PrJSC VF Ukraine

Interim Condensed Consolidated
Financial Statements as of and for the
Six Months Ended 30 June 2022

PrJSC VF UKRAINE

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Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Private Joint Stock Company "VF Ukraine" and its subsidiaries (together – the "Group") as at 30 June 2022 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".

Emphasis of Matter - Material uncertainty relating to going concern

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

LLC AF "PricewaterhouseCoopers (Audit)"

26 August 2022

Limited Liability Company Audit Firm "PricewaterhouseCoopers (Audit)"
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PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Note	Six months ended 30 June 2022	Six months ended 30 June 2021
Service revenue	5	9,659	9,311
Sales of goods		257	329
Revenue		**9,916**	**9,640**
Cost of services	6	(2,370)	(2,361)
Cost of goods		(211)	(295)
Selling, general and administrative expenses	7	(1,649)	(1,594)
Depreciation and amortization		(2,391)	(2,437)
Losses due to war	8	(951)	-
Gains due to war	8	145	-
Other operating income/(expenses), net		69	(17)
Operating profit		**2,558**	**2,936**
Net charge for expected credit losses of financial assets		(223)	-
Finance income		38	24
Finance costs		(660)	(802)
Non-operating currency exchange gains/(losses), net		(822)	469
Other non-operating expenses		(35)	-
Profit before tax		**856**	**2,627**
Income tax expense		(193)	(526)
Profit for the period		**663**	**2,101**
Total comprehensive income for the period		**663**	**2,101**

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 5 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2022

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

PrJSC VF UKRAINE

	Notes	30 June 2022	31 December 2021
Assets			
Non-current assets			
Other financial non-current assets	9	11,332	3
Property and equipment	13	8,367	9,725
Intangible assets and goodwill	13	6,330	6,717
Right-of-use assets	14	3,289	3,687
Deferred tax assets		274	177
Costs to obtain contracts		203	220
Total non-current assets		**29,795**	**20,529**
Current assets			
Cash and cash equivalents	10	4,531	2,717
Trade and other receivables	11	1,596	12,434
Short-term investments	12	222	309
Advances paid and prepaid expenses		173	210
Inventories		172	164
Other non-financial current assets		135	118
Current contract assets		10	10
Indemnification asset		-	13
Total current assets		**6,839**	**15,975**
Total assets		**36,634**	**36,504**
Equity and liabilities			
Equity			
Common stock		8	8
Other components of equity		2	2
Retained earnings		16,564	15,901
Equity attributable to the owners of the Company		**16,574**	**15,911**
Non-controlling interests		2	2
Total equity		**16,576**	**15,913**
Non-current liabilities			
Borrowings	16	11,476	11,853
Lease obligations	14	2,924	3,289
Provisions	17	323	354
Deferred tax liabilities		27	27
Contract liabilities		2	1
Total non-current liabilities		**14,752**	**15,524**
Current liabilities			
Trade and other payables	15	1,527	1,152
Contract liabilities		1,400	1,525
Lease obligations	14	1,253	1,173
Provisions	17	490	594
Borrowings	16	281	291
Current income tax liabilities		184	53
Other non-financial liabilities		149	256
Other financial liabilities		22	23
Total current liabilities		**5,306**	**5,067**
Total equity and liabilities		**36,634**	**36,504**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND ENDED 30 JUNE 2022
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	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 2021	**8**	**2**	**15,576**	**15,586**	**2**	**15,588**
Profit for the period	-	-	2,101	**2,101**	-	**2,101**
Total comprehensive income for the period	-	-	**2,101**	**2,101**	-	**2,101**
Dividends declared	-	-	(877)	**(877)**	-	**(877)**
Balances at 30 June 2021	**8**	**2**	**16,800**	**16,810**	**2**	**16,812**

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Common stock	Other components of equity	Retained earnings	Total	Non-controlling interests	Total equity
Balances at 1 January 2022	**8**	**2**	**15,901**	**15,911**	**2**	**15,913**
Profit for the period	-	-	663	**663**	-	**663**
Total comprehensive income for the period	-	-	**663**	**663**	-	**663**
Balances at 30 June 2022	**8**	**2**	**16,564**	**16,574**	**2**	**16,576**

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 5 to 22 form an integral part of these interim condensed consolidated financial statements.

PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2022
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	Six months ended 30 June 2022	Six months ended 30 June 2021
Cash flows from operating activities			
Profit before tax		856	2,627
Adjustments for:			
Depreciation and amortization		2,391	2,437
Finance income		(38)	(24)
Finance costs		660	802
Net currency exchange (gains)/ losses		831	(440)
Losses due to war	8	951	-
Gains due to war	8	(145)	-
Change in provisions		498	238
Net charge for expected credit losses of financial assets		232	21
Gain from lease termination and rent concessions		(79)	(16)
Other non-cash items, net		(2)	(12)
Movements in operating assets and liabilities:			
Increase in trade and other receivables and other finanicial non-current assets		(722)	(116)
(Increase)/decrease in inventory		(23)	17
Increase in other non-financial assets		(92)	(58)
Decrease/(increase) in advances paid and prepaid expenses		37	(25)
Decrease in contract liabilities		(122)	(9)
(Decrease)/increase in trade and other payables and other liabilities		542	(1)
Utilized provision	17	(610)	(441)
Income taxes paid		(160)	(159)
Interest received		34	25
Interest paid	14,16	(622)	(683)
Net cash provided by operating activities		**4,417**	**4,183**
Cash flows from investing activities			
Purchases of property and equipment		(742)	(747)
Purchases of intangible assets		(534)	(744)
Proceeds from sale of property and equipment		9	11
Proceeds from short-term investments		97	82
Other investing activity		(37)	(20)
Net cash used in investing activities		**(1,207)**	**(1,418)**
Cash flows from financing activities			
Repayment of borrowings	16	(1,235)	(425)
Lease obligation principal paid	14	(144)	(276)
Dividends paid	19	(26)	(868)
Net cash used in financing activities		**(1,405)**	**(1,569)**
Net increase in cash and cash equivalents		**1,805**	**1,196**
Cash and cash equivalents, beginning of the period	10	2,717	2,820
Effect of exchange rate changes on cash and cash equivalents		9	(142)
Cash and cash equivalents, end of the period		**4,531**	**3,874**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Elena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 22 form an integral part of these interim condensed 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 "ITSF" (a software developer, support and integration services provider), PLC "VFU Funding" (structured entity incorporated to issue Eurobonds), PrJSC "Farlep-Invest" (fixed-line business) and LLC "Cable TV-Finance" (telecommunications activities).

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 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). From December 2020, after the hand over protocol signed between Preludium B.V. and Telco Solutions and Investments LLC, the latter holds 99% of the shares in the Company. "PTT Telecom Kiev" 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 PLC "VFU Funding" were provided to the Company in the form of an intragroup loan, which further used the funds for the refinancing of a USD 464 million bridge facility obtained by LLC "Telco Solutions and Investments" in order to acquire Preludium B.V. from MTS Group. On 10 February 2020, the Group provided interest-free financial aid to LLC "Telco Solutions and Investments" in the amount of UAH 11,569 million (Note 9). The loan is refundable within 10 days after a written request of the Group.

According to the corporate reorganisation plan, LLC "Telco Solutions and Investments" are expected to be merged by accession (the "Merger") with the Company. The Merger was originally expected to be completed by the end of 2021 which reflected the detailed plan and management expectations for its implementation. Therefore, the financial aid provided to the parent company was presented within the current assets in the consolidated statement of financial position as at 31 December 2020. However, due to quarantine and other operational matters, the time frame of the merger process has been extended until the end of 2022 and later, due to the war, the estimated timeline of the merger was extended till the end of 2023 and the financial aid was reclassified to non-current assets in the interim condensed consolidated statement of financial position as at 30 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 Merger qualifies as a capital reorganisation of businesses under common control and is expected to be accounted for prospectively, using the predecessor accounting method from the date of the Merger. There is no guidance for accounting for capital reorganisations in IFRS, so the choice of approach to accounting for such transactions is a matter of significant judgement. The assets and liabilities of PrJSC "VF Ukraine" and LLC "Telco Solutions and Investments" will be combined at their carrying standalone values. Intragroup balances, including the interest-free financial aid in the amount of UAH 11,569 million, will be eliminated with any difference between the shares to be issued to Telco Investments B.V., which will become the immediate parent company after the Merger, and Telco Solutions and Investments LLC's carrying value of the net assets to be accounted for within retained earnings. This will lead to a significant decrease of the Company's equity after the Merger. The results of Telco Solutions and Investments LLC will be included into financial statements of PrJSC "VF Ukraine" from the date of the capital reorganisation.

