

# **PrJSC VF Ukraine**

Interim Condensed Consolidated  
Financial Statements as of and for the  
Six Months Ended 30 June 2021

## **PrJSC VF UKRAINE**

### **TABLE OF CONTENTS**

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#### **Page**

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021:

Interim condensed consolidated statement of profit or loss and other comprehensive income	1
Interim condensed consolidated statement of financial position	2
Interim condensed consolidated statement of changes in equity	3
Interim condensed consolidated statement of cash flows	4
Notes to the interim condensed consolidated financial statements	5-18



## Report on Review of Interim Condensed Consolidated Financial Statements

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

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Private Joint Stock Company “VF Ukraine” and its subsidiaries (together – the ‘Group’) as at 30 June 2021 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

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

### Conclusion

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

LHC Audit Firm PricewaterhouseCoopers (Audit)

26 August 2021

## PrJSC VF UKRAINE


### INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukrainian Hryvnias unless otherwise stated*

	Note	Six months ended 30 June 2021	Six months ended 30 June 2020
Service revenue	5	9,311	8,076
Sales of goods		329	440
<b>Revenue</b>		<b>9,640</b>	<b>8,516</b>
Cost of services	6	(2,361)	(2,142)
Cost of goods		(295)	(399)
Selling, general and administrative expenses	7	(1,594)	(1,500)
Depreciation and amortization		(2,437)	(2,362)
Other operating (expenses)/income, net		(17)	60
<b>Operating profit</b>		<b>2,936</b>	<b>2,173</b>
Finance income		24	53
Finance costs		(802)	(676)
Non-operating currency exchange gains/(losses), net		469	(1,121)
Non-operating expenses		-	(32)
<b>Profit before tax</b>		<b>2,627</b>	<b>397</b>
Income tax expense		(526)	(129)
<b>Profit for the period</b>		<b>2,101</b>	<b>268</b>
<b>Total comprehensive income for the period</b>		<b>2,101</b>	<b>268</b>

Signed on behalf of the Group's Management:

  
\_\_\_\_\_  
Olga Ustynova  
Chief Executive Officer

  
\_\_\_\_\_  
Natalia Shevchenko  
Chief Finance Officer

  
\_\_\_\_\_  
Olena Solovyova  
Head of Department for the Financial  
Statements and Accounting

## PrJSC VF UKRAINE


### INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2021

*Amounts are in millions of Ukrainian Hryvnias unless otherwise stated*

	Notes	30 June 2021	31 December 2020
<b>Assets</b>			
<i>Non-current assets</i>			
Property and equipment	11	9,598	10,058
Intangible assets	11	6,737	6,969
Right-of-use assets	13	3,769	3,966
Deferred tax assets		249	341
Cost to obtain contracts		217	233
<b>Total non-current assets</b>		<b>20,570</b>	<b>21,567</b>
<i>Current assets</i>			
Trade and other receivables	10	12,260	12,205
Cash and cash equivalents	8	3,874	2,820
Short-term investments	9	559	664
Advances paid and prepaid expenses		178	156
Inventories		142	159
Current income tax assets		-	63
Other non-financial current assets		127	156
<b>Total current assets</b>		<b>17,140</b>	<b>16,223</b>
<b>Total assets</b>		<b>37,710</b>	<b>37,790</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Common stock		8	8
Other components of equity		2	2
Retained earnings		16,800	15,576
<b>Equity attributable to the owners of the Company</b>		<b>16,810</b>	<b>15,586</b>
Non-controlling interests		2	2
<b>Total equity</b>		<b>16,812</b>	<b>15,588</b>
<b>Non-current liabilities</b>			
Borrowings	14	11,945	12,793
Lease obligations	13	3,428	3,687
Provisions	15	533	504
<b>Total non-current liabilities</b>		<b>15,906</b>	<b>16,984</b>
<i>Current liabilities</i>			
Trade and other payables	12	1,210	1,441
Contract liabilities		1,434	1,447
Lease obligations	13	1,115	1,112
Provisions	15	356	559
Borrowings	14	293	315
Current income tax liabilities		230	18
Other financial liabilities		56	39
Other non-financial liabilities		298	287
<b>Total current liabilities</b>		<b>4,992</b>	<b>5,218</b>
<b>Total equity and liabilities</b>		<b>37,710</b>	<b>37,790</b>

