property and equipment from sites.

Provision for decommissioning and restoration recognised at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate, which is adjusted when necessary to reflect the risks specific to the liability. The unwinding of the discount is expensed over time and recognised in the consolidated statement of profit or loss and other comprehensive income as a part of finance costs. The estimated future costs of decommissioning are reviewed on a regular basis and adjusted as appropriate. Changes in the estimated future costs or the discount rate applied are added to or deducted from the cost of the asset, in a case if the amount is higher than the carrying amount of the corresponding cost of asset, the excess is recognised in the consolidated statements of profit or loss and other comprehensive income.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Key assumptions used to calculate the provision for decommissioning were as follows:

	31 December 2021	31 December 2020
Discount rate, %	14.70%	8.80%
Inflation rate, %	5.32%	5.25%

The sensitivity of the provision for decommissioning and restoration to changes in the key assumptions was as follows:

	31 December 2021	31 December 2020
Discount rate increase/decrease by 1%	UAH (17)/19 million	UAH (33)/36 million
Inflation rate increase/decrease by 1%	UAH 20/(19) million	UAH 37/(34) million

Material rights are in connection with loyalty points awarded to subscribers (considered a "material right" on the subscribers behalf against the Group), which can be redeemed for purchases of a third party (partners) goods and services, and estimated present obligation to dealers for variable consideration which will be settled in the future.

Other provisions as at 31 December 2021 consist mainly of the provision for non-refundable VAT in the amount of UAH 11 million and the provision for consulting services in the amount of UAH 8 million (31 December 2020: UAH 164 million).

Other provisions included UAH 164 million, which was a variable amount of management fees to a related party. During 2021, due to changes in the terms of the contract this provision was reversed in the statement of profit or loss where the expense was originally charged.

23. CONTRACT LIABILITIES

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

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, which are immediately credited to the monthly fee or prepay for service "Year without fees", which is then amortized to revenue on a monthly basis during the year. Therefore, contract liabilities are mostly short-term (the long-term part is insignificant).

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

	31 December 2021	31 December 2020
Mobile telecommunication services	1,467	1,387
Other mobile services	34	40
Loyalty programme	25	20
Total contract liabilities	1,526	1,447
Less current portion	(1,525)	(1,446)
Total non-current contract liabilities	1	1

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The following table provides information about contract liabilities structure:

	31 December 2021	31 December 2020
Deferred income	937	883
Subscriber prepayments and other advances received	589	564
Total contract liabilities	1,526	1,447

Movements in the contract liabilities balances were as follows:

	2021	2020
1 January	1,447	1,381
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	(1,395)	(1,341)
Increase due to cash received, excluding the amount recognised as revenue during the period	1,455	1,407
Acquisition of subsidiaries	19	-
31 December	1,526	1,447

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) during the next year:

	2022
Mobile bundle packages and other services	1,500
Loyalty programme	25
Total	1,525

The amount of performance obligations that were unsatisfied (or partially unsatisfied) for post-paid subscribers is not material as most contracts with post-paid subscribers are concluded for a non-determined period and can be terminated at any time without penalties.

24. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

	31 December 2021	31 December 2020
Accounts payable for property, equipment and intangible assets	410	802
Trade accounts payable	407	416
Accrued liabilities	200	133
Accrued payroll and vacation	109	90
Total trade payables	1,126	1,441
Dividends payable	26	-
Total other payables	26	-
Total trade and other payables	1,152	1,441

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Accounts payable decreased compared to the previous year mainly due to repayment of accounts payable for the construction of the network.

25. OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities comprised the following:

	31 December 2021	31 December 2020
VAT payable	172	206
Other taxes and related payables	84	81
Total other non-financial liabilities	256	287

Other taxes and related payables at 31 December 2021 mainly consist of a fee for the use of radio frequency resource of Ukraine in the amount of UAH 57 million (31 December 2020: UAH 57 million).

