

# **PrJSC VF Ukraine and Subsidiaries**

Interim Condensed Consolidated  
Financial Statements as of and for the  
Nine Months Ended 30 September 2019

## **PrJSC VF UKRAINE AND SUBSIDIARIES**

### **TABLE OF CONTENTS**

---

	<b>Page</b>
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	1
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019:	
Interim condensed consolidated statement of profit or loss and other comprehensive income	2
Interim condensed consolidated statement of financial position	3
Interim condensed consolidated statement of changes in shareholders' equity	4-5
Interim condensed consolidated statement of cash flows	6
Notes to the interim condensed consolidated financial statements	7-20

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

### To Shareholders 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 (the "Group") as of 30 September 2019 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the nine months then ended, and selected explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 financial information 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 information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

*LLC "Deloitte & Touche USC"*

Olga Shamrytska,  
Engagement Partner

LLC "Deloitte & Touche Ukrainian Services Company"  
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

13 January 2020

**PrJSC VF UKRAINE AND SUBSIDIARIES**

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

**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019**


*Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	Note	Nine months ended 30 September 2019	Nine months ended 30 September 2018
Service revenue	4	10,863	9,217
Sales of goods		615	122
<b>Revenue</b>		<b>11,478</b>	<b>9,339</b>
Cost of services	5	(2,992)	(2,788)
Cost of goods		(564)	(127)
Selling, general and administrative expenses	6	(1,939)	(1,411)
Depreciation and amortization		(3,493)	(2,978)
Other operating income/(expenses)		71	36
<b>Operating profit</b>		<b>2,561</b>	<b>2,071</b>
Finance income		140	93
Finance costs		(508)	(506)
Currency exchange gain/(loss)		58	(95)
<b>Profit before tax</b>		<b>2,251</b>	<b>1,563</b>
Income tax expense		(480)	(300)
<b>Profit for the period</b>		<b>1,771</b>	<b>1,263</b>
<b>Total comprehensive income for the period</b>		<b>1,771</b>	<b>1,263</b>

Signed on behalf of the Group's Management:

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

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

  
\_\_\_\_\_  
Elena Soloviyova  
Head of Department for the Financial  
Statements and Accounting


## PrJSC VF UKRAINE AND SUBSIDIARIES

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 SEPTEMBER 2019

*Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	Notes	30 September 2019	31 December 2018
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	10	9,890	9,456
Right-of-use assets	12	3,148	3,459
Other intangible assets	10	6,663	7,258
Cost to obtain contracts		226	200
Deferred tax assets		606	596
<b>Total non-current assets</b>		<b>20,533</b>	<b>20,969</b>
<i>Current assets</i>			
Inventories		255	188
Trade and other receivables	9	538	496
Accounts receivable, related parties	17	46	53
Short-term investments	8	482	324
Advances paid and prepaid expenses		102	109
VAT receivable		219	216
Current income tax assets		-	44
Cash and cash equivalents	7	2,067	2,629
<b>Total current assets</b>		<b>3,709</b>	<b>4,059</b>
<b>Total assets</b>		<b>24,242</b>	<b>25,028</b>
<b>Equity and liabilities</b>			
<i>Equity</i>			
Common stock		8	8
Other components of equity		2	2
Retained earnings		13,607	11,836
<b>Total equity</b>		<b>13,617</b>	<b>11,846</b>
<b>Non-current liabilities</b>			
Notes payable, related parties	13	-	2,854
Borrowings	13	-	2
Lease obligation	12	2,502	2,779
Provisions	14	276	232
Contract liabilities		4	1
<b>Total non-current liabilities</b>		<b>2,782</b>	<b>5,868</b>
<i>Current liabilities</i>			
Trade and other payables	11	1,695	1,567
Accounts payable, related parties	17	3,191	3,264
Contract liabilities		1,394	1,245
Interest on notes payable, related parties	17	-	97
Borrowings	13	15	45
Lease obligation	12	916	879
Income tax liabilities		217	-
Provisions	14	182	179
Other non-financial liabilities	15	233	38
<b>Total current liabilities</b>		<b>7,843</b>	<b>7,314</b>
<b>Total equity and liabilities</b>		<b>24,242</b>	<b>25,028</b>

Signed on behalf of the Group's Management:

  
Olga Ustynova  
Chief Executive Officer

  
Natalia Shevchenko  
Chief Finance Officer

  
Elena Soloviyova  
Head of Department for the Financial  
Statements and Accounting

