PrJSC VF Ukraine and Subsidiaries

Consolidated Financial Statements
for the Year Ended 31 December 2018

PrJSC VF UKRAINE AND SUBSIDIARIES

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To Shareholders of Private Joint Stock Company "VF Ukraine":

Opinion

We have audited the consolidated financial statements of Private Joint Stock Company "VF Ukraine" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in shareholders' equity, and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Accuracy and timeliness of revenue recognition given the complexity of IT systems The Group's consolidated revenue is a material amount formed from a large number of individually insignificant transactions. The Group is using complex information systems, including automated billing systems and integrated accounting systems, to recognize revenue.	Our audit procedures on testing of revenue and assessment of IT systems included the following: 1. Analysis of the information technology environment that ensure the functioning of telecommunication billing and other IT systems related to accounting for revenue; 2. Detailed analysis of IT systems and business processes that are relevant to revenue recognition in order to identify risks of material misstatement of the consolidated financial statements arising from IT systems and key business processes and appropriate controls that address those risks;

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
We consider this to be a key audit matter due to the fact that accurate and timely recognition of revenue, to a large extent, depends on the correct functioning of those systems. Potential deficiencies in the work of those systems and risks of incorrect processing of data by those systems may have a material impact on the revenue recognized in the Group's consolidated financial statements. See Note 6 "Revenue from contracts with customers".	3. Testing design, implementation, and operating effectiveness of controls, both manual and automated, in the process of recording revenue, including in the following areas: recording and registering calls, their duration, rendering data transfer and additional services; authorizing changes in tariff plans and entering this information into automated calculation systems; 4. Testing reconciliations of the information about duration, volume and monetary amounts of telecommunication services provided from initial recording of billable events by switching equipment to billing and other IT systems and further to the accounting records and the amounts reported in the consolidated financial statements; 5. Performing test calls and checking the correctness of data about calls (their registration, duration, and correct billing) recorded in IT systems; 6. Sample reconciling of data on the existing tariffs for communication services recorded in the billing systems to tariffs and public offer plans approved by the Group. We have also reviewed the Group's accounting policy with respect to recognition of revenue from the provision of services to subscribers and insured that the existing policy is appropriate and applied consistently.
Early adoption of IFRS 16, *Leases* As disclosed in Note 2 to the consolidated financial statements the Group has early adopted IFRS 16, Leases, as of 1 January 2018. The Group applied a transition option provided by the standard not to restate the comparative periods as a result of its adoption. We consider this to be a key audit matter because the early adoption of the standard required the Group to modify existing business processes, IT systems and control procedures, had a material impact on the consolidated financial statements and required the Group's management to apply significant judgement, in particular, when determining whether the contract is, or contains, a lease, the lease term and discount rates. See Note 2 "Summary of significant accounting policies and new accounting pronouncements" and Note 27 "Right-of-use assets and lease obligations".	Our audit procedures on implementation of IFRS 16 included the following: 1. Testing Group's internal controls over the formation of a registry of lease agreements and the identification of key inputs required in the measurement of right-of-use assets and lease liabilities. 2. Analysis as to whether the Group's accounting policy was in line with IFRS 16, as well as verification of its appropriate application by means of sample-based analysis of Group's accounting for particular lease contracts, which included an analysis of: determining whether the contract is, or contains, a lease; identification of lease components within the contract as a lease separately from non-lease components of the contract; correctness of the identification and classification of lease payments and the assessment of right-of-use assets and lease liabilities; assessment of the discount rate; assessment of the lease term; compliance of methods used in measurement of right-of-use asset and lease liability with the requirements of the new standard; accuracy of management's calculations. 3. Assessment of completeness and consistency of disclosures in the consolidated financial statements with the requirements of the new standard on leases.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

LLC "Deloitte & Touche USC"

Olga Shamrytska,
Engagement Partner

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

10 December 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2018	2017
Service revenue	6	12,531	11,703
Sales of goods	6	268	28
Revenue		**12,799**	**11,731**
Cost of services	7	(3,714)	(4,329)
Cost of goods	14	(261)	(68)
Selling, general and administrative expenses	8	(2,022)	(2,292)
Depreciation and amortization	15,16,17,27	(4,088)	(2,758)
Other operating income/(expenses)		62	(25)
Operating profit		**2,776**	**2,259**
Finance income	9	165	132
Finance costs	9	(745)	(24)
Currency exchange gain		11	236
Other expenses		-	(1)
Profit before tax		**2,207**	**2,602**
Income tax expense	10	(460)	(470)
Profit for the year		**1,747**	**2,132**
Total comprehensive income for the year		**1,747**	**2,132**

Signed on behalf of the Group's Management:

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

The notes on pages 9 to 43 form an integral part of these consolidated financial statements.

PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property and equipment	15	9,456	8,618
Right-of-use assets	27	3,459	-
Other intangible assets	16	7,258	4,646
Cost to obtain contracts	17	200	-
Deferred tax assets	10	596	846
Total non-current assets		**20,969**	**14,110**
Current assets			
Inventories	14	188	42
Trade and other receivables	13,21	496	1,702
Accounts receivable, related parties	21,23	53	529
Short-term investments	12	324	-
Advances paid and prepaid expenses		109	72
VAT receivable		216	251
Current income tax assets		44	-
Cash and cash equivalents	11,21	2,629	707
Total current assets		**4,059**	**3,303**
Total assets		**25,028**	**17,413**
Equity and liabilities			
Equity			
Common stock	24	8	8
Other components of equity		2	2
Retained earnings		11,836	10,738
Total equity		**11,846**	**10,748**
Non-current liabilities			
Notes payable, related parties	23	2,854	-
Borrowings	19	2	38
Lease obligation	27	2,779	-
Provisions	20	232	64
Contract liabilities	22	1	3
Total non-current liabilities		**5,868**	**105**
Current liabilities			
Trade and other payables	18,21	1,567	1,739
Accounts payable, related parties	21,23	3,264	3,294
Contract liabilities	22	1,245	1,139
Interest on notes payable, related parties	19,23	97	-
Borrowings	19	45	47
Lease obligation	27	879	-
Income tax liabilities		-	114
Provisions	20	179	166
Other non-financial liabilities		38	61
Total current liabilities		**7,314**	**6,560**
Total equity and liabilities		**25,028**	**17,413**

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

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PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	Common stock		Retained earnings	Other components of equity	Total equity
	Shares	Amount			
Balances at 1 January 2017	**781,662,116**	**8**	**10,006**	**2**	**10,016**
Profit/(loss) for the year	-	-	2,132	-	**2,132**
Total comprehensive (loss)/income for the year	**-**	**-**	**2,132**	-	**2,132**
Dividends declared	-	-	(1,400)	-	**(1,400)**
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 year	-	-	1,747	-	**1,747**
Total comprehensive (loss)/income for the year	**-**	**-**	**1,747**	**-**	**1,747**
Dividends declared	-	-	(805)	-	**(805)**
Balances at 31 December 2018	**781,662,116**	**8**	**11,836**	**2**	**11,846**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Elena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 9 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
Amounts in millions of Ukrainian Hryvnias unless otherwise stated

	2018	2017
Cash flows from operating activities		
Profit for the period	1,747	2,132
Adjustments for:		
Depreciation and amortization	4,088	2,758
Finance income	(165)	(132)
Finance costs	745	24
Income tax expense	460	470
Currency exchange (gain)/loss	(11)	(235)
Inventory obsolescence expense	1	(1)
Allowance for doubtful accounts	14	9
Change in provisions for employee bonuses	169	121
Change in provisions for Antimonopoly Committee cases	(13)	53
Other non-cash items (gain from disposal of PPE, IA and right-of-use assets)	(51)	(14)
Movements in operating assets and liabilities		
Decrease/(Increase) in trade and other receivables and contract assets	1,591	(58)
Increase in inventory	(147)	(10)
(Increase)/Decrease in VAT receivable	42	(71)
Increase in advances paid and prepaid expenses	(36)	(6)
Increase in subscriber prepayments and deposits	128	116
Increase/(Decrease) in trade and other payables, contract liabilities and other liabilities	(478)	(1)
Income taxes paid	(402)	(258)
Cost to obtain and fulfill contracts, paid	(95)	-
Interest received	153	138
Interest paid, net of interest capitalised	(610)	(15)
Net cash provided by operating activities	7,130	5,020
Cash flows from investing activities		
Purchases of property and equipment	(2,752)	(3,383)
Purchases of other intangible assets (excl. cost to obtain contracts)	(1,456)	(1,407)
Purchase of 4G licenses	(2,433)	-
Proceeds from sale of property and equipment	31	27
Placement of short-term investments	(322)	-
Net cash used in investing activities	(6,932)	(4,763)
Cash flows from financing activities		
Proceeds from issuance of Notes	2,917	-
Notes and debt issuance cost paid	(7)	-
Lease obligation principal paid	(334)	-
Dividends paid	(730)	(1,022)
Repayment of loans	(36)	(25)
Net cash provided by/(used in) financing activities	1,810	(1,047)
Net increase/(decrease) in cash and cash equivalents	**2,008**	**(790)**
Cash and cash equivalents, beginning of the period	**707**	**1,445**
Effect of exchange rate changes on cash and cash equivalents	(86)	52
Cash and cash equivalents, end of the period	**2,629**	**707**
Non-cash transactions		
Additions of property and equipment through vendor financing	-	-
Effect of upward revision of Assets retirement obligations	140	6
Effect of VAT for CAPEX purchases	1	(64)
Foreign exchange difference	6	(7)

Signed on behalf of the Group's Management:

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

The notes on pages 9 to 43 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION AND DESCRIPTION OF BUSINESS

VF Ukraine Private Joint-Stock Company (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.