26. FAIR VALUE DISCLOSURES AND PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The Group applies a fair value hierarchy to its financial assets and liabilities and other areas, such as asset impairment assessments, according to the best information available. Level 1 fair values are those values that have pricing available in a quoted market, for example listed equity or debt securities. Level 2 fair values may use reference to Level 1 inputs, but as the underlying asset or liability is not the same, would require additional adjustments to the price. Examples of potential Level 2 fair values would include the use of valuation comparables when assessing an investment (e.g., market capitalization/EBITDA). Level 3 of the fair value hierarchy uses limited to potentially no market based inputs, therefore generally has more subjective estimates. Using a discounted cash flow model to value the recoverable value of a subsidiary would be a Level 3 fair valuation approach (with inputs such as the future expected cash flows, terminal growth rates and weighted average cost of capital being significant inputs with limited to no market based inputs). All three of these levels are considered to be "fair value" measurements, and the Group uses the best level available when it is necessary to measure an asset or liability for accounting purposes and seeks to match the underlying data available. The application of the fair value hierarchy results in the valuation measurement of the underlying asset or liability, from there how the Group either intends to recover the asset or liability (e.g., sell, settle or hold to maturity), determines where and how that fair value is recorded in our consolidated financial statements.

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 an original maturity of more than three months). Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes borrowings, 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 at 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

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

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 a 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 cost.

Fair values of financial assets and liabilities carried at amortized cost as at 31 December 2021 and 2020 approximated their carrying amounts (except for the borrowings).

The Group estimated the fair value of the borrowings using the Level 1 valuation technique based on quoted market prices as of 31 December 2021 in the amount of UAH 12,183 million (carrying amount: UAH 12,142 million). For other financial assets and liabilities the Group applied Level 3 in the fair value hierarchy, except for cash and cash equivalents that classified as Level 1.

Financial assets and financial liabilities of the Group are measured at amortized cost, except for derivatives measured at fair value through profit or loss. Derivative instruments are included in other current financial liabilities in the consolidated statement of financial position and changes in fair value are recognised within financial costs in the consolidated statement of profit or loss and other comprehensive income.

The Group's financial assets and liabilities that are carried at amortized cost are of:

	31 December 2021	31 December 2020
Trade and other receivables (Note 16)	12,434	12,205
Cash and cash equivalents (Note 17)	2,717	2,820
Short-term investments (Note 18)	309	664
Other financial assets	3	-
Total financial assets measured at amortized cost	15,463	15,689
Borrowings (Note 21)	12,144	13,108
Lease obligations (Note 14)	4,462	4,799
Trade and other financial payables	1,017	1,351
Other financial liabilities	23	22
Total financial liabilities measured at amortized cost	17,646	19,280

27. 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.

Terms and conditions of transactions with related parties

Outstanding balances as of 31 December 2021 and 2020 were unsecured and settlements are made on a cash basis.

There are no guarantees provided or received for any related party receivables or payables.

As at 31 December 2021 and 2020, balances from and to related parties were as follows:

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Description	31 December 2021	31 December 2020
The Group's immediate parent company	11,569	11,569
ECL on the Group's immediate parent company receivables (Note 16)	(54)	(113)
Entities under common control and ownership with the Group	50	49
Total other receivables from related parties	11,565	11,505
Entities under common control and ownership with the Group	7	-
Total advances paid and prepaid expenses	7	-
Entities under common control and ownership with the Group	38	164
Total provisions and trade and other payables to related parties	38	164
Entities under common control and ownership with the Group	26	-
Dividends payable	26	-
The Group's declared dividends were as follows:		
	2021	2020
The Group's immediate parent company	3,472	-
Entities under common control and ownership with the Group	35	-
Dividends declared	3,507	-
Dividends declared to Telco Solutions and Investments LLC in 2021 year were fully paid. In October 2021 dividends in the amount of UAH 9 million were paid to PTT Telecom Kyiv.		
Transactions related to purchases of non-current assets were as follows:		
Description	2021	2020
Entities under common control and ownership with the Group	270	289
Total purchases of property and equipment and intangible assets from related parties	270	289
Turnovers with related parties were as follows:		
Description	2021	2020
Entities under common control and ownership with the Group	6	-
Total service revenue from related parties	6	-
Entities under common control and ownership with the Group	(40)	(6)
Total costs of services with related parties	(40)	(6)
Entities under common control and ownership with the Group	(25)	(222)
Total selling, general and administrative expenses with related parties	(25)	(222)
Entities under common control and ownership with the Group	2	-
Total finance income with related parties	2	-

