PrJSC VF Ukraine

Interim Condensed Consolidated
Financial Statements as of and for the
Six Months Ended 30 June 2024

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 2024 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".

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 and cash flows are significantly affected by the invasion of Ukraine and the ongoing military offensive of the Russian Federation. The magnitude of the further developments is uncertain, including the intensity or the duration of those actions. There are also uncertainties about currency control restrictions caused by the war and the Group's ability to refinance or restructure the debt. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that material uncertainties exist 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 2024

Kyiv, Ukraine

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 2024
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Note	Six months ended 30 June 2024	Six months ended 30 June 2023
Service revenue	5	11 319	10 059
Sales of goods		388	345
Revenue		**11 707**	**10 404**
Cost of services	6	(2 656)	(2 228)
Cost of goods		(359)	(319)
Selling, general and administrative expenses	7	(2 296)	(1 967)
Depreciation and amortization		(2 387)	(2 169)
Losses due to war	8	(68)	(116)
Gains due to war	8	11	46
Net (charge)/credit for operating expected credit losses of financial assets		(35)	7
Other operating income, net		53	54
Operating profit		**3 970**	**3 712**
Net charge for non-operating expected credit losses of financial assets		(125)	(67)
Finance income		99	171
Finance costs		(907)	(845)
Non-operating currency exchange losses, net		(552)	(117)
Other non-operating expenses		(32)	(40)
Profit before tax		**2 453**	**2 814**
Income tax expense		(499)	(548)
Profit for the period		**1 954**	**2 266**
Total comprehensive income for the period		**1 954**	**2 266**
Profit attributable to:			
The parent		**1 955**	**2 266**
Non-controlling interest		**(1)**	**-**

Signed on behalf of the Group's Management:

Olga Ustynova Chief Executive Officer	Natalia Shevchenko Chief Finance Officer	Olena Solovyova Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 25 form an integral part of these interim condensed consolidated financial statements.

PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2024

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	30 June 2024	31 December 2023
Assets			
Non-current assets			
Property and equipment	12	12 646	11 713
Intangible assets and goodwill	12	6 384	6 871
Right-of-use assets	13	3 414	3 292
Costs to obtain contracts		266	235
Deferred tax assets		89	124
Other financial non-current assets		1	2
Total non-current assets		**22 800**	**22 237**
Current assets			
Cash and cash equivalents	9	6 304	3 707
Short-term investments	11	5 854	4 970
Trade and other receivables	10	1 798	1 903
Advances paid and prepaid expenses		397	355
Other non-financial current assets		235	228
Inventories		207	196
Current contract assets		9	9
Total current assets		**14 804**	**11 368**
Total assets		**37 604**	**33 605**
Equity and liabilities			
Equity			
Common stock		8	8
Other components of equity		2	2
Retained earnings		10 660	8 705
Equity attributable to the parent		**10 670**	**8 715**
Non-controlling interests		32	33
Total equity		**10 702**	**8 748**
Non-current liabilities			
Borrowings	15	-	15 058
Lease obligations	13	2 971	2 961
Provisions	16	229	219
Deferred tax liabilities		61	65
Contract liabilities		22	17
Total non-current liabilities		**3 283**	**18 320**
Current liabilities			
Borrowings	15	16 520	364
Contract liabilities		1 907	1 838
Trade and other payables	14	1 579	1 189
Lease obligations	13	1 578	1 446
Provisions	16	1 405	1 232
Current income tax liabilities		285	255
Other non-financial liabilities		322	173
Other financial liabilities		23	40
Total current liabilities		**23 619**	**6 537**
Total equity and liabilities		**37 604**	**33 605**

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Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND ENDED 30 JUNE 2024
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Equity attributable to the parent				Non-controlling interests	Total equity
	Common stock	Other components of equity	Retained earnings	Total		
Balances at 1 January 2023	**8**	**2**	**17 001**	**17 011**	**2**	**17 013**
Profit for the period	-	-	2 266	**2 266**	-	**2 266**
Total comprehensive income for the period	-	-	**2 266**	**2 266**	-	**2 266**
Dividends declared	-	-	(1 828)	**(1 828)**	-	**(1 828)**
Balances at 30 June 2023	**8**	**2**	**17 439**	**17 449**	**2**	**17 451**

FOR THE SIX MONTHS ENDED 30 JUNE 2024

	Common stock	Other components of equity	Retained earnings	Total	Non-controlling interests	Total equity
Balances at 1 January 2024	**8**	**2**	**8 705**	**8 715**	**33**	**8 748**
Profit for the period	-	-	1 955	**1 955**	(1)	**1 954**
Total comprehensive income for the period	-	-	**1 955**	**1 955**	**(1)**	**1 954**
Balances at 30 June 2024	**8**	**2**	**10 660**	**10 670**	**32**	**10 702**

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Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

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PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2024

