PrJSC VF Ukraine

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2020

PrJSC VF UKRAINE AND SUBSIDIARIES

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Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Private Joint Stock Company "VF Ukraine" (the "Company" or "PrJSC VF Ukraine") and its subsidiaries (collectively - the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and comply, in all material respects, with the financial reporting requirements of the *Law on Accounting and Financial Reporting in Ukraine*.

Our auditor's report is consistent with our additional report to the Audit Committee dated 31 March 2021.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the Notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and the ethical requirements of the *Law on Audit of Financial Statements and Auditing* that are relevant to our audit of the consolidated financial statements in Ukraine. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

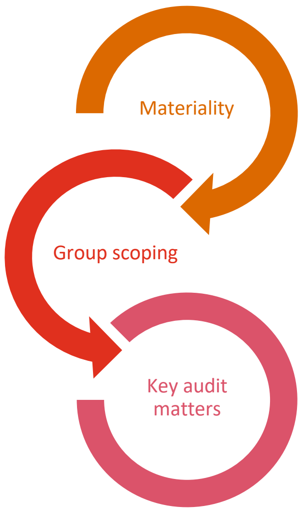
To the best of our knowledge and belief, we declare that the services we have provided to the Group are in accordance with the applicable law and regulations in Ukraine and that we have not provided non-audit services that are prohibited under Article 6 part 4 of the *Law on Audit of Financial Statements and Auditing*.

Emphasis of Matter

In accordance with the legislation in force as at the date of this audit report, the consolidated IFRS financial statements of the Company should be prepared in a single electronic format (iXBRL). As described in Note 2 to the consolidated financial statements, as of the date of this audit report management of the Group has not yet prepared the iXBRL report due to the circumstances described in Note 2 and plans to prepare and submit the iXBRL report during 2021. Our opinion is not modified with regard to this matter.

Our audit approach

Overview



- Overall Group materiality: UAH 240 million, which represents 2.5% of Operating Income Before Depreciation and Amortisation ("OIBDA") as disclosed in Note 4 to the consolidated financial statements.

- Our work consisted of a full scope audit of the parent company, PrJSC VF Ukraine, and risk assessment procedures and certain specified audit procedures for its subsidiaries.
- Audit coverage: Our audit covered 99% of consolidated revenues, OIBDA, profit before tax and consolidated total assets, respectively.

- Revenue recognition – accuracy and occurrence of service revenue.
- Identification of operating segments and cash-generating units.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	UAH 240 million
How we determined it	2.5% of OIBDA As disclosed in Note 4 of the consolidated financial statements, OIBDA is defined by the Company as profit before interest, tax, depreciation, amortization and impairment, net foreign exchange gains or losses and other non-operating gains/losses.
Rationale for the materiality benchmark applied	We used OIBDA as the primary benchmark based on our analysis of the common information needs of users of the financial statements. OIBDA is predominantly used by the Company's equity and debt holders to assess the financial performance of the Group, given the volatility of the Group's profit before taxes which is impacted by significant foreign currency fluctuations. OIBDA, as a quasi-earnings and cash flow based metric that is not based on generally accepted accounting principles, is mutually useful to both debt and equity holders for different reasons, and as the Group is in a relatively intensive capital expenditure sector it provides users insight into the potential future capacity to invest. On this basis, we believe that OIBDA is an important metric for the financial performance of the Group and, as such, an appropriate materiality benchmark. We chose 2.5%, which in our experience is within the range of acceptable quantitative materiality thresholds for this benchmark.

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.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition - accuracy and occurrence of service revenue Refer to Note 5 to the consolidated financial statements for the related disclosures. The total service revenues of the Group for the year ended 31 December 2020 amounted to UAH 17,202 million, comprising a high volume of relatively small transactions in combination with multiple pricing plans.	Our audit approach included sample-based testing of internal controls and performing substantive procedures, covering amongst others: • Understanding and testing the IT environment in which subscriber billing and other relevant support systems reside, including the change management and restricted access procedures in place. • Testing the design and operational effectiveness of the internal controls in the service revenue and accounts receivable business processes.

This significant item in terms of its amount is subject to considerable inherent risk around the accuracy and occurrence of the service revenue recorded due to:

- the complexity of the billing and other operating support systems, processes and controls necessary for identifying and properly recording service revenue; and
- the impact of ever-changing business, price and tariff models (including tariff structures, customer discounts, and incentives).

The magnitude as well as the increased risk requires substantial audit attention and effort with respect to the controls and substantive test procedures to be performed over the accuracy and occurrence of service revenue. Therefore, we consider this a key audit matter.

- Sample-based testing of the end-to-end reconciliation of the network captured activity of subscribers, from the mediation of subscriber activity to the billing systems and ultimately to the general ledger.
- Targeted testing of material manual journal entries made in the general ledger and the period end reporting process with respect to revenue.
- Performing sample-based tests on the accuracy of pre-paid subscriber activity by assessing the nature of the services rendered and that the appropriate tariffs were applied.
- Reconciling the consideration received for mobile services, including vouchers and other top-up transactions, to the total amount of revenue recognized from mobile subscribers.
- Generating independent subscriber events on the Group's network and reconciling these events with the billed and recorded amounts.
- Independently obtaining external third party confirmations from a sample of corporate customers, including international roaming and interconnect partners.

Identification of operating segments and cash-generating units

Refer to Notes 3 and 4 to the consolidated financial statements for the related disclosures.

Segment reporting disclosure in the consolidated financial statements is prepared on the basis of a single operating segment. The Group is engaged in providing telecommunication services and related products, including sales of mobiles devices and accessories through its chain of retail stores. The Group conducts its operational activity and generates revenue in Ukraine.

IFRS 8 *Operating Segments* requires companies to disclose segment information in a manner consistent with the way that chief operating decision makers ("CODM") regard the company ("through the eyes of management").

The identification of operating segments also has implications on the performance of impairment tests as operating segments are used to determine the level at which impairment testing is performed (goodwill cannot be allocated to a cash-generating unit ("CGU") larger than an operating segment before aggregation). As a result of the segment determination, the Group considers impairment as one CGU.