**PrJSC VF UKRAINE AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019**

*Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	Common stock		Retained earnings	Other components of equity	Total equity
	Shares	Amount			
Balances at 31 December 2018	781,662,116	8	11,836	2	11,846
Profit for the period	-	-	1,771	-	1,771
Total comprehensive income for the period	-	-	1,771	-	1,771
Balances at 30 September 2019	<u>781,662,116</u>	<u>8</u>	<u>13,607</u>	<u>2</u>	<u>13,617</u>

Signed on behalf of the Group's Management:

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

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

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

**PrJSC VF UKRAINE AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018**

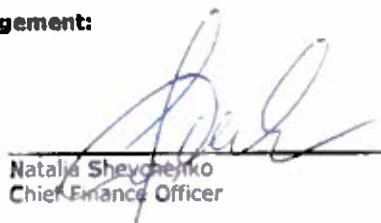
*Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	Common stock		Retained earnings	Other components of equity	Total equity
	Shares	Amount			
Balances at 31 December 2017	781,662,116	8	10,738	2	10,748
Adjustment on initial application of IFRS 15, net of tax	-	-	160	-	160
Adjustment on initial application of IFRS 9, net of tax	-	-	(4)	-	(4)
Adjusted balance at 1 January 2018	-	8	10,894	2	10,904
Profit for the period	-	-	1,263	-	1,263
Total comprehensive income for the period	-	-	1,263	-	1,263
Balances at 30 September 2018	<u>781,662,116</u>	<u>8</u>	<u>12,157</u>	<u>2</u>	<u>12,167</u>

Signed on behalf of the Group's Management:



Olga Ustynova  
Chief Executive Officer



Natalja Shevchenko  
Chief Finance Officer



Elena Soloviyova  
Head of Department for the Financial Statements and Accounting

**PrJSC VF UKRAINE AND SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019**

*Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	<b>30 September 2019</b>	<b>30 September 2018</b>
<b>Cash flows from operating activities</b>		
Profit for the period	1,771	1,263
<b>Adjustments for:</b>		
Depreciation and amortization	3,493	2,978
Finance income	(140)	(93)
Finance costs	508	506
Income tax expense	480	300
Currency exchange (gain)/loss	(58)	95
Inventory obsolescence expense	4	-
Allowance for doubtful accounts	-	12
Change in provisions for employee bonuses	150	115
Change in provisions for Antimonopoly Committee cases	-	(13)
Other non-cash items (gain from disposal of PPE, IA and right-of-use assets)	(64)	(37)
<b>Movements in operating assets and liabilities:</b>		
(Increase)/Decrease in trade and other receivables and contract assets	(107)	1,268
Increase in inventory	(71)	(86)
Increase in VAT receivable	(8)	-
Decrease/(Increase) in advances paid and prepaid expenses	7	(2)
Increase in subscriber prepayments and deposits	152	38
Increase/(Decrease) in trade and other payables, contract liabilities and other liabilities	126	(221)
Income taxes paid	(229)	(312)
Interest received	147	87
Cost to obtain and fulfill contracts, paid	(90)	(67)
Interest paid	(575)	(459)
<b>Net cash provided by operating activities</b>	<b>5,496</b>	<b>5,372</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,007)	(1,683)
Purchases of other intangible assets (excl. cost to obtain contracts)	(662)	(884)
Purchase of 4G licenses	-	(2,433)
Proceeds from sale of property and equipment	41	29
Placement of short-term investments	(203)	-
<b>Net cash used in investing activities</b>	<b>(2,831)</b>	<b>(4,971)</b>
<b>Cash flows from financing activities</b>		
Proceeds from Issuance of Notes	-	2,917
Repayment of Notes	(2,745)	-
Notes and debt issuance cost paid	(3)	(7)
Lease obligation principal paid	(342)	(242)
Dividends paid	(8)	(730)
Repayment of loans	(27)	(26)
<b>Net cash (used in)/provided by financing activities</b>	<b>(3,175)</b>	<b>1,912</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(460)</b>	<b>2,313</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>2,629</b>	<b>707</b>
Effect of exchange rate changes on cash and cash equivalents	(102)	(35)
<b>Cash and cash equivalents, end of the period</b>	<b>2,067</b>	<b>2,985</b>
<b>Non-cash additions to property, equipment and intangible assets</b>		
Non-cash addition to property, equipment and intangible assets	74	(31)
Non-cash adjustment to right-of-use assets and lease obligations	26	(1)

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

  
Olga Ustynova  
Chief Executive Officer

  
Natalia Shevchenko  
Chief Finance Officer

  
Elena Soldatova  
Head of Department for the Financial  
Statements and Accounting



## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

---

#### 1. 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 2018.

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 its 2018 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures where significant events have occurred subsequently to the issuance of its annual consolidated statements of the Group for the year ended 31 December 2018.

