PrJSC “VF Ukraine”

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

31 December 2023

PrJSC "VF UKRAINE" AND SUBSIDIARIES

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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") and its subsidiaries (together – the "Group") as at 31 December 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) and comply, in all material respects, with requirements of the Law on Accounting and Financial Reporting in Ukraine for the preparation of financial statements.

Our opinion is consistent with our additional report to the Audit Committee dated 26 April 2024.

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 2023;
- the consolidated statement of financial position as at 31 December 2023;
- 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 material accounting policy information 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

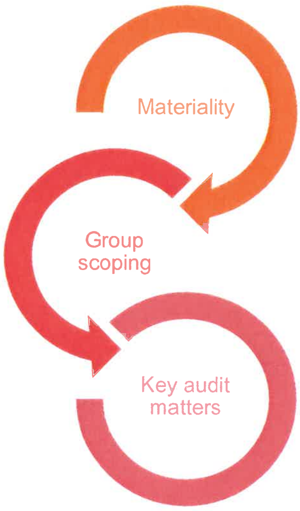
We draw attention to Note 3 in the consolidated financial statements, which highlights that since 24 February 2022 the Group's operations and cash flows are significantly affected by the invasion of Ukraine and the ongoing military offensive of the Russian Federation. The magnitude of the further developments is uncertain, including the intensity or the duration of those actions. There are also uncertainties about currency control restrictions caused by the war and the Group's ability to refinance or restructure the debt. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that material uncertainties exist 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 – iXBRL reporting

In accordance with the Law on Accounting and Financial Reporting in Ukraine the consolidated IFRS 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 approval of the consolidated financial statements, management of the Group has not yet prepared the consolidated financial statements in iXBRL format due to the circumstances described in Note 2 and plans to prepare and submit the consolidated financial statements in iXBRL format when it will be possible. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall Group materiality: UAH 300 million, which represents approximately 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, 99% of profit before tax and 99% of consolidated total assets, respectively.

- Revenue recognition – accuracy and occurrence of service revenue.
- Impairment assessment of the Group's cash-generating units.
- Merger with Telco Solutions and Investments LLC.

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 300 million
How we determined it	Approximately 2.5% of OIBDA OIBDA is defined as profit before interest, tax, depreciation, amortization and non-operating impairment, net currency exchange gains or losses, goodwill impairment and other gains/losses (Note 4 to the consolidated financial statements).
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 consolidated financial statements. OIBDA is predominantly used by the Company's management, 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
Revenue recognition - accuracy and occurrence of service revenue Refer to Note 6 to the consolidated financial statements for the related disclosures. The total service revenues of the Group for the year ended 31 December 2023 amounted to UAH 20,837 million, comprising a high volume of relatively small transactions in combination with multiple pricing plans.	Our audit approach included sample-based testing of internal controls and performing substantive procedures, covering amongst others: • 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.

This significant item in terms of its amount is subject to considerable inherent risk around 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.

- Testing the design and operational effectiveness of the 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 prepaid 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.

Impairment assessment of the Group's cash-generating units

As described in Note 3 to the consolidated financial statements, the war in Ukraine is considered by the Group as a triggering event that requires performing an impairment test in accordance with IAS 36, Impairment of Assets.

The Group identified two cash-generating units (CGU): the core mobile business with integrated fixed business and Freenet LLC being a newly purchased subsidiary not yet integrated with the core mobile business.

For the impairment tests and determination of the value in use, management used the 'traditional' approach, which is based on the most likely cash flow with expectations about future cash flows and uncertainties caused by the war embedded into the discount rate.

Management applied various assumptions in order to estimate the most likely cash flow for each CGU. Such assumptions as changes in customer base, inflation, average revenue per user, foreign exchange rates, capital expenditures and others require professional judgement and are subject to significant

Our audit procedures to address the key audit matter included the following:

- Assessing the appropriateness of determination of CGUs and identification of indication that CGU may be impaired by analysis of the independence of cash flows generated by separate assets, groups of assets and entities and how the management monitors the Group's operations.
- Reviewing the accounting treatment for determination of the CGUs for the purposes of impairment testing against the requirements of the relevant accounting standards.
- Reviewing the adequacy and consistency of methods applied to the measurement of value in use.
- Testing the mathematical accuracy of the underlying calculations in the valuation model and assessing the adequacy and reasonableness of future forecasts.
- Comparing the historical performance of CGUs to the forecasted to assess the quality of management's estimates.
- Assessing the key assumptions made by management in the valuation models. We discussed with management to understand and evaluate their basis for selecting the assumptions and compared them to various sources including internal and external data, future economic

uncertainty due to the unstable economic environment affected by the ongoing war. In addition, the 'traditional' approach aims to incorporate war-related risks into the discount rate which also requires significant professional judgement. The magnitude as well as the significant professional judgement and level of uncertainty due to the war requires substantial audit attention and effort with respect to the procedures over the impairment assessment of the Group's CGUs. Therefore, we consider this a key audit matter.	forecasts and historical data for both the CGUs and industry performance. • Assessing the reasonableness of the discount rates applied to measure the recoverable amount, by comparing them to the weighted-average cost of capital determined for the CGUs with due regard to their inherent risks. We also involved our valuation experts to assist us in the review of the discount rates. • Testing management's sensitivity analysis around the key assumptions to ascertain that the selected adverse changes to the key assumptions may cause the carrying amount of the core mobile business with integrated fixed business CGU to exceed the recoverable amount. • Assessing the presentation and disclosure of information about the impairment test as carried out by the Group in the financial statements for its consistency with the requirements of IFRS Accounting Standards and its adequacy in the context of the consolidated financial statements as a whole.
Merger with Telco Solutions and Investments LLC As described in Note 1, according to the corporate reorganisation plan, Telco Solutions and Investments LLC, which was previously the immediate parent of the Company, merged with the Company on 26 September 2023. Following the merger, the Company remained the surviving entity and became the full legal successor of all assets, rights and obligations of Telco Solutions and Investments LLC, which ceased to exist. The Merger was treated as a capital reorganisation of entities under common control. Since IFRS Accounting Standards provide no explicit guidance for accounting for combinations of entities under common control, selecting an acceptable approach to these transactions is a matter of significant judgment. As a result of the merger, the assets and liabilities of the Company and Telco Solutions and Investments LLC were combined at their carrying standalone values. Intragroup balances, including the interest-free financial aid in the amount of UAH 11,569 million, were eliminated. The difference between the shares of the Company issued to Telco Investments B.V., which became the immediate parent company after the merger, and Telco Solutions and Investments LLC's carrying value of the	Our audit procedures to address the key audit matter included the following: • Assessing the appropriateness of the accounting method and disclosures applied by the Group for the merger, with the involvement of our technical accounting specialists. • Analysing alternatives to the accounting method applied by the Group, comparing their relevance and suitability in the context of the specific merger transaction, applicable legislation and the accounting framework. • Reviewing the merger accounting model prepared by the Group prior to the merger. • Verifying the accounting entries made upon the merger and their conformity with the applied accounting method. • Testing the Deed of Transfer (Transfer Act) dated 26 September 2023 according to which all assets and liabilities of Telco Solutions and Investments LLC were transferred to the Company on 26 September 2023. • Reviewing the certificate for the newly issued shares and verifying the shares were fully paid. • Assessing, in light of the lack of explicit guidance in IFRS Accounting Standards, the disclosures in the consolidated financial statements describing the accounting method applied for the merger. Considering whether the significant professional judgements applied and the material effects of the merger on the consolidated financial statements are clearly explained following generally accepted accounting practices and precedents.

net assets was accounted for within retained earnings. Consequently, this has resulted in a decrease in the Group's equity after the merger by UAH 11,540 million.

The magnitude as well as the significant professional judgement with respect to the appropriateness of the accounting methods applied requires substantial audit attention and effort with respect to the procedures over the merger accounting. Therefore, we consider this a key audit matter.

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 Freenet and VFU Funding PLC were selected for audit procedures limited to particular account balances and classes of transactions. In total, by performing these procedures, we achieved the following coverage of the following financial line items:

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

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

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 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 financial 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 the 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 Accounting Standards 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 25 September 2023 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 Notes 1 and 21 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:

Telco Investments B.V., the Netherlands.

Ultimate parent:

Neqsol Holding B.V., the Netherlands.

Intermediate parent:

Telco Solutions 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;
LLC UNS, Ukraine;
LLC Freenet, 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 revision commission's inspection are not presented as the Group does not have a revision commission.

Independence

The key audit partner and LLC AF "PricewaterhouseCoopers (Audit)" are independent of the Company in accordance with the IESBA Code and the Law on Audit of Financial Statements and Auditing.

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 4 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

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

Kyiv, Ukraine

26 April 2024

PrJSC "VF UKRAINE" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2023	2022
Service revenue	6	20 837	19 159
Sales of goods		773	665
Revenue		**21 610**	**19 824**
Cost of services	7	(4 746)	(4 801)
Cost of goods	20	(719)	(546)
Selling, general and administrative expenses	8	(4 115)	(3 702)
Depreciation and amortization		(4 420)	(4 231)
Net charge for operating expected credit losses of financial assets		(10)	(34)
Goodwill impairment	5	(129)	-
Losses due to war	9	(158)	(978)
Gains due to war	9	52	307
Other operating income, net	10	725	677
Operating profit		**8 090**	**6 516**
Charge on non-operating expected credit losses of financial assets		(86)	(152)
Finance income	11	252	173
Finance costs	11	(1 726)	(1 443)
Net currency exchange losses		(552)	(3 539)
Non-operating expenses		(45)	(115)
Profit before tax		**5 933**	**1 440**
Income tax expense	12	(860)	(340)
Profit for the year		**5 073**	**1 100**
Total comprehensive income for the year		**5 073**	**1 100**
Profit attributable to:			
To owners of the parent		**5 072**	**1 100**
Non-controlling interest		**1**	**-**
Total comprehensive income for the year attributable to:			
To owners of the parent		**5 072**	**1 100**
Non-controlling interest		**1**	**-**

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

The notes on pages 6 to 51 form an integral part of these consolidated financial statements.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2023

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	31 December 2023	31 December 2022
Assets			
Non-current assets			
Property and equipment	13	11 713	9 744
Intangible assets and goodwill	14	6 871	6 129
Right-of-use assets	15	3 292	3 305
Costs to obtain contracts	16	235	210
Deferred tax assets	12	124	142
Other financial non-current assets		2	40
Total non-current assets		**22 237**	**19 570**
Current assets			
Short-term investments	19	4 970	1 594
Cash and cash equivalents	18	3 707	5 082
Trade and other receivables	17	1 903	13 865
Advances paid and prepaid expenses		355	281
Other non-financial current assets		228	150
Inventories	20	196	153
Current contract assets		9	10
Current income tax assets		-	10
Total current assets		**11 368**	**21 145**
Total assets		**33 605**	**40 715**
Equity and liabilities			
Equity			
Common stock	21	8	8
Other components of equity		2	2
Retained earnings		8 705	17 001
Equity attributable to the owners of the Company		**8 715**	**17 011**
Non-controlling interests		33	2
Total equity		**8 748**	**17 013**
Non-current liabilities			
Borrowings	22	15 058	14 394
Lease obligations	15	2 961	3 110
Provisions	23	219	367
Deferred tax liabilities	12	65	27
Contract liabilities	24	17	2
Total non-current liabilities		**18 320**	**17 900**
Current liabilities			
Contract liabilities	24	1 838	1 568
Lease obligations	15	1 446	1 249
Provisions	23	1 232	832
Trade and other payables	25	1 189	1 560
Borrowings	22	364	351
Current income tax liabilities		255	19
Other non-financial liabilities	26	173	199
Other financial liabilities		40	24
Total current liabilities		**6 537**	**5 802**
Total equity and liabilities		**33 605**	**40 715**

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

The notes on pages 6 to 51 form an integral part of these consolidated financial statements.