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	Six months ended 30 June 2024	Six months ended 30 June 2023
Cash flows from operating activities			
Profit before tax		2 453	2 814
Adjustments for:			
Depreciation and amortization		2 387	2 169
Finance income		(99)	(171)
Finance costs		907	845
Net currency exchange losses		546	99
Losses due to war	8	68	116
Gains due to war	8	(11)	(46)
Change in provisions		978	722
Net charge for expected credit losses of financial assets		160	60
Gain from lease termination and rent concessions		(22)	(53)
Other non-cash items, net		(16)	22
Movements in operating assets and liabilities:			
Decrease in trade and other receivables		113	465
Increase in inventory		(14)	(50)
Increase in other non-financial assets		(81)	(115)
(Increase)/decrease in advances paid and prepaid expenses		(42)	37
Increase in subscriber prepayments and deposits		73	99
Increase /(decrease) in trade and other payables and other liabilities		236	(104)
Utilized provisions	16	(884)	(651)
Income taxes paid		(440)	(275)
Interest received		78	167
Interest paid	13,15	(818)	(760)
Net cash provided by operating activities		**5 572**	**5 390**
Cash flows from investing activities			
Purchases of property and equipment		(1 691)	(1 170)
Purchases of intangible assets		(426)	(1 061)
Proceeds from sale of property and equipment		12	8
Investments in government bonds		(1 930)	(2 678)
Proceeds from repayment of government bonds		1 125	2 904
Proceeds/(placement) of short-term investments, net		232	(3 029)
Net cash used in investing activities		**(2 678)**	**(5 026)**
Cash flows from financing activities			
Lease obligation principal paid	13	(394)	(172)
Other financing activity		17	-
Net cash used in financing activities		**(377)**	**(172)**
Net increase in cash and cash equivalents		**2 517**	**192**
Cash and cash equivalents, beginning of the period	9	3 707	5 082
Effect of exchange rate changes on cash and cash equivalents		154	36
Expected credit losses for cash and cash equivalents		(74)	(6)
Cash and cash equivalents, end of the period	9	**6 304**	**5 304**

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Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 25 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 "IT Smartflex" (a software developer, support and integration services provider), PLC "VFU Funding" (structured entity incorporated to issue Eurobonds), PrJSC "Farlep-Invest" (fixed-line business), LLC "Freenet" (fixed-line business), LLC "UNS" (passive tower infrastructure) and LLC "Cable TV-Finance" (telecommunications activities).

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.

As of the reporting date, the ownership structure of the Group was presented in the following order:

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

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. (the immediate parent of PrJSC "VF Ukraine" at that time) from MTS Group.

On 23 August 2023, PrJSC "VF Ukraine" entered into the Share Purchase Agreement based on which it undertook to purchase an interest in a national fixed-line telecommunication business, namely 90.6% in the charter capital of LLC "Freenet". The payment in the amount of UAH 746,145 thousand was made on the date of the agreement and the transaction was completed and registered in accordance with the applicable law. The acquisition of LLC "Freenet" is part of the Company's overall strategy to develop convergent services and products. LLC "Freenet" is a national broadband Internet service provider trading under O3 brand in the cities of Kyiv and Dnipro, Zhytomyr, Zaporizhzhia, Ivano-Frankivsk, Lviv, Kyiv, Rivne, Khmelnytskyi, Chernyhiv Regions. The company was established and operated in the market since 2008, constructing its networks based on FTTx and GPON technologies using 10 Gb and 40 Gb fibre optic route cables and modern managed equipment from leading manufacturers. This allows the company to provide an Internet access channel with up to 1 Gb/sec speed to each subscriber. The company's subscriber base exceeds 150 thousand subscribers.

In April 2024, in alignment with the Group's strategic goals to advance its telecommunications business, specifically, enhancing fixed-line and converged services, the Company has resolved to merge two key subsidiaries in the fixed-line sector. This merger, anticipated to be completed within the next 12 months, aims to create a more cohesive and integrated organizational structure. By combining resources, the Group intends to enhance its ability to innovate and respond more effectively to market demands.

In May 2024, in alignment with the Company's strategy to enhance resource utilization, the Company has resolved to wind down its subsidiary, LLC "Cable TV-Finance" and to integrate the subsidiary's assets and liabilities with those of the Company. The subsidiary is nearing the end of its liquidation process.

In November 2023, the Company established a new subsidiary, Limited Liability Company "Ukrainian Network Solutions" (LLC "UNS"). The Company is a sole 100% participant in LLC "UNS". The subsidiary LLC "UNS" has been established for the purpose of carving out and servicing the Company's passive tower infrastructure. LLC "UNS's" core business includes construction and servicing of telecommunication structures, leasing out of own passive infrastructure constructions, other construction, installation and specialised works. In May 2024, the Company resolved to transfer a small part of its passive tower infrastructure to LLC "UNS" and entered into a leaseback arrangement for space on the sites. Since then, LLC "UNS" has started its operations, which are mostly centred around intragroup transactions.

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 2023.

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 2023, 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 2023.

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 2023 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 2024 are not necessarily indicative of the results that may be expected for the year ending 31 December 2024.

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

On 24 February 2022, the Russian Federation started an unprovoked full-scale military offensive in Ukraine. This was followed up by the immediate enactment of martial law by the government of Ukraine and the corresponding introduction of the related temporary restrictions that impact the economic environment.

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

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

Since 24 February 2022, network and base station equipment have been constantly monitored, especially in areas of mass downtime. Traffic redistribution, capacity addition and other measures designed to restore network coverage and maintain a reasonable level of network performance are being carried out. The Group performs the necessary maintenance and repair work, as well as network optimization using both existing equipment, including equipment from the reserve fund, and external supplies. The availability of the network during mass power outages due to damage to the energy infrastructure during hostilities is regulated by the Group's measures aimed at ensuring the operability of the network. A work plan was developed and diesel generators were provided for network operation during a blackout. A list of sites has been formed based on the need to ensure the uninterrupted operation of priority network sites and a list of locations that must be provided with the communication. Purchase of additional mobile generators and batteries was carried out, partner generators were used to increase equipment operation time at critical sites. As of June 30, 2024, management has set the goal to equip a substantial number of the Company's base station sites with Li-ion batteries, ensuring uninterrupted network operation during future blackouts and has successfully secured funds for the initiative.