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

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 2021.

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 2021, 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 2021.

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 2021 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 2022 are not necessarily indicative of the results that may be expected for the year ending 31 December 2022.

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.

Going concern

Subsequent to the date of consolidated financial statements for the year ended 2021, on 24 February 2022, the Russian Federation started an unprovoked full-scale military offensive in Ukraine. This was followed up by the immediate enactment of martial law by the government of Ukraine and the corresponding introduction of the related temporary restrictions that impact the economic environment. See also Note 21 for further details of these subsequent events.

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

As at the date of the issue of these interim condensed consolidated financial statements, no critical assets preventing the Group from continuing operations have been damaged.

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

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

As at 30 June 2022, the Group was in compliance with all debt covenants. Management has reached the goal of serving the Group's financial liabilities in a timely manner in accordance with the debt agreement at the time of the scheduled interest payment due date in August 2022. Based on management forecasts, it's expected that the Group will be able to meet the covenants for the upcoming twelve months from the date of these interim condensed consolidated financial statements with sufficient headroom for the existing financial ratio.

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 interim condensed financial statements, taking into consideration 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 interim condensed consolidated financial statements. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

In the event of a worst-case scenario in which intense hostilities take place throughout Ukraine, it can be assumed that the Group's operations could be affected for an unpredictable period of time. This represents an uncertainty that is beyond the control of the Group. Management has reviewed the Group's ability to continue as a going concern at the date of issue of these interim condensed consolidated financial statements and has concluded that there is a material uncertainty about further significant escalation in hostilities that can disrupt infrastructure and the Group's operations that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

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

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*.

One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. Prior to the acquisition of PrJSC "Farlep-Invest" and LLC "Cable TV-Finance" which was completed on 8 September 2021, the Group considered its consolidated business as a single cash-generating unit. Following this acquisition, the Group considered two cash-generating units as at 31 December 2021: the core mobile business and the fixed line business (handled solely by PrJSC "Farlep-Invest"). During the reporting period, the volume of intragroup transactions with new subsidiaries has increased mainly due to the intensification of operational activities and issuing of financial aid. For future periods, there are mutual plans for launching new mutual and convergent services. Thus, at the reporting date of these interim condensed consolidated financial statements, the Group performed the impairment test for its core mobile business combined with the operations of PrJSC

"Farlep-Invest" as its future business activities are in convergence with the rest of the Group and its cash flows are considered as the extension of the core mobile business.

Management considered both individual impairment of specific assets and impairment of the identified CGU.

Management analysed the assets which appeared to be located on the temporarily occupied territories and in areas with intense military actions as of 30 June 2022 and posted 100% impairment for such assets being mainly network and base station equipment in the amount of UAH 833 million (Note 8).

For the identified CGU management performed the impairment test as of 30 June 2022 and the recoverable amount was estimated to be higher than the carrying amount, thus no economic impairment of the cash-generating unit was recognized. The recoverable amount has been determined based on value in use estimations.

Management used the 'expected cash flow' approach in the impairment test, which consists of using all available expectations about possible cash flows instead of the most likely cash flow. Considering the uncertainties in the current economic environment, management applied probability-weighting different scenarios to estimate the expected cash flows.

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 30 June 2022 comprised 18,9%. Management reflected the identifiable risks and uncertainties related to the current economic environment in the expected cash flows and, therefore, they have not been embedded in the discount rate. This is an area of significant judgement.

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 ten years based on sustainability and development factors that could be estimated with reasonable certainty for the telecommunication business. Cash flows beyond the ten-year period are extrapolated using the estimated growth rates stated below.

	Estimated growth rate
Basic scenario	4%
Optimistic scenario	5%
Pessimistic scenario	3%

The growth rates do 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 rates in all scenarios do not impact the result of the impairment test.

The Group assessed the key assumptions used to determine the recoverable amount for the CGU. Three scenarios were considered in such an assessment. Major inputs of such scenarios were determined by the variation of the subscriber's base and average revenue per user (ARPU) which are the most important for determining expected cash flows in the telecommunication industry. 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 which are different for each scenario. Management applied the same pre-tax discount rate for each scenario as specific risks related to future economic conditions affected by the ongoing war were included in cash flows. The pessimistic and optimistic scenarios both were considered with 15% probability and the assessed most realistic scenario has 70% probability as management believes that the realistic scenario is the most likely. Major downturns or improvements are much less likely to happen and their probabilities are considered to be equal. No impairment losses were identified as a result of impairment testing at the reporting date.