PrJSC "VF UKRAINE" AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Equity attributable to the owners of the Company				Non-controlling interests	Total equity
	Common stock	Other components of equity	Retained earnings	Total		
Balances at 1 January 2022	**8**	**2**	**15 901**	**15 911**	**2**	**15 913**
Profit for the year	-	-	1 100	**1 100**	-	**1 100**
Total comprehensive income for the year	-	-	**1 100**	**1 100**	-	**1 100**
Balances at 31 December 2022	**8**	**2**	**17 001**	**17 011**	**2**	**17 013**
Profit for the year	-	-	5 072	**5 072**	**1**	**5 073**
Total comprehensive income for the year	-	-	**5 072**	**5 072**	**1**	**5 073**
Transactions with owners in their capacity as owners:						
Dividends	-	-	(1 828)	**(1 828)**	-	**(1 828)**
Non-controlling interests on acquisition of subsidiary (Note 5)	-	-	-	-	**30**	**30**
Merger of Telco Solutions and Investments (Note 1)	-	-	(11 540)	**(11 540)**	-	**(11 540)**
Balances at 31 December 2023	**8**	**2**	**8 705**	**8 715**	**33**	**8 748**

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

The notes on pages 6 to 51 form an integral part of these consolidated financial statements.

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2023	2022
Cash flows from operating activities:			
Profit before tax		5 933	1 440
Adjustments for:			
Depreciation and amortization		4 420	4 231
Finance income	11	(252)	(173)
Finance costs	11	1 726	1 443
Goodwill impairment	5	129	-
Net charge for expected credit losses of financial assets		96	186
Net currency exchange losses		496	3 398
Losses due to war	9	158	978
Gains due to war	9	(52)	(307)
Gain from lease termination and rent concessions	10	(519)	(536)
Change in provisions		1 714	1 289
Gains from changes in estimates in provision for decommissioning and restoration	10	(144)	(4)
Other non-cash items, net		(6)	4
Movements in operating assets and liabilities:			
Decrease/(increase) in trade and other receivables		645	(1 215)
Increase in inventory		(46)	(3)
Increase in other non-financial assets		(274)	(185)
Increase in advances paid and prepaid expenses		(199)	(78)
Increase in subscriber prepayments and deposits		236	46
(Decrease)/increase in trade and other payables and other liabilities		(295)	341
Utilized provisions	23	(1 309)	(1 109)
Income taxes paid		(596)	(353)
Interest received		259	159
Interest paid	15, 22	(1 548)	(1 338)
Net cash from operating activities		**10 572**	**8 214**
Cash flows from investing activities:			
Purchases of property and equipment		(3 311)	(2 406)
Purchases of intangible assets		(2 348)	(1 182)
Proceeds from sale of property and equipment		18	19
Payment for acquisition of a subsidiary, net of cash acquired	5	(735)	-
Investments in government bonds		(5 311)	-
Proceeds from repayment of government bonds		5 092	-
Placements of short-term deposits, net		(3 345)	(1 376)
Other investing activity		-	(26)
Net cash used in investing activities		**(9 940)**	**(4 971)**
Cash flows from financing activities:			
Lease obligations principal paid	15	(312)	(242)
Dividends paid		(1 828)	(26)
Repayment of borrowings	22	-	(1 235)
Other financing activity		6	-
Net cash used in financing activities		**(2 134)**	**(1 503)**
Cash and cash equivalents, beginning of the year	**18**	**5 082**	**2 717**

	Notes	2023	2022
Net (decrease)/increase in cash and cash equivalents		(1 502)	1 740
Effect of exchange rate changes on cash and cash equivalents		164	672
Expected credit losses for cash and cash equivalents		(37)	(47)
Cash and cash equivalents, end of the year	**18**	**3 707**	**5 082**

Non-cash additions to property and equipment and intangible assets are disclosed in Notes 13, 14.
Non-cash additions to right-of-use assets and lease obligations are disclosed in Note 15.

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

The notes on pages 6 to 51 form an integral part of these consolidated financial statements.

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, Leiptsyzka Street, 01601, Kyiv, Ukraine.

VF Ukraine is the parent company that exercises control over the following subsidiaries (together referred to as the "Group"): LLC "VF Retail" (retail sales of phones and smartphones), LLC "IT Smartflex" (a software developer, support and integration services provider), PLC "VFU Funding" (structured entity incorporated to issue Eurobonds), PrJSC "Farlep-Invest" (fixed-line business), LLC "Freenet" (fixed-line business), LLC "UNS" (passive tower infrastructure) and LLC "Cable TV-Finance" (telecommunications activities).

As of 31 December 2023, the ownership structure of the Group was presented in the following order:

- Immediate parent was represented by Telco Investments B.V. (registration number 76241823, Netherlands, Amsterdam city, 1081LA, Gustav Mahrerlaan 1212) with the ownership of 99%, the remaining 1% belonged to FDI PTT Telecom Kyiv" (registration number 20069181);
- Intermediate parent with ownership of 100% was represented by Telco Solutions B.V. (registration number 76101290, Netherlands, Utrecht city, 3581HK, 2 Museumlaan);
- Ultimate parent with ownership of 100% was represented by Neqsol Holding B.V. (registration number 86005154, Netherlands, Utrecht city, 3581HK, 2 Museumlaan);
- The ultimate beneficiary owner with ownership of 100% was represented by Nasib Hasanov (Republic of Azerbaijan, birth date 01.07.1957).

By the end of 2023, the number of full-time employees of the Group was around 4,300 persons (2022: 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.

On 6 February 2020, the Group raised funds by issuing Eurobonds ("the Notes") with a five year maturity in the amount of USD 500,000 thousand (UAH 12,259,400 thousand as of the issue date; more details over this transaction are disclosed in Note 22). The proceeds from the Notes issued by VFU Funding PLC were provided to the Company in the form of an intragroup loan, which further used the funds for refinancing of a USD 464,000 thousand bridge facility obtained by Telco Solutions and Investments LLC in order to acquire Preludium B.V. (the previous immediate parent of PrJSC "VF Ukraine") from MTS Group. On 10 February 2020, the Company provided interest-free financial aid to Telco Solutions and Investments LLC in the amount of UAH 11,569,196 thousand (Note 17).

According to the corporate reorganisation plan, Telco Solutions and Investments LLC was expected to be merged with the Company (the "Merger"). On 19 December 2022, the General Shareholder Meeting of the Company and the Sole participant of Telco Solutions and Investments LLC made a resolution on the Merger of Telco Solutions and Investments LLC with the Company.

On 26 September 2023, the General Shareholders Meeting of the Company and the Sole participant of Telco Solutions and Investments LLC made a resolution on approval of the certificate of ownership and merger and the agreement on merger and issue of shares for the purpose of the conversion of participatory interests in Telco Solutions and Investments LLC dissolved by merger into the Company's shares. According to the above resolution and the Temporary certificate of registration of the issue of shares No25/1/2023-T dated 2 November 2023, the Company has issued 775,480,616 (seven hundred seventy five million four hundred eighty thousand six hundred sixteen) registered ordinary shares in the amount of UAH 7,754,806.16 (seven million seven hundred fifty four thousand eight hundred six hryvnias sixteen kopecks), which equals the amount of the participatory interest of the Telco Investments B.V. sole participant in the charter capital of Telco Solutions and Investments LLC prior to the Merger. On 30 November 2023, the above shares were transferred into the account of the depository institution of Telco Investments B.V. upon conversion of the participatory interests as a result of the Merger.

Prior to the Merger and conversion procedure, Telco Solutions and Investments LLC dissolved by the Merger held 773,845,495 (seven hundred seventy three million eight hundred forty five thousand four hundred ninety five) registered ordinary shares of the Company. On 30 September 2023, those shares were transferred into the issuer's (the Company's) account with the Central Securities Depository as non-convertible shares for their subsequent cancellation.

In addition, according to the certificate of ownership and merger dated 26 September 2023, all assets, rights and liabilities of Telco Solutions and Investments LLC are transferred to the legal successor – PJSC "VF Ukraine". The Merger is considered to be completed from the day of the record added to the Unified State Register of Legal Entities, Individual Entrepreneurs and Civil Associations (the "USR") about the dissolution of Telco Solutions and Investments LLC.

The Merger qualifies as a capital reorganisation of businesses under common control and has been accounted for prospectively using the predecessor accounting method from 26 September 2023. There is no guidance for accounting for capital reorganisations in IFRS Accounting Standards, so the choice of approach to accounting for such transactions is a matter of significant judgement. As of the merger date, the assets and liabilities of PrJSC "VF Ukraine" and Telco Solutions and Investments LLC were combined at their carrying standalone values. Intragroup balances, including the interest-free financial aid in the amount of UAH 11,569,196 thousand, were eliminated and the difference between the shares of PrJSC VF "Ukraine" to be issued to Telco Investments B.V., which became the immediate parent company after the Merger, and Telco Solutions and Investments LLC's carrying value of the net assets was accounted for within retained earnings. This material non-cash transaction has resulted in a decrease of the Group's equity after the Merger by UAH 11,539,857 thousand. Telco Solutions and Investments LLC did not own other significant assets and liabilities, except for the investment in PJSC "VF Ukraine" and financial aid from PJSC "VF Ukraine".