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 2018 and the notes related thereto. In the opinion of management, the interim condensed financial statements reflect all adjustments necessary to present fairly the Group's financial position, financial performance and cash flows for the interim reporting period in accordance with IAS 34, *Interim Financial Reporting*. Results as of and for the nine months ended 30 September 2019 are not necessarily indicative of the results that may be expected for the year ended 31 December 2019.

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 interim condensed consolidated financial statements are stated in millions of Ukrainian Hryvnias, unless indicated otherwise.

As of 31 December 2018, the Group also consolidated special purpose entity – Capital Valentine B.V., that was established according to the Netherlands law for the Group's financing purposes (issue of notes to a related party for a total amount of EUR 90 million and granting a loan to PrJSC "VF Ukraine" for a total amount of EUR 90 million for a period of 35 months). As the loan and respective notes (principal and coupon) were fully repaid in March 2019 (see Note 13), the Group ceased consolidating operations of this special purpose entity after the repayment date.

#### **Significant accounting policies**

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 2018 except for income tax expense which is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full year.

The Group has adopted IFRIC 23, *Uncertainty over Income Tax Treatments*, ("IFRIC 23") for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

None of interpretations and amendments to standards adopted by the Group on 1 January 2019 had significant effect on the Group's interim condensed consolidated financial statements.

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to Conceptual Framework	<i>Conceptual Framework in IFRS standards<sup>(1)</sup></i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Rate Benchmark Reform <sup>(1)</sup></i>
IFRS 17	<i>Insurance Contracts<sup>(2)</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>(3)</sup></i>

(1) Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

(2) Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

(3) The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

## 2. SEASONALITY

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

## 3. SEGMENT INFORMATION

The chief operating decision makers (CEO and senior management team) analyze and review results of the Group's operating segments separately based on the nature of products and services. The chief operating decision makers evaluate the segments' performance based on revenue and OIBDA (operating income before depreciation and amortization). The chief operating decision makers do not analyze assets or liabilities by reportable segments.

Mobile business segment represents the result of mobile operations, which encompasses services rendered to customers across Ukraine, including voice and data services.

Retail segment represents the results of retail sales of goods by the Group.

Other category does not constitute reportable segment. It includes the results of LLC IT SmartFlex that does not meet the quantitative thresholds for separate reporting.

The intercompany eliminations presented below primarily consist of sales transactions conducted under the normal course of operations.

Financial information by reportable segment is presented below:

<b>Nine months ended 30 September 2019:</b>	<b>Mobile business</b>	<b>Retail</b>	<b>Other</b>	<b>HQ and elimination</b>	<b>Consolidated</b>
<b>Revenue</b>					
External customers	10,932	541	5	-	11,478
Intersegment	20	157	17	(194)	-
<b>Total revenue</b>	<b>10,952</b>	<b>698</b>	<b>22</b>	<b>(194)</b>	<b>11,478</b>
<b>OIBDA</b>	<b>6,305</b>	<b>(217)</b>	<b>(6)</b>	<b>(28)</b>	<b>6,054</b>
Depreciation and amortization					(3,493)
<b>Operating profit</b>					<b>2,561</b>
Finance income					140
Finance costs					(508)
Currency exchange gain or loss					58
<b>Profit before tax</b>					<b>2,251</b>

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

<b>Nine months ended 30 September 2018:</b>	<b>Mobile business</b>	<b>Retail</b>	<b>HQ and elimination</b>	<b>Consolidated</b>
<b>Revenue</b>				
External customers	9,272	67	-	9,339
Intersegment	8	46	(54)	-
<b>Total revenue</b>	<b>9,280</b>	<b>113</b>	<b>(54)</b>	<b>9,339</b>
<b>OIBDA</b>	<b>5,108</b>	<b>(52)</b>	<b>(7)</b>	<b>5,049</b>
Depreciation and amortization				(2,978)
<b>Operating profit</b>				<b>2,071</b>
Finance income				93
Finance costs				(506)
Currency exchange gain or loss				(95)
<b>Profit before tax</b>				<b>1,563</b>