The Company has continued to invest in IT and cybersecurity to protect its customer's data from cyber threats, ensure the resilience of the network, and prevent emerging technical outages.

As at 30 June 2024, the Group was in compliance with all debt covenants. Management has reached the goal of servicing the Group's financial liabilities in a timely manner in accordance with the debt agreement at the time of the scheduled interest payment due dates. Management plans to continue servicing the Group's financial liabilities in a timely manner, although there is an inherent uncertainty related to the moratorium on cross-border foreign currency payments. In May 2024, the National Bank of Ukraine passed a resolution allowing Ukrainian companies to transfer funds abroad solely for the purpose of interest payments. In line with this liberalization policy, the Group has pledged to meet its cross-border interest obligations fully from its local accounts. However, the ability to repay the principal amount of the debt, which is USD 400 million and becomes due in February 2025 (Note 15), largely depends on the persistence of foreign currency control restrictions at that time. Considering the latest successful restructuring of Ukraine's sovereign debt, possible partial liberalization of foreign currency control seems as the next step. However, the timing and extent of such liberalization remain unclear. The Company has applied a number of times to the government and the National Bank of Ukraine for the special permit and management hopes such a permit is issued by the maturity of the debt.

Repayment of the principal amount of the debt also depends on the Group's ability to secure refinancing from financial institutions to ensure that there is enough liquidity or to negotiate changes to the bond terms with lenders. Possible negotiations with bondholders are being considered in the coming months to discuss the potential extension of payment terms due to existing foreign currency restrictions in Ukraine. Management expects a positive outcome of such possible negotiations, as the Group has the ability and is committed to taking every step to repay the bonds when permitted by the government, given the aforementioned restrictions.

In addition, the Group may receive possible partial parent support, or implement additional measures to manage and control cash outflows to support the refinancing or the negotiation efforts. All measures and steps are contingent upon the liberalization of currency controls, negotiations with bondholders and other relevant factors.

These measures aim to maximise cash conservation and align with the expected timing of future cash flows, including those related to the repayment of the principal amount of the debt and future interest payment. Management is considering all the options from this list, depending on the status of the foreign currency control restrictions. It will be a package of all possible tools to ensure the Group does not default under its obligations. Based on management forecasts, it's expected that the Group will be able to meet the financial ratio covenant for the upcoming twelve months from the date of these interim condensed consolidated financial statements.

The Group has taken appropriate actions to ensure the continuity of communication services and operations. Management has prepared and reviewed the updated financial forecast including cash flow projections, for the twelve months from the date of approval of these interim condensed consolidated financial statements, taking into consideration the most likely and possible downside scenarios for the ongoing business impacts of the war. This forecast was 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 and the necessary capital investments.

This forecast indicates 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.

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 are material uncertainties about further significant escalation in hostilities that can disrupt infrastructure and the Group's operations, currency control restrictions caused by the war and the Group's ability to refinance or restructure the debt that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

In the view of the above, 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.

Following the acquisition of LLC "Freenet" (referred to as "Freenet") that was completed on 23 August 2023, the Group considers two cash-generating units: the core mobile business with integrated fixed business and Freenet. The Group performed impairment tests for those CGUs on 31 December 2023.

Goodwill arising from acquisitions is initially allocated to the Cash Generating Unit (CGU) or group of CGUs that benefit from the acquisition. If there are changes affecting this allocation or new information is obtained about facts and circumstances that existed as of the acquisition date, companies might need to reallocate the goodwill.

As of the date of these interim consolidated financial statements, considering the Group's plans to implement converged services, additional information gathered over the 12 months since the acquisition date, and plans to reorganize and merge LLC "Freenet" with another fixed-line subsidiary, PrJSC "Farlep-Invest", into a single business unit, goodwill has been reallocated to the CGU of the core mobile business with integrated fixed business.

The converged services to be implemented in Freenet will result in synergies between mobile and fixed-line businesses. This synergy is expected to benefit the core mobile business by at least the amount of the outstanding goodwill balance as of 30 June 2024, which is UAH 250 million. This benefit arises mainly from the extended mobile subscribers' average expected period of customer relationships due to the implementation of these services.

The Group assessed whether there is any evidence, as of the date of these interim consolidated financial statements, that the abovementioned CGUs may be impaired. It concluded that there are no new external or internal sources of information indicating impairment.

The key inputs used in the latest models for both CGUs were also reviewed. The financial performance of each CGU for the first half of 2024 was better than what was included in the scenario of the latest impairment tests, and the pre-tax discount rate decreased. This suggests that if the tests were conducted at the reporting date, the recoverable amount would be higher than that at 31 December 2023. The results of the latest impairment tests, as of 31 December 2023, are provided in this note.

Impairment testing of LLC "Freenet" CGU as at 31 December 2023

The Group initially allocated goodwill to LLC "Freenet" CGU in the amount of UAH 379 million for the purpose of impairment testing. The allocation was made to the CGU which was expected to benefit from the business combination in which the goodwill arose. The goodwill was primarily attributable to the additional profit the Group expected to earn by providing converged services, the long-term profitability of the acquired business and the prospects for further development of the fixed line business in a more stable economic environment after the war ends. The unit was identified at the lowest level at which goodwill was monitored for internal management purposes.