Our audit procedures included:

- Assessing the appropriateness of identification of the Group's CODM.
- Understanding how the CODM makes resource allocation decisions and assess performance of the Group's segments and sample-based testing of the reports that are regularly reviewed by the CODM for these purposes.
- Assessing the appropriateness of identification of CGU by analysis of the independence of cash flows generated by separate assets or group of assets and how the management monitors the Group's operations and makes decisions about continuing or disposing of the Group's assets and operations.
- Involving our technical accounting experts to assist us in the review of the accounting treatment for segment reporting and determination of the CGU for the purposes of impairment testing against the requirements of the relevant accounting standards.
- Assessing the adequacy of the disclosures made in the consolidated financial statements in respect to the guidelines provided in IFRS 8 *Operating Segments*, as well as the key judgments related to identification of operating segments and CGU and its impact on the performance of impairment testing.

Consequently, we consider the identification of operating segments and CGUs as a key audit matter, insofar as identifying the CODM and what information the CODM regularly reviews to assess performance and to make resource-allocation decisions is sensitive to management judgment and hence can have a material impact on the consolidated financial statements, including disclosures.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the Group engagement team. No other component auditors were used to perform the audit work.

PrJSC VF Ukraine is the parent company of a group of entities, as disclosed in Note 1 of the consolidated financial statements. The financial information of this group is included in the consolidated financial statements of PrJSC VF Ukraine.

PrJSC VF Ukraine was subjected to an audit of its complete financial information as this component is individually significant to the Group. Further, LLC VF Retail and VFU Funding PLC were selected for audit procedures limited to particular account balances and classes of transactions.

In total, in performing these procedures, we achieved the following coverage of the following financial line items:

Revenue	99%
OIBDA	99%
Profit before tax	99%
Total assets	99%

The remaining component represented less than 1% of total consolidated revenue, 1% of total consolidated OIBDA, 1% of total consolidated profit before tax or 1% of total consolidated assets. For the remaining component we performed, among other tests, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within this component.

By performing the procedures above at components, combined with additional procedures at the Company level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Other information including the consolidated management report

Management is responsible for the other information. The other information comprises the consolidated management report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the annual information of the issuer of securities, including the corporate governance report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, including the consolidated management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work undertaken in the course of our audit, in our opinion, the information given in the consolidated management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

When we read the annual information of the issuer of securities, including the corporate governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management, the Supervisory Board and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and financial reporting requirements of the *Law on Accounting and Financial Reporting in Ukraine*, and for such internal control as management determines is necessary to enable the preparation of the 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.

The Supervisory Board and the Audit Committee 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 scepticism 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

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 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group for the mandatory audit by the Supervisory Board resolution on 20 November 2020. This is the first year of our appointment.

The key audit partner on the audit resulting in this independent auditor's report is Victor Vyshnevsky.

LLC AF PricewaterhouseCoopers (Audit)

LLC AF "PricewaterhouseCoopers (Audit)"

Registration number in the Register of Auditors and Auditing Entities 0152

Victor Vyshnevsky

Registration number in the Register of Auditors and Auditing Entities 101817

31 March 2021

PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2020	2019
Service revenue	5	17,202	14,938
Sales of goods		940	1,045
Revenue		**18,142**	**15,983**
Cost of services	6	(4,595)	(3,983)
Cost of goods	14	(849)	(999)
Selling, general and administrative expenses	7	(3,161)	(2,774)
Depreciation and amortization		(4,801)	(4,703)
Other operating income, net	8	291	98
Operating profit		**5,027**	**3,622**
Net charge for expected credit losses of financial assets	13	(110)	-
Finance income	9	70	186
Finance costs	9	(1,492)	(650)
Net currency exchange (losses)/gains		(1,867)	71
Non-operating expenses		(32)	-
Profit before tax		**1,596**	**3,229**
Income tax expense	10	(395)	(690)
Profit for the year		**1,201**	**2,539**
Total comprehensive income for the year		**1,201**	**2,539**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 40 form an integral part of these consolidated financial statements.

PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2020

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property and equipment	15	10,058	10,110
Intangible assets	16	6,969	6,671
Right-of-use assets	19	3,966	4,347
Deferred tax assets	10	341	525
Costs to obtain contracts	17	233	242
Total non-current assets		**21,567**	**21,895**
Current assets			
Trade and other receivables	13	12,205	635
Cash and cash equivalents	11	2,820	1,434
Short-term investments	12	664	436
Inventories	14	159	255
Advances paid and prepaid expenses		156	92
Current income tax assets		63	2
Other non-financial current assets		156	241
Total current assets		**16,223**	**3,095**
Total assets		**37,790**	**24,990**
Equity and liabilities			
Equity			
Common stock	26	8	8
Other components of equity		2	2
Retained earnings		15,576	14,375
Equity attributable to the owners of the Company		**15,586**	**14,385**
Non-controlling interests		2	-
Total equity		**15,588**	**14,385**
Non-current liabilities			
Borrowings	20	12,793	-
Lease obligations	19	3,687	3,610
Provisions	21	504	287
Contract liabilities	24	1	4
Total non-current liabilities		**16,985**	**3,901**
Current liabilities			
Trade and other payables	18	1,441	3,747
Contract liabilities	24	1,446	1,377
Lease obligations	19	1,112	1,031
Provisions	21	559	277
Borrowings	20	315	4
Current income tax liabilities		18	-
Other financial liabilities		39	25
Other non-financial liabilities	22	287	243
Total current liabilities		**5,217**	**6,704**
Total equity and liabilities		**37,790**	**24,990**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Equity attributable to the owners of the Company				Non-controlling interests	Total equity
	Common stock	Other components of equity	Retained earnings	Total		
Balances at 1 January 2019	**8**	**2**	**11,836**	**11,846**	**-**	**11,846**
Profit for the year	-	-	2,539	**2,539**		**2,539**
Total comprehensive income for the year	**-**	**-**	**2,539**	**2,539**	**-**	**2,539**
Balances at 31 December 2019	**8**	**2**	**14,375**	**14,385**	**-**	**14,385**
Profit for the year	-	-	1,201	**1,201**	-	**1,201**
Total comprehensive income for the year	-	-	**1,201**	**1,201**	-	**1,201**
Non-controlling interests	-	-	-	-	2	**2**
Balances at 31 December 2020	**8**	**2**	**15,576**	**15,586**	**2**	**15,588**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 40 form an integral part of these consolidated financial statements.