The consolidated financial statements include the Company's and its subsidiaries' ("the Group" or "VF Ukraine") results as of 31 December 2018 and 2017, and for the years ended 31 December 2018 and 2017.

Business of the Group

The Group provides a wide range of telecommunications services including voice and data transmission, internet access, various value added services ("VAS") through wireless, pay TV, as well as the sale of equipment and accessories. The Group conducts operational activity in Ukraine. On 15 October 2015, PrJSC "VF Ukraine" signed a strategic agreement with Vodafone Sales and Services Limited on the cooperation and use of Vodafone brand in Ukraine.

PrJSC "VF Ukraine" is the Parent Company that exercises control over the subsidiaries such as LLC VF Retail, LLC IT SmartFlex and also include Capital Valentine B.V., established in the Netherlands, as a consolidated structured company in order to raise the funds for the benefit of PrJSC "VF Ukraine".

The purpose of the Limited Liability Company VF Retail ("VF Retail") is to stimulate the sales of phones and smartphones for smartphonization of the Ukrainian population.

Limited Liability Company IT SmartFlex ("IT SmartFlex") did not start its operations as of 31 December 2018.

By the end of 2018, the number of full-time employees of the Group had reached over 3,400 persons (2017: 2,800 persons).

VF Ukraine PJSC's majority shareholder is Preludium B.V. (hereinafter "Preludium"), a company incorporated under Dutch law. Preludium holds since 2015 directly 99% of the shares in VF Ukraine and 100% of the shares in PTT Telecom Kiev. As of 31 December 2018 Preludium was indirect subsidiary of Mobile TeleSystems Public Joint-Stock Company or MTS ("parent company").

On 3 December 2019 Preludium was sold to Telco Solutions and Investments LLC controlled by telecommunications company Bakcell LLC, which is a part of NEQSOL Holding international group of companies (see Note 29).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Basis of consolidation

The 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 the 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 as of 31 December 2018 of PrJSC "VF Ukraine" is the 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. Exchange rate differences are recognized in profit or loss.

Effective ownership interests in the Group's significant subsidiaries were the following:

	Accounting method	31 December 2018	31 December, 2017
LLC "VF Retail"	Consolidated	100.0%	100.0%
LLC "ITSF"	Consolidated	100.0%	-

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. The company was incorporated in January 2018 as commercial finance company with the purpose to provide financing to PrJSC "VF Ukraine". PrJSC "VF Ukraine" has control over Capital Valentine B.V. as its activity is limited to provision of financing to the Company, its capital is insufficient for operating activity as a separate entity and voting powers of direct shareholder are limited to administrative matters. The consolidation of special purpose entity had the following effect on the consolidated financial statements of the Group at 31 December, 2018 – Capital Valentine B.V. issued notes to a related party for a total amount of EUR 90 million and granted a loan to PrJSC "VF Ukraine" for a total amount of EUR 90 million for a period of 35 months. The loan and notes were fully repaid after the balance sheet date (see Note 29).

Standards, interpretations and amendments adopted on 1 January 2018

Starting from 1 January 2018 the Group has applied IFRS 9, *Financial Instruments*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, *Leases*.

IFRS 9, *Financial Instruments* (hereinafter IFRS 9)

IFRS 9 replaces the existing standard IAS 39 in regulating the classification and measurement of financial assets and liabilities and requires certain additional disclosures. The primary changes relate to provisioning for potential future credit losses on financial assets as well as recognition of modification gain or loss for all revisions of estimated payments or receipts, including changes in cash flows arising from a modification or exchange of a financial liability, that does not result in its derecognition.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

The new guidance on the classification of financial assets did not result in any material changes in the measurement and presentation of the Group's financial assets. The following table compares the classification of financial assets in accordance with IFRS 9 and IAS 39, *Financial Instruments: Recognition and Measurement*:

	Classification		31 December 2017	1 January 2018
	IAS 39	IFRS 9		
Trade and other receivables	Loans and receivables	At amortized cost	1,702	1,698
Accounts receivable, related parties	Loans and receivables	At amortized cost	529	529
Cash and Cash equivalents	Loans and receivables	At amortized cost	707	707
Total			**2,938**	**2,934**

The Group recognized the cumulative effect arising from the transition to IFRS 9 as an adjustment to the opening balance of equity. Prior period comparatives have not been restated.

IFRS 15, *Revenue from Contracts with Customers* (hereinafter IFRS 15)

The standard establishes a single comprehensive framework for the determination and recognition of revenue to be applied to all contracts with customers. IFRS 15 replaces the existing standards IAS 18, *Revenue*, and IAS 11, *Construction Contracts*. The core principle of IFRS 15 is that an entity should recognize revenue to accurately reflect the transfer of promised goods or services to customers in an amount that is equal to the consideration to which the entity expects to be entitled in exchange for those goods or services.

The most significant impact of the adoption of IFRS 15 on the Group's consolidated financial statements related to the deferral of certain incremental costs, which were incurred in acquiring contracts with customers.

The Group utilized the option for simplified initial application, meaning that those contracts that were not completed by 1 January 2018 were recognized as if they had been accounted for under IFRS 15 from the very beginning. The cumulative effect arising from the transition amounted to UAH 160 million gain and was recognized as an adjustment to the opening balance of equity. The prior period comparatives were not restated.

The effects of implementation of IFRS 15 on the Group financial statements as of 31 December 2018 are summarized in Note 3.

IFRS 16, Leases (hereinafter IFRS 16)

The standard requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. The standard also includes a new definition of a lease and requirements for its presentation, new disclosures requirements and changes in the accounting for sale and leaseback transactions.

The Group elected for an early adoption of the IFRS 16 standard effective as of 1 January 2018 concurrent with the adoption of the new IFRS 15 standard on revenue recognition.

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- Relief from the requirement to reassess whether a contract is, or contains the lease for contracts existing as of 1 January 2018;
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The weighted average borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application was 17.46%.

The reconciliation between the operating lease commitments disclosed under IAS 17, *Leases* as of 31 December 2017 discounted at the weighted average rate and lease liability recognized under IFRS 16 at 1 January 2018 is presented below:

	1 January 2018
Operating lease commitments	585
Operating lease commitments discounted at 17.46%	457
Lease liability under IFRS 16	3,143
Difference	**2,686**
Thereof:	
Lease liability related to exclusive right to use trademark	900
Extension options reasonably certain to be exercised	1,786

The most significant difference between the discounted value of the operating lease commitments as of 31 December 2017 and the value of lease liability under IFRS 16 recognised at 1 January 2018, pertains to the requirements of the previously applied standard IAS 17 that in determining its lease operating commitments, the Group only considers future payments under the non-cancellable period of leases. Under the new lease standard, when determining a lease liability, the Group is required to consider existing extension options which are reasonably certain to be exercised.

The Group has not restate comparative for 2017 reporting period, as permitted under the specific transitional provision in IFRS 16. The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2018. The effects of IFRS 16 adoption on the Group's consolidated statement of financial position as of 1 January 2018 are presented below:

	31 December 2017 as originally presented	**IFRS 16 adjustments**	**1 January 2018 (Restated)**
Assets			
Non-current assets			
Right-of-use assets	-	3,143	3,143
Total non-current assets	**14,110**	**3,143**	**17,253**
Total assets	**17,413**	**3,143**	**20,556**
Equity and liabilities			
Equity			
Retained earnings	10,738	-	10,738
Total equity	**10,748**	**-**	**10,748**
Non-current liabilities			
Lease obligation	-	2,439	2,439
Total non-current liabilities	**105**	**2,439**	**2,544**
Current liabilities			
Lease obligation	-	704	704
Total current liabilities	**6,560**	**704**	**7,264**
Total equity and liabilities	**17,413**	**3,143**	**20,556**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Other standards, interpretations and amendments adopted by the Group on 1 January 2018 had no effect on the Group's consolidated financial statements.

Standards, interpretations and amendments in issue but not yet effective

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

Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*(1)
IFRIC 23	*Uncertainty over Income Tax Treatments*(1)
Amendments to IFRS 9	*Prepayment Features With Negative Compensation*(1)
Amendments IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle(1)
Amendments to Conceptual Framework	*Conceptual Framework in IFRS standards*(2)
Amendments to IFRS 9, IAS 39 and IFRS 7	*Rate Benchmark Reform* (2)
IFRS 17	*Insurance Contracts*(3)
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*(4)

(1) Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

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

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

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

These IFRS pronouncements are not expected to have a material impact on the Group's consolidated financial statements.