The conversion procedure took place between 17 and 30 November 2023, resulting in a new share issuence credited to the share account of the new shareholder of Telco Investments B.V. whilst the shares held by Telco Solutions and Investments LLC were debited to the issuer's account for subsequent cancellation.

On 27 December 2023, Telco Solutions and Investments LLC was terminated along with registration of legal succession to PJSC "VF Ukraine" with a changed ownership structure and a slight increase in the authorized capital to 7,832,972.37 hryvnias. On 28 December 2023, the documents for registering the results of the placement of shares and obtaining a certificate of issuance of shares of PJSC "VF Ukraine" were submitted to the Securities and Stock Market Commission, which subsequently registered them. As a result, Telco Investments B.V. became a shareholder of PJSC "VF Ukraine" with voting shares.

On 23 August 2023, PrJSC "VF Ukraine" entered into the Share Purchase Agreement based on which it undertook to purchase an interest in a national fixed-line telecommunication business, namely 90.6% in the charter capital of LLC "Freenet". The payment in the amount of UAH 746,145 thousand was made on the date of the agreement and the transaction was completed and registered in accordance with the applicable law. The acquisition of LLC "Freenet" is part of the Company's overall strategy to develop convergent services and products. LLC "Freenet" is a national broadband Internet service provider trading under O3 brand in the cities of Kyiv and Dnipropetrovsk, Zhytomyr, Zaporizhzhia, Ivano-Frankivsk, Lviv, Kyiv, Rivne, Khmelnytskyi, Chernyhiv Regions. The company was established and operated in the market since 2008, constructing its networks based on FTTx and GPON technologies using 10 Gb and 40 Gb fibre optic route cables and modern managed equipment from leading manufacturers. This allows the company to provide an Internet access channel with up to 1 Gb/sec speed to each subscriber. The company's subscriber base exceeds 149 thousand subscribers.

In November 2023, the Company established a new subsidiary, Limited Liability Company "Ukrainian Network Solutions" (LLC "UNS"). The Company is a sole 100% participant in LLC "UNS".
The subsidiary LLC "UNS" has been established for the purpose of carving out and servicing the Company's passive tower infrastructure.

LLC "UNS's" core business includes construction and servicing of telecommunication structures, leasing out of own passive infrastructure constructions, other construction, installation and specialised works.

2. MATERIAL ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards Accounting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB") and comply, in all material respects, with requirements of the Law on Accounting and Financial Reporting in Ukraine for the preparation of financial statements.

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 material 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 Accounting Standards in a single electronic format (referred to as "iXBRL"). As of the date of issuing these consolidated financial statements, the 2023 UA XBRL IFRS taxonomy has not been published yet and the process for submitting 2023 financial statements in a 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 when it will be possible.

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.

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

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.

Composition of the Group

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

	Accounting method	31 December 2023	31 December 2022
LLC "VF Retail"	Consolidated	100%	100%
LLC "IT Smartflex"	Consolidated	100%	100%
LLC "Cable TV-Finance"	Consolidated	100%	100%
PrJSC "Farlep-Invest"	Consolidated	99.9%	99.9%
LLC "Freenet"	Consolidated	90.6%	-
LLC "UNS"	Consolidated	100%	-
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 22). The Group has no legal ownership of the SPE but exercises control over the entity according to the 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 2022 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2023. For instance, classification of expected credit losses in the consolidated statement of the cash flows. 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 2023

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 2022.

None of the interpretations and amendments to standards adopted by the Group on 1 January 2023 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 2024 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 2024;

- IFRS 16 *Leases* – amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions – effective for annual periods beginning on or after 1 January 2024;
- IAS 1 *Presentation of Financial Statements* - Amendments regarding the classification of debt with covenants - the amendments are effective for annual reporting periods beginning on or after 1 January 2024;
- IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments* - qualitative and quantitative information about supplier finance arrangements - the amendments are effective for annual reporting periods beginning on or after 1 January 2024;
- 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;
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* – accounting when there is a lack of exchangeability - the amendments are effective for annual reporting periods beginning on or after 1 January 2025;
- IFRS 18 *The Presentation and Disclosure in Financial Statements* – requirements for the presentation and disclosure of information in financial statements - the standard is effective for annual reporting periods beginning on or after 1 January 2027.

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.

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.

Going concern

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.

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 for 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 financial statements, no critical assets preventing the Group from continuing operations have been damaged.

Since 24 February 2022, network and base station equipment have been constantly monitored, especially in areas of mass downtime. Traffic redistribution, capacity addition and other measures designed to restore network coverage and 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 availability of the network during mass power outages due to damage to the energy infrastructure during hostilities is regulated by the Group's measures aimed at ensuring the operability of the network. A work plan was developed and diesel generators were provided for network operation during a blackout. A list of sites has been formed based on the need to ensure the uninterrupted operation of priority network sites and a list of locations that must be provided with the communication. Purchase of additional mobile generators and batteries was carried out, partner generators were used to increase equipment operation time at critical sites.

As at 31 December 2023, the Group was in compliance with all debt covenants. Management has reached the goal of servicing the Group's financial liabilities in a timely manner in accordance with the debt agreement at the time of the scheduled interest payment due dates. Management plans to continue servicing the Group's financial liabilities in a timely manner, although there is an inherent uncertainty related to the moratorium on cross-border foreign currency payments. The ability to repay the principal amount of the debt, which is USD 400 million and becomes due in February 2025 (Note 22) and future interest payment largely depends on the persistence of foreign currency control restrictions at that time. It also depends on the Group's ability to secure refinancing from financial institutions or negotiate changes to the bond terms with lenders. In addition, the Group may receive possible partial parent support, or implement additional measures to manage and control cash outflows to support the refinancing or the negotiation efforts. These measures aim to maximise cash conservation and align with the expected timing of future cash flows, including those related to the repayment of the principal amount of the debt and future interest payment. Management is considering all the options from this list, depending on the status of the foreign currency control restrictions. Based on management forecasts, it's expected that the Group will be able to meet the financial ratio covenant for the upcoming twelve months from the date of these consolidated financial statements.

The Group has taken appropriate actions to ensure the continuity of communication services and operations. Management has prepared and reviewed the updated financial forecasts including cash flow projections, for the twelve months from the date of approval of these consolidated financial statements, taking into consideration the most likely and possible downside scenarios for the ongoing business impacts of the war. These forecasts were based on the following key assumptions:

- 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 the Group to cover the level of operating expenses, the necessary capital investments and maintain debt servicing.

These forecasts indicate that taking account of reasonably possible downsides, 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.

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 are material uncertainties about further significant escalation in hostilities that can disrupt infrastructure and the Group's operations, currency control restrictions caused by the war and the Group's ability to refinance or restructure the debt 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.

The management of the Group has concluded that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 13 and 14 for further information.

The assets in the temporarily occupied territories are fully impaired but not derecognised. After the liberation of these territories, damages will be assessed and part of the impairment will be reversed, if appropriate.

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 15). 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.

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 management's 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 23.

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 was repayable within 10 days after a written request from the Company and was accounted for as at 31 December 2022 in current assets in the balance sheet (statement of financial position). According to the corporate reorganisation plan providing for the merger of Telco Solutions and Investments LLC with the Company, the loan granted was eliminated in intragroup balances as of the merger date (Note 1).

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

Identifying the cash-generating unit and impairment test

The Group is required to perform impairment tests for those cash-generating units (CGU) where impairment indicators are identified. The war in Ukraine is considered by the Group as a triggering event that requires performing an impairment test in accordance with *IAS 36, Impairment of Assets*.

Following the acquisition of LLC "Freenet" (referred to as "Freenet") that was completed on 23 August 2023 (Note 5), the Group considers two cash-generating units: the core mobile business with integrated fixed business and Freenet. The Group performed impairment testing of Freenet CGU at the reporting date of these consolidated financial statements. The Group impaired goodwill allocated to Freenet in the amount of UAH 129 million at the reporting date. For more details please refer to the Note 5.

Impairment testing of LLC "Freenet" CGU

The Group performed an impairment test in December 2023. The Group considers the relationship between the CGU value-in-use and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2023, the value-in-use of the CGU was tested, indicating an impairment of goodwill in the amount of UAH 129 million.

The recoverable amount of the Freenet CGU of UAH 676 million as of 31 December 2023 has been determined based on a value in use calculation using cash flow projections from the financial budgets and long-term projections approved by senior management covering a fifteen-year period. Fifteen-year period represents the term required to stabilize cash flows of Freenet. The Group also separately considered the impact of converged services, which are planned to be provided to the Group's customers in the near future.

The Group assessed the key assumptions used to determine the recoverable amount for the CGU. The following table sets out the key assumptions used:

Assumption	Approach used to determining values
Sales volume	Average annual customer base growth rate based on past performance and management's expectations of market development. ARPU projections based on actual rates in 2023 calculated for each subscriber type and extrapolated for expected inflation growth in Ukraine.
Operating costs	Operating costs projections based on actual figures in 2023 and extrapolated for expected customer price index growth in Ukraine. Operating costs that depend on customer base changes comprised of: maintenance costs, traffic costs, payments processing costs.
Capital expenditure	Capital expenditure includes solely maintenance costs of existing assets as of 31 December 2023 and necessary to keep these assets in usable condition. Capital expenditure costs were extrapolated for expected producer price index growth in Ukraine.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
Pre-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.

The pre-tax discount rate applied to cash flow projections is 25% and cash flows beyond the fifteen-year period are extrapolated using growth rates between 4.2% and 5.1% that is the same as the long-term average growth rates for the fixed-line telecommunicationsica industry. It was concluded that the fair value less costs of disposal did not exceed the value-in-use. As a result of this analysis, management has recognised an impairment charge of UAH 129 million in the current year against goodwill with a carrying amount of UAH 379 million as at 31 December 2023. The impairment charge is recorded separately in the consolidated statement of profit or loss.

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

The following table demonstrates the sensitivity of the following key estimates used for the impairment test being pre-tax discount rate and proceeds from sales of services:

	Impact on value-in-use
Proceeds from sales of services and goods included in cash flow forecasts increase/(decrease) by 5%	UAH 126/(126) million
Discount rate (increase)/decrease by 1%	UAH (30)/34 million

Impairment testing of the core mobile business with integrated fixed business CGU

At the reporting date of these consolidated financial statements, Management considered both individual impairment of specific assets and impairment of the identified CGU - the core mobile business with integrated fixed business.