Signed on behalf of the Group's Management:

  
Olga Ustynova  
Chief Executive Officer

  
Natalia Shevchenko  
Chief Finance Officer

  
Olena Solovyova  
Head of Department for the Financial  
Statements and Accounting

**PrJSC VF UKRAINE**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2020 AND ENDED 30 JUNE 2021**  
*Amounts are in millions of Ukrainian Hryvnias unless otherwise stated*


**FOR THE SIX MONTHS ENDED 30 JUNE 2020**

	Equity attributable to the owners of the Company			Non-controlling interests	Total equity
	Common stock	Other components of equity	Retained earnings		
<b>Balances at 1 January 2020</b>	<b>8</b>	<b>2</b>	<b>14,375</b>	<b>-</b>	<b>14,385</b>
Profit for the period	-	-	268	-	268
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>268</b>	<b>-</b>	<b>268</b>
Non-controlling interest	-	-	-	2	2
<b>Balances at 30 June 2020</b>	<b>8</b>	<b>2</b>	<b>14,643</b>	<b>2</b>	<b>14,655</b>

**FOR THE SIX MONTHS ENDED 30 JUNE 2021**

<b>Balances at 31 December 2020</b>	<b>8</b>	<b>2</b>	<b>15,576</b>	<b>2</b>	<b>15,588</b>
Profit for the period	-	-	2,101	-	2,101
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>2,101</b>	<b>-</b>	<b>2,101</b>
Dividends declared	-	-	(877)	-	(877)
<b>Balances at 30 June 2021</b>	<b>8</b>	<b>2</b>	<b>16,800</b>	<b>2</b>	<b>16,812</b>

**Signed on behalf of the Group's Management:**

  
Olga Ustynova  
Chief Executive Officer

  
Natalia Shevchenko  
Chief Finance Officer

  
Olena Solovyova  
Head of Department for the Financial  
Statements and Accounting

## PrJSC VF UKRAINE

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2021


*Amounts are in millions of Ukrainian Hryvnias unless otherwise stated*

	Notes	Six months ended 30 June 2021	Six months ended 30 June 2020
<b>Cash flows from operating activities</b>			
Profit before tax		2,627	397
<b>Adjustments for:</b>			
Depreciation and amortization		2,437	2,362
Finance income		(24)	(53)
Finance costs		802	676
Net unrealised currency exchange (gains)/ losses		(440)	1,098
Change in provisions	15	238	503
Gain from lease termination and rent concessions		(16)	(29)
Other non-cash items, net		9	(4)
<b>Movements in operating assets and liabilities:</b>			
(Increase)/decrease in trade and other receivables		(116)	54
Decrease in inventory		17	56
Increase in other non-financial assets		(58)	(62)
Increase in advances paid and prepaid expenses		(25)	(59)
Decrease in contract liabilities		(9)	(51)
Decrease in trade and other payables and other liabilities		(1)	(198)
Utilized provision	15	(441)	(385)
Income taxes paid		(159)	(55)
Interest received		25	45
Interest paid	13,14	(683)	(307)
Net cash provided by operating activities		<u>4,183</u>	<u>3,988</u>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment		(747)	(1,131)
Purchases of intangible assets (excluding licences)		(744)	(494)
Purchase of spectrum licences	11	-	(265)
Proceeds from sale of property and equipment		11	14
Proceeds/(placement) of short-term investments		82	(792)
Financial aid provided to related party	12	-	(11,569)
Other investing activity	15	(20)	-
Net cash used in investing activities		<u>(1,418)</u>	<u>(14,237)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	14	-	11,844
Repayment of borrowings	14	(425)	(70)
Repayment of other financial payables		-	(801)
Lease obligation principal paid	13	(276)	(243)
Dividends paid		(868)	-
Net cash (used in)/provided by financing activities		<u>(1,569)</u>	<u>10,730</u>
<b>Net increase in cash and cash equivalents</b>		<b>1,196</b>	<b>481</b>
<b>Cash and cash equivalents, beginning of the period</b>	8	<u>2,820</u>	<u>1,434</u>
Effect of exchange rate changes on cash and cash equivalents		(142)	4
<b>Cash and cash equivalents, end of the period</b>		<u><b>3,874</b></u>	<u><b>1,919</b></u>