3. EFFECT FROM IFRS 15 IMPLEMENTATION

The effects of IFRS 15 adoption on the Group's consolidated statement of financial position as of 1 January 2018 are presented below:

	31 December 2017 as originally presented	IFRS 15 adjustments	1 January 2018 (Restated)
Assets			
Non-current assets			
Costs to obtain contracts	-	180	180
Deferred tax asset	846	(35)	811
Total non-current assets	**14,110**	**145**	**14,255**
Total assets	**17,413**	**145**	**17,558**
Equity and liabilities			
Equity			
Retained earnings	10,738	160	10,898
Total equity	**10,748**	**160**	**10,908**
Non-current liabilities			
Contract liabilities	3	(3)	-
Total non-current liabilities	**105**	**(3)**	**102**
Current liabilities			
Trade and other payables	1,739	10	1,749
Contract liabilities	1,139	(22)	1,117
Total current liabilities	**6,560**	**(12)**	**6,548**
Total equity and liabilities	**17,413**	**145**	**17,558**

As a result of implementation of IFRS 15, the Group capitalized certain incremental costs incurred in acquiring a contract with a customer which include commissions paid to a third-party distributors as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer (See Note 17).

As a result of implementation of IFRS 15, the Group accounted for performance obligations on provision of TV and music content as an agent as the Group does not control such services before transfer to the customer.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Critical accounting estimates

A critical accounting estimate is an estimate that is both important to the presentation of the Group's financial position and requires management's most difficult, subjective or complex judgments, often as a result of the need to determine estimates and develop assumptions about the outcome of matters that are inherently uncertain.

Management evaluates such estimates on an on-going basis, based upon historical results, historical experience, trends, consultations with experts, forecasts of the future, and other methods which management considers reasonable under the circumstances. Management considers the accounting estimates discussed below to be its critical accounting estimates, and, accordingly, provides an explanation of each.

Depreciation and amortization of non-current assets

Depreciation and amortization expenses are based on management estimates of useful life, residual value and amortization method of property and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and management views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for new technologies. Critical estimates in the evaluations of useful lives for intangible assets include, but are not limited to, the estimated average customer relationship based on churn, the remaining license period and the expected developments in technology and markets.

The useful lives of property and equipment and intangible assets are reviewed at least annually, taking into consideration the factors mentioned above and all other important relevant factors. The actual economic lives of intangible assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of intangible assets with finite lives.

The Group continues to evaluate the amortization period for intangible assets with finite lives to determine whether events or circumstances warrant revised amortization periods. A change in estimated useful lives is a change in accounting estimate, and depreciation and amortization charges are adjusted prospectively. See Note 15, 16 for further information.

Right-of-use assets and lease liabilities

The value of right-of-use assets and lease liabilities is based on management estimates of lease terms as well as an incremental borrowing rate used to discount lease payments. The lease term corresponds to the non-cancellable period of each contract, however, in the most cases the Group is reasonably certain of exercising renewal options and therefore lease terms are extended to 10-20 years (See Note 27). When assessing the lease term the management considers all facts and circumstances that create the economic incentive for the Group to excise the option to extend the lease, such as the useful life of the asset located on the leased site, statistics on sites replacement, sequence of technology change, marginality of retail stores as well as costs to terminate or enter into lease contracts. The incremental borrowing rate of the Group is determined based on the credit spreads of the Group's loan offers from banks in relation to zero-coupon yield curve for government securities.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Changes in these factors could affect the estimated lease term and the reported value of right-of-use assets and lease liabilities.

Critical judgements

Provisions and contingencies

The Group is subject to various legal proceedings, disputes and claims, including regulatory discussions related to the Group's business, tax positions, where the outcomes are subject to significant uncertainty. The management evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss or related expense. Unanticipated events or changes in these factors may require the Group to increase or decrease the amount recorded or to be recorded for a matter that has not been previously recorded because it was not considered probable. See Note 25 for further information.

5. 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.

The "Other" category does not constitute a reportable segment. It includes the results of LLC VF Retail and LLC IT SmartFlex that do 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:

Year ended 31 December 2018:	**Mobile business**	**Other**	**HQ and elimination**	**Consolidated**
Revenue				
External customers	12,623	176	-	12,799
Intersegment	13	105	(118)	-
Total revenue	**12,636**	**281**	**(118)**	**12,799**
Operating profit	2,909	(127)	(6)	2,776
Depreciation and amortization	4,069	24	(5)	4,088
OIBDA	**6,978**	**(103)**	**(11)**	**6,864**
Other disclosure:				
Capital expenditures	6,693	112	-	6,805

The consolidated operating profit is reconciled to the consolidated profit before tax on the face of the consolidated statement of profit or loss.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Disaggregation of revenue:

Year ended 31 December 2018:	**Mobile business**	**Other**	**Total**
Revenue			
Mobile services	12,526	5	**12,531**
Sales of goods	97	171	**268**
Total revenue	**12,623**	**176**	**12,799**

All revenue is generated in Ukraine, including revenue from roaming and interconnect received from foreign counterparties, as services are rendered in Ukraine.

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is recognized to the extent that the Group has delivered goods or rendered services under an agreement, the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration receivable, exclusive of value added taxes, 7.5% State Pension Fund tax and discounts.

The Group obtains revenue from providing mobile telecommunication services (access charges, messaging, interconnect fees, TV and musical content and connection fees), as well as selling equipment, accessories. Products and services may be sold separately or in bundle packages. The most significant part of revenue relates to prepaid contracts.

Revenue for access charges, messaging, interconnect fees is recognized as services are rendered. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or passage of time (monthly subscription fees). Revenue from the sale of prepaid credit is deferred until such time as the customer consumes the services or the credit expires. This leads to the recognition of what is known as a contract liabilities on the statement of financial position (see Note 22) and higher cash flows from operations in the year the prepaid credit is provided to the customer while consummation takes place in subsequent years.

Revenue from the provision of TV and music content is recognized as the Group renders the service and is recorded in the amount of commission fee receivable by the Group (acts as an agent) under IFRS 15, *Revenue From Contracts with Customers* as the Group does not control such services before transfer to the customer.

The Group recognizes initial connection fees on its prepaid tariff plans from the activation of subscribers over the terms of the contract, during which the parties have existing rights and obligations secured by legal protection that is a month under Ukrainian legislation.

Revenue from sales of goods (mainly mobile handsets and other mobile devices) is recognized when the significant risks and rewards of ownership have been transferred to the customer.

For bundled packages, the Group accounts for individual products and services separately if they are distinct, which means that a product or service, as well as the customer benefit, is separately identifiable from other items in the bundled package and a customer can benefit from it.
The arrangement consideration is allocated to each separate product and service, based on its relative fair value. The determined fair value of individual elements is generally based on prices at which the deliverable is regularly sold on a stand-alone basis after considering any appropriate volume discounts. Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both trade receivables and service revenue.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

The Group provides retrospective volume discounts under roaming agreements with international mobile operators. To estimate the variable consideration in relation to these discounts, the Group uses original data traffic adjusted on a monthly basis to reflect newly-available information. The resulting liability for the expected future discounts is recognized as a reduction of revenue within trade and other payables in the accompanying consolidated statement of financial position. Service revenue for the years ended 31 December 2018 and 2017 comprised the following:

	2018	2017
Revenue from mobile subscribers	9,687	9,126
Interconnect revenue	2,479	2,163
Other revenue	365	414
Total	**12,531**	**11,703**

Total sales of goods for year ended 31 December 2018 amounted UAH 268 million (31 December 2017: UAH 28 million).

Comparative information under IAS 18, *Revenue*

Revenue recognition

Revenue included all revenues from the ordinary business activities of the Group. Revenues were measured at the fair value of the consideration received or receivable and recorded net of value-added tax. The Group recognized revenue when the amount of revenue and related costs can be measured reliably; when it was probable that future economic benefit was flow to the Group; and when specific criteria have been met.

Content revenue recognized on a gross basis as the Group considered as a primary obligor in the arrangement under IAS 18, *Revenue*.

Upfront fees received for connection of new subscribers ("connection fees") were deferred and recognized over the estimated average subscriber life (12 months as of 31 December 2017).

7. COST OF SERVICES

Cost of services for the years ended 31 December 2018 and 2017 comprised the following:

	2018	2017
Interconnect expenses	1,494	1,566
Electricity and other production costs	834	1,158
Radio frequency usage costs	794	775
Roaming expenses	363	480
Salaries and social contributions, production	199	184
Cost of value added services and other direct costs	30	166
Total	**3,714**	**4,329**

Prior to the adoption of IFRS 16 on 1 January 2018, other production costs included rent expenses.

Before application of IFRS 15 on 1 January 2018, the Group accounted provision of TV and music content ("Cost of value added services") on principal basis.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2018 and 2017 comprised the following:

	2018	2017
Salaries and social contributions	845	667
Advertising and marketing expenses	355	619
Dealers commission	272	419
General office expenses	187	163
Billing and data processing	172	183
Taxes other than income tax	105	99
Other	86	142
Total	**2,022**	**2,292**

Before application of IFRS 16 on 1 January 2018, the Group accounted for agreement on usage of Vodafone trademark under IAS 17 and classified these expenses as part of advertising and marketing expenses.