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 5.7%
Discount rate	Increase by 6.7 p.p.

Classification of the financial aid provided to a related party

On 10 February 2020, the Group provided interest-free financial aid in the amount of UAH 11,569 million to Telco Solutions and Investments LLC. The aid is repayable within 10 days after a written request by the Group. According to the corporate reorganisation plan, LLC "Telco Solutions and Investments" was expected to be merged with the Company by the end of 2022 (the "Merger"), but due to legal obstacles and restrictions due to war, the Merger had to be extended till the end of 2023. 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. At the reporting date, the management believed that the Merger will be completed within one and a half years after the reporting date and therefore believed that the financial aid provided to the parent company should be presented within the non-current assets in the interim condensed consolidated statement of the financial position. As the loan is expected to be settled through the Merger, there is no expectation to call the loan from the parent.

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.

Ownership of subsidiaries

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

	Accounting method	**30 June 2022**	**31 December 2021**
LLC "VF Retail"	Consolidated	100.0%	100.0%
LLC "ITSF"	Consolidated	100.0%	100.0%
LLC "Cable TV-Finance"	Consolidated	100.0%	100.0%
PrJSC "Farlep-Invest"	Consolidated	99.9%	99.9%
PLC "VFU Funding" *	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 16). 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 2021 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 2022. These reclassifications were not considered material.

Standards, interpretations and amendments adopted on 1 January 2022

None of the interpretations and amendments to standards adopted by the Group on 1 January 2022 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 2023 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.
- IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - effective date to be determined by the IASB.

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

Significant accounting policies and estimates

The accounting policies and method of computation applied 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 2021. Some critical estimates and judgements were updated mainly in connection with the war and are disclosed in separate notes.

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 are insignificantly impacted by seasonality throughout the calendar year: higher consumption of roaming services in May-September mostly due to vacation period 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. This year roaming revenue has increased dramatically with the start of the war and returned to regular figures in May alongside a decrease in June mainly due to refugee migration.

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, exceptional or non-recurring gains/losses, other non-operating gains/losses from the consolidated statement of profit or loss and other comprehensive income.

Financial information of the reportable segment is presented below:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Revenue	**9,916**	**9,640**
EBIT	**3,364**	**2,936**
Losses due to war	(951)	-
Gains due to war	145	-
Operating profit	**2,558**	**2,936**

5. SERVICE REVENUE

Service revenue during the six months to 30 June 2022 and 30 June 2021 comprised the following:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Revenue from mobile subscribers	7,116	7,271
Interconnect revenue	1,736	1,658
Roaming revenue	477	251
Other revenue	330	131
Total service revenue	**9,659**	**9,311**

6. COST OF SERVICES

Cost of services during the six months to 30 June 2022 and 30 June 2021 comprised the following:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Interconnect expenses	884	1,111
Electricity and other production costs	592	487
Radio frequency usage tax	486	442
Salaries	192	140
Roaming expenses	112	125
Social contributions	35	19
Other	69	37
Total cost of services	**2,370**	**2,361**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended 30 June 2022 and 30 June 2021 comprised the following:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Salaries and social contributions	774	764
Dealers commission	148	153
Consulting expenses	146	(49)
General office expenses	126	121
Social contribution	115	109
Advertising and marketing expenses	111	233
Billing and data processing	102	120
Taxes other than income tax	55	64
Other personnel expenses	43	34
Other	29	45
Total selling, general and administrative expenses	**1,649**	**1,594**

For the six months ended 30 June 2021, due to changes in the contract terms, provision for consulting expenses amounted to UAH 164 million was reversed in the interim condensed statement of profit or loss where the expense had been originally charged.

8. LOSSES AND GAINS DUE TO WAR, NET

	Six months ended 30 June 2022
Impairment loss on property, plant and equipment (Note 13)	833
Disposal of damaged or destroyed property, plant and equipment	60
Expected credit losses on receivables from aggressor countries	47
Impairment loss on inventories	11
Changes in estimates in provision for decommissioning and restoration (Note 17)	(53)
Modification of lease assets and obligations (Note 14)	(50)
Write-off of payables to aggressor countries	(42)
Total losses due to war, net	**806**

The Group identified assets and liabilities in non-controlled territories (NCT) which consists of occupied territories and areas with intense military actions. 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.