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Remuneration of key management personnel

Key management personnel of the Group includes members of the Steering Committee and Supervisory Board. During the year ended 31 December 2021 the short-term key management personnel's total compensation amounted to UAH 139 million that include salaries, social contributions, sick pay, bonuses, termination and other benefits-in-kind (2020: UAH 115 million). The senior management team and, from 2021, also members the Supervisory Board are also entitled to profit-sharing bonus payments. Related compensation accrued during the reporting year amounted to UAH 392 million (2020: UAH 130 million).

28. MANAGEMENT OF CAPITAL

The primary objective of the Group's capital management is to maximise the shareholder value and to maintain an optimal capital structure to reduce the cost of capital. In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Group monitors its consolidated leverage ratio, which is according to debt covenants is equal to the ratio of the Group's net debt to the EBITDA, where net debt equals the amount of the Group's borrowings and lease liabilities less cash and cash equivalents. As at 31 December 2021 the consolidated leverage ratio was 1.2 (31 December 2020: 1.5) while the maximum ratio covenant is 2.75.

The Group complied with all externally imposed capital requirements as at 31 December 2021 and 2020.

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 31 December 2021, the Group had unexecuted purchase agreements of approximately UAH 1,019 million to network equipment, tangible and intangible assets that were still in progress (31 December 2020: UAH 415 million).

The Group has already allocated the necessary resources in respect to these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

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 others. 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 authority's 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 and seven years for transfer pricing verification. In

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

the case of submitting corrections to CIT return, tax audits cover only related transactions. As of 31 December 2021 open periods for tax audits are the 4 quarters of 2020 and 2021.

The management analyses and monitors the Group transactions on a regular basis and believes they fully comply with the applicable tax laws.

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims and no such provisions were recognised in these consolidated financial statements.

Operating environment

A key reason for Ukraine's relatively solid economic performance in 2021 was the country's macroeconomic development, which was better than expected. International currency reserves reached USD 30.9 billion by the end of 2021 which was the highest level since 2011. The growth in currency reserves was possible as Ukraine benefited from increasing commodity prices and solid performance in the IT sector.

Other reason for Ukraine's macroeconomic stability included constant flow of foreign currency from citizens that work abroad despite pandemic restrictions and record export of agricultural products.

The exchange rate of the Ukrainian currency has strengthened most of the year. Among the main factors that influenced the strengthening of the national currency was resumption of non-residents' interest in securities, sale of currency by businesses, support from high commodity prices and record yields on crops. This was partially offset by spikes in import prices of fuel, gas, and oil.

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

	<u>USD/UAH</u>	<u>Euro/UAH</u>
31 December 2020	28.27	34.74
31 December 2021	27.28	30.92
Average for 2020	26.96	30.80
Average for 2021	27.28	32.30

Inflation has been accelerating this year on the back of rising global food prices, reaching 10.0 per cent year on the year. The increase in prices prompted the National Bank of Ukraine to raise its key policy rate several times up to 9 per cent, in December 2021. Moreover, a deterioration in the information environment amid geopolitical tensions that occurred late last year affected the sentiment of various groups of economic agents, putting depreciation pressure on the hryvnia at year end.

The COVID-19 pandemic situation was under control and severe lockdowns have not been introduced in the second half of the year. Ukraine was not in the first wave of countries that received vaccines but with a slight delay vaccination rates reached almost 50% while the government has implemented financial stimulus to increase vaccination rates.