PrJSC VF UKRAINE AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	2020	2019
Cash flows from operating activities:			
Profit before tax		1,596	3,229
Adjustments for:			
Depreciation and amortization		4,801	4,703
Finance income	9	(70)	(186)
Finance costs	9	1,492	650
Net currency exchange losses/(gains)		1,867	(71)
Net charge for expected credit losses of financial assets	13	110	-
Gain on derecognition of trade and other payables	8	(193)	-
Gain from lease termination and rent concessions	8	(76)	(37)
Change in provisions		933	698
Other non-cash items, net		(54)	32
Movements in operating assets and liabilities:			
Decrease/(Increase) in trade and other receivables		58	(162)
Decrease/(Increase) in inventory		101	(75)
Increase in other non-financial assets		(171)	(228)
(Increase)/Decrease in advances paid and prepaid expenses		(61)	17
Increase in subscriber prepayments and deposits		70	164
(Decrease)/Increase in trade and other payables and other liabilities		(234)	61
Utilized provisions	21	(654)	(690)
Income taxes paid		(254)	(577)
Interest received		73	195
Interest paid	19, 20	(1,021)	(719)
Net cash from operating activities		**8,313**	**7,004**
Cash flows from investing activities:			
Purchases of property and equipment		(2,309)	(2,754)
Purchases of intangible assets (excluding licences)		(1,475)	(1,034)
Purchase of spectrum licences	16	(267)	-
Proceeds from sale of property and equipment		36	53
Financial aid and loan provided to related parties	13	(11,618)	-
Proceeds/(placement) of short-term investments		5	(169)
Net cash used in investing activities		**(15,628)**	**(3,904)**
Cash flows from financing activities:			
Proceeds from borrowings	20	11,844	-
Repayment of borrowings	20	(963)	(2,774)
Repayment of other financial payables	18	(1,776)	-
Lease obligation principal paid	19	(524)	(512)
Dividends paid		-	(920)
Net cash from/(used in) financing activities		**8,581**	**(4,206)**
Cash and cash equivalents, beginning of the year	**11**	**1,434**	**2,629**
Net increase/(decrease) in cash and cash equivalents		1,266	(1,106)
Effect of exchange rate changes on cash and cash equivalents		120	(89)
Cash and cash equivalents, end of the year	**11**	**2,820**	**1,434**

Non-cash additions to property and equipment and intangible assets are disclosed in Notes 15, 16.
Non-cash additions to right-of-use assets and lease obligations are disclosed in Note 19.

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

1. BUSINESS DESCRIPTION

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

VF Ukraine is the parent company that exercises control over the following subsidiaries (together referred to as the "Group"): LLC "VF Retail" (retail sales of phones and smartphones), LLC IT "SmartFlex" (a software developer, support and integration services provider) and VFU Funding PLC (structured entity incorporated to issue Eurobonds - see also Note 20).

By the end of 2020, the number of full-time employees of the Group was over 4,000 persons (2019: 4,400 persons).

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

On 15 October 2015, VF Ukraine signed a strategic agreement with Vodafone Sales and Services Limited ("Vodafone") on the cooperation and use of the Vodafone brand in Ukraine. Further, on 3 March 2020, the Company renewed the branding agreement for the period 2020-2025 with the contractual right to extend the strategic agreement for an additional year. Under the newly extended partnership agreement, the Group plans to work together on the rollout of 5G and IoT (Internet-of-Things) digital services and products in Ukraine, receive access to Vodafone's central procurement services and incorporate global best practice in its IT network operation.

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

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

On 24 December 2020, Preludium B.V. transferred its shares in the Company to Telco Solutions and Investments LLC and since this date, Telco Solutions and Investments LLC holds 99% of the shares in the Company. PTT Telecom Kyiv still owns 1% of the shares (Note 26). The ultimate beneficiary of the Company remains the same after these changes.

On 6 February 2020, the Group raised funds by issuing Eurobonds ("the Notes") with a five year maturity in the amount of USD 500 million (UAH 12,259 million as of the issue date; more details over this transaction are disclosed in Note 20). The proceeds from the Notes issued by VFU Funding PLC were provided to the Company in the form of an intragroup loan, which further used the funds for the refinancing of a USD 464 million bridge facility obtained by Telco Solutions and Investments LLC in order to acquire Preludium B.V. from MTS Group. On 10 February 2020, the Group provided interest-free financial aid to Telco Solutions and Investments LLC in the amount of UAH 11,569 million (Note 13). The loan is refundable within 10 days after a written request of the Group.

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 these 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.

The accounting policies applied in the preparation of these consolidated financial statements are presented further in the relevant notes.

In accordance with p.5 Article 121 of the Law of Ukraine *On Accounting and Reporting in Ukraine*, all mandatory IFRS reporters should prepare and submit their financial statements based on the taxonomy of financial statements under IFRS in a single electronic format (referred to as "iXBRL"). As of the date of issuing these consolidated financial statements, the process for submitting financial statements in the single electronic format using 2020 UA XBRL IFRS taxonomy, is not fully operational, and 2020 UA XBRL IFRS taxonomy has not been published yet. Taking this into account, the Financial Reporting System Committee recommended to all regulators to delay deadlines for iXBRL reporting for 2020 and the first 3 quarters of 2021 and not to apply sanctions for delay in submission. Management of the Group is planning to prepare the iXBRL report and submit it during 2021.

Basis of consolidation

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

Functional currency

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

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

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

	Accounting method	**31 December 2020**	**31 December 2019**
LLC VF Retail	Consolidated	100.0%	100.0%
LLC ITSF	Consolidated	100.0%	100.0%
VFU Funding PLC*	Consolidated	0.0%	-

* Starting from 6 February 2020 the Group consolidated VFU Funding PLC, a special purpose entity (the "SPE"), incorporated in England and Wales for the purpose of issuing the Notes (Note 20). The Group has no legal ownership of the SPE but exercises control over the entity according to the requirements of IFRS 10 *Consolidated Financial Statements*. The Group will cease consolidation of VFU Funding PLC after the repayment date of the Notes.

Reclassifications in the consolidated statement of financial position, the consolidated statement of cash flows and notes

Certain comparative information presented in these consolidated financial statements as at and for the year ended 31 December 2019 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2020. These reclassifications were not considered material.

Standards, interpretations and amendments adopted on 1 January 2020

The accounting policies, method of computation applied, critical estimates and judgements in the preparation of these consolidated financial statements are consistent with those disclosed in the consolidated statements of the Group for the year ended 31 December 2019.

None of the interpretations and amendments to standards adopted by the Group on 1 January 2020 had a significant effect on the Group's consolidated financial statements.