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.

9. OTHER FINANCIAL NON-CURRENT ASSETS

Other financial non-current assets comprised the following:

	30 June 2022	31 December 2021
Financial aid provided to Telco Solutions and Investments LLC (see Notes 2, 19)	11,569	-
Loan provided to related party (see Note 19)	37	-
Other financial assets	3	3
Allowance for ECL	(277)	-
Total other financial non-current assets	**11,332**	**3**

Based on a prior reporting period's assessment, the management believed that the financial aid provided to the parent company should have been presented within the current assets in the comparative interim condensed consolidated statement of the financial position.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	30 June 2022	31 December 2021
Cash on current accounts	2,925	2,667
Short-term deposits	1,586	-
Cash in transit and on hand	20	50
Total cash and cash equivalents	**4,531**	**2,717**

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

Cash and cash equivalents comprised the following currencies:

	Interest rates	30 June 2022	Interest rates	31 December 2021
Cash at banks, on hand and in transit in:				
Euro *(in Ukrainian Hryvnia equivalent)*	0%	1,841	0%	1,467
Ukrainian Hryvnia	0%-7.5%	992	0%-3.5%	386
USD *(in Ukrainian Hryvnia equivalent)*	0%	112	0%	864
Short-term bank deposits with an original maturity less than 92 days in:				-
Ukrainian Hryvnia	5%-10.5%	827		-
USD *(in Ukrainian Hryvnia equivalent)*	0.05%-0.17%	673		-
Euro *(in Ukrainian Hryvnia equivalent)*	1.25%	86		
Total cash and cash equivalents		**4,531**		**2,717**

Cash and cash equivalents are held mainly in large banks, located in Ukraine that have a reliable reputation. As of 30 June 2022, 97% of cash and cash equivalents were held in four banks – subsidiaries of the large international banking groups (31 December 2021: 97% in four banks located in Ukraine, respectively).

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

	30 June 2022		31 December 2021	
	Cash and cash equivalents	Short-term investments (Note 12)	Cash and cash equivalents	Short-term investments (Note 12)
A rating	673	-	530	-
B rating	-	-	1,136	309
CCC rating	2,454	222	-	-
Non-rated*	1,404	-	1,051	-
Total	**4,531**	**222**	**2,717**	**309**

* 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).

As of 30 June 2022, the Group estimated its allowance for ECL on cash and cash equivalents balances in the amount of UAH 33 million (as of 31 December 2021: UAH 6 million). The Group considers cash and cash equivalents to be highly liquid assets and expects that the respective ECL will not be realised. As of 30 June 2022, the Group did not accrue any allowance for ECL on cash and cash equivalents as it is immaterial for the interim condensed consolidated financial statements.

11. TRADE AND OTHER RECEIVABLES

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

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

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

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

Trade and other receivables comprised of the following:

	30 June 2022	**31 December 2021**
Roaming	1,157	548
Interconnect	324	185
Subscribers	218	201
Dealers	5	20
Other trade receivables	47	73
Allowance for ECL	(215)	(160)
Total trade receivables	**1,536**	**867**
Financial aid and loan provided to related parties (see Note 19)	51	11,616
Cash balance in distressed bank	247	247
Other receivables	9	5
Allowance for ECL	(247)	(301)
Total other receivables	**60**	**11,567**
Total trade and other receivables	**1,596**	**12,434**

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.

12. 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:

	Deposit rates	30 June 2022	Deposit rates	31 December 2021
Euro *(in Ukrainian Hryvnia equivalent)*	1.25%	222	1.00%	309
Total short-term investments		**222**		**309**

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

13. PROPERTY 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 2022:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
1 January 2022	**8,091**	**412**	**684**	**538**	**9,725**
Additions	145	1	7	395	**548**
Transferred into use	305	1	32	(338)	**-**
Depreciation	(892)	(13)	(97)	-	**(1,002)**
Disposals (net book value)	(68)	-	-	(3)	**(71)**
Impairment loss due to war (Note 8)	(804)	(18)	(8)	(3)	**(833)**
30 June 2022	**6,777**	**383**	**618**	**589**	**8,367**

The Group reviews the useful life of property, plant and equipment when necessary, but not less often than at the end of each reporting year. The useful lives of several classes of Property, plant and equipment within Network and base station and Office equipment increased after the annual review process and due to the impact of the war based on the consideration that these classes of assets may be used for a longer period as more capital expenditures are expected to be used for replacing damaged equipment. The effect of those regular annual changes is a decrease in depreciation of about UAH 220 million per year and a decrease in depreciation of about UAH 110 million per year is due to the impact of the war.