**Signed on behalf of the Group's Management:**



Olga Ustynova  
Chief Executive Officer



Natalia Shevchenko  
Chief Finance Officer



Elena Solovyova  
Head of Department for the Financial  
Statements and Accounting

## **PrJSC VF UKRAINE**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021**

***Amounts are in millions of Ukraine Hryvnias unless otherwise stated***

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#### **1. BUSINESS DESCRIPTION**

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

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

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

On 15 October 2015, 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. Under the newly extended partnership agreement, the Group plans to work together on the rollout of 5G and IoT (Internet-of-Things) digital services and products in Ukraine, receive access to Vodafone's central procurement services and incorporate global best practices in its IT network operation.

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

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

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

On 6 February 2020, the Group raised funds by issuing Eurobonds ("the Notes") with a five-year maturity in the amount of USD 500 million (UAH 12,259 million as of the issue date). The proceeds from the Notes issued by VFU Funding PLC were provided to the Company in the form of an intragroup loan, which further used the funds for the refinancing of a USD 464 million bridge facility obtained by Telco Solutions and Investments LLC in order to acquire Preludium B.V. from MTS Group. On 10 February 2020, the Group provided interest-free financial aid to Telco Solutions and Investments LLC in the amount of UAH 11,569 million (Note 10). The loan is refundable within 10 days after a written request of the Group. According to the corporate reorganisation plan, Telco Solutions and Investments LLC is expected to be merged (the "Merger") with the Company. The Merger was originally expected to be completed by the end of 2021, based on the detailed plan and management expectations for its implementation. Therefore, the financial aid provided to the parent company was presented within the current assets in the consolidated statement of the financial position as at 31 December 2020. However, due to quarantine and other operational matters, the time frame of the merger process has been extended to the end of June 2022. Following the completion of the Merger, the Company will be the surviving entity and shall be the full legal successor of all its assets, rights and obligations. The management believes that the Merger will be completed within one year after the reporting date and therefore believes that the financial aid provided to the parent company should be presented within the current assets in the consolidated statement of the financial position.



## **PrJSC VF UKRAINE**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021**

***Amounts are in millions of Ukraine Hryvnias unless otherwise stated***

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#### **2. BASIS OF PREPARATION**

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated statements of the Group for the year ended 31 December 2020.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in annual consolidated financial statements for the year ended 31 December 2020, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures of significant events that occurred subsequent to the issuance of its annual consolidated statements of the Group for the year ended 31 December 2020.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated statements of the Group for the year ended 31 December 2020 and the notes related thereto. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments necessary to present fairly the Group's consolidated financial position, consolidated financial performance and consolidated cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results as of and for the six months ended 30 June 2021 are not necessarily indicative of the results that may be expected for the year ending 31 December 2021.

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

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

#### **Basis of consolidation**

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

#### **Functional currency**

The functional currency of the Company and its subsidiaries is Ukrainian Hryvnia. Foreign-currency transactions are translated into the functional currency at the exchange rates at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are translated at the closing rate, whereas non-monetary items are stated at the exchange rate at the date of their recognition. The subsequent unrealized gain or loss from remeasuring the foreign currency item into the functional currency is recognized in profit or loss.

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

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

	<u>Accounting method</u>	<u>30 June 2021</u>	<u>31 December 2020</u>
LLC VF Retail	Consolidated	100.0%	100.0%
LLC ITSF	Consolidated	100.0%	100.0%
VFU Funding PLC*	Consolidated	0.0%	0.0%

\* Starting from 6 February 2020 the Group consolidated VFU Funding PLC, a special purpose entity (the "SPE"), incorporated in England and Wales for the purpose of issuing the Notes (Note 14). 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 VFU Funding PLC after the repayment date of the Notes.