Management analyses the assets which appeared to be located on the temporarily occupied territories and in areas with intense military actions as of reporting day on a regular basis. The Group posted 100% impairment for such assets being mainly network and base station equipment (Note 9), the latest impairment analysis was performed as at 31 December 2023.

For the identified CGU - the core mobile business with integrated fixed business, management performed the impairment tests as of 31 December 2023 and 31 December 2022 and the recoverable amounts were estimated to be higher than the carrying amount, thus no economic impairment of the cash-generating unit was recognized on both reporting dates. The recoverable amounts have been determined based on value in use estimations.

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 excludes the risks specific to the asset. The pre-tax discount rate used in the impairment test as of 31 December 2023 comprised 24.2%, for terminal period the Group used the discount rate of 17.7%, which excludes risks related to future economic conditions affected by the ongoing war.

The discount rate used as of 31 December 2022 comprised 19.5%. As of 31 December 2022 management reflected the identifiable risks and uncertainties related to the current economic environment in the expected cash flows and, therefore, they had not been embedded in the discount rate. This was an area of significant judgement as of 31 December 2022.

The Group based its impairment test on the most recent budgets and long-term forecast calculations. These budgets and forecast calculations for the purposes of impairment testing cover a period of five years based on sustainability and development factors that could be estimated with reasonable certainty for the telecommunication business. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 4.7% (as of 31 December 2022 – from 3% to 5% depending on the scenarios).

The growth rate does not exceed the long-term average growth rate for the telecommunication sector of the economy in which the CGU operates. Reasonably possible changes in estimated growth rate do not impact the result of the impairment test.

The Group assessed the key assumptions used to determine the recoverable amount for the CGU. The values assigned to the key assumptions represent management's assessment of future trends in the business and migration of the population. Management also considered different macroeconomic factors including inflation and USD/UAH exchange rate. No impairment losses were identified as a result of impairment testing at the reporting date. The recoverable amount exceeds the carrying amount by UAH 9 696 million.

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

Management also calculated the sensitivity of key estimates used for the impairment test being pre-tax discount rate and proceeds from sales of services, which is primarily a function of customer base and ARPU, and goods, included in cash flow forecasts in each scenario. The sensitivity analysis disclosed below shows changes in key assumptions that would cause the recoverable amount of the CGU to be less than its carrying amount at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant except for the change in capital expenditures which are linked to proceeds from sales included in cash flow forecasts. The sensitivity analysis may not be representative of an actual change in the recoverable amount of the CGU as it is unlikely that changes in assumptions would occur in isolation from one another.

Changes in key assumptions that would cause the recoverable amount of the CGU to be less than its carrying amount at the end of the reporting period:

	Change in key assumption
Proceeds from sales of services and goods included in cash flow forecasts	Decrease by 8.2%
Discount rate	Increase by 7.0 p.p.

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 2023, operating income before depreciation and amortisation ("OIBDA") to assess the performance of the operating segment. Management defines OIBDA as profit before interest, tax, depreciation, amortization and non-operating impairment, net foreign exchange gains or losses and other gains/losses from the consolidated statement of profit or loss and other comprehensive income.

Financial information of the reportable segment is presented below:

	2023	**2022**
Revenue	**21 610**	**19 824**
OIBDA	**12 689**	**11 277**
Depreciation and amortization	(4 420)	(4 231)
Operating currency exchange gains, net	56	141
Goodwill impairment	(129)	-
Losses due to war	(158)	(978)
Gains due to war	52	307
Operating profit	**8 090**	**6 516**

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 the 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 23 August 2023, the Group acquired 90.6% of the authorized capital of LLC "Freenet" (referred to as "Freenet"). The company is based in Ukraine and specialises in fixed line telephony and Internet operations under the "O3" brand. The Group acquired Freenet for the further development of the 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.

The purchase consideration for the business combination comprised UAH 746 million and was fully settled by cash at the date of acquisition.

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

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

	Fair value recognised on acquisition
Assets	
Property and equipment (Note 13)	485
Right-of-use assets (Note 15)	44
Cash and cash equivalents (Note 18)	11
Trade and other receivables (Note 17)	4
Inventories (Note 20)	3
Intangible assets (Note 14)	1
Advances paid and prepaid expenses	1
Other financial current assets	4
	553
Liabilities	
Contract liabilities (Note 24)	(51)
Lease obligations (Note 15)	(44)
Trade and other payables (Note 25)	(22)
Deferred tax liabilities (Note 12)	(37)
Other non-financial liabilities, current (Note 26)	(2)
	(156)
Total identifiable net assets at fair value	**397**
Non-controlling interest measured at fair value	(30)
Goodwill arising from the acquisition (Note 14)	379
Purchase consideration transferred	**746**

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 value of acquired trade receivables is UAH 4 million. The gross contractual amount for trade receivables due is UAH 11 million, with a loss allowance of UAH 7 million recognised on acquisition.

The fair values of property and equipment and intangible assets are measured using a depreciated replacement cost valuation approach with further testing for economic impairment. The valuation of property and equipment and identifiable intangible assets was performed by an independent professional appraiser.

The non-controlling interest was measured at its market value. The fair value of the non-controlling interest was estimated by applying an income approach. The fair value estimates are based on: (a) a discount rate of 25%; (b) a terminal value based on a terminal growth range of between 4.7% and 5.1%; and (c) adjustments because of the lack of control or lack of marketability of 17.7% and 2.9% respectively, that market participants would consider when estimating the fair value of the non-controlling interest.

The Group allocated goodwill to LLC "Freenet" CGU in the amount of UAH 379 million for the purpose of impairment testing. The allocation is made to the CGU which is expected to benefit from the business combination in which the goodwill arose. The goodwill is primarily attributable to the additional profit the Group expects to earn by providing converged services, the long-term profitability of the acquired business and the prospects for further development of the fixed line business in a more stable economic environment after the war ends. The unit is identified at the lowest level at which goodwill is monitored for internal management purposes. As at 31 December 2023, the Group performed impairment test of LLC "Freenet" CGU which resulted in impairment and the goodwill was impaired in the amount of UAH 129 million. The impairment mainly occurred due to the increased country risk affecting the discount rate, caused by the ongoing war in Ukraine. For more details on impairment testing please refer to the Note 3. The goodwill will not be deductible for tax purposes in future periods.

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

Acquisition-related costs of UAH 1 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.

From the date of acquisition, Freenet contributed UAH 104 million in revenue and UAH 10 million to profit before tax of the Group in 2023. If the combination had taken place at the beginning of 2023, revenue for 2023 would have been UAH 341 million and profit before tax for the Group would have been UAH 41 million.

Purchase consideration – cash outflow	
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(746)
Less: balances acquired	
Cash and cash equivalents	11
Net outflow of cash on acquisition – investing activities	**(735)**

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.

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

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 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 2023 and 2022 comprised the following:

	2023	2022
Revenue from mobile subscribers	16 876	14 442
Interconnect revenue	2 221	3 219
Roaming revenue	804	872
Other revenue	936	626
Total service revenue	**20 837**	**19 159**
Sales of goods	773	665
Total revenue	**21 610**	**19 824**

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

Being part of other revenue, the Group leases antenna locations in its tower infrastructure to other telecom operators and treats this transaction as an operating lease. Management considered the following key factors when assessing lease classification as operating or finance: (a) the lease term is significantly shorter than the useful life of assets; (b) the Group analysis concluded that the present value of lease payments was not "substantially all" of the fair value of assets; and (c) the nature of the arrangements, which is more consistent with short-term agreement (operating lease) than financing the acquisition of assets (finance lease). On the basis of the factors considered, the Group determined that leases should be classified as operating leases. Revenue from leases is recognised on a straight line basis over the agreed lease term.

The total future revenue in accordance with IFRS 16, which is expected to be recognized at the reporting date based on contractual lease terms is as follows:

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

	Within one year	In more than one year but less than two years	Total
Committed lease revenue due to the Group as a lessor	152	139	291

7. COST OF SERVICES

Cost of services for the years ended 31 December 2023 and 2022 comprised the following:

	2023	2022
Electricity and other production costs	1 779	1 309
Radio frequency usage tax	1 030	985
Interconnect expenses	930	1 670
Salaries	446	394
Roaming expenses	306	226
Social contributions	79	74
Other expenses	176	143
Total cost of services	**4 746**	**4 801**

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Total selling, general and administrative expenses for the year ended 31 December 2023 amounted to UAH 4 115 million (for the year ended 31 December 2022: UAH 3 702 million).

Selling expenses for the years ended 31 December 2023 and 2022 comprised the following:

	2023	2022
Salaries	639	588
Dealers commission	415	306
Advertising and marketing expenses	304	296
Social contributions	120	113
Other expenses	65	53
Total selling expenses	**1 543**	**1 356**

General and administrative expenses for the years ended 31 December 2023 and 2022 comprised the following:

	2023	2022
Salaries	1 302	1 226
Consulting expenses	348	304
General office expenses	313	271
Billing and data processing	253	204
Social contributions	132	123
Other personnel expenses	116	97
Taxes other than income tax	100	115
Other expenses	8	6
Total general and administrative expenses	**2 572**	**2 346**

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

9. LOSSES AND GAINS DUE TO WAR, NET

	2023	2022
Electricity charges on non-controlled territories	121	-
Impairment loss on property and equipment in non-controlled territories (Note 13)	34	831
Changes in estimates in provision for decommissioning and restoration (Note 23)	1	(45)
Reversal of impairment of property and equipment (Note 13)	(44)	(169)
Estimated provision and actual disposal of damaged or destroyed property and equipment	(6)	80
Reassessment/modifications of leases (Note 15)	(2)	(51)
Expected credit losses on receivables from aggressor countries and advances paid	(1)	53
Impairment loss on inventories	-	14
Write-off of payables to aggressor countries	-	(42)
Other	3	-
Total losses due to war, net	**106**	**671**

The Group identified assets and liabilities in non-controlled territories (NCT) which consists of occupied territories and areas with intense military actions. The table above discloses only losses and gains related to assets located on NCT or liabilities arising on NCT, direct losses due to damaged or destroyed assets on controlled territories, and impairment of receivables from or write-off of payables to aggressor countries. The Group lacks the ability to direct the use of these assets to obtain the economic benefits generated by them at the reporting date, therefore respective assets have been fully impaired. Part of the recognised impairment was reversed after the liberation of the occupied Ukrainian territories in the Kharkiv and Kherson oblasts. These transactions are not controlled by the Group.

Electricity charges on the Group's property on non-controlled territories were recognised due to the recent changes in judicial practice in 2023 and updated legal grounds for substantiating the obligation of PJSC "VF Ukraine" to Ukrainian electricity suppliers to pay for electric energy consumed by third parties in the occupied territories during the period of occupation.