Standards and Interpretations in issue, but not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations, as well as amendments to the standards that have been issued and are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Group has not early adopted:

- IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current* - the amendments are effective for annual reporting periods beginning on or after 1 January 2023.
- IFRS 17 *Insurance Contracts* – effective for annual periods beginning on or after 1 January 2023;
- IFRS 17 *Insurance Contracts* (amendments) - effective for annual periods beginning on or after 1 January 2023;
- IAS 1 and IFRS *Practice Statement amendments on accounting policy to disclose in financial statements* – effective for annual periods beginning on or after 1 January 2023;
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* – amendments that help to distinguish between accounting policies and accounting estimates – effective for annual periods beginning on or after 1 January 2023.
- IAS 16 *Property, Plant and Equipment - Proceeds before Intended Use* - effective for annual periods beginning on or after 1 January 2022;
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract* - effective for annual periods beginning on or after 1 January 2022;
- IFRS 3 *Business Combinations* - Reference to the Conceptual Framework - effective for annual periods beginning on or after 1 January 2022;
- *Annual Improvements to IFRS 2018 – 2020 Cycle* - effective for annual periods beginning on or after 1 January 2022.

- IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amendments) - *Interest Rate Benchmark Reform - Phase 2* - effective for annual periods beginning on or after 1 January 2021.
- IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - effective date to be determined by the IASB.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 that 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 depreciation/amortization method. 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 the amortization or depreciation charges respectively. Technological developments are difficult to predict taking into account that 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 non-current assets may be different from useful lives estimated by management, thereby resulting in a different carrying value of tangible and 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 Notes 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 future lease payments. The lease term corresponds to the non-cancellable period of each contract, however, in most cases, the Group is reasonably certain of exercising renewal options and therefore lease terms are extended to 10-20 years for sites related to placement of network and base station equipment (Note 19). When assessing the lease term, management considers all facts and circumstances that create the economic incentive for the Group to exercise 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 as well as costs to terminate or enter into lease contracts. The Group determined the incremental borrowing rates based on government bonds yield curve adjusted on the credit spreads of the Group's loan offers from banks.

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

Allowances for expected credit losses

The Group uses a provision matrix to calculate allowances for expected credit losses ("ECL") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience for forward-looking information. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions, the Group's historical credit loss experience and forecast of economic conditions.

The Group also estimates the ECL on the financial aid provided to the parent company considering assumed recovery through the sale of its investment in the Company. This calculation involves certain assumptions related to the annual volatility of the share price of comparable listed telecommunication companies and the expected recovery period.

If these assumptions prove to be incorrect, the Group's actual conversion rate of recorded revenue to cash may be lower than expected and we may be required to increase our allowance for expected credit losses. The information about ECL on trade and other receivables, including sensitivity analysis for ECL on other receivables is included in Note 13.

Provision for decommissioning and restoration

The Group makes a provision for the future decommissioning and restoration cost of masts, towers and poles constructions. This provision represents the present value of decommissioning costs, which are expected to be incurred when the related assets will be dismantled. Provisions are measured at the managements' best estimates of the input costs associated with decommissing assets, including labor and restoration costs. The estimates are reviewed regularly based on the economic environment and other internal factors. The major assumptions used in determining the provision are included in Note 21.

Classification of the financial aid provided to related party

On 10 February 2020, the Group provided interest-free financial aid in the amount of UAH 11,569 million to Telco Solutions and Investments LLC. The aid is repayable within 10 days after a written request by the Group. According to the corporate reorganisation plan, Telco Solutions and Investments LLC is expected to be merged with the Company in 2021 (the "Merger"). Following the completion of the Merger, the Company will be the surviving entity and shall be the full legal successor of all its assets, rights and obligations. The management believes that the Merger will be completed within one year after the reporting date and therefore believes that the financial aid provided to the parent company should be presented within the current assets in the consolidated statement of the financial position.

Identifying the cash-generating unit

The Group is required to perform impairment tests for those cash-generated units where impairment indicators are identified. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. The Group considers its consolidated business as a single cash-generating unit. All the Group's subsidiaries operations are considered as the extension of the core mobile business, therefore impairment is considered at the Group level.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

4. SEGMENT INFORMATION

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

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

In 2020, the Group changed the composition of the operating and reportable segments. Retail operations of the Group are considered as an extension of the core mobile business and the steering committee regularly reviews the operating results of the whole Group to make decisions regarding resource allocation. The identified reportable segments have been restated for the prior period to conform with the updated presentation.

Financial information of the reportable segment with restated comparative information is presented below:

	2020	2019 (restated)
Revenue	**18,142**	**15,983**
OIBDA	**9,828**	**8,325**
Depreciation and amortization	(4,801)	(4,703)
Operating profit	**5,027**	**3,622**

Financial information by reportable segments as originally reported in 2019 is presented below:

	2019 (as originally reported)				
	Mobile business	**Retail**	**Other**	**HQ and elimination**	**Consolidated**
Revenue					
External customers	15,018	959	6	-	15,983
Intersegment	18	209	35	(262)	-
Total revenue	**15,036**	**1,168**	**41**	**(262)**	**15,983**
OIBDA	**8,712**	**(341)**	**(1)**	**(45)**	**8,325**
Depreciation and amortization					(4,703)
Operating profit					**3,622**
Finance income					186
Finance costs					(650)
Currency exchange gains					71
Profit before tax					**3,229**

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is measured based on the consideration the Group expects to be entitled to in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Revenue is measured at the fair value of the consideration receivable, exclusive of 20% value added tax, 7.5% special pension fund charge and discounts.

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

Revenue for access charges, voice calls, messaging, interconnect fees and fixed and mobile broadband 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 the customer consumes the services. This leads to the recognition of what is known as contract liabilities in the consolidated statement of financial position and higher cash inflows from operations in the period when the prepaid credit is received from customers while consumption takes place in subsequent periods.

Revenue from the provision of TV and music content is recognized as the Group renders the service and is recorded net in the amount of the commission fee receivable by the Group (acting 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 established a spend-based loyalty program that offers loyalty points to customers for mobile services purchase. These loyalty points may be spent on mobile services, smartphones, vouchers, other goods and charity within 12 months from the points being accrued. Customer loyalty points are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award points and deferred, based on the estimated number of award credits that will actually be redeemed by the customer. This is then recognised as revenue in the period that the award points are redeemed.

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 control of the goods has 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 to the total agreed price. 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. The Group recognizes revenue from telecommunication services over time and revenue from sales of goods at a point in time.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The Group both earns and provides retrospective volume discounts under mutual 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 and the additional discount is included within trade and other payables in the accompanying consolidated statement of financial position.