The table below represents changes in the Group's intangible assets during the six months ended 30 June 2022:

	Licences	Billing software and other	Other	Goodwill	Total
1 January 2022	**4,681**	**1,848**	**168**	**20**	**6,717**
Additions	-	532	11	**-**	**543**
Amortization	(235)	(694)	**-**	**-**	**(929)**
Disposals (net book value)	-	(1)	-	**-**	**(1)**
30 June 2022	**4,446**	**1,685**	**179**	**20**	**6,330**

Useful lives of several classes of Intangible assets which relate to Billing software and Other increased with the annual review process. The effect of changes is a decrease in depreciation by about UAH 80 million per year.

The management believes that as of 30 June 2022, the Group complied with the conditions of all licences as due to war the legislation allows to postpone deadlines for some licensing requirements till the later period after completion of military actions.

14. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The table below represents changes in the Group's right-of-use assets during the six months ended 30 June 2022:

	Sites for placement of network and base station equipment	Exclusive rights for trademarks	Admini-strative buildings	Retail store and other	Total
1 January 2022	**2,389**	**994**	**220**	**84**	**3,687**
Additions	27	-	-	4	**31**
Lease modifications	135	-	(17)	41	**159**
Depreciation	(172)	(122)	(45)	(42)	**(381)**
Disposals (net book value)	(13)	-	(2)	(1)	**(16)**
Modification due to war (Note 8)	(180)	-	(1)	(10)	**(191)**
30 June 2022	**2,186**	**872**	**155**	**76**	**3,289**

The table below represents changes in the Group's lease obligations during the six months ended 30 June 2022:

	Lease obligations
1 January 2022	**4,462**
New obligations arising during the six months ended 30 June 2021	31
Modifications of existing leases	154
Termination of leases	(21)
Modification of liabilities on non-controllable territories (Note 8)	(241)
Rent concessions	(70)
Accrued interest	270
Payment of principal	(144)
Payment of interest	(270)
Currency exchange gains	6
30 June 2022	**4,177**

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.

Due to legal restrictions, which don't allow settlement of leases 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.

15. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following balances:

	30 June 2022	31 December 2021
Trade accounts payable	757	407
Accrued liabilities	450	200
Accounts payable for property, equipment and intangible assets	207	410
Accrued payroll and vacation	113	109
Total trade payables	**1,527**	**1,126**
Dividends payable	-	26
Total other payables	**-**	**26**
Total trade and other payables	**1,527**	**1,152**

Accounts payable increased compared to the end of the previous year mainly due to payable for roaming.

16. 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:

	30 June 2022	31 December 2021
Notes	11,756	12,142
Other	1	2
Total borrowings	**11,757**	**12,144**
Less: Interest accrued	(281)	(291)
Total borrowings, non-current	**11,476**	**11,853**

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

	Six months ended 30 June 2022
1 January	**12,144**
Accrued interest	368
Notes repurchased and cancelled	(1,235)
Payment of interest	(352)
Currency exchange loss	832
30 June	**11,757**

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 2022:

Due within three months	363
Due from three months to twelve months	363
Due from 1 year to 5 years	13,148
Total	**13,874**

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 30 June 2022 and during the respective reporting period.