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

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

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

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

The pre-tax discount rate applied to cash flow projections is 25% and cash flows beyond the fifteen-year period are extrapolated using growth rates between 4.2% and 5.1% which is the same as the long-term average growth rates for the fixed-line telecommunications industry. It was concluded that the fair value less costs of disposal did not exceed the value-in-use. As a result of this analysis, management has recognised an impairment charge of UAH 129 million against goodwill with a carrying amount of UAH 379 million as at 31 December 2023. The impairment mainly occurred due to the increased country risk affecting the discount rate, caused by the ongoing war in Ukraine.

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

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

Impairment testing of the core mobile business with integrated fixed business CGU as at 31 December 2023

One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. The Group performed the impairment test for its core mobile business combined with the operations of subsidiaries as its 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 cash-generating units (CGU).

Management analysed the assets located in areas with intense military activity or on temporarily occupied territories as of 31 December 2023 and the reporting date and posted 100% impairment for such assets being mainly network and base station equipment (Note 8). On the territories that have been liberated, the Group regained access to some of the assets and assessed their condition, resulting in a partial reversal of the impairment provision. However, due to ongoing military activities near the liberated area, the Group has not yet regained access to all such assets, thus was unable to examine their condition and reassess the impairment provision.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and excludes the risks specific to the asset. The pre-tax discount rate used in the impairment test as of 31 December 2023 comprised 24.2%, for terminal period the Group used the discount rate of 17.7%, which excludes risks related to future economic conditions affected by the ongoing war.

The Group based its impairment test on the most recent budgets and long-term forecast calculations. These budgets and forecast calculations for the purposes of impairment testing cover a period of five years based on sustainability and development factors that could be estimated with reasonable certainty for the telecommunication business. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 4.7%.

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

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

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

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

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

Basis of consolidation

These interim condensed 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 condensed 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 2024	31 December 2023
LLC "VF Retail"	Consolidated	100.0%	100.0%
LLC "IT Smartflex	Consolidated	100.0%	100.0%
LLC "Cable TV-Finance"	Consolidated	100.0%	100.0%
PrJSC "Farlep-Invest"	Consolidated	99.9%	99.9%
LLC "Freenet"	Consolidated	90.6%	90.6%
LLC "UNS"	Consolidated	100%	100%
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 15). 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 2023 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 2024. Specifically, the presentation now includes:
- the spit of expected credit losses for cash and cash equivalents in a single line in the condensed consolidated statement of cash flows;
- the separation of investments in the government bonds and proceeds from their repayment within the investing activities section of the condensed consolidated statement of cash flows;
- the segregation of selling expenses from general and administrative expenses within a disclosure.

Standards, interpretations and amendments adopted on 1 January 2024

None of the interpretations and amendments to standards adopted by the Group on 1 January 2024 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 2025 or later, and which the Group has not early adopted:

- IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - effective date to be determined by the IASB;
- IAS 21 *The Effects of Changes in Foreign Exchange Rates* **–** accounting when there is a lack of exchangeability - the amendments are effective for annual reporting periods beginning on or after 1 January 2025;
- IFRS 18 *The Presentation and Disclosure in Financial Statements* **–** requirements for the presentation and disclosure of information in financial statements - the standard is effective for annual reporting periods beginning on or after 1 January 2027;
- IFRS 19 *Subsidiaries without Public Accountability: Disclosures* was issued by the IASB on 9 May 2024 and is effective for periods beginning on or after 1 January 2027;
- On 30 May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)* to address matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9 'Financial Instruments'. The amendments are effective for reporting periods beginning on or after 1 January 2026.

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 2023.

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. During the war some seasonal trends which were typical for the business may vary.

4. SEGMENT INFORMATION

The Group's steering committee (chief operating decision makers or "CODM"), consisting of the chief executive officer and the senior management team, examines the Group's performance and has identified one reportable segment of its business, which encompasses services rendered to customers across Ukraine, including voice and data services, fixed-line services, retail sales of phones, smartphones and other related goods (Note 5).

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

Financial information of the reportable segment comprised the following:

	Six months ended 30 June 2024	**Six months ended 30 June 2023**
Revenue	**11 707**	**10 404**
OIBDA	**6 408**	**5 934**
Depreciation and amortization	(2 387)	(2 169)
Operating currency exchange gains, net	6	17
Losses due to war	(68)	(116)
Gains due to war	11	46
Operating profit	**3 970**	**3 712**

5. SERVICE REVENUE

Service revenue comprised the following:

	Six months ended 30 June 2024	**Six months ended 30 June 2023**
Revenue from mobile subscribers	9 189	8 140
Interconnect revenue	1 151	1 112
Revenue from fixed business	388	202
Roaming revenue	344	446
Other revenue	247	159
Total service revenue	**11 319**	**10 059**

6. COST OF SERVICES

Cost of services comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
Electricity and other production costs	991	782
Interconnect expenses	543	451
Radio frequency usage tax	518	510
Salaries	277	202
Roaming expenses	162	164
Social contributions	48	36
Other expenses	117	83
Total cost of services	**2 656**	**2 228**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Total selling, general and administrative expenses for the six months ended 30 June 2024 amounted to UAH 2 296 million (for the six months ended 30 June 2023: UAH 1 967 million).