Despite some income from the decrease in liabilities overall the Group considers the war started by the Russian Federation against Ukraine caused significant losses to the Group. Moreover, real economic losses due to the Russian invasion are considered much higher than accounting losses recognized in accordance with IFRS Accounting Standards.

10. OTHER OPERATING INCOME, NET

Other operating income, net for the years ended 31 December 2023 and 2022 comprised the following:

	2023	2022
Lease termination and rent concessions	519	532
Effect of exchange rate changes	56	141
Change in estimates ARO (Note 23)	144	4
Other income, net	6	-
Total other operating income, net	**725**	**677**

Lease termination and rent concession gains increased due to war-related rent concessions and from the gain on derecognition of trade and other payables due to the forgiveness of the outstanding payments for the trade mark Vodafone (see Note 15).

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

11. FINANCE INCOME AND COSTS

Finance income and costs for the years ended 31 December 2023 and 2022 comprised the following:

	2023	2022
Interest expense on borrowings (Note 22)	1 013	870
Interest expense on lease obligations (Note 15)	641	532
Unwinding of discounts on provision for decommissioning and restoration (Note 23)	72	41
Total finance costs	**1 726**	**1 443**
Total finance income	**252**	**173**
Net finance costs	**1 474**	**1 270**

12. INCOME TAX

The corporate income tax rate in Ukraine is 18% (2022: 18%).

During 2020 the Group attracted funds through the Notes issued by PLC "VFU Funding" (Note 22). 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 expenses for the years ended 31 December 2023 and 2022 comprised the following:

	2023	2022
Current income tax charge	793	264
Withholding tax charge	48	41
Deferred tax charge	19	35
Total income tax expense	**860**	**340**

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

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.

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

Movements in the deferred tax assets and liabilities for the year ended 31 December 2023 were as follows:

	31 December 2022	Acquisition of a subsidiary	Credit/ (Charged)	31 December 2023
Allowance for ECL	115	-	18	133
Provision for decommissioning and restoration	66	-	(27)	39
Other provisions	55	-	152	207
Property and equipment, and intangible assets	(95)	-	(161)	(256)
Other	1	-	-	1
Recognised deferred tax asset	**142**	**-**	**(18)**	**124**
Property and equipment, and intangible assets	(27)	(44)	-	(71)
Deferred connection fees and subscriber prepayments	-	4	-	4
Allowance for ECL	-	1	-	1
Other	-	2	(1)	1
Recognised deferred tax liability	**(27)**	**(37)**	**(1)**	**(65)**
Net deferred tax asset	**115**	**(37)**	**(19)**	**59**

As at 31 December 2023, the net recognised deferred tax asset of UAH 341 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 2022: UAH 170 million).

Movements in the deferred tax assets and liabilities for the year ended 31 December 2022 were as follows:

	31 December 2021	Credit/ (Charged)	31 December 2022
Allowance for ECL	73	42	115
Provision for decommissioning and restoration	64	2	66
Other provisions	36	19	55
Property and equipment, and intangible assets	4	(99)	(95)
Other	-	1	1
Recognised deferred tax asset	**177**	**(35)**	**142**
Property and equipment, and intangible assets	(27)	-	(27)
Recognised deferred tax liability	**(27)**	**-**	**(27)**
Net deferred tax asset	**150**	**(35)**	**115**

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

Reconciliation of income tax expense and accounting profit is presented below:

	2023	**2022**
Profit before tax	**5 933**	**1 440**
Income tax expense at statutory rate of 18%	1 068	259
Unrecognised deferred tax on loss-making subsidiaries	37	36
Withholding tax charge	48	41
Accumulated tax loss of Telco Solutions and Investments LLC recognized after corporate reorganization	(312)	-
Not deductible expenses for tax purposes	19	4
Income tax expense	**860**	**340**

The Group has not recognised in the consolidated statement of financial position the deferred tax asset on the loss-making subsidiaries. Accumulated tax losses of LLC "VF Retail", PrJSC "Farlep-Invest" and LLC "Cable TV-Finance" as of 31 December 2023 amounted to UAH 1 519 million (31 December 2022: UAH 1 373 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 carry forwards.

13. 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 their expected useful life, as follows:

Network and base station equipment:	
Network infrastructure	5-30 years
Other	2-5 years
Land and buildings:	
Buildings	20-50 years
Leasehold improvements	Shorter of the expected useful life or the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-20 years
Vehicles	5-7 years
Other	3-4 years

The estimated useful lives and depreciation method are reviewed when necessary, but not less often than at the end of each reporting year, in each reporting period.

In the fourth quarter of 2023, the Group established Ukrainian Network Solutions LLC as a passive infrastructure operator, transferring relevant assets from PrJSC "VF Ukraine". Consequently, the useful lives of several classes of Property and equipment within Network and base station increased based on the consideration that a business goal of Ukrainian Network Solutions LLC's creation is to also provide services to other market participants. As of 31 December 2023, the effect of revision on the depreciation charge is insignificant.

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.

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

The provision for decommissioning and restoration arises as a result of a constructive obligation in connection with the retirement of property and equipment (Note 23).

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 2022	**20 977**	**645**	**2 095**	**538**	**24 255**
Additions	439	5	30	1 804	**2 278**
Transferred into use	1 016	13	128	(1 157)	**-**
Disposal	(330)	(12)	(173)	(10)	**(525)**
31 December 2022	**22 102**	**651**	**2 080**	**1 175**	**26 008**
Acquisition of subsidiary (Note 5)	445	9	19	12	**485**
Additions	585	13	56	2 517	**3 171**
Transferred into use	1 556	10	498	(2 064)	**-**
Disposal	(426)	(11)	(56)	(15)	**(508)**
31 December 2023	**24 262**	**672**	**2 597**	**1 625**	**29 156**
Accumulated depreciation and impairment					
1 January 2022	**(12 886)**	**(233)**	**(1 411)**	**-**	**(14 530)**
Charge for the year	(1 271)	(24)	(193)	-	**(1 488)**
Disposal	237	10	169	-	**416**
Impairment loss due to war	(803)	(18)	(10)	-	**(831)**
Impairment loss due to war reversed	157	8	4	-	**169**
31 December 2022	**(14 566)**	**(257)**	**(1 441)**	**-**	**(16 264)**
Charge for the year	(1 359)	(20)	(200)	-	**(1 579)**
Disposal	363	5	22	-	**390**
Impairment loss due to war	(34)	-	-	-	**(34)**
Impairment loss due to war reversed	44	-	-	-	**44**
31 December 2023	**(15 552)**	**(272)**	**(1 619)**	**-**	**(17 443)**
Net book value					
31 December 2022	**7 536**	**394**	**639**	**1 175**	**9 744**
31 December 2023	**8 710**	**400**	**978**	**1 625**	**11 713**

All the fixed assets of the Group are located in Ukraine.

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

The following table represents depreciation and amortization by function:

	2023	2022
Costs of sales	3,163	3,063
General and administrative expenses	712	616
Selling, distribution and marketing expenses	544	551
Other expenses	1	1
Total depreciation and amortization	**4 420**	**4 231**

Cost of fully depreciated property and equipment as of 31 December 2023 was UAH 7 964 million, including UAH 1 273 million fully depreciated property and equipment because of impairment due to war (31 December 2022: UAH 7 207 million and UAH 1 251 million).

14. 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 intangible assets are represented by prepayments for intangible assets, capital expenditures in billing and other software for future periods.

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 21**	**-**	**-**	
Cost					
1 January 2022	**6 856**	**4 102**	**168**	**20**	**11 146**
Additions, net of transfers	-	1 200	58	-	**1 258**
Disposal	(4)	(1 019)	-	-	**(1 023)**
31 December 2022	**6 852**	**4 283**	**226**	**20**	**11 381**
Acquisition of subsidiary (Note 5)	-	1	-	379	**380**
Additions	-	1 260	1 156	-	**2 416**
Transferred into use	152	315	(467)	-	**-**
Impairment	-	-	-	(129)	**(129)**
Disposal	-	(1 512)	(21)	-	**(1 533)**
31 December 2023	**7 004**	**4 347**	**894**	**270**	**12 515**
Accumulated amortization					
1 January 2022	**(2 175)**	**(2 254)**	-	-	**(4 429)**
Charge for the year	(469)	(1 371)			**(1 840)**
Disposal	2	1 015	**-**	-	**1 017**
31 December 2022	**(2 642)**	**(2 610)**	-	-	**(5 252)**
Charge for the year	(465)	(1 436)	-	-	**(1 901)**
Disposal	-	1 509	-	-	**1 509**
31 December 2023	**(3 107)**	**(2 537)**	-	-	**(5 644)**

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

	Licences	Billing and other software	Other intangible assets	Goodwill	Total
Net book value					
31 December 2022	**4 210**	**1 673**	**226**	**20**	**6 129**
31 December 2023	**3 897**	**1 810**	**894**	**270**	**6 871**

The reason for the significant prepayments is a purchase of new billing system.

On December 19, 2023, CMU Resolution No. 1340 amended the approved Plan for the distribution and use of radio frequency spectrum in Ukraine. According to the mentioned resolution of the CMU, PJSC "VF Ukraine" no longer has the possibility to convert the MMDS license in the 2600 range to LTE. However, according to the decrees of the Ukrainian National Security Agency No. 114/1919 and No. 135, PJSC "VF Ukraine" has the right to use the radio frequency spectrum for LTE until December 31, 2024 (or until the end of martial law, if it occurs earlier than December 31, 2024).

Cost of fully amortised intangible assets as of 31 December 2023 was UAH 789 million (31 December 2022: UAH 746 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.

The management believes that as of 31 December 2023, the Group complied with the conditions of all licences it possesses.

15. 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.

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 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.*

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

In the IV quarter of 2023, in connection with the revision of the terms of useful use of antenna-mast structures, the Group had to revise the terms of lease of places for network equipment (i.e. land, places on towers or areas on the roof) and network infrastructure.

At 1 January 2018 the Company applied IFRS 16 for the first time and determined the following lease terms for technical sites:
(1) sites on roofs and inside buildings - 10 years;
(2) sites on the ground - 20 years.

To determine the estimated lease terms, the Group applied professional judgment and the Company's development plans at the time of the implementation of the new standard, as well as upper-level useful life terms of assets located on leased sites.