Mobile roaming revenues which were subject to the severe decline in 2020 due to travel restrictions now recover better than expected. Lockdowns over the course of the year led to the temporary and permanent closure of shops and other measures which resulted in shrinkage of operational expenses. At the same time, the volume of data consumption has increased while the pandemic has given a boost to the digitalization trend.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The Group may still face the effects of COVID-19 in the future 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. Currently, the COVID-19 outbreak has had a minor impact on the Group operations and the negative impact was only related to a decline in international wireless roaming services with a corresponding decrease in roaming revenues, temporary and permanent closures of retail stores, which contributed to lower equipment sales. At the same time, the Group's revenue increased driven mainly by revenue from voice and data.

Given the quick spread of COVID-19 and an increase in countries imposing restrictions on movement, daily lives have required more time at home and more usage of data for work and leisure, resulting in a significant impact on the telecom sector. The telecommunications sector has seen tremendous technological advances over the past few decades, with mobility, broadband, and internet services growing in capability and reach across the globe which allows the Group to demonstrate continuous growth during these turbulent times.

On 24 February 2022, Russia launched a large-scale military invasion of Ukraine, which has a significant negative impact on the Ukrainian economy, people and, consequently, on the Group's business, financial condition and results of operations (see also Note 31 for more details of these subsequent events).

Management will continue to monitor the potential impact of these events and will take all steps possible to mitigate any effects.

30. FINANCIAL RISK MANAGEMENT

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in currency all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Foreign currency risks

The Group uses derivative financial instruments for currency risk management. Forward contracts were concluded in 2020 to manage foreign currency risks on payment of interests on the Notes for the year ending 31 December 2021. Forward contracts were closed in February and August 2021. Investment in short term domestic government bonds in foreign currency were made to manage currency risk in 2021.

The weakening of Ukrainian Hryvnia against the USD and/or Euro can increase expenses denominated in foreign currencies but has a positive impact on revenues denominated in foreign currency. However, strengthening of Ukrainian Hryvnia against the USD and/or Euro decreases revenues denominated in foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

	31 December 2021		31 December 2020	
	USD	Euro	USD	Euro
Trade and other receivables	121	588	85	469
Cash and cash equivalents	864	1,467	971	868
Short-term investments	-	309	368	296
Total financial assets	985	2,364	1,424	1,633
Borrowings	(12,142)	-	(13,108)	-
Lease obligations	(151)	(1,212)	(283)	(1,644)
Trade and other payables	(90)	(212)	(363)	(255)
Other financial liabilities	-	-	(17)	-
Total financial liabilities	(12,383)	(1,424)	(13,771)	(1,899)
Net position	(11,398)	940	(12,347)	(266)

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

	Change in rate		USD – Impact on net profit or loss/equity	Euro – Impact on net profit or loss/equity
	USD	Euro	UAH million	UAH million
2021	+20%	+20%	(1,871)	154
	-20%	-20%	1,866	(154)
2020	+20%	+20%	(1,920)	(44)
	-20%	-20%	1,883	44

Impact on net profit or loss and equity was calculated at statutory tax rate - 18%. 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. As of 31 December 2021 current assets exceeded current liabilities by UAH 10,908 million (31 December 2020: current liabilities exceeded current assets by UAH 11,006 million).

During 2021, the Group demonstrated positive trends in operating cash flows and used operating cash flow to early retire Notes of USD 21 million face amount (actually paid UAH 609 million).

Maturity analysis

The maturity analysis represents undiscounted cash flows. Future cash flows were translated using the exchange rate as of 31 December 2021 and 2020 where applicable:

31 December 2021	Trade and other financial payables	Borrowings	Leases
Due within three months	768	376	294
Due from three months to twelve months	234	376	920
Due from 1 year to 5 years	15	14,000	3,824
Over 5 years	-	1	1,906
Total	1,017	14,753	6,944

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

31 December 2020	<u>Trade and other financial payables</u>	<u>Borrowings</u>	<u>Leases</u>
Due within three months	976	406	301
Due from three months to twelve months	375	408	880
Due from 1 year to 5 years	-	16,025	4,223
Over 5 years	-	-	2,344
Total	<u>1,351</u>	<u>16,839</u>	<u>7,748</u>

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 a financial instrument, leading to a financial loss. Bankruptcy or financial insolvency of the banks wherein the Group 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 substantive negative consequences for business, financial position and results of activities.