Selling expenses comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
Salaries	348	303
Advertising and marketing expenses	223	163
Dealers commission	211	198
Social contributions	66	57
Other expenses	38	31
Total selling expenses	**886**	**752**

General and administrative expenses comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
Salaries	727	622
General office expenses	173	153
Consulting expenses	170	155
Billing and data processing	161	124
Social contributions	75	63
Other personnel expenses	69	47
Taxes other than income tax	30	47
Other expenses	5	4
Total general and administrative expenses	**1 410**	**1 215**

8. LOSSES AND GAINS DUE TO WAR, NET

Losses and gains due to war comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
Electricity charges on non-controlled territories	48	77
Impairment loss on property and equipment in non-controlled territories (Note 12)	13	23
Estimated provision and actual disposal of damaged or destroyed property and equipment	7	14
Reversal of impairment of property and equipment (Note 12)	(9)	(42)
Changes in estimates in provision for decommissioning and restoration (Note 16)	(1)	2
Reassessment/modifications of leases (Note 13)	(1)	(2)
Other	-	(2)
Total losses due to war, net	**57**	**70**

The Group identified assets and liabilities in non-controlled territories (NCT) which consist of occupied territories and areas with intense military actions. The table above discloses only losses and gains related to assets located on NCT or liabilities arising on NCT, direct losses due to damaged or destroyed assets on controlled territories, and impairment of receivables from or write-off of payables to aggressor countries. The Group lacks the ability to direct the use of these assets to obtain the economic benefits generated by them at the reporting date, therefore respective assets have been fully impaired. Part of the recognised impairment was reversed after the liberation of the occupied Ukrainian territories in the Donetsk, Kherson and Zaporizhzhia oblasts in 2023. These transactions are not controlled by the Group.

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

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

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	30 June 2024	31 December 2023
Short-term deposits	4 449	2 162
Cash on current accounts	1 984	1 539
Cash in transit and on hand	29	90
Allowance for ECL	(158)	(84)
Total cash and cash equivalents	**6 304**	**3 707**

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 2024	Interest rates	31 December 2023
Cash on current bank accounts on hand and in transit:				
Ukrainian Hryvnia	0%-6.5%	1 484	0%-11%	552
Euro *(in Ukrainian Hryvnia equivalent)*	-	341	-	987
USD *(in Ukrainian Hryvnia equivalent)*	-	188	-	90
Allowance for ECL		(27)		(11)
Short-term bank deposits:				
USD *(in Ukrainian Hryvnia equivalent)*	0.2%-0.3%	2 687	0.2%-0.3%	1 656
Ukrainian Hryvnia	6%-9%	1 632	6%-9%	506
Euro *(in Ukrainian Hryvnia equivalent)*	0.01%	130	-	-
Allowance for ECL		(131)		(73)
Total cash and cash equivalents		**6 304**		**3 707**

Cash and cash equivalents are held mainly in large Ukrainian and European banks that have a reliable reputation. As of 30 June 2024, 93% of cash and cash equivalents were held in four banks – subsidiaries of the large international banking groups (31 December 2023: 88%).

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 2024		31 December 2023	
	Cash and cash equivalents	Short-term investments (Note 11)	Cash and cash equivalents	Short-term investments (Note 11)
AA- rating	136	-	216	-
A+ rating	18	-	501	-
CC rating	1 661	3 632	793	2 636
Non-rated*	4 647	2 453	2 281	2 505
Allowance for ECL	(158)	(231)	(84)	(171)
Total	**6 304**	**5 854**	**3 707**	**4 970**

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

An allowance for expected credit loss (ECL) is recognized based on the probability of default of bank, which has slightly increased compared to the previous period from 34,5% to 35,4% for Ukrainian banks. The difference in the amount of UAH 134 million between the allowance for ECL as of the reporting date and the comparative period arose due to increase in the amount of short-term deposits by UAH 2 287 million and government bonds by UAH 894 million, which (ECL) is reflected in the non-operating expenses. There was no write-off of the amount of cash and cash equivalents and no other movements in the amount of the allowance for ECL.

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, 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 16 months.

Trade and other receivables comprised the following:

	30 June 2024	31 December 2023
Roaming	1 395	1 518
Interconnect	268	236
Subscribers	268	252
Dealers	8	15
Other trade receivables	68	56
Allowance for ECL	(313)	(274)
Total trade receivables	**1 694**	**1 803**
Cash balance in distressed bank	247	247
Financial aid and loan provided to related parties (see Note 18)	114	126
Other receivables	17	10
Allowance for ECL	(274)	(283)
Total other receivables	**104**	**100**
Total trade and other receivables	**1 798**	**1 903**

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. 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 2024	Deposit rates	31 December 2023
USD *(in Ukrainian Hryvnia equivalent)*	4.78%-4.79%	2 011	4.80%-4.85%	989
Euro *(in Ukrainian Hryvnia equivalent)*		-	1.25%	128
Allowance for ECL		(43)		(19)
Total government bonds		**1 968**		**1 098**
USD *(in Ukrainian Hryvnia equivalent)*	0.1%-0.4%	3 935	0.01%-0.30%	3 971
Euro *(in Ukrainian Hryvnia equivalent)*	0.2%	139	-	-
Ukrainian Hryvnia	-	-	10.0%	53
Allowance for ECL		(188)		(152)
Total deposits		**3 886**		**3 872**
Total short-term investments		**5 854**		**4 970**

Short-term investments are held mainly in large Ukrainian banks that have a reliable reputation. As of 30 June 2024, 67% of short-term investments are held in the four banks – subsidiaries of the large international banking groups, 27% of which are held in Raiffeisen Bank Aval, and 33% of short-term investments belong to Ukrainian government bonds issued by Ministry of Finance of Ukraine (31 December 2023: 77% of short-term investments are held in the four banks – subsidiaries of the large international banking groups, 30% of which are held in Raiffeisen Bank Aval, and 22% of short-term investments belongs to Ukrainian government bonds issued by Ministry of Finance of Ukraine).