#### Disaggregation of revenue:

<b>Nine months ended 30 September 2019:</b>	<b>Mobile business</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
<b>Revenue</b>				
Mobile services	10,833	-	-	10,833
Other services	-	25	5	30
Sales of goods	99	516	-	615
<b>Total revenue</b>	<b>10,932</b>	<b>541</b>	<b>5</b>	<b>11,478</b>

<b>Nine months ended 30 September 2018:</b>	<b>Mobile business</b>	<b>Retail</b>	<b>Total</b>
<b>Revenue</b>			
Mobile services	9,217		9,217
Sales of goods	57	65	122
<b>Total revenue</b>	<b>9,274</b>	<b>65</b>	<b>9,339</b>

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

#### 4. SERVICE REVENUE

Service revenue for the nine months of 2019 and 2018 comprised the following:

	<b>Nine months ended 30 September 2019</b>	<b>Nine months ended 30 September 2018</b>
Revenue from mobile subscribers	8,690	7,093
Interconnect revenue	1,856	1,846
Other revenue	317	278
<b>Total</b>	<b>10,863</b>	<b>9,217</b>

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

---

#### 5. COST OF SERVICES

Cost of services for the nine months ended 30 September 2019 and 30 September 2018 comprised the following:

	<b>Nine months ended 30 September 2019</b>	<b>Nine months ended 30 September 2018</b>
Interconnect expenses	1,229	1,116
Electricity and other production costs	736	626
Radio frequency usage costs	616	594
Roaming expenses	227	287
Salaries and social contributions, production	153	144
Other direct costs	31	21
<b>Total</b>	<b>2,992</b>	<b>2,788</b>

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

Selling, general and administrative expenses for the nine months ended 30 September 2019 and 30 September 2018 comprised the following:

	<b>Nine months ended 30 September 2019</b>	<b>Nine months ended 30 September 2018</b>
Salaries and social contributions	917	592
Advertising and marketing expenses	324	240
Dealers commission	242	204
General office expenses	173	129
Billing and data processing	122	130
Taxes other than income tax	69	53
Other	92	63
<b>Total</b>	<b>1,939</b>	<b>1,411</b>

The growth of salaries and social contributions is driven by extension of Group's retail trading activity (LLC VF Retail).

#### 7. CASH AND CASH EQUIVALENTS

As of 30 September 2019, cash on current bank accounts was held in three reputable banks – JSC "UkrSibbank", JSC "Credit Agricole Bank", JSC "ING Bank Ukraine", located in Ukraine (as of 31 December 2018: in five reputable banks located in Ukraine). Cash equivalents include cash in transit in amount of UAH 37 million (as of 31 December 2018: UAH 65 million) which is cash paid by subscribers but not yet received from financial institutions.

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

Cash and cash equivalents comprised the following:

	<u>Deposit rates</u>	<u>30 September 2019</u>	<u>Deposit rates</u>	<u>31 December 2018</u>
<b>Cash and cash equivalents at banks and on hand in:</b>				
Ukrainian Hryvnia		724		560
Euro		168		467
US Dollars		22		4
<b>Short-term deposits with an original maturity of less than 92 days:</b>				
Ukrainian Hryvnia	14.6%-15.65%	1,153	17.5%-18.5%	1,233
Euro		-	0.25%	365
<b>Total cash and cash equivalents</b>		<b><u>2,067</u></b>		<b><u>2,629</u></b>

## 8. SHORT-TERM INVESTMENTS

Short-term investments represent time deposits, which have original maturities of longer than three months and are repayable in less than twelve months. Short-term investments comprised the following:

	<u>Deposit rates</u>	<u>30 September 2019</u>	<u>Deposit rates</u>	<u>31 December 2018</u>
Euro	0.3%	329	0.25%	324
Ukrainian Hryvnia	15.75%	153		-
<b>Total short-term investments</b>		<b><u>482</u></b>		<b><u>324</u></b>

## 9. TRADE AND OTHER RECEIVABLES

Trade and other receivables current comprised the following:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Roaming	257	186
Subscribers	152	154
Interconnect	110	140
Other trade receivables	34	18
Dealers	32	51
Other receivables	5	13
Allowance for ECL	(52)	(66)
Receivables from factor for sold investments in distressed banks Delta bank and Kyivskaya Rus to a factor (100% credit-impaired)	961	961
Cash balance in distressed bank Platinum bank	250	250
Allowance for ECL on distressed banks credit impaired receivables	(1,211)	(1,211)
<b>Trade and other receivables</b>	<b><u>538</u></b>	<b><u>496</u></b>