The Group keeps its cash and cash equivalents and short-term investments mainly in large banks, which are located in Ukraine and have a reliable reputation with good credit quality. The Group sets credit limits (revised every six months) in different groups of banks and separate financial institutions: for Ukrainian subsidiaries of foreign banks - minimum 70% of the cash and cash equivalents and short-term investments balances, but not more than 50% held with one bank (except of Raiffeisen Bank - 70%); for state and private banks - maximum 15% of the cash and cash equivalents and short-term investments balances.

31. SUBSEQUENT EVENTS

The buyback of Eurobonds and semi-annual interest payment

In January-February 2022 the Group redeemed and cancelled additional Notes for the total amount of USD 45 million face value (UAH 1,235 million). In February 2022, the Group also paid its semi-annual interest payment that was due of USD 13 million (UAH 352 million).

Russian invasion and ongoing war in Ukraine

On 24 February 2022, the government of the Russian Federation launched an unprovoked attack on Ukraine. The hostile act has been globally condemned and has resulted in numerous actions taken against the Russian Federation and support for Ukraine. At the date of these consolidated financial statements the hostilities are ongoing, however the following activities are relevant:

- The Group operates one of the largest communication networks in the country of Ukraine. It has been targeted by the Russian military in order to weaken overall communications in the country. In some part of the country, such as in the besieged city of Mariupol, the network is not operating any longer due to significant infrastructure damage. As of the date of approval of these consolidated financial statements, management estimates that approximately 10% of the network has been destroyed or disabled due to electricity outages and up to 15% of the network equipment, including damaged or disabled, is located in the temporarily occupied territories of Ukraine.
- Martial law was imposed in Ukraine on 24 February 2022. The banking system has restricted certain types of transactions, including but not limited to, a moratorium on cross border foreign financial payments, except for the purchase of critical goods. Under the

PrJSC "VF UKRAINE" AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

moratorium, the Group would be prohibited from making its scheduled interest payments in 2022 even if adequate cash exists, assuming the moratorium is still in place at the time of the next interest payment due date in August 2022.

- While the network has been targeted, the Group has worked tirelessly to keep the network running and repair it when damaged. New capital expenditures have been suspended, however maintenance and repairs have been proceeding to maintain a reasonable level of network performance.
- The Group has restricted cash payments to only those that are necessary. For example tax payments to government authorities have continued, however, cash outflows have been actively managed and controlled to maximise the conservation of cash.
- The Group continues to pay its employees, many of which have been dislocated but continue to work remotely, except for those that are involved in maintenance and operations of the network. The Group has not, at the date of these consolidated financial statements, been able to take a full inventory of its assets, including network, buildings and other infrastructure, to make a full assessment of the damage done.
- The war has resulted in the significant displacement of Ukrainian citizens, mostly to the adjacent countries in the European Union. It is estimated that at least 4.5 million citizens have had to endure forced emigration to the West, and approximately 11.5 million citizens in total have been displaced from their normal living conditions. Such significant and unexpected migration has put considerable strains on workforce and state and local government services.

The war with Russia and the daily damage being done to Ukraine represents a significant uncertainty. As of the authorization date of these consolidated financial statements, the Group is not in a position to fully assess the complete damage done to its affected network and asset infrastructure in the territories of Ukraine that remain under intense hostilities or temporary occupation, its workforce or how much time and cost will be required to repair it. The Group is also not able to forecast how long the war will last, its potential to become even more intensive or the impact of migration on its operations.

32. AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Management of the Group on 21 April 2022.