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

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS AND GOODWILL

The movements of property and equipment were the following:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
1 January 2024	**8 710**	**400**	**978**	**1 625**	**11 713**
Additions	445	7	22	1 427	**1 901**
Transferred into use	810	3	195	(1 008)	**-**
Depreciation	(757)	(9)	(132)	-	**(898)**
Disposals (net book value)	(60)	(1)	(1)	(4)	**(66)**
Impairment loss due to war (Note 8)	(13)	-	-	-	**(13)**
Impairment loss due to war reversed (Note 8)	9	-	-	-	**9**
30 June 2024	**9 144**	**400**	**1 062**	**2 040**	**12 646**

The movements of intangible assets were the following:

	Licences	Billing software and other	Other	Goodwill	Total
1 January 2024	**3 897**	**1 810**	**894**	**270**	**6 871**
Additions	1	378	135	-	**514**
Transferred into use	-	292	(292)	-	**-**
Amortization	(308)	(693)	**-**	-	**(1 001)**
30 June 2024	**3 590**	**1 787**	**737**	**270**	**6 384**

The management believes that as of 30 June 2024, 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.

Other intangible assets include prepayments for non-current assets.

For impairment testing, goodwill acquired through business combinations is allocated to cash-generating unit, which represents the lowest level within the Group at which the goodwill is monitored by management and which is not larger than a segment. Prior to the acquisition of LLC "Freenet" that was completed on 23 August 2023 , the Group considered its consolidated business with PrJSC "Farlep-Invest" (fixed-line business) as a single cash-generating unit. Following this acquisition, as of 31 December 2023 the Group considers two cash-generating units: the core mobile business with integrated fixed business and Freenet. As of June 30, 2024, the goodwill allocated to the core mobile business with the integrated fixed business CGU has a carrying amount of UAH 250 million. The Group concluded that no impairment of any of goodwill should be recognised as at 30 June 2024.

13. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The table below represents changes in the Group's right-of-use assets for the six months ended 30 June 2024:

	Sites for placement of network and base station equipment	Exclusive rights for trademarks	Retail store and other	Admini-strative buildings	Total
1 January 2024	**2 536**	**507**	**139**	**110**	**3 292**
Additions	163	-	27	5	**195**
Lease modifications	312	-	13	23	**348**
Depreciation	(219)	(122)	(40)	(25)	**(406)**
Disposals (net book value)	(7)	-	(5)	(1)	**(13)**
Modification of right-of-use assets on non-controllable territories	(2)	-	-	-	**(2)**
30 June 2024	**2 783**	**385**	**134**	**112**	**3 414**

The table below represents changes in the Group's lease obligations for the six months ended 30 June 2024:

	Lease obligations
1 January 2024	**4 407**
New obligations arising during the six months ended 30 June 2024	195
Modifications of existing leases	350
Termination of leases	(19)
Modification of liabilities on non-controllable territories	(3)
Rent concessions	(19)
Accrued interest	343
Payment of principal	(394)
Payment of interest	(343)
Currency exchange losses	32
30 June 2024	**4 549**

The Group represents discounts obtained due to war in the same way as Covid-19-Related Rent Concessions. The Group considers the rent reduction to be a partial extinguishment of the lease liability. The forgiveness is recognised as a gain in the consolidated statement of profit or loss and other comprehensive income, with a corresponding reduction in the lease liability in the period in which the reduction is contractually agreed.

14. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

	30 June 2024	31 December 2023
Trade accounts payable	675	644
Accounts payable for property, equipment and intangible assets	510	228
Accrued liabilities	224	192
Accrued payroll and vacation	170	125
Total trade payables	**1 579**	**1 189**

Accounts payable for property, equipment, and intangible assets have seen a substantial increase compared to the end of the previous year. This rise is mainly attributed to elevated purchases of radio access network equipment, software, and installation services during the first half of the year. Additionally, it includes the early settlement of capital expenditure payables from the last quarter of the previous year, which were settled before their due dates.

15. 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 comprised the following:

	30 June 2024	**31 December 2023**
Notes	16 519	15 421
Other	1	1
Total borrowings	**16 520**	**15 422**
Less: current portion	(16 520)	(364)
Total borrowings, non-current	**-**	**15 058**

The changes in the Group's borrowings comprised the following:

1 January 2024	**15 422**
Accrued interest	546
Payment of interest	(475)
Currency exchange losses	1 027
30 June 2024	**16 520**

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 2024:

Due within three months	503
Due from three months to twelve months	16 710
Total	**17 213**

On 6 February 2020, the Group raised funds by issuing Eurobonds (the "Notes") through a structured entity, PLC "VFU Funding". The Notes have a five year term and amount of USD 500 million (UAH 12 259 million as of the date of the issue) with a coupon rate of 6.2%. At initial recognition, the Notes were accounted for at fair value less transaction costs that were directly attributable to the issue. Subsequently, the financial liability is measured at amortized cost using the effective interest rate method (approximate effective interest rate is 7.1%).