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

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

	<u>Network and base station equipment</u>	<u>Land and buildings</u>	<u>Office equipment, vehicles and other</u>	<u>Construction in progress and equipment for installation</u>	<u>Total</u>
<b>Property and equipment</b>					
<b>Nine months ended 30 September 2019</b>					
Additions	668	7	13	1,400	<b>2,088</b>
Transferred into use	1,030	42	164	(1,224)	<b>12</b>
Disposals (net book value)	(13)	-	-	(17)	<b>(30)</b>
<b>Nine months ended 30 September 2018</b>					
Additions	474	7	11	1,222	<b>1,714</b>
Transferred into use	1,274	41	74	(1,381)	<b>8</b>
Disposals (net book value)	(2)	-	(1)	(3)	<b>(6)</b>
<b>Other intangible assets</b>					
			<u>Licenses</u>	<u>Billing and other software</u>	<u>Total</u>
<b>Nine months ended 30 September 2019</b>					
Additions			6	598	<b>604</b>
Disposals (net book value)			-	-	<b>-</b>
<b>Nine months ended 30 September 2018</b>					
Additions			2,601	706	<b>3,307</b>
Disposals (net book value)			-	-	<b>-</b>

#### 11. TRADE AND OTHER PAYABLES

Trade and other payables current comprised the following:

	<u>30 September 2019</u>	<u>31 December 2018</u>
Trade accounts payable	472	486
Accounts payable for property, equipment and intangible assets	710	714
Accrued liabilities	395	297
Accrued payroll and vacation	118	70
<b>Trade and other payables total</b>	<b><u>1,695</u></b>	<b><u>1,567</u></b>

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

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

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

<b>Lease of:</b>	<b>30 September 2019</b>	<b>31 December 2018</b>
Sites for placement of network and base station equipment	2,268	2,408
Retail store	396	375
Exclusive rights for trademarks	375	600
Administrative buildings	96	57
Vehicles	13	16
Channels	-	3
<b>Rights-of-use assets, net</b>	<b>3,148</b>	<b>3,459</b>

Depreciation charge of the right-of-use assets for the nine months ended 30 September 2019 and 30 September 2018 was as follows:

	<b>Nine months ended 30 September 2019</b>	<b>2018</b>
Sites for placement of network and base station equipment	194	161
Retail store	89	18
Exclusive rights for trademarks	225	225
Administrative buildings	26	20
Vehicles	3	2
Channels	1	10
<b>Depreciation charge, total</b>	<b>538</b>	<b>436</b>

Additions to the assets leased during the nine months ended 30 September 2019 and 30 September 2018 amounted to UAH 241 million and UAH 578 million, respectively.

Interest expense accrued on lease obligations the nine months ended 30 September 2019 and 30 September 2018 amounted to UAH 419 million and UAH 354 million, respectively.

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as at 30 September 2019:

	<b>30 September 2019</b>
<b>Minimum lease payments, including:</b>	
Current portion (less than 1 year)	1,007
More than 1 to 5 years	2,715
Over 5 years	2,981
<b>Total minimum lease payments</b>	<b>6,703</b>
Less amount representing interest	(3,285)
<b>Present value of minimum lease payments, including:</b>	
Current portion (less than 1 year)	915
More than 1 to 5 years	1,591
Over 5 years	912
<b>Total present value of minimum lease payments</b>	<b>3,418</b>
Less current portion of lease obligations	(916)
<b>Non-current portion of lease obligations</b>	<b>2,502</b>

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

The table below represents changes in the Group's lease obligations during the nine months ended 30 September 2019:

	<b>Lease obligations</b>
<b>1 January 2019</b>	<b>3,658</b>
New obligations arising during the year	241
Modifications of existing leases	23
Termination of leases	(82)
Accrued interest	419
Payment of principal	(342)
Payment of interest	(419)
Foreign exchange gain	(80)
<b>30 September 2019</b>	<b>3,418</b>

### 13. BORROWINGS

The Group's borrowings comprise the following:

	<b>30 September 2019</b>	<b>31 December 2018</b>
Notes, related parties	-	2,951
Vendor financing	15	47
<b>Total borrowings</b>	<b>15</b>	<b>2,998</b>
Less: current portion	(15)	(142)
<b>Total borrowings, non-current</b>	<b>-</b>	<b>2,856</b>

#### Notes

As of 31 December 2018 the Group's notes consisted of Capital Valentine B.V. international notes issued to Dega Retail Holding Limited, a fellow subsidiary of MTS, in EUR due 2021 at interest rate 9.20%.