Revenue for the years ended 31 December 2020 and 2019 comprised the following:

	2020	2019
Revenue from mobile subscribers	13,272	11,503
Interconnect revenue	3,280	2,518
Roaming revenue	414	711
Other revenue	236	206
Total service revenue	**17,202**	**14,938**
Sales of goods	940	1,045
Total revenue	**18,142**	**15,983**

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

6. COST OF SERVICES

Cost of services for the years ended 31 December 2020 and 2019 comprised the following:

	2020	2019
Interconnect expenses	2,261	1,667
Electricity and other production costs	881	935
Radio frequency usage tax	856	824
Roaming expenses	284	295
Salaries	219	186
Social contributions	42	35
Other expenses	52	41
Total cost of services	**4,595**	**3,983**

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2020 and 2019 comprised the following:

	2020	2019
Salaries	1,232	1,148
Advertising and marketing expenses	484	451
Dealers commission	317	338
Consulting expenses	282	38
General office expenses	233	243
Social contributions	205	192
Billing and data processing	193	167
Taxes other than income tax	130	107
Other expenses	85	90
Total selling, general and administrative expenses	**3,161**	**2,774**

Consulting expenses increased mainly due to management fees to a related party.

8. OTHER OPERATING INCOME, NET

Other operating income, net for the years ended 31 December 2020 and 2019 comprised the following:

	2020	2019
Gain on derecognition of trade and other payables	193	-
Lease termination and rent concessions	76	37
Other income, net	22	61
Total other operating income, net	**291**	**98**

9. FINANCE INCOME AND COSTS

Finance income and costs for the years ended 31 December 2020 and 2019 comprised the following:

	2020	2019
Accrued interest on borrowings (Note 20)	827	64
Accrued interest lease obligations (Note 19)	605	551
Unwinding of discounts on provision for decommissioning and restoration (Note 21)	43	35
Change in fair value of derivatives	17	-
Total finance costs	**1,492**	**650**
Total finance income	**70**	**186**
Net finance costs	**1,422**	**464**

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

10. INCOME TAX

The corporate income tax rate in Ukraine is 18% (2019: 18%).

During 2020 the Group attracted funds through the Notes issued by VFU Funding PLC (Note 20). The proceeds were transferred to the Company in a form of an intragroup loan. Interest on the respective loan is subject to withholding tax according to Ukrainian legislation, the Group applied a reduced withholding tax rate of 5%.

Income tax expense for the years ended 31 December 2020 and 2019 comprised the following:

	2020	**2019**
Current income tax charge	173	619
Withholding tax charge	38	-
Deferred tax charge	184	71
Total income tax expense	**395**	**690**

The Group does not have a legally enforceable right to offset the current tax assets of one Group member against a current tax liability of another member as well as to settle net withholding tax obligations within one tax authority.

The deferred tax asset represents income taxes recoverable through future deductions from taxable profits. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases of assets and liabilities that will result in future taxable or deductible amounts. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and estimates based on historic taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Movements in the deferred tax assets and liabilities for the year ended 31 December 2020 were as follows:

	31 December 2019	**Credit/ (Charged)**	**31 December 2020**
Property and equipment, and intangible assets	248	(117)	131
Provision for decommissioning and restoration	51	40	91
Allowance for ECL	227	(155)	72
Other provisions	14	34	48
Other	(15)	14	(1)
Net deferred tax asset	**525**	**(184)**	**341**

As at 31 December 2020, the net recognised deferred tax asset of UAH 112 million related to the allowance for ECL and other provisions is expected to be recovered or settled within twelve months after the reporting period (31 December 2019: UAH 107 million).

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Movements in the deferred tax assets and liabilities for the year ended 31 December 2019 were as follows:

	1 January 2019	Credit/ (Charged)	31 December 2019
Property and equipment, and intangible assets	296	(48)	248
Allowance for ECL	230	(3)	227
Provision for decommissioning and restoration	41	10	51
Other provisions	14	-	14
Other	15	(30)	(15)
Net deferred tax asset	**596**	**(71)**	**525**

Reconciliation of income tax expense and accounting profit presented below:

	2020	2019
Profit before tax	**1,596**	**3,229**
Income tax expense at statutory rate of 18%	287	581
Unrecognised deferred tax on loss-making subsidiary	70	106
Withholding tax charge	38	-
Not deductible expenses for tax purposes	-	3
Income tax expense	**395**	**690**

The Group has not recognised in the consolidated statement of financial position the deferred tax asset on the loss-making subsidiary. Accumulated tax losses of VF Retail as of 31 December 2020 amounted to UAH 1,021 million (31 December 2019: UAH 631 million). According to Ukrainian legislation deferred tax assets and liabilities are offset only when they relate to the same taxable entity. Current Ukrainian tax legislation does not provide any time limits on utilisation of tax loss carryforwards.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2020	31 December 2019
Cash on current accounts	2,517	565
Short-term deposits	246	673
Cash in transit and on hand	57	196
Total cash and cash equivalents	**2,820**	**1,434**

Short-term deposits represented by bank deposits that have original maturities of less than three months.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Cash and cash equivalents comprised the following currencies:

	Interest rates	31 December 2020	Interest rates	31 December 2019
Cash on current bank accounts, on hand and in transit:				
USD *(in Ukrainian Hryvnia equivalent)*		971		24
Euro *(in Ukrainian Hryvnia equivalent)*		868		125
Ukrainian Hryvnia		735		612
Short-term deposits:				
Ukrainian Hryvnia	3.0%-4.7%	246	8.5%-13.3%	673
Total cash and cash equivalents		**2,820**		**1,434**

Cash and cash equivalents are held mainly in large banks located in Ukraine that have a reliable reputation. As of 31 December 2020, 92% of cash and cash equivalents were held in four banks – subsidiaries of the large international banking groups (31 December 2019: 86% in four banks located in Ukraine, respectively).

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

	31 December 2020		31 December 2019	
	Cash and cash equivalents	Short-term investments (Note 12)	Cash and cash equivalents	Short-term investments (Note 12)
A rating	157	-	-	-
B rating	2,046	664	811	436
Non-rated*	617	-	623	-
Total	**2,820**	**664**	**1,434**	**436**

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

The impact of allowances for ECL on cash and cash equivalents balances is insignificant.