#### **Reclassifications in the interim condensed consolidated financial statements**

Certain comparative information presented in these interim consolidated financial statements as at and for the comparative period ended 30 June 2020 has been revised in order to achieve comparability with the presentation used in the interim condensed consolidated financial statements for the six months ended 30 June 2021. The operating foreign exchange differences were separated and included in the calculation of the operating profit. The provision for unused vacation was reclassified to trade and other payables. These reclassifications were not considered material.

#### **Standards, interpretations and amendments adopted on 1 January 2021**

None of the interpretations and amendments to standards adopted by the Group on 1 January 2021 had a significant effect on the Group's interim condensed consolidated financial statements.

#### **Standards and Interpretations in issue, but not yet effective**

At the date of authorization of these interim condensed consolidated financial statements, the following standards and interpretations, as well as amendments to the standards that have been issued and are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted:

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

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

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

#### Significant accounting policies

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

### 3. SEASONALITY

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

### 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, retail sales of phones, smartphones and other related goods (Note 5).

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

Financial information of the reportable segment is presented below:

	<b>Six months ended 30 June 2021</b>	<b>Six months ended 30 June 2020</b>
<b>Revenue</b>	<b>9,640</b>	<b>8,516</b>
<b>EBIT (Operating profit)</b>	<b>2,936</b>	<b>2,173</b>

### 5. SERVICE REVENUE

Service revenue during the six months to 30 June 2021 and 30 June 2020 comprised the following:

	<b>Six months ended 30 June 2021</b>	<b>Six months ended 30 June 2020</b>
Revenue from mobile subscribers	7,271	6,241
Interconnect revenue	1,658	1,511
Roaming revenue	251	213
Other revenue	131	111
<b>Total service revenue</b>	<b>9,311</b>	<b>8,076</b>

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

#### 6. COST OF SERVICES

Cost of services during the six months to 30 June 2021 and 30 June 2020 comprised the following:

	<b>Six months ended 30 June 2021</b>	<b>Six months ended 30 June 2020</b>
Interconnect expenses	1,111	1,040
Electricity and other production costs	487	430
Radio frequency usage costs	442	419
Salaries and social contributions	159	122
Roaming expenses	125	108
Other	37	23
<b>Total cost of services</b>	<b>2,361</b>	<b>2,142</b>

#### 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended 30 June 2021 and 30 June 2020 comprised the following:

	<b>Six months ended 30 June 2021</b>	<b>Six months ended 30 June 2020</b>
Salaries and social contributions	907	751
Advertising and marketing expenses	233	187
Dealers commission	153	154
General office expenses	121	92
Billing and data processing	120	89
Taxes other than income tax	64	67
Consulting expenses (Note 15)	(49)	119
Other	45	41
<b>Total selling, general and administrative expenses</b>	<b>1,594</b>	<b>1,500</b>

#### 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	<b>30 June 2021</b>	<b>31 December 2020</b>
Cash at banks	3,503	2,517
Short-term bank deposits with an original maturity of less than 92 days	353	246
Cash in transit and on hand	18	57
<b>Total cash and cash equivalents</b>	<b>3,874</b>	<b>2,820</b>

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.

In the first half of 2021, the Group has made investments into government bonds issued by the Ministry of Finance of Ukraine denominated in USD which will allow partially mitigating foreign exchange risk (see Note 9).

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

Cash and cash equivalents comprised the following currencies:

	<u>Interest rates</u>	<u>30 June 2021</u>	<u>Interest rates</u>	<u>31 December 2020</u>
<b>Cash at banks, on hand and in transit in:</b>				
USD ( <i>in Ukrainian Hryvnia equivalent</i> )	0%	1,991	0%	971
Euro ( <i>in Ukrainian Hryvnia equivalent</i> )	0%	1,187	0%	868
Ukrainian Hryvnia	0%-3.5%	343	0%-3.75%	735
<b>Short-term bank deposits with an original maturity less than 92 days in:</b>				
Ukrainian Hryvnia	4.6%-5.25%	353	3.0%-4.7%	246
<b>Total cash and cash equivalents</b>		<b><u>3,874</u></b>		<b><u>2,820</u></b>

Cash and cash equivalents are held mainly in large banks, located in Ukraine that have a reliable reputation. As of 31 June 2021, 99% of cash and cash equivalents were held in four banks – subsidiaries of the large international banking groups (31 December 2020: 92% in four banks located in Ukraine, respectively).