In March 2019, the Group repaid principal and coupon (interest accrued to date) of Notes due in 2021 in the amount of EUR 90 million (UAH 2,745 million as of the repayment date).

The table below details changes in the Group's Notes and vendor financing:

	<b>Notes</b>	<b>Vendor financing</b>
<b>31 December 2017</b>	<b>-</b>	<b>85</b>
Principal received	2,917	-
Accrued interest	195	10
Payment of principal	-	(36)
Payment of interest	(96)	(11)
Foreign exchange gain	(65)	(1)
<b>31 December 2018</b>	<b>2,951</b>	<b>47</b>
Accrued interest	57	4
Payment of principal	(2,745)	(27)
Payment of interest	(150)	(6)
Foreign exchange gain	(113)	(3)
<b>30 September 2019</b>	<b>-</b>	<b>15</b>



## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

#### 14. PROVISIONS

The following table summarizes totals in provisions as at 30 September 2019 and 31 December 2018:

	Tax provisions other than for income tax	Provision for decom- missioning and restoration	Employee bonuses and other rewards	Other provisions	Total
<b>At 31 December 2018</b>	<b>4</b>	<b>228</b>	<b>139</b>	<b>40</b>	<b>411</b>
Current	4	-	135	40	<b>179</b>
Non-current	-	228	4	-	<b>232</b>
Arising during the year	17	6	150	5	<b>178</b>
Utilised	-	(5)	(166)	-	<b>(171)</b>
Discount rate adjustment and imputed interest (change in estimates)	-	47	-	-	<b>47</b>
Unused amounts reversed	(1)	-	(6)	-	<b>(7)</b>
<b>At 30 September 2019</b>	<b>20</b>	<b>276</b>	<b>117</b>	<b>45</b>	<b>458</b>
Current	20	-	117	45	<b>182</b>
Non-current	-	276	-	-	<b>276</b>

Other provisions as at 30 September 2019 in amount of UAH 45 million consist mainly of a provision for present liability on a claim on protection against unfair competition initiated by the Antimonopoly Committee of Ukraine in amount of UAH 40 million.

Change in discount rate used for calculation of provision for decommissioning and restoration in 2019 is driven by transition from WACC to risk-free rate, effect of about UAH 19 million.

#### 15. OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities comprised the following:

	30 September 2019	31 December 2018
VAT payable	150	29
Taxes payable other than income tax	83	9
<b>Total other non-financial liabilities</b>	<b>233</b>	<b>38</b>

Taxes payable at 30 September 2019 in amount of UAH 83 million mainly consist of a present liability on a fee for the use of radio frequency resource of Ukraine in amount of UAH 55 million (at 31 December 2018: nil) and present liability on social contributions in amount of UAH 20 million (at 31 December 2018: UAH 7 million).

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

#### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are represented by trade and other receivables and payables, cash and cash equivalents, short-term investments, borrowing and lease obligations. The fair values are not materially different to their carrying value, since the interest receivable or payable is either close to current market rates or the instruments are short-term in nature.

#### 17. RELATED PARTIES

Related parties include entities under common ownership with the Group, affiliated companies and associated companies.

##### Terms and conditions of transactions with related parties

Outstanding balances as of 30 September 2019 and 31 December 2018 were unsecured and settlements are made on a cash basis. There have been no guarantees provided or received for any related party receivables or payables. As 30 September 2019 and 31 December 2018, the Group had no impairment of receivables relating to significant amounts owed by related parties or expenses recognized during the years ended 30 September 2019 and 31 December 2018 in respect to bad or doubtful debts from related parties. The Group receives and provides volume discounts under roaming agreements with the parent company and accounts for discounts as a reduction of roaming expenses and revenue. The resulting receivable and payable are recognized in the accompanying interim condensed consolidated statement of financial position.