In 2023, the Group created a legal entity - LLC "Ukrainian Network Solutions" in order to allocate tower infrastructure to the newly created subsidiary company in the future. In this regard, the management reassessed the useful life of the fixed assets to be transferred. Management also reassessed the lease terms for each site to reflect the useful life of the property, plant and equipment located at each site.

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

Lease of:	
Sites for placement of masts and towers on rooftops	25 years
Sites for placement of masts and towers on land and metal poles	30 years
Sites for placement of reinforced concrete pillars	20 years
Sites for placement of network equipment on rented antenna-mast structures	10 years
Retail stores	Up to 3 years
Administrative offices, warehouses, parking garages	Up to 10 years
Vehicles	6 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. Besides that, the Group obtained a rent concession in the amount of EUR 10 526 316 (UAH 444 million) related to trademark fees in 2023 and EUR 10 526 316 (UAH 410 million) in 2022, which are included in other operating income (Note 10).

The average incremental borrowing rate for 2023 approximates from 18.1% to 25.3% for Ukrainian Hryvnia lease obligations (2022: 23.3%-26.45%), from 6.4% to 9.8% for USD lease obligations (2022: 6.4%-8.24%) and from 5.7% to 8.24% for Euro lease obligations (2022: 5.7%-8.24%).

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

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

Lease of:	**31 December 2023**	**31 December 2022**
Sites for placement of network and base station equipment	2 536	2 150
Exclusive rights for trademarks	507	750
Retail stores	118	122
Administrative buildings	110	277
Vehicles	21	6
Rights-of-use assets, net	**3 292**	**3 305**

Depreciation charge of the right-of-use assets for the years ended 31 December 2023 and 2022 was as follows:

	For the year ended 31 December	
	2023	**2022**
Sites for placement of network and base station equipment	405	338
Exclusive rights for trademarks	243	243
Retail stores	67	70
Administrative buildings	61	86
Vehicles	12	10
Total depreciation charge for the period	**788**	**747**

Additions to the right-of-use assets during the years ended 31 December 2023 and 2022 were as follows:

	For the year ended 31 December	
	2023	**2022**
Sites for placement of network and base station equipment	160	78
Retail stores	22	16
Vehicles	18	-
Administrative buildings	7	1
Total additions	**207**	**95**

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

	2023	**2022**
1 January	**4 359**	**4 462**
New obligations arising during the year	207	95
Acquisition of a subsidiary (Note 5)	44	-
Modifications of existing leases	601	430
Termination of leases	(96)	(34)
Modification of liabilities on non-controllable territories	(8)	(244)
Restoration of facilities in the de-occupied territories	6	53
Rent concessions	(499)	(522)
Accrued interest	641	532
Payment of principal	(312)	(242)
Payment of interest	(641)	(532)
Currency exchange losses	105	361
31 December	**4 407**	**4 359**

Due to the change in the estimated lease terms of sites for network equipment (i.e. land, space on towers or rooftop space) and network infrastructure, linking each lease object to the useful life of the asset, which located on it, the right-of-use assets was increased for UAH 129 million and lease obligations for UAH 149 million with recognition of loss from the reassessment in other losses in the amount of UAH 20 million.

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

The Group represents discounts obtained due to war in the same way as Covid-19-Related Rent Concessions as in most cases they cannot be separated. The Group considers the rent reduction to be a partial extinguishment of the lease liability. The forgiveness is recognised as a gain in the consolidated statement of profit or loss and other comprehensive income, with a corresponding reduction in the lease liability in the period in which the reduction is contractually agreed.

Due to legal restrictions, which don't allow settlement in the temporarily occupied territories of Ukraine and other existing uncertainties, the Group revised lease terms and the discounted cash flows for the lease of facilities in these territories, which resulted in the decrease of lease liabilities and respective right-of-use assets.

As of the acquisition date of LLC "Freenet" on 23 August 2023 (Note 5), the value of right-of-use assets and lease obligations were UAH 44 million.

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.

16. 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 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 prepaid subscriber life of 30 months (2022: 31 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.

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

	2023	**2022**
1 January	**210**	**220**
Additions	187	146
Amortisation charge	(162)	(156)
31 December	**235**	**210**

17. 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 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.

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

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:

	31 December 2023	**31 December 2022**
Roaming	1 518	1 996
Interconnect	236	320
Subscribers	252	221
Dealers	15	8
Other trade receivables	56	64
Allowance for ECL	(274)	(250)
Total trade receivables	**1 803**	**2 359**
Cash balance in distressed bank	247	247
Financial aid and loan provided to related parties (Note 28)	126	11 632
Other receivables	10	13
Allowance for ECL	(283)	(386)
Total other receivables	**100**	**11 506**
Total trade and other receivables	**1 903**	**13 865**

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:

		31 December 2023			**31 December 2022**		
	Credit-impaired	**Expected loss rate**	**Gross amount**	**Lifetime ECL**	**Expected loss rate**	**Gross amount**	**Lifetime ECL**
Current	No	3%	72.0	(2.1)	2%	69.1	(1.1)
1 - 30 days past due	No	9%	18.3	(1.7)	7%	14.7	(1.1)
31 - 60 days past due	No	22%	7.7	(1.7)	17%	6.5	(1.1)
61 - 90 days past due	No	49%	4.5	(2.2)	38%	2.9	(1.1)
91 - 120 days past due	Yes	63%	1.9	(1.2)	55%	2.9	(1.6)
121 - 150 days past due	Yes	71%	2.8	(2.0)	63%	3.0	(1.9)
151 - 180 days past due	Yes	84%	3.2	(2.7)	78%	1.8	(1.4)
More than 180 days past due	Yes	100%	141.1	(141.1)	100%	119.6	(119.6)
Total			**251.5**	**(154.7)**		**220.5**	**(128.9)**

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

The following table provides information about the exposure to credit risk and ECL for roaming, interconnect other trade and other receivables:

		31 December 2023			31 December 2022		
	Credit-impaired	**Loss rate**	**Gross amount**	**Lifetime ECL**	**Loss rate**	**Gross amount**	**Lifetime ECL**
Cash balance in distressed bank	Yes	100%	247	(247)	100%	247	(247)
Financial aid provided to related parties	Yes	28.6%	126	(36)	1.2%	11 632	(139)
Roaming	No	4.9%	1 518	(74)	4.0%	1 996	(79)
Interconnect	No	18.6%	236	(44)	12.2%	320	(39)
Dealers	No	0.0%	15	-	0.0%	8	-
Other trade receivables	No	1.8%	56	(1)	4.7%	64	(3)
Other receivables	No	0.0%	10	-	0.0%	13	-
Total			**2 208**	**(402)**		**14 280**	**(507)**

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

	2023	**2022**
Allowance for ECL at 1 January	**(250)**	**(160)**
New originated or purchased	(21)	(81)
Derecognised during the year	11	
Total credit loss allowance charge in profit or loss for the year	**(10)**	**(81)**
Acquisition of a subsidiary	(7)	-
Write-offs	1	2
Foreign exchange movements	(8)	(11)
Allowance for ECL at 31 December	**(274)**	**(250)**

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

Movements in the allowance for ECL for other receivables as at 31 December 2023 were as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Allowance for ECL at 1 January	**-**	**(139)**	**(247)**	**(386)**
Charge for ECL allowance on financial aid and loan provided to related parties	(13)	-	(23)	**(36)**
Reversal of allowances on financial aid provided to related parties	-	139	-	**139**
Total credit loss allowance charge in profit or loss for the year	**(13)**	**139**	**(23)**	**103**
Allowance for ECL at 31 December	**(13)**	**-**	**(270)**	**(283)**

Movements in the allowance for ECL for other receivables as at 31 December 2022 were as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Allowance for ECL at 1 January	**-**	**(54)**	**(247)**	**(301)**
Charge for ECL allowance on financial aid and loan provided to related parties	-	(85)	-	**(85)**
Reversal of allowances on financial aid provided to related parties	-	-	-	**-**
Total credit loss allowance charge in profit or loss for the year	**-**	**(85)**	**-**	**(85)**
Allowance for ECL at 31 December	**-**	**(139)**	**(247)**	**(386)**

Offsetting financial assets and financial liabilities

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.

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

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented in the table below:

	31 December 2023			31 December 2022		
	Gross amounts before offsetting	**Gross amounts set off**	**Net amount after offsetting**	**Gross amounts before offsetting**	**Gross amounts set off**	**Net amount after offsetting**
ASSETS						
Trade receivables:						
- Roaming	1 584	66	1 518	2 085	89	1 996
- Interconnect	289	53	236	464	144	320
Total ASSETS SUBJECT TO OFFSETTING	**1 873**	**119**	**1 754**	**2 549**	**233**	**2 316**
LIABILITIES						
Trade payables and other accruals:						
- Roaming	(366)	(66)	(300)	(619)	(89)	(530)
- Interconnect	(101)	(53)	(48)	(159)	(144)	(15)
Total LIABILITIES SUBJECT TO OFFSETTING	**(467)**	**(119)**	**(348)**	**(778)**	**(233)**	**(545)**

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2023	**31 December 2022**
Short-term deposits	2 162	4 084
Cash on current accounts	1 539	989
Cash in transit and on hand	90	56
Allowance for ECL	(84)	(47)
Total cash and cash equivalents	**3 707**	**5 082**

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.

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

Cash and cash equivalents comprised the following currencies:

	Interest rates	31 December 2023	Interest rates	31 December 2022
Cash on current bank accounts, on hand and in transit:				
Euro *(in Ukrainian Hryvnia equivalent)*	-	987	-	450
Ukrainian Hryvnia	0%-11%	552	0%-7%	549
USD *(in Ukrainian Hryvnia equivalent)*	-	90	-	46
Allowance for ECL		(11)		(5)
Short-term deposits:				
USD *(in Ukrainian Hryvnia equivalent)*	0.2%-0.3%	1 656	0.01%-4.3%	2 178
Ukrainian Hryvnia	6%-9%	506	6.5%-13%	1 595
Euro *(in Ukrainian Hryvnia equivalent)*	-	-	1.25%	311
Allowance for ECL		(73)		(42)
Total cash and cash equivalents		**3 707**		**5 082**

Cash and cash equivalents are held mainly in large Ukrainian and European banks that have a reliable reputation. As of 31 December 2023, 88% of cash and cash equivalents were held in the four banks – subsidiaries of the large international banking groups (31 December 2022: 90%).