12. SHORT-TERM INVESTMENTS

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

	Deposit rates	31 December 2020	Deposit rates	31 December 2019
USD *(in Ukrainian Hryvnia equivalent)*	0.01%	368	-	-
Euro *(in Ukrainian Hryvnia equivalent)*	1-1.5%	296	0.1%	436
Total short-term investments		**664**		**436**

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

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

13. TRADE AND OTHER RECEIVABLES

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

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

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

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

Trade and other receivables comprised the following:

	31 December 2020	**31 December 2019**
Roaming	417	361
Interconnect	167	135
Subscribers	78	82
Dealers	28	42
Other trade receivables	47	59
Allowance for ECL	(41)	(49)
Total trade receivables	**696**	**630**
Financial aid and loan provided to related parties (Note 25)	11,618	-
Receivables from the factor for sold investments in distressed banks	-	961
Cash balance in distressed bank	247	250
Other receivables	4	5
Allowance for ECL	(360)	(1,211)
Total other receivables	**11,509**	**5**
Total trade and other receivables	**12,205**	**635**

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

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The following table provides information about the exposure to credit risk and ECL for trade receivables from subscribers based on the provision matrix as at 31 December 2020:

	Expected loss rate	Gross carrying amount	Lifetime ECL	Credit-impaired
Current	1%	40.4	(0.4)	No
1 - 30 days past due	5%	5.3	(0.3)	No
31 - 60 days past due	14%	2.8	(0.4)	No
61 - 90 days past due	35%	1.2	(0.4)	No
91 - 120 days past due	53%	0.6	(0.3)	Yes
121 - 150 days past due	60%	0.6	(0,4)	Yes
151 - 180 days past due	70%	0.4	(0,3)	Yes
More than 180 days past due	100%	27.0	(27.0)	Yes
Total		**78.3**	**(29.5)**	

The following table provides information about the exposure to credit risk and ECL for trade receivables from subscribers based on the provision matrix as at 31 December 2019:

	Expected loss rate	Gross carrying amount	Lifetime ECL	Credit-impaired
Current	1%	37	(0.4)	No
1-30 days past due	14%	5	(0.7)	No
31-60 days past due	29%	3	(0.8)	No
61-90 days past due	53%	1	(0.5)	No
91-120 days past due	67%	1	(0.7)	Yes
121-150 days past due	73%	1	(1.0)	Yes
151-180 days past due	85%	1	(0.5)	Yes
More than 180 days past due	100%	33	(33.0)	Yes
Total		**82**	**(37.6)**	

On 10 February 2020, the Group provided interest-free financial aid in the amount of UAH 11,569 million to Telco Solutions and Investments LLC. The aid is repayable within 10 days after a written request from the Group. Management estimated the allowance for ECL on this financial aid based on the assumption that the financial aid is demanded at the reporting date. Considering that Telco Solutions and Investments LLC has insufficient highly liquid assets and its major asset is the direct investment in the Company, the recovery of the respective financial aid is assessed based on its assumed repayment from proceeds from the sale of this investment.

The table below shows the sensitivity of the ECL on financial aid to Telco Solutions and Investments LLC related to the key assumptions applied:

Assumption	Estimated value	Assumed change		Effect to ECL
Annual volatility of the share price	30%	Increase by 10%	Increase by	UAH 235 million
Recovery period	1 year	Increase by 6 months	Increase by	UAH 145 million

Management and shareholders plan the following step in the corporate reorganization via merger by accession of Telco Solutions and Investments LLC with the Company (the "Merger"). Following the Merger, Telco Solutions and Investments LLC shall cease to exist and the Company, as the surviving entity, shall be the full legal successor of all its assets, rights and obligations.

The above-mentioned corporate reorganization procedures are complex and time-consuming as they require significant involvement of various Ukrainian state authorities and bodies. Management expects to complete this corporate reorganization within 12 months after the reporting date.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

In 2015 the Company entered into a factoring agreement in respect of cash balances deposited in distressed banks Delta Bank (UAH 1,627 million) and Kyivska Rus (UAH 328 million), under the respective agreement the factor is obliged to reimburse the Group 50% and 45% of cash balances deposited, accordingly. As of 31 December 2017, the receivables from the factor in the amount of UAH 961 million and cash in the distressed bank (UAH 250 million) were fully impaired due to the high credit risk of the counterparties. During 2020 there was a partial recovery in the amount of UAH 3 million. In 2020 the uncollected UAH 961 million was written off to the reserve created in prior periods.

The following table provides information about the exposure to credit risk and ECL for other trade and other receivables as at 31 December 2020:

Description	Expected loss rate	Gross carrying amount	Lifetime ECL	Credit-impaired
Financial aid and loan provided to related parties	0.97%	11,618	(113)	Yes
Cash balance in distressed bank	100%	247	(247)	Yes
Other trade receivables	23.4%	47	(11)	Yes
Total		**11,912**	**(371)**	

The following table provides information about the exposure to credit risk and ECL for other trade and other receivables as at 31 December 2019:

Description	Expected loss rate	Gross carrying amount	Lifetime ECL	Credit-impaired
Receivables from the factor for sold investments in distressed banks	100%	961	(961)	Yes
Cash balance in distressed bank	100%	250	(250)	Yes
Other trade receivables	18.6%	59	(11)	Yes
Total		**1,270**	**(1,222)**	

Movements in the allowance for ECL for trade and other receivables were as follows:

	2020	2019
Allowance for ECL at 1 January	**(1,260)**	**(1,277)**
Charge for ECL allowance on financial aid and loan provided related parties	(113)	-
Receivables from the factor for sold investments in distressed banks written off	961	-
Reversal of allowances	3	-
Trade receivables from subscribers written off	8	17
Allowance for ECL at 31 December	**(401)**	**(1,260)**

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reflected in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

Trade receivables from roaming and interconnect are presented net of set off with respective trade payables for roaming and interconnect. The applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2020:

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

	Gross amounts before offsetting in the consolidated statement of financial position (a)	Gross amounts set off in the consolidated statement of financial position (b)	Net amount after offsetting in the consolidated statement of financial position (c) = (a) - (b)
ASSETS			
Trade receivables from:			
- Roaming	464	47	417
- Interconnect	252	85	167
TOTAL	**716**	**132**	**584**
LIABILITIES			
Trade payables and other accruals from:			
- Roaming	(174)	(47)	(127)
- Interconnect	(99)	(85)	(14)
TOTAL	**(273)**	**(132)**	**(141)**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2019:

	Gross amounts before offsetting in the consolidated statement of financial position (a)	Gross amounts set off in the consolidated statement of financial position (b)	Net amount after offsetting in the consolidated statement of financial position (c) = (a) - (b)
ASSETS			
Trade receivables from:			
- Roaming	422	61	361
- Interconnect	230	95	135
TOTAL	**652**	**156**	**496**
LIABILITIES			
Trade payables and other accruals from:			
- Roaming	(231)	(61)	(170)
- Interconnect	(105)	(95)	(10)
TOTAL	**(336)**	**(156)**	**(180)**

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

14. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Inventory cost is determined using the weighted average cost method. The Group regularly assesses its inventories for obsolete and slow-moving stock. Expenses for inventory obsolescence provision were included in cost of goods in the consolidated statement of profit or loss and other comprehensive income.