Accounts receivable from, accounts payable and advances paid and prepaid expenses to related parties were as follows:

	<u>30 September 2019</u>	<u>31 December 2018</u>
<b>Accounts receivable</b>		
MTS Belarus, MTS's associate	3	1
MTS, parent company	43	52
<b>Total accounts receivable, related parties – current</b>	<b>46</b>	<b>53</b>
<b>Total advances paid and prepaid expenses</b>	<b>3</b>	<b>6</b>
<b>Accounts payable, excluding PPE, other intangible assets and dividends</b>		
MTS Belarus, MTS's associate	-	1
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	12	18
MTS, parent company	18	49
Stream, a subsidiary of MTS	16	8
ITM Ukraine, a subsidiary of MTS	4	5
<b>Total accounts payable , excluding PPE, other intangible assets and dividends</b>	<b>50</b>	<b>81</b>
<b>Accounts payable PPE and other intangible assets</b>		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	47	75
ITM Ukraine, a subsidiary of MTS	-	6
<b>Total accounts payable PPE and other intangible assets</b>	<b>47</b>	<b>81</b>
<b>Dividends payable</b>		
MTS	2,297	2,297
Preludium B.V.	797	797

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

	<b>30 September 2019</b>	<b>31 December 2018</b>
PPT Telecom	-	8
<b>Total dividends payable</b>	<b>3,094</b>	<b>3,102</b>
<b>Total accounts payable, related parties</b>	<b>3,191</b>	<b>3,264</b>
<b>Advances paid and prepaid expenses</b>		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	3	6

The Group makes advances for the purchase of property and equipment, intangible assets and other assets to related parties which are summarized as follows:

	<b>30 September 2019</b>	<b>31 December 2018</b>
<b>Advances given for property, plant and equipment and other intangible assets</b>		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	1	10
MTS, parent company	-	3
<b>Total advances given for property, plant and equipment and other intangible assets</b>	<b>1</b>	<b>13</b>

As of 31 December 2018 the Group's borrowings represent interest bearing notes issued (EUR 90 million with interest rate 9.20%) in the capital markets by structured entity Capital Valentine B.V. The noteholder of Capital Valentine B.V. International Notes due 2021 is Dega Retail Holding Limited, a subsidiary of MTS.

As of 30 September 2019 the Group had repaid principal and coupon (interest accrued to date) of Notes (see Note 13).

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

	<b>Nine months ended 30 September</b>	
	<b>2019</b>	<b>2018</b>
<b>Purchases of property, plant and equipment, intangible assets and other assets:</b>		
MTS, parent company	6	12
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	285	257
ITM Ukraine, subsidiary of MTS	39	84
Stream, subsidiary of MTS	9	-
<b>Total purchases of property, plant and equipment, intangible assets and other assets</b>	<b>339</b>	<b>353</b>

## PrJSC VF UKRAINE AND SUBSIDIARIES

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated*

#### Operating transactions

For the nine months ended 30 September 2019 and 30 September 2018 operating transactions with related parties were as follows:

	Nine months ended 30 September	
	2019	2018
<b>Revenue from related parties</b>		
MTS, parent company (telecommunication services, roaming and interconnect services)	303	286
MTS Belarus, the Group's associate (telecommunication and interconnect services)	4	2
K-Telekom, subsidiary of MTS (telecommunication and interconnect services)	1	3
Stream, subsidiary of MTS (telecommunication services, netting of content services)	(55)	(47)
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS (billing, data processing services and repair and maintenance services)	6	-
<b>Total revenue from related parties</b>	<b>259</b>	<b>244</b>
<b>Costs of services incurred on transactions with related parties</b>		
MTS, parent company (roaming and interconnect services, advertising services, billing, data processing services and line rental services)	(295)	(278)
MTS Belarus, MTS's associate (telecommunication and interconnect services)	(3)	(2)
K-Telekom, subsidiary of MTS (telecommunication and interconnect services)	(1)	(3)
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS (billing, data processing services and repair and maintenance services)	(48)	(56)
ITM Ukraine (billing, data processing services and repair and maintenance services)	(11)	(10)
Stream (telecommunication services)	-	-
<b>Total costs of services incurred on transactions with related parties</b>	<b>(358)</b>	<b>(349)</b>
<b>Selling, general and administrative expenses and costs incurred on transactions with related parties</b>		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	(3)	(3)
MTS, parent company (trademark)	(3)	(8)
<b>Total SG&amp;A incurred on transactions with related parties</b>	<b>(6)</b>	<b>(11)</b>

#### Remuneration of key management personnel

During the nine months ended 30 September 2019 and 30 September 2018 key management personnel's total remuneration amounted to UAH 62 million and UAH 45 million, respectively.