During 2020-2022 the Group has already repurchased and cancelled the Notes in the amount of USD 100 million (UAH 2 807 million).

The Group has complied with all debt covenants as at 30 June 2024 and during the respective reporting period.

To manage currency risk and purchase foreign currency, the Group has made investments into government bonds issued by the Ministry of Finance of Ukraine denominated in USD with a maturity of not more than twelve months (Note 11).

16. PROVISIONS

The movements of provisions were the following:

	Provision for decommis-sioning and restoration	Employee bonuses and other rewards	Other provi-sions	Material rights	Social contri-butions	Total
At 31 December 2023	**219**	**970**	**163**	**72**	**27**	**1 451**
Current	-	970	163	72	27	**1 232**
Non-current	219	-	-	-	-	**219**
Arising during the period	8	467	368	195	26	**1 064**
Utilised		(492)	(167)	(205)	(20)	**(884)**
Unwinding of discount	18	-	-	-	-	**18**
Change in estimates	(7)	-	-	-	-	**(7)**
Change in estimate due to war	(1)	-	-	-	-	**(1)**
Unused amounts reversed	(8)	(16)	(5)	-	(9)	**(38)**
Translation adjustments and other	-	30	1	-	-	**31**
At 30 June 2024	**229**	**959**	**360**	**62**	**24**	**1 634**
Current	-	959	360	62	24	**1 405**
Non-current	229	-	-	-	-	**229**

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group applies a fair value hierarchy to its financial assets and liabilities and other areas, such as asset impairment assessments, according to the best information available. The application of the fair value hierarchy results in the valuation measurement of the underlying asset or liability, from there how the Group either intends to recover the asset or liability (e.g., sell, settle or hold to maturity), determines where and how that fair value is recorded in our consolidated financial statements.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade and other receivables, investments (mainly deposits with an original maturity of more than three months). Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes borrowings, trade and other payables, lease obligations. Financial instruments are recognized as soon as the Group becomes a party to the contractual provision of the instrument.

Fair values of financial assets and liabilities carried at amortized cost as at 30 June 2024 and 31 December 2023 approximated their carrying amounts (except for the borrowings).

The Group estimated the fair value of the borrowings using the Level 2 valuation technique based on quoted market prices as of 30 June 2024 in the amount of UAH 14 500 million (carrying amount: UAH 16 519 million), as of 31 December 2023 in the amount of UAH 11 707 million (carrying amount: UAH 15 421 million).

18. RELATED PARTIES

Related parties include shareholders of the Group, the Group's indirect parent companies, entities under common control and ownership with the Group as well as key management personnel.

Terms and conditions of transactions with related parties

Outstanding balances as of 30 June 2024 and 31 December 2023 were unsecured and settlements are made on a cash basis.

Balances from and to related parties comprised the following:

	30 June 2024	31 December 2023
Entities under common control and ownership with the Group	122	130
ECL on the Entities under common control and ownership with the Group	(27)	(36)
Total other receivables from related parties	**95**	**94**
Entities under common control and ownership with the Group	60	27
Advances paid and prepaid expenses	**60**	**27**
Entities under common control and ownership with the Group	144	136
Advances paid for PPE	**144**	**136**
Total advances paid and prepaid expenses	**204**	**163**
Entities under common control and ownership with the Group	153	44
Total provisions, trade and other payables to related parties	**153**	**44**

The Group's declared dividends comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
The Group's immediate parent company	-	1 810
Entities under common control and ownership with the Group	-	18
Dividends declared	**-**	**1 828**

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

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

Transactions related to purchases of non-current assets comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
Entities under common control and ownership with the Group	342	316
Total purchases of property and equipment and intangible assets from related parties	**342**	**316**

The notes on pages 5 to 25 form an integral part of these interim condensed consolidated financial statements.

Turnovers with related parties comprised the following:

	Six months ended 30 June 2024	Six months ended 30 June 2023
Entities under common control and ownership with the Group	4	5
Total service revenue from related parties	**4**	**5**
Entities under common control and ownership with the Group	(38)	(24)
Total costs of services with related parties	**(38)**	**(24)**
Entities under common control and ownership with the Group	(186)	(143)
Total selling, general and administrative expenses with related parties	**(186)**	**(143)**
Entities under common control and ownership with the Group	4	4
Total finance income with related parties	**4**	**4**

Remuneration of key management personnel

Key management personnel of the Group includes members of the Steering Committee and Supervisory Board. During the year ended 30 June 2024 the short-term key management personnel's total compensation amounted to UAH 108 million that include salaries, social contributions, sick pay, bonuses, termination and other benefits-in-kind (six months ended 30 June 2023: UAH 86 million). The senior management team and other governance bodies are also entitled to profit-sharing bonus payments. Related compensation accrued during the reporting year amounted to UAH 299 million (six months ended 30 June 2023: UAH 277 million) with the balance as at 30 June 2024 UAH 811 million (31 December 2023: UAH 792 million).

19. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 30 June 2024, the Group had unexecuted purchase agreements of approximately UAH 1 837 million to network equipment, tangible and intangible assets that were still in progress (31 December 2023: UAH 2 289 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 radio frequency resource of Ukraine, payroll (social) taxes and others. Transactions with non-resident related parties may be subject to transfer pricing compliance, in case the transactions with related non-resident per year exceed UAH 10 million.