9. FINANCE INCOME AND COSTS

Finance income and costs for the years ended 31 December 2018 and 2017 comprised the following:

	2018	2017
Interest expense:		
– Notes payable and vendor financing (financial liabilities at amortized cost)	205	15
– Amortization of debt issuance costs	7	-
– Lease obligations(1)	503	-
– Provisions: unwinding of discount	30	9
Total interest expense	**745**	**24**
Total finance costs	**745**	**24**
Interest income:		
– Interest income on bank deposits (financial assets at amortized cost)	165	132
Finance income	**165**	**132**
Net finance (costs)/income	**(580)**	**108**

(1) Starting from 1 January 2018 the Group has applied IFRS 16, *Leases*.

10. INCOME TAX

Income taxes of the Group have been calculated in accordance with Ukrainian legislation and are based on the taxable profit for the period. The corporate income tax rate in Ukraine is 18%.

Standard Ukrainian withholding tax rate applicable to dividend distribution is 15%, however, the Double Tax Treaty between Ukraine and the Netherlands on the avoidance of double taxation (the DTT) provides a possibility to apply reduced 0% or 5% tax rate to dividend income. During dividend distribution in favor of Preludium B.V. the Company applied reduced withholding tax rate of 5% under the DTT.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Significant components of income tax expense for the years ended 31 December 2018 and 2017 were as follows:

	2018	**2017**
Current income tax charge	244	381
Deferred tax	216	89
Total tax expense for the period	**460**	**470**

The statutory income tax rates in Ukraine for 2018 and 2017 was at the rate 18%:

	2018	**2017**
Statutory income tax rate for the year	**18.0**	**18.0**
Adjustments:		
Effect of IFRS 16 tax non-deductible expenses	1.5	-
Loss of subsidiary VF Retail for which no deferred tax asset was recognised	1.2	-
Expenses not deductible for tax purposes	0.1	0.1
Effective income tax rate	**20.8**	**18.1**

The Group reported the following deferred income tax assets and liabilities in the consolidated statement of financial position:

	31 December 2018	**31 December 2017**
Deferred tax assets	596	846
Net deferred tax assets	**596**	**846**

Movements in the deferred tax assets and liabilities for the year ended 31 December 2017 were as follows:

	1 January 2017	**Recognised in profit/loss**	**31 December 2017**
Assets/(liabilities) arising from tax effect of:			
Provision for receivables from factor and cash balance in distressed bank	396	(32)	364
Depreciation of property and equipment	277	42	319
Deferred connection fees and subscriber prepayments	158	(92)	66
Accrued expenses	74	9	83
Allowance for doubtful accounts	15	(3)	12
Assets retirement obligations	8	3	11
Other	7	(16)	(9)
Net deferred tax asset	**935**	**(89)**	**846**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Movements in the deferred tax assets and liabilities for the year ended 31 December 2018 were as follows:

	31 December 2017	Adjustment on initial application of new IFRS standards	Recognised in profit/loss	31 December 2018
Assets/(liabilities) arising from tax effect of:				
Provision for receivables from factor and cash balance in distressed bank	364	-	(146)	218
Depreciation of property and equipment	319	-	(23)	296
Deferred connection fees and subscriber prepayments	66	-	(61)	5
Accrued expenses	83	-	(19)	64
Allowance for doubtful accounts	12	1	(1)	12
Assets retirement obligations	11	-	30	41
Capitalization of cost to obtain and fulfill contracts	-	(35)	(5)	(40)
Other	(9)	-	9	-
Net deferred tax asset	**846**	**(34)**	**(216)**	**596**

Tax losses of subsidiary VF Retail, for which deferred tax assets were not recognized in the consolidated statement of financial position as of 31 December, 2018 amounted to UAH 148 million.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash on hand and in bank accounts, as well as short-term bank deposits, which have original maturities of less than three months. As of 31 December 2018, cash on current bank accounts was held in five reputable banks – JSC "Raiffeisen Bank Aval", JSC "Credit Agricole Bank", JSC "Citibank", JSC "ING Bank Ukraine", JSC "Ukrsibbank" located in Ukraine (as of 31 December 2017: in five reputable banks located in Ukraine, respectively). Cash equivalents include cash in transit in amount of UAH 65 million (as of 31 December 2017: UAH 58 million) which is cash paid by subscribers but not yet received from financial institutions.

Cash and cash equivalents comprised the following:

	Deposit rates	31 December 2018	Deposit rates	31 December 2017
Cash and cash equivalents at banks and on hand in:				
Ukrainian Hryvnia		560		338
Euro		467		253
US Dollars		4		6
Short-term deposits with an original maturity of less than 92 days:				
Ukrainian Hryvnia	17.5%-18.5%	1,233	12.5%	110
Euro	0.25%	365		-
Total cash and cash equivalents		**2,629**		**707**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

12. 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. As of 31 December 2018 time deposits were nominated in EUR at interest rate 0.25% and amounted to UAH 324 million (2017: nil). Short-term investments of the Group are measured at amortized costs.

13. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at transaction price and 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 impaired if past due for more than 180 days.

ECL on receivables other than from subscribers are measured on 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 investigations.

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 accompanying consolidated statement of financial position. Such receivables are settled once a year.

Trade and other receivables current comprised the following:

	31 December 2018	31 December 2017
Roaming	186	1,403
Subscribers	154	154
Interconnect	140	151
Dealers	51	54
Other trade receivables	18	5
Other receivables	13	1
Allowance for ECL (IFRS 9)	(66)	-
Allowance for doubtful accounts (IAS 39)	-	(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 (IFRS 9)	(1,211)	(1,211)
Trade and other receivables total	**496**	**1,702**

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

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

In 2015 the company entered in a factoring agreement in respect to cash balances deposited in distressed banks Delta Bank (UAH 1,627 million) and Kyivska Rus (UAH 328 million), under which the factor is obliged to reimburse the Group for 50% and 45% of cash balance, accordingly. As of 31 December 2017 receivables from factor in amount of UAH 961 million and cash in distressed bank in Platinum bank (UAH 250 million) were fully impaired due to high credit risk of counterparties. As of December 2018 recognized the lifetime ECL was estimated in the same amount as 100% credit-impaired significantly overdue receivables.

Trade receivables from roaming as of 31 December 2018 are presented net of UAH 79 million set off with respective trade payables for roaming (see Note 18) (as of 31 December 2017 UAH 248 million). Trade receivables from interconnect as of 31 December 2018 are presented net of UAH 92 million set off with respective trade payables for interconnect (see Note 18) (as of 31 December 2017 UAH 106 million).

The analysis of the age of trade and other accounts receivables and the respective allowance for ECL as of 31 December 2018:

Receivables from subscribers assessed for impairment based on provision matrix	Weighted-average loss rate	Gross carrying amount	Loss allowance (based on provision matrix)	Credit-impaired
Current	1%	99	(0.9)	No
1-30 days past due	19%	8	(1.5)	No
31-60 days past due	35%	3	(1.1)	No
61-90 days past due	60%	1	(0.7)	No
91-120 days past due	75%	1	(0.5)	No
121-150 days past due	85%	1	(1)	No
151-180 days past due	90%	1	(0.9)	No
More than 180 days past due	100%	40	(39.8)	Yes
Total	**30%**	**154**	**(46.4)**	

As of 31 December 2018 the Group recognized ECL in the amount of UAH 1,231 million for receivables other than from subscribers with gross carrying amount of UAH 1,619 million which was measured on individual basis based on past and forward-looking information.

The following table summarizes changes in the allowance for expected credit losses for the year ended 31 December 2018:

	2018
Balance, beginning of the year calculated under IAS 39	**(1,277)**
Additional allowance required under IFRS 9	(4)
Balance, beginning of the year, calculated under IFRS 9	**(1,281)**
Allowance for ECL	(14)
Accounts receivable written off	18
Balance, end of the year	**(1,277)**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Comparative information under IAS 39:

Trade and other receivables were stated at their nominal value as reduced by appropriate allowance for doubtful accounts. The Group provided an allowance for doubtful accounts based on management's periodic review with respect to the recoverability of trade receivables, advances given and other receivables. Such allowance reflected specific cases, collection trends or estimates based on evidence of collectability.

The analysis of the age of trade and other accounts receivables past due but not impaired:

	31 December 2017
Neither past due nor impaired	1,654
Past due, but not impaired:	
Less than 60 days	41
61-150 days	3
More than 150 days	4
Total	**1,702**

The following table summarizes changes in the allowance for doubtful accounts receivable:

	2017
Balance, beginning of the year	**(1,292)**
Allowance for doubtful accounts	(9)
Accounts receivable written off	24
Balance, end of the year	**(1,277)**

14. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. Handsets and accessories held for sale are expensed when sold. The Group regularly assesses its inventories for obsolete and slow-moving stock.

Inventory comprised the following:

	31 December 2018	31 December 2017
Handsets and accessories	159	18
Advertising and other materials	20	15
SIM cards and prepaid phone cards	9	9
Total inventories	**188**	**42**

Inventories at the end of 2018 increased due to the launch of VF Retail.

Other materials mainly consist of automotive and IT components, advertising, stationery, fuel and auxiliary materials.

Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

For the years ended 31 December 2018 and 2017, cost of goods comprised the following expenses:

	2018	**2017**
Cost of goods sold	260	69
Inventory obsolescence provision	1	-
Reversal of obsolescence provision	-	(1)
Total cost of goods	**261**	**68**

The reversal of the inventory obsolescence provision relates to handsets and accessories sold over the course of the Group's promotion campaigns.

15. PROPERTY AND EQUIPMENT

Property and equipment, including improvements, are stated at cost less impairment. Property and equipment with a useful life of more than one year is capitalized at historical cost and depreciated on a straight-line basis over its expected useful life, as follows:

Network and base station equipment:	
Network infrastructure	3-20 years
Other	3-15 years
Land and buildings:	
Buildings	20-50 years
Leasehold improvements	the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-20 years
Vehicles	3-7 years
Other	3-20 years

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal of an item of property and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Construction in progress and equipment held for installation is not depreciated until the constructed or installed asset is ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized.

Pursuant to IAS 36, property and equipment are tested for impairment when circumstances indicate that there may be a potential impairment.

Recoverable amounts of assets and cash generating units ("CGUs") are based on evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). A change of assumptions, particularly in relation to the discount rate and growth rate used to estimate the recoverable amounts of assets, could significantly impact results of the Group's impairment evaluation.

The Group calculates a provision for decommissioning and restoration (ARO) when the Group has a legal or constructive obligation in connection with the retirement of property and equipment (see Note 20).

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

The net book value of property and equipment as of 31 December 2018 and 2017 was as follows:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
Cost					
31 December 2016	**16,228**	**606**	**2,058**	**520**	**19,412**
Additions	1,085	6	15	2,213	**3,319**
Transferred into use	1,567	12	106	(1,685)	**-**
Disposal	(763)	(4)	(31)	(7)	**(805)**
31 December 2017	**18,117**	**620**	**2,148**	**1,041**	**21,926**
Additions	844	16	85	1,867	**2,812**
Transferred into use	2,033	44	174	(2,251)	**-**
Disposal	(582)	(2)	(25)	(6)	**(615)**
31 December 2018	**20,412**	**678**	**2,382**	**651**	**24,123**
Accumulated amortisation and impairment					
31 December 2016	**(10,624)**	**(228)**	**(1,503)**	**-**	**(12,355)**
Charge for the year	(1,541)	(23)	(184)	-	**(1,748)**
Disposal	762	4	29	-	**795**
31 December 2017	**(11,403)**	**(247)**	**(1,658)**	**-**	**(13,308)**
Charge for the year	(1,696)	(69)	(197)	-	**(1,962)**
Disposal	578	1	24	-	**603**
31 December 2018	**(12,521)**	**(315)**	**(1,831)**	**-**	**(14,667)**
Net book value					
31 December 2017	**6,714**	**373**	**490**	**1,041**	**8,618**
31 December 2018	**7,891**	**363**	**551**	**651**	**9,456**

The Group has secured its notes payable with the network and base station equipment with the net book value of UAH 2,161 million as of 31 December 2018 (nil as of 31 December 2017).

16. OTHER INTANGIBLE ASSETS

Other intangible assets primarily consist of billing, telecommunication, accounting and office software as well as numbering capacity and licenses. These assets are assets with finite useful lives. They are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Pursuant to IAS 36, other intangible assets with indefinite useful lives and intangible assets not yet brought into use must be tested for impairment annually or more often if indicators of impairment exist. Other assets are tested for impairment when circumstances indicate that there may be a potential impairment.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Recoverable amounts of assets and cash generating units ("CGUs") are based on evaluations, including the determination of the appropriate CGUs, the discount rate, estimates of future performance, the revenue generating capacity of the assets, timing and amount of future purchases of property and equipment, assumptions of the future market conditions and the long-term growth rate into perpetuity (terminal value). A change of assumptions, particularly in relation to the discount rate and growth rate used to estimate the recoverable amounts of assets, could significantly impact results of the Group's impairment evaluation.

Net book value of other intangible assets as of 31 December 2018 and 2017 was as follows:

	Licenses	Billing and other software	Numbering capacity	Total
Useful life, years	**1 to 19**	**1 to 15**	**1 to 15**	
Cost				
31 December 2016	**3,693**	**3,986**	**49**	**7,728**
Additions	373	1,216	-	**1,589**
Disposal	-	(71)	-	**(71)**
31 December 2017	**4,066**	**5,131**	**49**	**9,246**
Additions	2,849	1,144	-	**3,993**
Disposal	(81)	(508)	-	**(589)**
31 December 2018	**6,834**	**5,767**	**49**	**12,650**
Accumulated amortisation and impairment				
31 December 2016	**(645)**	**(2,972)**	**(44)**	**(3,661)**
Charge for the year	(251)	(757)	(2)	**(1,010)**
Disposal	-	71	-	**71**
31 December 2017	**(896)**	**(3,658)**	**(46)**	**(4,600)**
Charge for the year	(372)	(1,008)	(1)	**(1,381)**
Disposal	81	508	-	**589**
31 December 2018	**(1,187)**	**(4,158)**	**(47)**	**(5,392)**
Net book value				
31 December 2017	**3,170**	**1,473**	**3**	**4,646**
31 December 2018	**5,647**	**1,609**	**2**	**7,258**

In connection with providing telecommunication services, the Group has been issued with various GSM, UMTS, LTE radio frequencies licenses by the National Commission For The State Regulation Of Communications And Informatization. The amount of intangible assets generated internally was not significant.

In March 2015, the Group acquired a nationwide license for the provision of UMTS (3G) telecommunications services through an open tender. The cost of the license was UAH 2,715 million and this was granted for 15 years. In accordance with the terms of the license, the Group was required to launch UMTS services in Ukraine by October 2016, and provide coverage throughout Ukraine by April 2020.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

In accordance with the terms of the license, the Group also concluded agreements to convert the provided frequencies for commercial use with the Ministry of Defense of Ukraine, Ministry of Internal Affairs of Ukraine and State Service of Special Communications and Information Protection of Ukraine. For the conversion of frequencies, the Group paid UAH 358 million before 1 January 2017, UAH 299 million in 2017, and UAH 230 million in 2018. Conversion costs were capitalized and included in gross book value of licenses.

In January and March 2018, the Group secured a 4G LTE licenses in the 2510-2520/2630-2640 and 1780-1785/1875-1880 MHz bands as the result of a national auction. Period of licenses is 15 years. Under the terms and conditions of the LTE licenses, VF Ukraine is obligated to deliver LTE services to not less than 90% of the population in each regional center of Ukraine (with certain exceptions) within 12 months from the date when the licenses were effective. VF Ukraine is also obligated to deliver LTE services to at least 90% of the population in each population center with over 10,000 inhabitants (with certain exceptions) within 42 months from the issuance of the licenses. For the conversion of frequencies, VF Ukraine paid UAH 146 million in 2018.

The management believes that as of 31 December 2018, the Group is in compliance with conditions of the aforementioned licenses.

17. COSTS TO OBTAIN CONTRACTS

The Group capitalizes certain incremental costs incurred in acquiring a contract with a customer if the management expects these costs to be recoverable.

Costs of acquiring a contract include commissions paid to a third-party distributors as well as the associated remuneration of the Group's commercial employees for obtaining a contract with a customer. These costs are amortized on a straight-line basis over the average subscriber life (29 months).

The Group uses a practical expedient from IFRS 15 which allows to expense contract costs as incurred when the expected contract duration is one year or less.

As of 31 December 2018 and 1 January 2018 the balances of cost to obtain contracts capitalized by the Group amounted to:

	Costs to obtain contracts
Useful life, years	**3**
Cost	
31 December 2017	**-**
Effect on adoption of IFRS 15 (Note 3)	334
Additions	165
Disposal	-
31 December 2018	**499**
Accumulated amortisation and impairment	
31 December 2017	**-**
Effect on adoption of IFRS 15 (Note 3)	(154)
Charge for the year	(145)
Disposal	-
31 December 2018	**(299)**
Net book value	
31 December 2018	**200**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

18. TRADE AND OTHER PAYABLES

Trade and other payables current comprised the following:

	31 December 2018	31 December 2017
Trade accounts payable	486	606
Accounts payable for property, equipment and intangible assets	714	760
Accrued liabilities	297	313
Accrued payroll and vacation	70	60
Trade and other payables total	**1,567**	**1,739**

19. BORROWINGS

Group's borrowings represent vendor financing and notes issued in the capital markets. Borrowings are initially recorded at fair value plus transaction costs that are directly attributable to the issue of the financial liability.

The Group's borrowings comprise the following:

	31 December 2018	31 December 2017
Notes, related parties	2,951	-
Vendor financing	47	85
Total borrowings	**2,998**	**85**
Less: current portion	(142)	(47)
Total borrowings, non-current	**2,856**	**38**

Notes

The Group's notes consisted of Capital Valentine B.V. international notes issued in EUR due 2021 at interest rate 9.20%.

	Currency	Interest rate (actual at 31 December 2018)	31 December 2018
Notes due 2021	EUR	9.2%	2,951
Total notes			**2,951**
Including:			
- principal debt			2,854
- accrued interest			97
Total			**2,951**
Less: current portion			(97)
Total notes, non-current			**2,854**

The notes were fully repaid after the balance sheet date (see Note 29).