## 9. SHORT-TERM INVESTMENTS

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

Short-term investments comprised the following:

	<u>Effective interest rates</u>	<u>30 June 2021</u>	<u>Effective interest rates</u>	<u>31 December 2020</u>
USD ( <i>in Ukrainian Hryvnia equivalent</i> )	1.6%-2%	412	-	-
<b>Total government bonds</b>		<b><u>412</u></b>		<b><u>-</u></b>
USD ( <i>in Ukrainian Hryvnia equivalent</i> )	-	-	0.01%	368
Euro ( <i>in Ukrainian Hryvnia equivalent</i> )	0.25%	147	1-1.5%	296
<b>Total deposits</b>		<b><u>147</u></b>		<b><u>664</u></b>
<b>Total short-term investments</b>		<b><u>559</u></b>		<b><u>664</u></b>

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

## 10. TRADE AND OTHER RECEIVABLES

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

For trade receivables from subscribers the Group applies a simplified approach and calculates ECL based on lifetime expected credit losses. For receivables from subscribers the allowance for ECL is computed using the provision matrix. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome and all reasonable and supportable information that is available at the reporting

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

date about past events, current conditions and forecasts of future economic conditions. Generally, receivables from subscribers are fully impaired when past due for more than 180 days.

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

The Group receives volume discounts under roaming agreements with international mobile operators and accounts for discounts received as a reduction of roaming expenses. The resulting receivable is recognized within trade and other receivables in the consolidated statement of financial position. Such receivables usually are settled within 15 months.

Trade and other receivables comprised of the following:

	<b>30 June 2021</b>	<b>31 December 2020</b>
Roaming	485	417
Interconnect	168	167
Subscribers	91	78
Dealers	14	28
Other trade receivables	44	47
Allowance for ECL	(49)	(41)
<b>Total trade receivables</b>	<b>753</b>	<b>696</b>
Financial aid and loan provided to related parties (see Note 17)	11,618	11,618
Cash balance in distressed bank	247	247
Other receivables	2	4
Allowance for ECL	(360)	(360)
<b>Total other receivables</b>	<b>11,507</b>	<b>11,509</b>
<b>Total trade and other receivables</b>	<b>12,260</b>	<b>12,205</b>

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

## 11. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The table below represents changes in the Group's property, plant and equipment during the six months ended 30 June 2021:

	<b>Network and base station equipment</b>	<b>Land and buildings</b>	<b>Office equipment, vehicles and other</b>	<b>Construction in progress and equipment for installation</b>	<b>Total</b>
<b>1 January 2021</b>	<b>8,676</b>	<b>370</b>	<b>581</b>	<b>431</b>	<b>10,058</b>
Additions	224	1	12	419	<b>656</b>
Transferred into use	330	-	20	(350)	-
Depreciation	(988)	(16)	(100)	-	<b>(1,104)</b>
Disposals (net book value)	(4)	(2)	-	(6)	<b>(12)</b>
<b>30 June 2021</b>	<b>8,238</b>	<b>353</b>	<b>513</b>	<b>494</b>	<b>9,598</b>

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

The table below represents changes in the Group's intangible assets during the six months ended 30 June 2021:

	<u>Licences</u>	<u>Billing software and other</u>	<u>Other</u>	<u>Total</u>
<b>1 January 2021</b>	<b>4,972</b>	<b>1,844</b>	<b>153</b>	<b>6,969</b>
Additions	-	614	46	<b>660</b>
Amortization	(232)	(658)	-	<b>(890)</b>
Disposals (net book value)	-	-	(2)	<b>(2)</b>
<b>30 June 2021</b>	<b>4,740</b>	<b>1,800</b>	<b>197</b>	<b>6,737</b>

## 12. TRADE AND OTHER PAYABLES

Trade and other payables comprised of the following balances:

	<u>30 June 2021</u>	<u>31 December 2020</u>
Accounts payable for property, equipment and intangible assets	585	802
Trade accounts payable	343	416
Accrued liabilities	165	133
Accrued payroll and vacation	108	90
<b>Total trade payables</b>	<b>1,201</b>	<b>1,441</b>
Dividends payable	9	-
<b>Total other payables</b>	<b>9</b>	<b>-</b>
<b>Total trade and other payables</b>	<b>1,210</b>	<b>1,441</b>

## 13. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The table below represents changes in the Group's right-of-use assets during the six months ended 30 June 2021:

	<u>Sites for placement of network and base station equipment</u>	<u>Exclusive rights for trademarks</u>	<u>Admini- strative buildings</u>	<u>Retail store and other</u>	<u>Total</u>
<b>1 January 2021</b>	<b>2,330</b>	<b>1,237</b>	<b>314</b>	<b>85</b>	<b>3,966</b>
Additions	31	-	1	5	<b>37</b>
Lease modifications	90	-	21	19	<b>130</b>
Depreciation	(147)	(122)	(40)	(44)	<b>(353)</b>
Disposals (net book value)	(9)	-	-	(2)	<b>(11)</b>
<b>30 June 2021</b>	<b>2,295</b>	<b>1,115</b>	<b>296</b>	<b>63</b>	<b>3,769</b>

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

The table below represents changes in the Group's lease obligations during the six months ended 30 June 2021:

	<b>Lease obligations</b>
<b>1 January 2021</b>	<b>4,799</b>
New obligations arising during the six months ended 30 June 2021	37
Modifications of existing leases	129
Termination of leases	(16)
Retail and other rent concessions	(9)
Accrued interest	284
Payment of principal	(276)
Payment of interest	(284)
Currency exchange gains	(121)
<b>30 June 2021</b>	<b>4,543</b>

The Group applied the exemption provided by the amendment to IFRS 16 and continues to use this exemption within the extended period set by IFRS 16 *Leases - Covid-19-Related Rent Concessions* amendment beyond 30 June 2021 which is effective for annual periods beginning on or after 1 April 2021.

## 14. BORROWINGS

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

The Group's borrowings comprise the following:

	<b>30 June 2021</b>	<b>31 December 2020</b>
Notes	12,238	13,108
<b>Total borrowings</b>	<b>12,238</b>	<b>13,108</b>
Less: Interest accrued	(293)	(315)
<b>Total borrowings, non-current</b>	<b>11,945</b>	<b>12,793</b>

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

	<b>2021</b>
<b>1 January</b>	<b>13,108</b>
Accrued interest	458
Notes repurchased and cancelled	(425)
Payment of interest	(399)
Currency exchange gains	(504)
<b>30 June</b>	<b>12,238</b>



## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

The maturity analysis of borrowings disclosed in the table below represents undiscounted cash flows. Future cash flows were translated using the exchange rate as of 30 June 2021:

Due within three months	380
Due from three months to twelve months	380
Due from 1 year to 5 years	14,534
<b>Total</b>	<b>15,294</b>

The Group has already repurchased and cancelled the Notes in the amount of USD 49 million (UAH 1,388 million) and continued the buyback cooperation with J.P. Morgan Securities plc. In May 2021, the Group agreed to repurchase certain Notes from the open market for up to USD 45 million of the principal amount.

The Group has complied with all debt covenants as at 30 June 2021 and during the respective reporting period.

## 15. PROVISIONS

The following table summarizes movements in provisions for the six months ended 30 June 2021:

	<b>Provision for decommis- sioning and restoration</b>	<b>Employee bonuses and other rewards</b>	<b>Other provi- sions</b>	<b>Material rights</b>	<b>Social contri- butions</b>	<b>Total</b>
<b>At 31 December 2020</b>	<b>504</b>	<b>271</b>	<b>200</b>	<b>66</b>	<b>22</b>	<b>1,063</b>
Current	-	271	200	66	22	<b>559</b>
Non-current	504	-	-	-	-	<b>504</b>
Arising during the period	9	269	7	144	20	<b>449</b>
Utilised	-	(251)	(26)	(146)	(18)	<b>(441)</b>
Unwinding of discount	21	-	-	-	-	<b>21</b>
Change in estimates	-	-	-	-	-	-
Unused amounts reversed	(1)	(29)	(167)	-	(6)	<b>(203)</b>
<b>At 30 June 2021</b>	<b>533</b>	<b>260</b>	<b>14</b>	<b>64</b>	<b>18</b>	<b>889</b>
Current	-	260	14	64	18	<b>356</b>
Non-current	533	-	-	-	-	<b>533</b>

Other provisions as at 31 December 2020 mainly consisted of the provision for consulting services defined as a variable amount of management fees to the related party. Due to changes in the contract terms, this provision for UAH 164 million has been reversed in the statement of profit or loss where the expense was originally charged.