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:

	31 December 2023		31 December 2022	
	Cash and cash equivalents	Short-term investments (Note 19)	Cash and cash equivalents	Short-term investments (Note 19)
AA- rating	216	-	-	-
A+ rating	501	-	-	-
A rating	-	-	975	-
CCC rating	-	-	2 147	-
CCC- rating	-	-	319	1 084
CC rating	793	2 636	-	-
Non-rated*	2 281	2 505	1 688	529
Allowance for ECL	(84)	(171)	(47)	(19)
Total	**3 707**	**4 970**	**5 082**	**1 594**

* 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).

An allowance for expected credit loss (ECL) is recognized based on the probability of default of banks. The difference between the allowance for ECL as of the reporting date and the comparative period arose due to the revaluation of the allowance for ECL, which is reflected in the expenses. There were no write-off of the amount of cash and cash equivalents and no other movements in the amount of the allowance for ECL.

19. SHORT-TERM INVESTMENTS

Short-term investments represent term deposits and Ukrainian 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.

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

Short-term investments comprised the following:

	Deposit rates	31 December 2023	Deposit rates	31 December 2022
USD *(in Ukrainian Hryvnia equivalent)*	4.8%-4.85%	989	3.7%	1 084
Euro *(in Ukrainian Hryvnia equivalent)*	1.25%	128	-	-
Allowance for ECL		(19)		(8)
Total government bonds		**1 098**		**1 076**
USD *(in Ukrainian Hryvnia equivalent)*	0.01%-0.3%	3 971	0.2%	439
Ukrainian Hryvnia	10.0%	53	12.0%	51
Euro *(in Ukrainian Hryvnia equivalent)*	-	-	0.01%	39
Allowance for ECL		(152)		(11)
Total deposits		**3 872**		**518**
Total short-term investments		**4 970**		**1 594**

Short-term investments are held mainly in large Ukrainian banks that have a reliable reputation. As of 31 December 2023, 77% of short-term investments are held in the four banks – subsidiaries of the large international banking groups, 30% of which are held in Raiffeisen Bank Aval, and 22% of short-term investments belongs to Ukrainian government bonds issued by Ministry of Finance of Ukraine (31 December 2022: 33% of short-term investments are held in the two banks – subsidiaries of the large international banking groups, 27% of which are held in ING Bank, and 67% of short-term investments belongs to Ukrainian government bonds issued by Ministry of Finance of Ukraine).

An allowance for expected credit loss (ECL) is recognized based on the probability of default of banks and government of Ukraine. The difference between the allowance for ECL as of the reporting date and the comparative period arose due to the revaluation of the allowance for ECL, which is reflected in the expenses. There were no write-off of the amount of short-term investments and no other movements in the amount of the allowance for ECL.

20. INVENTORIES

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:

	31 December 2023	31 December 2022
Handsets and accessories	125	120
Office and other administrative materials	18	14
Other inventories	53	19
Total inventories	**196**	**153**

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

Cost of goods for the years ended 31 December 2023 and 2022 comprised the following:

	2023	**2022**
Cost of handsets and accessories sold	715	544
Obsolescence provision	4	2
Total cost of goods	**719**	**546**

21. COMMON STOCK

The Company has a legal status of a Private Joint-Stock Company at 31 December 2023 and 2022.

The Group had 783 297 237 authorized ordinary shares with a par value of UAH 0,01 as of 31 December 2023 and 781 662 116 authorized ordinary shares with a par value of UAH 0,01 as of 31 December 2022, for the total amount of UAH 8 million.

The Company's major shareholders as at 31 December 2023 and 2022 are presented in the table below:

	31 December 2023		**31 December 2022**	
	Number of shares	**Ownership, %**	**Number of shares**	**Ownership, %**
Telco Investments B.V. (Netherlands)	775 480 616	99%	-	-
Telco Solutions and Investments LLC (Ukraine)	-	-	773 845 495	99%
Enterprise with 100% foreign investment "PTT Telecom Kyiv" (Ukraine)	7 816 621	1%	7 816 621	1%
Total	**783 297 237**	**100%**	**781 662 116**	**100%**

As at 31 December 2023 and 31 December 2022, the Company's ultimate parent company was Neqsol Holding B.V.

Dividends declared

In 2023, the Company declared dividends to shareholders in the total amount of UAH 1 828 430 thousand or UAH 2,33 per share.

As of December 31 2023, all declared dividends were paid, including: dividends declared to Telco Solutions and Investments LLC in the amount of UAH 1 810 146 thousand were paid on 9 August 2023, dividends declared to PPT Telecom Kyiv in the amount of UAH 18 284 thousand were paid on 26 October 2023.

The Company declared no dividends to shareholders during 2022.

22. 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.

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

The Group's borrowings comprise the following:

	31 December 2023	**31 December 2022**
Notes	15 421	14 744
Other	1	1
Total borrowings	**15 422**	**14 745**
Less: Interest accrued	(364)	(351)
Total borrowings, non-current	**15 058**	**14 394**

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

	2023	**2022**
1 January	**14 745**	**12 144**
Accrued interest	1 013	870
Notes repurchased and cancelled	-	(1 235)
Payment of interest	(907)	(806)
Currency exchange losses	571	3 772
31 December	**15 422**	**14 745**

Currency exchange losses occurred due to devaluation of UAH against USD and were presented within non-operating net currency exchange losses in the consolidated statement of profit or loss and other comprehensive income.

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%).

During 2020-2021 the Group has already repurchased and cancelled the Notes in the amount of USD 56 million (UAH 1 572 million).

In January 2022 the Group repurchased and cancelled Notes in the amount of USD 38 million (UAH 1 073 million) and continued the buyback cooperation with J.P. Morgan Securities plc.

In February 2022, the Group agreed to repurchase certain Notes from the open market for up to USD 41 million of the principal amount and in the same month repurchased and cancelled Notes in the amount of USD 6 million (UAH 162 million).

The Group has complied with all debt covenants as at 31 December 2023 and 2022 as well as during the respective reporting period.

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 and Euro with a maturity of not more than twelve months (Note 19).

23. PROVISIONS

Provisions are measured at the management's 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.

(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 2022	**354**	**478**	**71**	**24**	**21**	**948**
Arose during the period	12	835	301	43	200	**1 391**
Utilised	-	(600)	(291)	(32)	(186)	**(1 109)**
Unwinding of discount	41	-	-	-	-	**41**
Change in estimates	6	-	-	-	-	**6**
Change in estimates due to war	(45)	-	-	-	-	**(45)**
Unused amounts reversed	(1)	(14)	-	(7)	(11)	**(33)**
31 December 2022	**367**	**699**	**81**	**28**	**24**	**1 199**
Current		**699**	**81**	**28**	**24**	**832**
Non-current	**367**	**-**	**-**	**-**	**-**	**367**
Arose during the period	3	946	342	45	475	**1 811**
Utilised	(1)	(600)	(351)	(34)	(323)	**(1 309)**
Unwinding of discount	72	-	-	-	-	**72**
Change in estimates	(223)	-	-	-	-	**(223)**
Change in estimates due to war	1	-	-	-	-	**1**
Unused amounts reversed	-	(75)	-	(12)	(13)	**(100)**
31 December 2023	**219**	**970**	**72**	**27**	**163**	**1 451**
Current	**-**	**970**	**72**	**27**	**163**	**1 232**
Non-current	**219**	**-**	**-**	**-**	**-**	**219**

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.

On 31 December 2023 and 31 December 2022, the Group reassesses the probability of outflow of economic resources related to the provision for decommissioning and restoration in the temporarily occupied territories and derecognized part of the provision. However, when these territories return to controllable by Ukraine the obligation will be recalculated and recorded in the provision.

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

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

	31 December 2023	31 December 2022
Discount rate, %	17.20%	21.70%
Inflation rate, %	6.7%	9.0%

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

	31 December 2023	31 December 2022
Discount rate (increase)/decrease by 1%	UAH (22)/25 million	UAH (14)/16 million
Inflation rate increase/(decrease) by 1%	UAH 27/(24) million	UAH 17/(16) 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 consist mainly of the provision for non-refundable VAT and the provision for services.

24. 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 classified as differed income and 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 2023	31 December 2022
Mobile telecommunication services	1 767	1 492
Other mobile services	55	51
Loyalty programme	33	27
Total contract liabilities	**1 855**	**1 570**
Less current portion	(1 838)	(1 568)
Total non-current contract liabilities	**17**	**2**

The following table provides information about contract liabilities structure:

	31 December 2023	31 December 2022
Deferred income	1 168	923
Subscriber prepayments and other advances received	687	647
Total contract liabilities	**1 855**	**1 570**

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

Subscriber prepayments represent cash balances on subscribers' accounts which subscribers may use to purchase services from the Group. Deferred income is represented by services purchased by customers, but not yet fully provided by the Group.

Movements in the contract liabilities balances were as follows:

	2023	2022
1 January	**1 570**	**1 526**
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	(1 518)	(1 479)
Increase due to cash received, excluding the amount recognised as revenue during the period	1 752	1 523
Acquisition of a subsidiary	51	-
31 December	**1 855**	**1 570**

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

	2023
Mobile bundle packages and other services	1 805
Loyalty programme	33
Total	**1 838**

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.

25. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

	31 December 2023	31 December 2022
Trade accounts payable	644	799
Accounts payable for property, equipment and intangible assets	228	324
Accrued liabilities	192	333
Accrued payroll and vacation	125	104
Total trade payables	**1 189**	**1 560**

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

26. OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities comprised the following:

	31 December 2023	31 December 2022
VAT payable	80	167
Other taxes and related payables	93	32
Total other non-financial liabilities	**173**	**199**

Other taxes and related payables at 31 December 2023 mainly consist of a fee for the use of radio frequency resource of Ukraine in the amount of UAH 60 million (31 December 2022: none) and, respectively, taxes and fees from employees.

27. 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. 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.

Fair values of financial assets and liabilities carried at amortized cost as at 31 December 2023 and 2022 approximated their carrying amounts (except for the borrowings).

The Group estimated the fair value of the borrowings using the Level 2 valuation technique based on quoted market prices as of 31 December 2023 in the amount of UAH 11 707 million (carrying amount: UAH 15 421 million), as of 31 December 2022 in the amount of UAH 8 134 million (carrying amount: UAH 14 744 million)

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

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

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

	31 December 2023	31 December 2022
Trade and other receivables (Note 17)	1 903	13 865
Cash and cash equivalents (Note 18)	3 707	5 082
Short-term investments (Note 19)	4 970	1 594
Other financial assets	2	40
Total financial assets measured at amortized cost	**10 582**	**20 581**
Borrowings (Note 22)	15 422	14 745
Lease obligations (Note 15)	4 407	4 359
Trade and other financial payables	1 064	1 456
Other financial liabilities	40	24
Total financial liabilities measured at amortized cost	**20 933**	**20 584**

The Group's exposure to various risks associated with the financial instruments is discussed in Note 31. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

28. 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 2023 and 2022 were unsecured and settlements are made on a cash basis.