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Vendor financing

The Group's vendor financing, liabilities for the acquisition of property or equipment, consisted of the following:

	Currency	Interest rate (actual at 31 December 2018)	31 December 2018	31 December 2017
ZTE Corporation (2018-2019)	USD	16.0%-13.0%	32	62
ZTE Ukraine LLC (2018-2020)	UAH	28.0%	15	23
Total vendor financing			**47**	**85**
Including:				
- principal debt			30	64
- accrued interest			17	21
Total			**47**	**85**
Less: current portion			(45)	(47)
Total vendor financing, non-current			**2**	**38**

The table below represents changes in the Group's borrowings during the years ended 31 December 2018 and 2017:

	Notes	Vendor financing
31 December 2016	**-**	**110**
Accrued interest	-	15
Payment of principal		(25)
Payment of interest	-	(15)
31 December 2017	**-**	**85**
Principal received	2,917	-
Accrued interest	195	10
Payment of principal	-	(36)
Payment of interest	(96)	(11)
Foreign exchange gain	(65)	(1)
31 December 2018	**2,951**	**47**

The following table presents the aggregated scheduled maturities of principal and interests on notes and vendor financing (gross of debt issuance costs) outstanding for the three years ending 31 December 2021:

	As of 31 December 2018	
	Notes	Vendor financing
Payments due in the year ending 31 December		
2019	262	46
2020	263	5
2021	2,987	-
Contractual undiscounted cash flows	**3,512**	**51**
Less: interest	(658)	(21)
Total debt	**2,854**	**30**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

20. PROVISIONS

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the managements' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material. The main provisions the Group holds are in relation to employees' bonuses, decommissioning and restoration obligation, tax provisions as well as legal claims.

Provision for decommissioning and restoration

The Group calculates a provision for decommissioning and restoration when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. The Group's obligations relate primarily to the cost of removing its equipment from sites. The Group records the present value of provision for decommissioning and restoration as non-current provisions in the consolidated statement of financial position.

The following table summarizes the movement in provisions for the year ended 31 December 2018, and 2017:

	Tax provisions other than for income tax	Provision for decom-missioning and restoration	Employee bonuses and other rewards	Other provisions	Total
At 1 January 2017	**-**	**46**	**87**	**-**	**133**
Arising during the year	6	6	134	53	**199**
Utilised	-	-	(98)	-	**(98)**
Discount rate adjustment and imputed interest (change in estimates)	-	9	-	-	**9**
Unused amounts reversed	-	-	(13)	-	**(13)**
At 31 December 2017	**6**	**61**	**110**	**53**	**230**
Current 2017	6	-	107	53	**166**
Non-current 2017	-	61	3	-	**64**
At 1 January 2018	**6**	**61**	**110**	**53**	**230**
Arising during the year	(2)	140	172	41	**351**
Utilised	-	(3)	(140)	-	**(143)**
Discount rate adjustment and imputed interest (change in estimates)	-	30	-	-	**30**
Unused amounts reversed	-	-	(3)	(54)	**(57)**
At 31 December 2018	**4**	**228**	**139**	**40**	**411**
Current 2018	4	-	135	40	**179**
Non-current 2018	-	228	4	-	**232**

Other provisions as of 31 December 2018 in amount of UAH 40 million consist of a provision for present liability on a claim on protection against unfair competition. Antimonopoly Committee of Ukraine (AMCU) initiated a case against three leading telecommunications operators including PrJSC "VF Ukraine" due to provision of service packages during a reduced period (28 days) instead of full month.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

As of 31 December 2017 the Group provided a provision of UAH 54 million for potential fine in antitrust cast opened by the Antimonopoly Committee of Ukraine (AMCU) against the Company on regional tariffs. In October 2018 the case was closed in a favorable way for the Group. The provision for liability in amount of UAH 54 million was reversed and gain recognized in the consolidated statements of profit or loss for the year ended 31 December 2018.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 original maturity of more than three months). Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes notes, 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.

Financial assets and financial liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for a financial asset or liability accounted for at fair value through profit or loss, in which case transaction costs are expensed. Subsequently they are measured either at amortized cost or fair value depending on the classification of those assets and liabilities.

Financial assets can be classified as 1) financial assets at amortized cost; 2) financial assets at fair value through other comprehensive income; 3) financial assets at fair value through profit or loss. If the financial assets are held for collecting contractual cash flows in the form of principal and interest on the specified dates, it is classified as carried at amortized cost. If the financial assets are held not only for collecting contractual cash flows in the form of principal and interest on the specified dates, but also for potential sale, they are classified as measured at fair value through other comprehensive income. All other financial assets are classified as measured at fair value through profit or loss.

Financial liabilities can be classified as measured at fair value or at amortized costs.

Management of the Group believes that the fair values of financial instruments as of 31 December 2018 and 2017 approximate their carrying amounts.

The Group offsets its financial assets and financial liabilities only if it has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

As of 31 December 2018 and 2017 financial assets and financial liabilities of the Group comprised:

Financial assets

	31 December 2018	31 December 2017
Trade and other receivables (Note 13)	496	1,702
Accounts receivable, related parties (Note 23)	53	529
Cash and Cash equivalents (Note 11)	2,629	707
Short-term investments	324	-
Total financial assets at amortized cost	**3,502**	**2,938**
Total current financial assets	**(3,502)**	**(2,938)**
Total non-current financial assets	**-**	**-**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Financial liabilities

	31 December 2018	31 December 2017
Trade and other payables (Note 18)	1,457	1,647
Accounts payable, related parties (Note 23)	3,264	3,294
Loans and borrowings:		
Lease obligations (Note 27)	3,658	-
Notes, related parties (Note 19)	2,951	-
Vendor financing (Note 19)	47	85
Total loans and borrowings	**6,656**	**85**
Total financial liabilities at amortized cost	**11,377**	**5,026**
Total current financial liabilities	(5,742)	(4,988)
Total non-current financial liabilities	**5,635**	**38**

Maturity analysis

	31 December 2018			
	Trade and other payables	Accounts payable, related parties	Vendor financing	Notes, related parties
Due within three months	1,354	126	11	132
Due from three months to twelve months	103	3,138	36	130
Due from 1 year to 5 years	-	-	5	3,249
Less: future interest payments	-	-	(5)	(560)
Total	**1,457**	**3,264**	**47**	**2,951**

	31 December 2017		
	Trade and other payables	Accounts payable, related parties	Vendor financing
Due within three months	1,257	83	10
Due from three months to twelve months	390	3,211	37
Due from 1 year to 5 years	-	-	54
Less: future interest payments	-	-	(16)
Total	**1,647**	**3,294**	**85**

Maturity analysis for lease obligations see Note 27.

There were no transfers between the accounting categories of financial instruments during the years ended 31 December 2018 and 2017.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

22. CONTRACT LIABILITIES

Contract balances include trade receivables related to the recognized revenue and contract liabilities.

Trade receivables represent an unconditional right to receive consideration (primarily in cash).

Contract liabilities represent amounts paid by customers to the Group before receiving services promised in the contract. This is the case for advances received from customers or amounts invoiced or amounts invoiced and paid for goods or services that are yet to be transferred. Typically, subscribers make payments on a monthly basis and which are immediately debited to the monthly fee. Therefore, all contract liabilities are short-term. The credit period for subscribers is mainly 30 days, therefore, all receivables from subscribers are short-term.

The following table provides information about receivables and contract liabilities from contracts with customers:

	As of	
	31 December 2018	**1 January 2018**
Receivables	496	1,697
Total assets	**496**	**1,697**
Contract liabilities	1,246	1,142
Thereof:		
Mobile telecommunication services	1,205	1,096
Other services	29	28
Loyalty programme	12	18
Total liabilities	**1,246**	**1,142**
Less current portion	(1,245)	(1,139)
Total non-current liabilities	**1**	**3**

Changes in the contract assets and the contract liabilities balances during the period are as follows:

	Contract liabilities
Balance as of 1 January 2018	1,142
Revenue recognised that was included in the contract liability balance at the beginning of the period	(1,095)
Increase due to cash received, excluding amount recognised as revenue during the period	1,198
Balance as of 31 December 2018	**1,245**

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) as of 31 December 2018 as follows:

	2019	**2020**
Mobile bundle packages and other services and loyalty	1,233	-
Loyalty programme	12	1

Amount of performance obligations that were unsatisfied (or partially unsatisfied) for postpaid subscribers is not material. This is due to the fact that in most cases, contracts with postpaid subscribers are concluded for a non-determined period and can be terminated at any time without penalties.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

23. 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 31 December 2018 and 2017 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 of 31 December 2018 and 2017, the Group had no impairment of receivables relating to significant amounts owed by related parties or expenses recognized during the years ended 31 December 2018 and 2017 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 consolidated statement of financial position.