## 18. COMMITMENTS AND CONTINGENCIES

#### Capital commitments

As of 30 September 2019, the Group had unexecuted purchase agreements of approximately UAH 672 million to network equipment, tangible and intangible assets that were still in progress (31 December 2018: UAH 602 million).

## **PrJSC VF UKRAINE AND SUBSIDIARIES**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated***

---

#### **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), fee for the use of radio frequency resource of Ukraine, payroll (social) taxes and other. Transactions with non-resident related parties may be subject to transfer pricing compliance, in case the transactions with related non-resident per year exceeds UAH 10 million.

Compliance with tax and custom 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 authorities 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. As of 30 September 2019 the tax periods 2015 - 2019 remains open for the tax audits in respect to corporate income tax.

During the year ended 31 December 2018 and preceding periods, the Group paid dividends to non-resident shareholder. Taking into account an interest of the tax authorities to cross-border transactions, as well as due to Ukraine's attempts to implement BEPS measures, tax authorities may scrutinize these transactions and interpret them differently. The effect of any such claim may be significant and may materially affect financial results of the Group.

The management analyzed and monitored the transactions on a regular basis and believes them fully comply with the applicable tax laws.

In case of a different interpretation by the tax authorities of this issue, the Group estimated the risk of possible claim of tax liabilities in the amount of not more than UAH 188 million and a penalty of UAH 47 million.

#### **Litigation**

In the ordinary course of business, the Group is a party to various legal, tax and customs proceedings, and subject to claims.

However, such processes either as a whole or separately, did not have a material adverse effect on the Group. The Group assessed the risks of the negative issue and, in the case of a high level of risk, made a provision for such litigation.

#### **Political and economic crisis in Ukraine**

The Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 2.5% year on year for the six-month periods ended 30 June 2019 (2018: 2.8%), modest annual inflation of 9.0% (2018: 13.2%), and stabilization of national currency.

Also, Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhansk and Donetsk regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union ("EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the export and import to/from Russia substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

## **PrJSC VF UKRAINE AND SUBSIDIARIES**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019 *Amounts in millions of Ukrainian Hryvnias unless otherwise stated***

---

In terms of currency regulations, the new currency law was adopted in 2018 and came into force on 7 February 2019. It purports to enable the NBU to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further economic growth depends, largely, upon success of the Ukrainian government in realization of planned reforms and cooperation with the International Monetary Fund ("IMF").

#### **19. PENSIONS AND RETIREMENT PLANS**

The Group's contributions to the State Pension Fund during nine months ended 30 September 2019 and 30 September 2018 amounted to UAH 166 million and UAH 123 million, respectively.

#### **20. SUBSEQUENT EVENTS**

##### **Change of ownership**

On 25 November 2019, MTS PJSC and Telco Solutions and Investments LLC signed a binding agreement according to which Telco Solutions and Investments LLC acquired PrJSC VF Ukraine from MTS for cash consideration of USD 734 million (including approximately USD 84 million earn-out). The deal was closed on 3 December 2019. Upon completion of the deal, the new Supervisory Board of PrJSC VF Ukraine was formed from top managers and board members of telecommunications company Bakcell LLC and NEQSOL Holding. Nasib Hasanov is ultimate beneficiary of Telco Solutions and Investments LLC, NEQSOL Holding international group of companies and Bakcell LLC.

Subsequent to the closure of the deal, PrJSC VF Ukraine entered into the rights to funds pledge agreement with Raiffeisen Bank International AG to secure the full and timely performance of all present and future liabilities and obligations owing or incurred under the facility agreement between Telco Solutions and Investments LLC with J.P. Morgan Securities plc and Raiffeisen Bank International AG by its cash and deposit accounts at banks (with the total amount of UAH 1,578 million at the date of the agreement). Also, 100% of PrJSC VF Ukraine shares with face value of UAH 8 million was pledged under facility agreements with J.P. Morgan Securities plc and Raiffeisen Bank International AG (99% by Preludium B.V. and 1% by PPT Telecom).

##### **Dividends**

In October 2019 dividends in the amount of USD 31 million (UAH 757 million as of the repayment date) were paid to Preludium B.V.

On 6 December 2019 dividends in the amount of UAH 406 million were paid to Telco Solutions and Investments LLC in accordance to the conditions of agreement with MTS PJSC. In connection with that, on 3 December 2019 the Group paid withholding tax at a rate of 5% in the amount of UAH 115 million and made corporate profit tax advance payment in the amount of UAH 129 million.

#### **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 10 January 2020.