Inventories comprised the following:

	31 December 2020	31 December 2019
Handsets and accessories	127	225
Office and other administrative materials	9	4
Other inventories	23	26
Total inventories	**159**	**255**

As of 31 December 2020, inventory balances decreased due to the decrease in the number of stores. As of 31 December 2020, 182 stores have been in operation (2019: 249 stores).

Cost of goods for the years ended 31 December 2020 and 2019 comprised the following:

	2020	2019
Cost of handsets and accessories sold	854	994
Inventory obsolescence provision	-	5
Reversal of obsolescence provision	(5)	-
Total cost of goods	**849**	**999**

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 are 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	5-20 years
Other	2-4 years
Land and buildings:	
Buildings	20-50 years
Leasehold improvements	Shorter of the expected useful life or the term of the lease
Office equipment, vehicles and other:	
Office equipment	3-20 years
Vehicles	5-7 years
Other	3-4 years

The estimated useful lives and depreciation method are reviewed in each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. As of 31 December 2020, the effect of such revision on depreciation charge was about UAH 80 million (decrease).

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 and other comprehensive income.

Construction in progress and equipment held for installation is not depreciated until ready for its intended use. Maintenance and repair costs are expensed as incurred, while upgrades and improvements are capitalized when future economic benefits associated will flow to the Group and the cost of the item can be measured reliably.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's ("CGUs") fair value less costs to sell and its value in use. Where the carrying amount of the CGU exceeds its recoverable amount, the carrying amount should be written down to its recoverable amount. Management considers itself in the business of providing telecommunication services, therefore all the activities are dependent on that business, therefore the whole Group is considered one CGU (Note 3).

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. If calculation results in impairment, the impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired assets. The impairment reversal is limited so that the carrying amount does not exceed recoverable amount.

The provision for decommissioning and restoration arises as a result of a constructive obligation in connection with the retirement of property and equipment (Note 21).

The movements of property and equipment were as follows:

	Network and base station equipment	**Land and buildings**	**Office equipment, vehicles and other**	**Construction in progress and equipment held for installation**	**Total**
Cost					
1 January 2019	**20,412**	**678**	**2,382**	**651**	**24,123**
Additions	952	13	22	1,938	**2,925**
Transferred into use	1,564	55	276	(1,895)	**-**
Disposal	(4,211)	(180)	(833)	(19)	**(5,243)**
31 December 2019	**18,717**	**566**	**1,847**	**675**	**21,805**
Additions	975	3	23	1,267	**2,268**
Transferred into use	1,310	18	171	(1,499)	**-**
Disposal	(1,175)	(4)	(162)	(12)	**(1,353)**
31 December 2020	**19,827**	**583**	**1,879**	**431**	**22,720**
Accumulated depreciation					
1 January 2019	**(12,521)**	**(315)**	**(1,831)**	**-**	**(14,667)**
Charge for the year	(1,943)	(35)	(242)	-	**(2,220)**
Disposal	4,194	166	832	-	**5,192**
31 December 2019	**(10,270)**	**(184)**	**(1,241)**	**-**	**(11,695)**
Charge for the year	(2,039)	(33)	(213)	-	**(2,285)**
Disposal	1,158	4	156	-	**1,318**
31 December 2020	**(11,151)**	**(213)**	**(1,298)**	**-**	**(12,662)**
Net book value					
31 December 2019	**8,447**	**382**	**606**	**675**	**10,110**
31 December 2020	**8,676**	**370**	**581**	**431**	**10,058**

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The reasons for the significant additions and disposals are a large-scale update of network elements due to a change in technology, obtaining new types of licences, and the need to ensure an adequate infrastructure for increasing data demand. As a result of a change in technology in the telecommunication services market, the Company constantly needs to significantly update network elements. In 2018-2019 the Group implemented 4G in the 1800 MHz range, while in 2020 the Group switch added to 4G in the 900 MHz range.

Cost of fully depreciated property and equipment as of 31 December 2020 was UAH 5,340 million (31 December 2019: UAH 5,041 million).

16. INTANGIBLE ASSETS

Intangible assets primarily consist of billing, telecommunication, accounting and office software as well as licences with finite useful lives. Such assets are initially recognized at cost and amortized on a straight-line basis over their estimated useful lives. Other intangibles assets are represented by prepayments for intangible assets, capital expenditures in billing and other software for future periods.

The intangible assets should be tested for impairment when indicators exist that there may be a potential impairment.

The movements of intangible assets were as follows:

	Licences	**Billing and other software**	**Other intangible assets**	**Total**
Useful life, years	**2 to 15**	**2 to 15**	**-**	
Cost				
1 January 2019	**6,834**	**5,600**	**216**	**12,650**
Additions, net of transfers	6	1,126	(115)	**1,017**
Disposal	(360)	(3,448)	-	**(3,808)**
31 December 2019	**6,480**	**3,278**	**101**	**9,859**
Additions, net of transfers	267	1,629	52	**1,948**
Disposal	(64)	(767)	-	**(831)**
31 December 2020	**6,683**	**4,140**	**153**	**10,976**
Accumulated amortisation				
1 January 2019	**(1,187)**	**(4,205)**	**-**	**(5,392)**
Charge for the year	(474)	(1,109)	-	**(1,583)**
Disposal	346	3,441	-	**3,787**
31 December 2019	**(1,315)**	**(1,873)**	**-**	**(3,188)**
Charge for the year	(460)	(1,184)	-	**(1,644)**
Disposal	64	761	-	**825**
31 December 2020	**(1,711)**	**(2,296)**	**-**	**(4,007)**
Net book value				
31 December 2019	**5,165**	**1,405**	**101**	**6,671**
31 December 2020	**4,972**	**1,844**	**153**	**6,969**

Cost of fully amortised intangible assets as of 31 December 2020 was UAH 1,230 million (31 December 2019: UAH 907 million).

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

In connection with providing telecommunication services, the Group has obtained various GSM, UMTS, and LTE radio frequencies licences from the National Commission for The State Regulation of Communications and Informatization.