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

	31 December 2018	31 December 2017
Accounts receivable		
MTS Belarus, MTS's associate	1	32
MTS, parent company	52	497
Total accounts receivable, related parties – current	**53**	**529**
Total advances paid and prepaid expenses	**6**	**3**
Accounts payable		
MTS Belarus, MTS's associate	1	53
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	93	50
MTS, parent company	49	145
Stream, a subsidiary of MTS	8	17
ITM Ukraine, a subsidiary of MTS	11	2
Total accounts payable excluding dividends, related parties	**162**	**267**
Dividends payable		
MTS	2,297	2,297
Preludium B.V.	797	730
PPT Telecom	8	-
Total dividends payable	**3,102**	**3,027**
Total accounts payable, related parties	**3,264**	**3,294**

Dividends to MTS were declared during 2014 for the years ended 31 December 2012 and 2013 but were not paid due to regulatory limitations (see Note 24). Later, in 2015, the ownership structure changed and Preludium B.V. became a shareholder by transfer of shares from MTS.

	31 December 2018	31 December 2017
Advances paid and prepaid expenses		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	6	3

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

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

	31 December 2018	31 December 2017
Advances given for property and equipment and other intangible assets		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	10	8
MTS, parent company	3	-
Total advances given for property and equipment and other intangible assets	**13**	**8**

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

	2018	2017
Purchases of property and equipment, intangible assets and other assets:		
MTS, parent company	16	44
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	541	442
ITM Ukraine, subsidiary of MTS	145	47
Stream, subsidiary of MTS	3	7
Total purchases of property and equipment, intangible assets and other assets	**705**	**540**

Operating transactions

For the years ended 31 December 2018, 31 December 2017 operating transactions with related parties were as follows:

	2018	2017
Revenues from related parties		
MTS, parent company (telecommunication services, roaming and interconnect services)	378	502
MTS Belarus, the Group's associate (telecommunication and interconnect services)	-	3
K-Telekom, subsidiary of MTS (telecommunication and interconnect services)	5	3
Stream, subsidiary of MTS (telecommunication services, netting of content services)	(65)	1
Total revenues from related parties	**318**	**509**
Costs of services incurred on transactions with related parties		
MTS, parent company (roaming and interconnect services, advertising services, billing, data processing services and line rental services)	(374)	(549)
MTS Belarus, MTS's associate (telecommunication and interconnect services)	-	(2)
K-Telekom, subsidiary of MTS (telecommunication and interconnect services)	(4)	(12)
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS (billing, data processing services and repair and maintenance services)	(74)	(83)
ITM Ukraine (billing, data processing services and repair and maintenance services)	(13)	(14)
Stream (telecommunication services)	-	(41)
Total costs of services incurred on transactions with related parties	**(465)**	**(701)**
Selling, general and administrative expenses and costs incurred on transactions with related parties		
Sitronics Telecom Solutions Ukraine, a subsidiary of MTS	(4)	-
MTS, parent company (trademark)	(10)	(26)
Total SG&A incurred on transactions with related parties	**(14)**	**(26)**

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Group's borrowings represent interest bearing notes issued (EUR 90 million with interest rate 9.2%, equal to UAH 2,854 as of 31 December 2018) 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.

Remuneration of key management personnel

During the years ended 31 December 2018 and 2017 key management personnel's total remuneration amounted to UAH 54 million and UAH 41 million, respectively.

24. SHAREHOLDER'S EQUITY

The Company had a legal status of a Private Joint-Stock Company at 31 December 2018 and 2017.

Share capital (ordinary shares)

The Group had 781,662,116 authorized ordinary shares with par value UAH 0.01 as of 31 December 2018 and 2017, for a total amount of UAH 8 million.

The Company's major shareholders at 31 December 2018 and 2017 are presented in the table below:

		Ownership, %	
	Number of shares	31 December 2018	31 December 2017
Preludium B.V. (Netherlands)	773,845,495	99.0%	99.0%
PPT Telecom (Ukraine)	7,816,621	1.0%	1.0%
Total	**781,662,116**	**100%**	**100%**

Preludium B.V and PPT Telecom are ultimately controlled by MTS.

The declared capital of the Company as per its Charter was contributed in full at 31 December 2018 and 2017.

There were no share capital changes during the year ended 31 December 2018 and 2017.

Dividends

In accordance with Ukrainian laws, earnings available for dividends are limited to profits determined under Ukrainian statutory accounting regulations, denominated in Ukrainian Hryvnia, after certain deductions.

The following table summarizes the Group's declared cash dividends for the years ended 31 December 2018, and 2017:

	2018	2017
Dividends declared	805	1,400
Dividends per share, UAH	1.03	1.79

As of 31 December 2018 and 2017 dividends payable included in the Accounts payable, related parties within the consolidated statement of financial position.

On 13 April 2017, the National Bank of Ukraine adopted a resolution that allows the repatriation of dividends not only for 2014-2015, but also for 2016 and simplifies the mechanism of such payments: repatriation of dividends within one month for the specified years in a total amount of up to USD 5 million.

The NBU adopted a decree which cancelled the terms of repatriation of dividends to foreign shareholders of Ukrainian companies from 15 November 2017; currently, it is allowed the repatriation of dividends accrued by 2016 inclusive. The monthly limit on the repatriation of dividends for the period up to 2013 inclusive is an equivalent to of USD 2 million.

In March 2018, the NBU adopted a new resolution authorizing the repatriation of dividends, regardless of the period for which they are accrued within the monthly limit of USD 7 million.

On 4 January 2019 the NBU approved a new system of currency regulation and issued a roadmap of currency liberalization. The roadmap of currency liberalization, developed by the NBU together with IMF experts, stipulates the step-by-step removal of all currency restrictions in accordance with the pace of improvement of the macroeconomic conditions in Ukraine, as well as the adoption of a number of laws aimed at improving the quality of regulation of the non-banking financial market and preventing the unproductive outflow of capital from the country (the Draft Law on BEPS counteraction "On implementation of the Base Erosion and Profit Shifting Plan"). Among the main priorities of the NBU is the removal of a number of restrictions related to the conduct of foreign economic activities and the new investment disincentive in Ukraine, including reduction and/or cancellation of the limit on repatriation of dividends.

Despite this fact, it cannot be excluded that the restrictions on the repatriation of dividends will be again tightened in the future.

25. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 31 December 2018, the Group had unexecuted purchase agreements of approximately UAH 602 million to network equipment, tangible and intangible assets that were still in progress (31 December 2017: UAH 965 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), 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 31 December 2018 the tax periods 2015-2018 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

In 2018, the Ukrainian economy continued to recover from the economic and political crises of previous years and showed a steady increase in the real GDP equaling to 3.4% (in 2017 – 2.5%), the moderate inflation rate of 9.8% (in 2017 – 13.7%) and a slight devaluation of the national currency for about 2.4% against the US dollar and 8.2% against the euro compared to the average figures of the previous years.

Ukraine also continued to limit its political and economic relations with Russia due to the annexation of Crimea, an autonomous republic within Ukraine, as well as the frozen armed conflict with separatists in some districts of the Luhansk and Donetsk regions. In such circumstances, the Ukrainian economy has demonstrated further refocus on the European Union (EU) market, unlocking the full potential of the Deep and Comprehensive Free Trade Area with the EU, thus, effectively responding to the mutual trade restrictions imposed between Ukraine and Russia. As a result of it, the specific weight of export and import operations with Russia significantly decreased from 18.2% and 23.3% in 2014 to about 7.7% and 14.2% in 2018, respectively.

Regarding the currency regulation, the new currency law was adopted in 2018, which came into force on 7 February 2019. It provided the NBU with an opportunity to implement a more liberal currency regulation policy and to mitigate a number of currency restrictions, e.g.: the requirements to register the loans of non-residents with the NBU, the 180-day term for making payments under foreign economic transactions, the obligatory sale of 50% share of FX proceeds, etc.

The further economic growth mainly depends on the success of the Ukrainian government in the implementation of the upcoming reforms, cooperation with the International Monetary Fund ("IMF").

26. FINANCIAL RISK MANAGEMENT

As part of its business the Group is exposed to several types of financial risks: foreign currency risks, credit (or counterparty) risks, and liquidity risks.

Foreign currency risks

Foreign currency risk is the negative impact of foreign currency fluctuations on the Group's finance results (in UAH) as its incomes and expenses are dependent on foreign currency rates. The Group does not use derivative financial instruments for currency risk management.

Since the beginning of February 2014, the floating exchange rate is applied to USD.

Within the period of 2014-2017, the economic crisis in Ukraine, combined with political unrests and events in eastern Ukraine, led to the Hryvnia weakening. Thus, the Hryvnia exchange rate fell from UAH/USD 15.77 at the end of 2014, and up to UAH 27.19 at the end of 2016, respectively, as a result of a significant outflow of capital due to the continuing political instability in Ukraine. As of 31 December 2017, the Hryvnia exchange rate was UAH/USD 28.07. On 31 December 2018 – UAH/USD 27.69. The calculations of the state budget are based on the expected Hryvnia exchange rate of UAH/USD 29.4 as of the year-end. The NBU believes that the exchange rate volatility will slow down in 2019. However, large payments on foreign debts will determine the exchange rate risks in 2019. Many factors will contribute to the further US dollar exchange rate. Among them:

- The amount of foreign exchange earnings for Ukrainian exporters;

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

- The deficit of the foreign trade balance;
- Political elections in Ukraine;
- The global crisis (trade wars, stock markets falling);
- The possibility of external financing.