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are represented by trade and other receivables, cash and cash equivalents, short-term investments, trade and other payables and borrowings. All these financial instruments are carried at amortized cost using the effective interest method. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 30 June 2021 fair values of the Group's financial instruments that are not carried at fair value in the interim condensed consolidated statement of financial position approximate their carrying amounts (except for the borrowings).

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

The Group estimated the fair value of the borrowings using the Level 1 valuation technique based on quoted market prices as of 30 June 2021 in the amount of UAH 12,825 million (carrying amount: UAH 12,238 million). For other financial assets and liabilities, the Group applied Level 3 in the fair value hierarchy, except for cash and cash equivalents that classified as Level 1.

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

## 17. 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 30 June 2021 and 31 December 2020 were unsecured and settlements are made on a cash basis.

As at 30 June 2021 and 31 December 2020, balances from and to related parties were as follows:

Description	30 June 2021	31 December 2020
The Group's immediate parent company	11,569	11,569
ECL on the Group's immediate parent company receivables (Note 10)	(113)	(113)
Entities under common control and ownership with the Group	49	49
<b>Total other receivables from related parties</b>	<b>11,505</b>	<b>11,505</b>
Entities under common control and ownership with the Group	8	-
<b>Total advances paid and prepaid expenses</b>	<b>8</b>	<b>-</b>
Entities under common control and ownership with the Group	39	164
<b>Total provisions, trade and other payables to related parties</b>	<b>39</b>	<b>164</b>
Entities under common control and ownership with the Group	9	-
<b>Dividends payable</b>	<b>9</b>	<b>-</b>

The Group's declared dividends were as follows:

	Six months ended 30 June 2021	Six months ended 30 June 2020
The Group's immediate parent company	868	-
Entities under common control and ownership with the Group	9	-
<b>Dividends declared</b>	<b>877</b>	<b>-</b>

In May 2021 dividends in the amount of UAH 868 million were paid to Telco Solutions and Investments LLC.

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

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

Description	Six months ended 30 June 2021	Six months ended 30 June 2020
Entities under common control and ownership with the Group	105	-
<b>Total purchases of property and equipment and intangible assets from related parties</b>	<b>105</b>	<b>-</b>

Turnovers with related parties were as follows:

Description	Six months ended 30 June 2021	Six months ended 30 June 2020
Entities under common control and ownership with the Group	(15)	(6)
<b>Total costs of services with related parties</b>	<b>(15)</b>	<b>(6)</b>
Entities under common control and ownership with the Group	74	(101)
<b>Total selling, general and administrative expenses with related parties</b>	<b>74</b>	<b>(101)</b>

#### Remuneration of key management personnel

Key management personnel of the Group includes members of the Steering Committee and Supervisory Board. During the six months to 30 June 2021, the short-term key management personnel's total compensation amounted to UAH 179 million that include salaries, social contributions, sick pay, bonuses and other benefits-in-kind (six months ended 30 June 2020: UAH 86 million). The senior management team are also entitled to profit-sharing bonus payments. Related compensation accrued during the reporting period amounted to UAH 82 million, which are payable in 2022 (30 June 2020: UAH 111 million).

## 18. COMMITMENTS AND CONTINGENCIES

### Capital commitments

As of 30 June 2021, the Group had unexecuted purchase agreements of approximately UAH 1,040 million to network equipment, tangible and intangible assets that were still in progress (31 December 2020: UAH 415 million).

### Taxation

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

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

## PrJSC VF UKRAINE

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021

*Amounts are in millions of Ukraine Hryvnias unless otherwise stated*

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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 30 June 2021 open periods for tax audits are 2018, 2019 and 2020.