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

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

As at 31 December 2023 and 2022, balances from and to related parties were as follows:

	31 December 2023	31 December 2022
Entities under common control and ownership with the Group	-	37
Total other financial assets, non-current	**-**	**37**
The Group's immediate parent company	-	11 569
ECL on the Group's immediate parent company receivables (Note 17)	-	(140)
Entities under common control and ownership with the Group	130	65
ECL on the Entities under common control and ownership with the	(36)	-
Total other receivables from related parties	**94**	**11 494**
Entities under common control and ownership with the Group	27	7
Advances paid and prepaid expenses	**27**	**7**
Entities under common control and ownership with the Group	136	216
Advances paid for PPE	**136**	**216**
Total advances paid and prepaid expenses	**163**	**223**
Entities under common control and ownership with the Group	44	32
Total provisions and trade and other payables to related parties	**44**	**32**

The Group's declared dividends were as follows:

	2023	2022
The Group's immediate parent company	1 810	-
Entities under common control and ownership with the Group	18	-
Dividends declared	**1 828**	**-**

Dividends to Telco Solutions and Investments LLC in the amount of UAH 1 810 million, which were declared in April 2023 year, were fully paid in August 2023.

Dividends to PTT Telecom Kyiv in the amount of UAH 18 million, which were declared in April 2023, were fully paid in October 2023.

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

	2023	2022
Entities under common control and ownership with the Group	686	240
Total purchases of property and equipment and intangible assets	**686**	**240**

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

Turnovers with related parties were as follows:

	2023	2022
Entities under common control and ownership with the Group	7	5
Total service revenue from related parties	**7**	**5**
Entities under common control and ownership with the Group	(56)	(43)
Total costs of services with related parties	**(56)**	**(43)**
Entities under common control and ownership with the Group	(328)	(286)
Total selling, general and administrative expenses with related parties	**(328)**	**(286)**
Entities under common control and ownership with the Group	8	6
Total finance income with related parties	**8**	**6**

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 2023 the short-term key management personnel's total compensation amounted to UAH 157 million which include salaries, social contributions, sick pay, bonuses and other benefits-in-kind (2022: UAH 158 million). The senior management team and other governance bodies are also entitled to long-term profit-sharing bonus payments. Related compensation accrued during the reporting year amounted to UAH 614 million (2022: UAH 620 million) with the balance as at 31 December 2023 UAH 792 million (31 December 2022: UAH 527 million).

29. MANAGEMENT OF CAPITAL

For the purpose of the Group's capital management, capital includes common stock, Eurobonds, and all other equity components attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise 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 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 2023, the consolidated leverage ratio was 0.9 (31 December 2022: 1.1) while the maximum covenant ratio is 2.75.

The Group complied with all externally imposed capital requirements as at 31 December 2023 and 2022.

30. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 31 December 2023, the Group had unexecuted purchase agreements of approximately UAH 2 289 million to network equipment, tangible and intangible assets that were still in progress (31 December 2022: UAH 1 605 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, compared 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 the case of submitting corrections to CIT return, tax audits cover only related transactions. As of 31 December 2023 open periods for tax audits are from 1 July 2021 and further reporting periods, as for transfer pricing issues from 1 January 2013.

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

On February 24, 2022, Russia launched a large-scale military invasion of Ukraine, which has a material adverse effect on the Ukrainian economy, people and, accordingly, the Group's business, financial condition and results of operations. 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 parts of the country, the network is not operating any longer due to significant infrastructure damage.
- 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. The Ukrainian government has already made several steps toward liberalising the foreign exchange market during 2023 year,

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allowing investors in government debt to repatriate some interest payments, easing operations for insurance firms and letting borrowers repay some foreign loans. In the event of further restrictions, the Group has the opportunity to use its foreign banks' accounts to make a further interest payment.

- 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.
- 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. The gradual return of migrants will contribute to the revival of consumer demand, and investments will increase significantly during the country's reconstruction phase.

Economy of Ukraine recovered throughout last year thanks to the high adaptability of business and the population to the conditions of the war and a soft fiscal policy supported by large-scale international financing. According to the results of 2023, the Ministry of Economy of Ukraine estimates GDP growth at the level of 5%. GDP growth occurred against the background of its sharp decline in 2022, so in reality the economic recovery has stopped compared to the pre-war period. In each quarter of 2023, real GDP was lower than real GDP in the corresponding quarter of 2021.

At the beginning of 2023, the official exchange rate was fixed at 36,57 hryvnias per dollar. In October 2023, the NBU switched to the regime of managed exchange rate flexibility, but thanks to significant amounts of currency interventions, the hryvnia even strengthened a little. In December, the trend changed and the dollar rate began to rise. The official NBU exchange rate was UAH 37,98 per 1 dollar on December 31, 2023. However, the average annual official exchange rate was lower than both governmental and non-governmental forecasts, remaining at 36,58 hryvnias per dollar.

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

	USD/UAH	**EUR/UAH**
31 December 2022	36,57	38,95
31 December 2023	37,98	42,21
Average annual rate of 2022	32,37	34,00
Average annual rate of 2023	36,58	39,56

Ukraine entered the year 2023 with a record high level of inflation (26%) accelerated by the war and the printing of the hryvnia to cover military expenses. However, inflation was subdued during the year. Regular inflows of foreign aid made it possible to stop monetary financing of the budget, and the decrease in world energy prices and high harvests contributed to the reduction of product prices. An important role was played by the moratorium on price increases for household's utilities. According to the data of the State Statistics Service of Ukraine, in December 2023, inflation was 5.1%, almost returning to the level of the pre-war inflation target of 5%. At the same time, the slowdown of core inflation to 4.9% at the end of the year also shows the significant impact of the NBU's consistent monetary policy, in particular measures to ensure exchange rate stability and the attractiveness of hryvnia assets. They contributed to the improvement of exchange rate and inflation expectations.

In 2023, Ukraine continued to receive foreign financial funds — more than in 2022 (42,5 billion US dollars in 2023 versus 31,2 billion US dollars in 2022), and more regularly and predictably. Aid mostly came in the form of loans (63% of all financial aid) rather than grants; but these loans were very preferential and necessary for Ukraine, as they allowed financing important budgetary needs already today. Thanks to foreign financial assistance, foreign exchange reserves reached historically record levels in 2023 and amounted to 40,5 billion US dollars on January 1, 2024. International support is critical to Ukraine's ability to continue to fight aggression and finance its budget deficit.

Due to faster than expected inflation decline, inflation expectations improvements, and the FX market`s adaptation to the new exchange rate regime, the key policy rate was cut from 25% in July to 15% in December 2023. The yield of one-year hryvnia war bonds declined from 18.5% to 16.8%, in line with the decrease of the key policy rate. Continuation of the cycle of softening of the interest rate policy also contributed to cheaper lending. Weighted average interest rates on hryvnia loans decreased to 17.7%.

A full-scale war destroyed traditional supply chains and led to the deterioration of Ukraine's foreign trade position. In 2023, Ukraine exported goods worth 36 billion US dollars, and imported goods worth 63,5 billion US dollars. Merchandise exports decreased for the second year in a row (in 2021, the export of goods from Ukraine reached 68,2 billion US dollars, in 2022 - 44,2 billion US dollars). The blockade of sea routes, the destruction of production facilities, terrorist attacks against port and energy infrastructure caused a sharp drop in the export of goods. The creation in August 2023 of the Ukrainian Maritime Corridor to the Black Sea ports of the Odessa region, after Russia stopped fulfilling its agreements under the Grain Agreement, made it possible to gradually increase not only the export of grain, but also to restore the sea export of other goods, as well as to renew the sea import. However, in November 2023, Ukraine also began to suffer from the Polish blockade of the land border, which hit Ukrainian exports and tax revenues of the budget from the import of goods. In December 2023, the Ukrainian borders were also blocked by Slovakia. In addition to direct losses for Ukrainian companies, indirect losses are significant, such as fines and penalties against Ukrainian exporters for breach of contractual obligations, refusal to conclude contracts with Ukrainian companies for the next year.

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

31. 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

Investments in short-term domestic government bonds in foreign currency were made to manage forex leverage.

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.

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

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

	31 December 2023		31 December 2022	
	USD	**Euro**	**USD**	**Euro**
Trade and other receivables	183	1 438	200	2 014
Cash and cash equivalents	1 680	983	2 202	757
Short-term investments	4 797	124	1 506	38
Total assets	**6 660**	**2 545**	**3 908**	**2 809**
Borrowings	(15 421)	-	(14 744)	-
Lease obligations	(170)	(875)	(314)	(1 160)
Trade and other liabilities	(763)	(493)	(557)	(715)
Total liabilities	**(16 354)**	**(1 368)**	**(15 615)**	**(1 875)**
Net position	**(9 694)**	**1 177**	**(11 707)**	**934**

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**
	+20%	+20%	(1 590)	193
2023	-20%	-20%	1 590	(193)
	+20%	+20%	(1 922)	153
2022	-20%	-20%	1 922	(153)

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 2023 current assets exceeded current liabilities by UAH 4 831 million (31 December 2022: current assets exceeded current liabilities by UAH 15 343 million).

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

Maturity analysis

The maturity analysis represents undiscounted cash flows. Future cash flows were translated using the exchange rate as of 31 December 2023 and 2022 where applicable:

31 December 2023	Trade and other financial payables	Borrowings	Leases
Due within three months	712	471	385
Due from three months to twelve months	274	471	1 187
Due from 1 year to 5 years	65	15 657	3 647
Over 5 years	13	-	2 966
Total	**1 064**	**16 599**	**8 185**

31 December 2022	Trade and other financial payables	Borrowings	Leases
Due within three months	1 201	454	312
Due from three months to twelve months	199	454	1 017
Due from 1 year to 5 years	56	15 981	3 985
Over 5 years	-	-	1 330
Total	**1 456**	**16 889**	**6 644**

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

None of the Group's customers or suppliers has a significant stake in its operations, the loss of which could lead to a significant increase in credit or other types of risk.

32. SUBSEQUENT EVENTS

Semi-annual interest payment

In February 2024, the Group paid its semi-annual interest payment that was due in the amount of USD 12 million (UAH 475 million).

Russian invasion and the ongoing war in Ukraine

The war with Russia and the daily damage being done to Ukraine represents 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.

33. AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Supervisory Board of the Group on 25 April 2024.