17. PROVISIONS

The following table summarizes movements in provisions for the six months ended 30 June 2022:

	Provision for decommissioning and restoration	Employee bonuses and other rewards	Other provisions	Material rights	Social contributions	Total
At 31 December 2021	**354**	**421**	**81**	**71**	**21**	**948**
Current	-	421	81	71	21	**594**
Non-current	354	-	-	-	-	**354**
Arising during the period	-	290	21	146	61	**518**
Utilised	-	(382)	(18)	(151)	(59)	**(610)**
Unwinding of discount	22	-	-	-	-	**22**
Unused amounts reversed	(53)	(5)	(6)	-	(1)	**(65)**
At 30 June 2022	**323**	**324**	**78**	**66**	**22**	**813**
Current	-	324	78	66	22	**490**
Non-current	323	-	-	-	-	**323**

The Group reassessed the probability of outflow of economic resources related to the provision for decommissioning and restoration in the temporarily occupied territories and derecognized UAH 53 million of the provision. However, when these territories return to controllable by Ukraine the obligation will be recalculated and recorded in the provision. For the existing provision for Asset retirement obligation key estimates used in the calculation have not changed compared to those applied as at 31 December 2021 as there is no reliable long-term inflation forecast available at the reporting date and no reliable estimate of risk-free rate under the present circumstances. The effect on the financial statements will be immaterial as inflation and risk-free rates increase and offset each other.

18. 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 2022 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).

The Group estimated the fair value of the borrowings using the Level 2 (31 December 2021: Level 1, changed for Level 2 due to lack of active market for these instruments after the Russian military invasion) valuation technique based on quoted market prices as of 30 June 2022 in the amount of UAH 7,866 million (carrying amount: UAH 11,756 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.

19. 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 2022 and 31 December 2021 were unsecured and settlements are made on a cash basis.

As at 30 June 2022 and 31 December 2021, balances from and to related parties were as follows:

Description	30 June 2022	31 December 2021
The Group's immediate parent company	11,569	-
ECL on the Group's immediate parent company receivables	(277)	-
Entities under common control and ownership with the Group	37	-
Other financial assets, non-current	**11,329**	-
The Group's immediate parent company	-	11,569
ECL on the Group's immediate parent company receivables (Note 9)	-	(54)
Entities under common control and ownership with the Group	52	50
Total other receivables from related parties	**52**	**11,565**
Entities under common control and ownership with the Group	32	7
Total advances paid and prepaid expenses	**32**	**7**
Entities under common control and ownership with the Group	31	38
Total provisions, trade and other payables to related parties	**31**	**38**
Entities under common control and ownership with the Group	-	26
Dividends payable	**-**	**26**

The Group's declared dividends were as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
The Group's immediate parent company	-	868
Entities under common control and ownership with the Group	-	9
Dividends declared	**-**	**877**

Dividends to "PTT Telecom Kyiv" in the amount of UAH 26 million, which were declared in November 2021, were fully paid in May 2022.

Dividends declared to Telco Solutions and Investments LLC in 2021 year were fully paid in 2021. In October 2021 dividends in the amount of UAH 9 million were paid to "PTT Telecom Kyiv".

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

Description	Six months ended 30 June 2022	Six months ended 30 June 2021
Entities under common control and ownership with the Group	108	105
Total purchases of property and equipment and intangible assets from related parties	**108**	**105**

Turnovers with related parties were as follows:

Description	Six months ended 30 June 2022	Six months ended 30 June 2021
Entities under common control and ownership with the Group	(19)	(15)
Total costs of services with related parties	**(19)**	**(15)**
Entities under common control and ownership with the Group	(138)	74
Total selling, general and administrative expenses with related parties	**(138)**	**74**
Entities under common control and ownership with the Group	2	-
Total finance income with related parties	**2**	**-**

Remuneration of key management personnel

Key management personnel of the Group includes members of Committees and the Supervisory Board. During the six months to 30 June 2022, the key management personnel's total compensation amounted to UAH 231 million that include salaries, social contributions, sick pay, profit-sharing bonuses, termination and other benefits-in-kind (six months ended 30 June 2021: UAH 261 million).

20. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 30 June 2022, the Group had unexecuted purchase agreements of approximately UAH 793 million to network equipment, tangible and intangible assets that were still in progress (31 December 2021: UAH 1 019 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.

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 2022 open periods for tax audits are 2^{d} half of 2021 and 6 months 2022.

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 24 February 2022, the government of the Russian Federation launched an unprovoked attack on Ukraine. The hostile act has been globally condemned and has resulted in numerous actions taken against the Russian Federation and support for Ukraine.

By 30 June 2022, after 126 days of the war, Russia occupied more than 80,000 km² of Ukrainian territory, including some territories of Kherson, Luhansk, Zaporizhzhia and Kharkiv regions. Thus, occupying together with the Donbass and Crimea about 20% of the territory of Ukraine.