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

Generally, according to Ukrainian tax legislation, the tax period remains open for tax audits for three years after the respective tax return submission and seven years for transfer pricing verification. In the case of submitting corrections to CIT return, tax audits cover only related transactions. As of 30 June 2024 open periods for tax audits are from 1 July 2021 and further reporting periods, as for transfer pricing issues from 1 January 2013.

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

Legal proceedings

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

Operating environment

On February 24, 2022, Russia launched a large-scale military invasion of Ukraine, which has a material adverse effect on the Ukrainian economy, people and, accordingly, the Group's business, financial condition and results of operations. At the date of these interim condensed consolidated financial statements, the hostilities are ongoing; however, the following activities are relevant:

- The Group operates one of the largest communication networks in the country of Ukraine. It has been targeted by the Russian military in order to weaken overall communications in the country. In some parts of the country, the network is not operating any longer due to significant infrastructure damage.
- Martial law was imposed in Ukraine on 24 February 2022. The banking system restricted certain types of transactions. In 2024, the Ukrainian government continues liberalisation policy. It was allowed to pay interest on borrowings, although it is still impossible to repay the principal amount.
- While the network has been targeted, the Group has worked tirelessly to keep the network running and repair it when damaged. Maintenances and repairs have been proceeding to maintain a reasonable level of network performance. In addition, the Group continues to invest in new construction to cover and grow network capacity.
- Tax payments to government authorities have continued, however, cash outflows have been actively managed and controlled to maximise the conservation of cash.
- The Group continues to pay its employees, many of which have been dislocated but continue to work remotely, except for those that are involved in maintenance and operations of the network.
- The Group has not, at the date of these interim condensed consolidated financial statements, been able to take a full inventory of its assets, including network, buildings and other infrastructure, to make a full assessment of the damage done.
- The war has resulted in the significant displacement of Ukrainian citizens, mostly to the adjacent countries in the European Union. The gradual return of migrants will contribute to the revival of consumer demand, and investments will increase significantly during the country's reconstruction phase.

The hryvnia gradually devalued in the first half of 2024. The spread between the cash and official rates remained within 1.3%. The increase in demand for foreign currency was due to high budget expenditures, increased fuel purchases, and May's currency liberalization.
The following table summarizes the exchange rates of UAH against USD and Euro:

	USD/UAH	**EUR/UAH**
31 December 2023	37,98	42,21
30 June 2024	40,54	43,35
Average rate for 6m 2023	36,57	39,52
Average rate for 6m 2024	39,01	42,19

The Ukrainian government has already made several steps toward liberalizing the foreign exchange market in 2023, allowing investors in government debt to repatriate some interest payments, easing operations for insurance firms and letting borrowers repay some foreign loans. In 2024, the government continues its liberalisation policy. Businesses were allowed to purchase and transfer foreign currency abroad for importing works and services; to repatriate dividends on corporate interest or shares abroad accrued based on the performance results for the period starting from 1 January 2024 and to transfer funds abroad to pay interest on “old” external loans with the interest payments falling due after 24 February 2022, according to the loan agreements.

In June 2024, inflation accelerated to 4.8% in annual terms due to the gradual exhaustion of the effect from last year's harvest, the crosscutting effect of the devaluation of the hryvnia and the increase in electricity prices. Inflation will accelerate moderately in 2024 to 8.2% according to the NBU updated forecast.

The National Bank of Ukraine decreased the key interest rate gradually from 15% to 13% in the middle of June 2024, citing favourable inflation trends, improved expectations, and progress in securing international financing as reasons for easing monetary conditions to support lending and economic recovery. The yield of one-year hryvnia war bonds and the 3- and 12-month deposit rates continued to decrease in response to the reductions in the key interest rate over the last several months.

The dynamics of economic growth (real GDP) in the first half of 2024 was at the level of 4.1%. The main factor slowing down the growth rate of the economy was power outages due to its shortage. The economic recovery will slow down in the next quarters of the year. According to the forecast of the Ministry of Economy, GDP will be 3.5% y-o-y this year.

The National Bank of Ukraine has updated its macroeconomic forecast and worsened GDP growth from 3.6% to 3%. The problem for the growth of the economy this year will be restrained budget expenditures at the beginning of the year, the blocking of the western border and the destruction of energy facilities. Instead, stable operation of the sea corridor, favourable weather and an increase in domestic demand will favour GDP growth.

The situation with the energy system remains extremely difficult due to the Russian shelling of the energy infrastructure.

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

20. SUBSEQUENT EVENTS

The Russian invasion and other events in Ukraine

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

On 22 July 2024, Ukraine reached an agreement with the Committee of Eurobond Holders on a comprehensive restructuring of its external public commercial debt. Following this development, the international rating agency Fitch Ratings downgraded Ukraine's long-term issuer default rating in foreign currency from CC to C. Then the downgrade from C to RD followed the expiration of a 10-day grace period for paying the $750 million 2026 Eurobond coupon due on August 1.

In July 2024, the National Center for Operational and Technical Management of Telecommunications Networks mandated that mobile operators enhance the battery life of their equipment to withstand power outages. Operators must ensure network operation and communication continuity for at least 10 hours during outages with normal quality parameters. This requirement must be met by 1 February 2025, with operators gradually implementing backup power sources at base stations.

The Eurobonds semi-annual interest payment

In August 2024, the Group paid its semi-annual interest payment that was due of USD 12 million (UAH 511 million).

Extension of cooperation with Vodafone Group

From July 2024, the Group has extended its branding partnership with Vodafone Global for the next 5 years with an extension option for one year.

21. 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 2024.