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

The COVID-19 pandemic has imposed severe economic constraints, however, people have to stay in touch and manage their teleworking effectively. Without reliable networks, they would have struggled with the transition to remote working. Mobile roaming revenues which were subject to the severe decline in 2020 due to travel restrictions now recover better than expected. Lockdowns over the course of the year led to the temporary and permanent closure of shops and other measures which resulted in shrinkage of operational expenses. At the same time, the volume of data consumption has increased while pandemic has given a boost to the digitalization trend.

A key reason for Ukraine's relatively solid economic performance in the first half of 2021 was the country's macroeconomic development, which was better than expected. International currency reserves increased to USD 28.5 billion by the end of 2020 which was the highest level since 2011. The growth in currency reserves was possible as Ukraine benefited from a great windfall in its foreign trade.

Other reasons for Ukraine's macroeconomic stability include the fact that international tourism was subject to severe restrictions during the COVID-19 outbreak. This had a positive impact on the economy because Ukrainians typically spend much more money abroad than the country receives from incoming tourists. Ukraine experienced many of the most common negative economic consequences from the pandemic, but the impact was less severe than in other countries.

While the economy shrank due to prolonged lockdown measures, there are indications that it is gradually returning to growth in the second quarter of 2021, benefiting from higher commodity prices.

The exchange rate of the Ukrainian currency has strengthened. Among the main factors that influenced the strengthening of the national currency was the reduction of military tensions at the Ukrainian border, resumption of non-residents' interest in securities and sale of currency by businesses.

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

	<u>USD/UAH</u>	<u>Euro/UAH</u>
31 December 2020	28,27	34,74
30 June 2021	27,18	32,30
Average for 6m 2020	25,98	28,61
Average for 6m 2021	27,78	33,49

Inflation has been accelerating this year on the back of rising global food prices, reaching 9.5 per cent year on year in May 2021. The increase in prices prompted the National Bank of Ukraine to raise its key policy rate several times up to 8 per cent, in July 2021. In June 2021, consumer inflation was flat from the previous month in annual terms, at 9.5%.

## **PrJSC VF UKRAINE**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX MONTHS ENDED 30 JUNE 2021**

***Amounts are in millions of Ukraine Hryvnias unless otherwise stated***

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Ukraine's economy is set to return to growth in 2021. The EBRD forecasts the country's gross domestic product (GDP) to increase 3.5 per cent in the year in both 2021 and 2022. Ukraine's terms of trade improved significantly because prices for primary exports, while the price of energy imports fell. This allowed Ukraine to attain a current surplus in GDP. The major risks to its forecasts are the country's slow progress on reform and vaccination rollout. For 2021, a reasonable expectation is that the economy will grow. This projected growth mirrors the amount the economy contracted last year, and the reasons for this are not entirely rooted in lockdowns. In comparison with other countries, Ukraine has done reasonably well during the coronavirus crisis. If additional pro-inflationary risks materialize, the NBU stands ready to continue deploying monetary tools to return inflation to its 5% target.

The Group may face the effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and the Ukrainian economy. Currently, the COVID-19 outbreak has a minor impact on the Group operations and the negative impact was only related to a decline in international wireless roaming services with a corresponding decrease in roaming revenues, temporary and permanent closures of retail stores, which contributed to lower equipment sales. At the same time, Group's revenue increased by 13%, driven mainly by revenue from voice and data.

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

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

## **19. SUBSEQUENT EVENTS**

### **Sales and purchase agreement for the acquisition of Vega**

In June 2021, the Company entered into a sale and purchase agreement based on which the Company undertook to purchase the controlling share in the fixed-line telecommunication business, namely 99.9929% of the charter capital of PrJSC "Farlep-Invest" and 95% of the charter capital of LLC "Cable TV-Finance" (jointly referred to as "Vega") for the provisional purchase price up to USD 15 million. The approval of the Antimonopoly Committee of Ukraine was granted on 19 August 2021 and the completion of this transaction is expected no later than 15 September 2021.

## **20. AUTHORISATION OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These interim condensed consolidated financial statements were authorized for issue by the Management of the Group on 26 August 2021.