The invasion caused Europe's largest refugee crisis since World War II, with more than 9.6 million Ukrainians fleeing the country and a third of the population displaced. The invasion also caused global food shortages.

The full-scale attack by Russia has led to a sharp decline in economic activity in Ukraine.

As of 24 February 2022, the NBU set the official exchange rate of the Hryvnia against the US dollar at the level of UAH 29.25/USD.

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

	USD/UAH	Euro/UAH
31 December 2021	27.28	30.92
30 June 2022	29.25	30.77
Average for 6m 2021	27,78	33,49
Average for 6m 2022	28.91	31.74

On 21 July 2022, the National Bank of Ukraine adjusted the official exchange rate of the Hryvnia against the US dollar by 25%, to UAH 36.57.

At the beginning of the war, a third of the enterprises suspended their activities. The reasons for this are physical destruction and temporary occupation of entire regions, a high level of uncertainty and risks, the termination of logistical and industrial ties, and forced mass migration of the population. As a result, in March, GDP fell rapidly, which led to its decline in the first quarter by 15.1%.

However, since April, economic activity has begun to revive, business and the population are gradually adapting to the new conditions of activity. This also contributed to the liberation of the northern regions and a decrease in the number of regions with active hostilities.

According to operational surveys of the NBU, only 14% of enterprises did not work at the end of spring. However, the capacity utilization of operating businesses remained well below pre-war levels.

As the result, in the second quarter of 2022 according to the NBU, the decline in the economy was close to 40%. Military actions in the east and south, destruction of infrastructure in other regions, blockade of seaports which were later agreed to be used again in order to export agricultural crops. A significant contribution to the fall in GDP will have a decrease in activity in agriculture due to temporary occupation and mining hazards on land.

International aid contributed to the temporary current account surplus. According to the NBU, further military and financial assistance from international partners will help maintain the state's defence capability and cover a significant share of budgetary needs in 2022.

Inflation has been accelerating by June 2022 reaching 21.5 per cent year on the year compared to 18% a month earlier.

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 restrictions were lifted later and had no impact on the Group's import of equipment and fulfilment of obligations under the loan agreement.

The Group had a strong performance during the first few months of 2022, however, the results for the rest of the period declined under the influence of the war. In order to fulfil obligations to provide communication services to subscribers, the Group has revised capital expenditures to renew damaged infrastructure.

While the network has been targeted, the Group has worked tirelessly to keep the network running and repair it when damaged. New capital expenditures have been suspended, however, maintenance and repairs have been proceeding to maintain a reasonable level of network performance.

The Group closely cooperates with other Ukrainian operators. The operators have introduced national roaming to provide mobile communication to subscribers.

The Group provided free communication to the military, took part in establishing communication in bomb shelters, helped medics and worked in all directions. In order to help subscribers to keep in touch with relatives in Ukraine, even for those in financial difficulties, the Group has begun providing affordable roaming to its Ukrainian customers in March, which is now available in 27 European countries. The service offers free connection of mobile internet packages, and minutes for calls and messages. Ensuring an uninterrupted communication network also makes it possible to support Ukraine's economy and modernization for integration into the EU.

21. SUBSEQUENT EVENTS

The Russian invasion and other events in Ukraine

The war with Russia and the daily damage being done to Ukraine represents a significant uncertainty. As of the authorization date of these interim condensed consolidated financial statements, the Group is also not able to forecast how long the war will last, its potential intensiveness or the impact of migration on its operations. After the end of the reporting period and the issue of the interim condensed consolidated financial statements, there were no major developments in the war which could materially affect the current or future performance of the Group.

The National Bank of Ukraine has changed the official exchange rate of Ukrainian Hryvnia against the US dollar by 25%, to UAH 36.5686, effective from July 2022. Ukrainian Hryvnia against EURO was also revised to UAH 36.9965. The reasoning behind the decision was the shift in the fundamental parameters of the Ukrainian during the war and the strengthening of the dollar. This step will improve the competitiveness of Ukrainian producers, converge exchange rate conditions for different groups of businesses and households, and support the resilience of the economy during the war.

The Eurobonds semi-annual interest payment

In August 2022, the Group paid its semi-annual interest payment that was due of USD 12 million (UAH 453 million).

22. AUTHORISATION OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorized for issue by the Management of the Group on 25 August 2022.