The weakening of the Hryvnia against the USD and/or EUR can increase expenses denominated in both Hryvnia and foreign currency.

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant.

	Change in rate		USD – effect on profit before tax	EUR – effect on profit before tax
	USD	**EUR**	**UAH million**	**UAH million**
2018	+5%	+5%	(3)	(88)
	-5%	-5%	3	88
2017	+10%	+10%	(4)	163
	-10%	-10%	4	(163)

The movement in the pre-tax effect is a result of a change in monetary assets and liabilities denominated in US dollars and Euro, where the functional currency of the entity is a currency other than US dollars and Euro.

There will be no material impact on equity.

The Group's exposure to foreign currency changes for all other currencies is not material.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

In 2018 Capital Valentine B.V. issued international notes in amount of EUR 90 millions at 9.2% per annum with semi-annual interest repayment due repayment in February 2021 (see Note 19).

The loan agreement implied compliance with covenants such as limitation for restricted payments (not to exceed EUR 50 million in aggregate), limitation on incurrence of indebtedness, liens, sale of asset, transactions with affiliates, etc. The restrictions include both ratios (Leverage Ratio и Fixed Charge Coverage Ratio) and some business activity restrictions: keeping the corporate existence; conditions for merger, consolidation and disposition of assets; requirements for asset and intellectual property maintenance; insurance; payment of taxes and other claims; other conditions and restrictions for conduct of business. In case of failure to respect the covenants, the noteholder has the right to report about the termination of its obligations as well as to report the loan due to immediate repayment. As of 31 December 2018 the Group has complied with covenants imposed by the loan agreement.

As of 31 December 2018 current liabilities exceeded current assets by UAH 3,255 million (31 December 2017: UAH 3,257 million). Current liabilities include non-financial liabilities in amount of UAH 1,245 million (see Note 22), and dividends to related parties in amount of UAH 3,102 million (see Note 23). During previous years the Company demonstrated positive trends in operating cash flows and made early repayment of Notes in subsequent period (see Note 29) which indicated the company's ability to avoid bankruptcy and continue its business as going concern. Management believes the Group has sufficient existing and continuing access to liquidity through both operating cash flows and credit facilities.

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations arising from entering into financial instrument, leading to a financial loss. Credit risk is not considered to be significant for the Group.

In March 2015, the NBU declared PJSC "Delta Bank" and PJSC "Kyivska Rus Bank" insolvent. At 31 December 2015 the funds placed in PJSC "Platinum Bank" fell in value and at the beginning of January 2017 PJSC "Platinum Bank" was declared insolvent too and liquidation procedure was initiated.

In 2015 the company entered in a factoring agreement in respect to cash balances deposited in distressed banks Delta Bank (UAH 1,627 million) and Kyivska Rus Bank (UAH 328 million) (see Note 13).

In July 2017, the confirmation was obtained that company was included in the Platinum Bank' list of creditors of the 7th line (amount of UAH 250 million).

The banking crisis, bankruptcy or financial insolvency of the banks wherein PrJSC "VF Ukraine" places its funds may lead to the loss of deposits or may have a negative impact on the Company's capability to perform the banking transactions that may cause the substantive negative consequences for business, financial position and results of activities.

27. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The Group's lease contracts largely relate to leases of cellular sites (i.e. land, space in cell towers or rooftop surface areas), network infrastructure, and retail stores as well as buildings used for administrative or technical purposes.

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements, which conveys the right to control the use of identified assets for a period of time in exchange for consideration, except for short-term leases (with a lease term of 12 months or less). For these leases, the Group recognizes the lease payments as operating expenses over the term of the lease. When identifying the lease, the Group uses practical expedient of IFRS 16 permitting the lessee not to separate the non-lease components of the contract and, instead, to account for any lease and associated non-lease components as a single arrangements.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate of the Group. The incremental borrowing rate of the Group is determined based on the credit spreads of the Group's loan offers from banks in relation to zero-coupon yield curve for government securities. The weighted average borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application was 17.46%. The lease payments include fixed payments, variable payments that depend on index or rate, amounts expected to be paid under residual value guarantee, the exercise price under a purchase option the Group is reasonably certain to exercise as well as early termination fees unless the Group is reasonably certain not to terminate earlier. Variable payments that depend on external factors (such as sale volume of a particular retail store) are expensed as incurred.

Lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recorded in profit or loss if the carrying amount of right-of-use asset had been reduced to zero.

Right-of-use assets are initially measured at cost, which is the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any direct costs incurred less any lease incentives received.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

Right-of-use assets are subsequently amortized on a straight-line basis over the expected lease term. The lease term corresponds to the non-cancellable period of each contract, however, in the most cases the Group is reasonably certain of exercising renewal options and therefore lease terms are extended to terms as described below. When assessing the lease term, the Group considers all facts and circumstances that create an economic incentive for the Group to exercise the option to extend the lease, such as useful life of the asset located on the leased site, sites replacement statistics, sequence of technology change, profitability of our retail stores as well as costs to terminate or enter into lease contracts.

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

Lease of:	
Sites for placement of network equipment and base stations on rooftops or inside the buildings	10 years
Sites for placement of network equipment and base stations on land	20 years
Channels	Up to 2 years
Retail stores	Up to 6 years
Administrative offices, warehouses, parking garages	Not less than 3 years
Vehicles	5 years
Exclusive rights for trademarks	3 years

Right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognize a provision for onerous lease contracts.

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

Lease of:	**1 January 2018**	**31 December 2018**
Sites for placement of network and base station equipment	2,060	2,408
Exclusive rights for trademarks	900	600
Retail stores	88	375
Administrative buildings	73	57
Channels	22	3
Vehicles	-	16
Rights-of-use assets, net	**3,143**	**3,459**

Depreciation of the rights-of-use assets for the twelve months ended 31 December 2018 included in depreciation and amortization expense in the accompanying consolidated statement of profit or loss was as follows:

Lease of:	**2018**
Exclusive rights for trademarks	300
Sites for placement of network and base station equipment	231
Retail stores	28
Administrative buildings	26
Channels	12
Vehicles	3
Depreciation charge, total	**600**

Additions to the assets leased during the twelve months ended 31 December 2018 amounted to UAH 881 million.

Interest expense accrued on lease obligations for the twelve months ended 31 December 2018 totaled UAH 503 million and was included in finance costs in the accompanying consolidated statements of profit or loss.

Amounts in millions of Ukrainian Hryvnias unless otherwise stated

As of 31 December 2018, expenses recognized in respect of variable lease payments not included on the measurement of lease liabilities and short-term leases amounted to UAH 6 million.

The following table presents future minimum lease payments under lease arrangements together with the present value of the net minimum lease payments as of 31 December 2018:

	31 December 2018
Minimum lease payments, including:	
Current portion (less than 1 year)	1,046
More than 1 to 5 years	2,965
Over 5 years	2,978
Total minimum lease payments	**6,989**
Less amount representing interest	(3,331)
Present value of net minimum lease payments, including:	
Current portion (less than 1 year)	950
More than 1 to 5 years	1,808
Over 5 years	900
Total present value of net minimum lease payments	**3,658**
Less current portion of lease obligations	(879)
Non-current portion of lease obligations	**2,779**

The table below represents changes in the Group's lease obligations during the year ended 31 December 2018:

	Lease obligations
1 January 2018	**3,143**
New obligations arising during the year	852
Modifications of existing leases	40
Accrued interest	503
Payment of principal	(334)
Payment of interest	(503)
Foreign exchange gain	(43)
31 December 2018	**3,658**

The Group's lease contracts include typical restrictions and covenants common for local business practice, such as the responsibility of the Group for regular maintenance and repair of the lease assets and their insurance, redesign and conduction of permanent improvements only with the consent of the lessor, and use of the leased asset in accordance with current legislation.

Comparative information under *IAS 17 Leases*

Accounting policy

Under IAS 17 leases were classified as finance or operating.

The Group classified all lease agreements as operating under IAS 17. Payments for operating leases were expensed on a straight-line basis over the term of the lease.

28. PENSIONS AND RETIREMENT PLANS

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund are recorded in the consolidated statement of profit or loss and other comprehensive income on the accrual basis. The Group companies are not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

Due to legislation of Ukraine contributions to the State Pension Fund include also obligatory payments for other kinds of social insurance related to loss of capacity for work incidents and others. The Group's contributions to the State Pension Fund during the years ended 31 December 2018 and 2017 amounted to UAH 164 million and UAH 130 million, respectively.

29. SUBSEQUENT EVENTS

Dividends

During 2019 dividends in the amount of UAH 8 million and USD 31 million (UAH 797 million as of the repayment date) were paid to PPT Telecom and Preludium B.V., respectively. No dividends were declared.

Repayments of Notes

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).

Change of ownership

On 25 November 2019 MTS PJSC and Telco Solutions and Investments LLC controlled by telecommunications company Bakcell LLC, which is a part of NEQSOL Holding international group of companies, signed a binding agreement according to which Telco Solutions and Investments LLC will acquire VF Ukraine from MTS for cash consideration of USD 734 m (including approximately USD 84 m earn-out). The deal was closed on 3 December 2019.

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.

30. AUTHORISATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Management of the Group on 10 December 2019.