At the beginning of 2020 as the result of a national refarming process among the three leading operators, the Group secured the 4G LTE licences in the 900-905/945-950 MHz bands, which have historically been allocated for 2G mobile services. The Group also purchased an additional frequency range in the 900 MHz band for further deployment of LTE technology. All 900 MHz licences were renewed for 15 years. Such licences obligate the Group to provide 4G network coverage to 90% of Ukraine's population within the next two years. The Group paid UAH 267 million for technical neutrality, new frequency range and renewal of spectrum licences, such expenses were capitalised into licences fee. The Group started usage of the licences, and related amortization cost, from 1 July 2020.

The management believes that as of 31 December 2020, the Group complied with the conditions of all aforementioned licences.

17. COSTS TO OBTAIN CONTRACTS

The Group capitalizes certain incremental costs incurred in acquiring a contract with a customer if management expects these costs to be recoverable. Costs of acquiring a contract include commissions paid to 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 (28 months).

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

The movements of the costs to obtain contracts were as follows:

	2020	2019
1 January	**242**	**200**
Additions	177	207
Amortisation charge	(186)	(165)
31 December	**233**	**242**

18. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

	31 December 2020	31 December 2019
Accounts payable for property, equipment and intangible assets	802	885
Trade accounts payable	416	609
Accrued liabilities	133	363
Accrued payroll and vacation	90	114
Total trade payables	**1,441**	**1,971**
Other financial payables (Note 25)	-	1,776
Total other payables	**-**	**1,776**
Total trade and other payables	**1,441**	**3,747**

As a condition of the sale of the Group from MTS PJSC to Telco Solutions and Investments LLC in December 2019, dividends due from prior operating periods of UAH 1,776 million were reassigned to Telco Solutions and Investments LLC. Upon reassignment the Group paid the applicable withholding taxes and classified the remaining obligation as other financial payables. All outstanding amounts were paid in 2020.

19. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The Group's lease contracts are largely related to 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 chose to apply IFRS 16, *Leases* to its leases of intangible assets (other than rights held under licensing agreements within the scope of IAS 38 *Intangible Assets*).

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 the 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 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 Ukrainian government bonds yield curve adjusted on the credit spreads of the Group's loan quotes from banks. The weighted average borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position at the date of initial application (as at 1 January 2018) was 17.46%. The lease payments include fixed payments, variable payments that depend on an 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. 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 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 as well as costs to terminate or enter into lease contracts. Right-of-use assets are required to be tested for impairment in accordance with IAS 36 *Impairment of Assets*.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

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
Retail stores	Up to 3 years
Administrative offices, warehouses, parking garages	Up to 5 years
Vehicles	5 years
Exclusive rights for trademarks	8 years

As disclosed in Note 1, the Group signed a Memorandum of Understanding on 22 November 2019 and further renewed the original branding agreement with Vodafone on 3 March 2020. Due to the extension of the branding agreement, the Group modified the right-of-use asset related to the exclusive rights and extended the lease obligation for an additional period of 6 years. The contract period is 5 years and the Group has an extension option of one year. It is reasonably certain to exercise the one-year option to extend the lease.

During the reporting period, the operating environment of the retail sector has been impacted due to the COVID-19 pandemic. As the result, the number of stores decreased from 249 stores as at 31 December 2019 to 182 stores as at 31 December 2020, hence the approach for estimating lease terms for stores changed from lease extension estimates to actual terms of agreements that led to a decrease in the expected lease payments by UAH 169 million. The termination of the retail stores rent resulted in the derecognition of the right-of-use assets for the total amount of UAH 21 million and the lease liability for the UAH 24 million.

The average effective interest rate for 2020 approximates 17.4% for Ukrainian Hryvnia lease obligations (2019: 20.7%), 7.4% for USD lease obligations (2019: 7.37%) and 6.7% for Euro lease obligations (2019: 5.7%).

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

Lease of:	**31 December 2020**	**31 December 2019**
Sites for placement of network and base station equipment	2,330	2,369
Exclusive rights for trademarks	1,237	1,480
Administrative buildings	314	151
Retail store	75	338
Vehicles	10	9
Rights-of-use assets, net	**3,966**	**4,347**

Depreciation charge of the right-of-use assets for the years ended 31 December 2020 and 31 December 2019 was as follows:

	For the year ended 31 December	
	2020	**2019**
Sites for placement of network and base station equipment	276	266
Exclusive rights for trademarks	243	300
Retail store	109	127
Administrative buildings	54	39
Vehicles	4	3
Total depreciation charge for the period	**686**	**735**

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Additions to the right-of-use assets during the years ended 31 December 2020 and 2019 were as follows:

	For the year ended 31 December	
	2020	**2019**
Administrative buildings	143	58
Sites for placement of network and base station equipment	136	217
Retail store	12	213
Vehicles	3	-
Total additions	**294**	**488**

The table below represents changes in the Group's lease obligations:

	2020	**2019**
1 January	**4,641**	**3,658**
New obligations arising during the year	265	488
Modifications of existing leases	100	1,302
Termination of leases	(132)	(202)
Retail and other rent concessions	(32)	-
Accrued interest	605	551
Payment of principal	(495)	(512)
Payment of interest	(605)	(551)
Currency exchange losses/(gains)	452	(93)
31 December	**4,799**	**4,641**

The payment of principal for lease obligations is lower than reported in the consolidated statement of cash flows by UAH 29 million, as the Group made the prepayment before the commencement date of the lease of the administrative building.

Since April 2020 as a result of the coronavirus (COVID-19) pandemic, retail and other rent concessions have been granted to the Group. The Group applied the exemption provided by amendment to IFRS 16. During the reporting period, UAH 32 million were forgiven and the corresponding effect was recognized in the consolidated statement of profit or loss and other comprehensive income (non-cash movement).

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 leased 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.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

20. BORROWINGS

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

The Group's borrowings comprise the following:

	31 December 2020	31 December 2019
Notes	13,108	-
Vendor financing	-	4
Total borrowings	**13,108**	**4**
Less: Interest accrued	(315)	(4)
Total borrowings, non-current	**12,793**	**-**

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

	2020	2019
1 January	**4**	**2,998**
Notes issued	11,844	-
Accrued interest	827	64
Notes repurchased and cancelled	(963)	-
Repayment of borrowings	-	(2,774)
Payment of interest	(416)	(168)
Currency exchange losses/(gains)	1,812	(116)
31 December	**13,108**	**4**

On 6 February 2020, the Group raised funds by issuing Eurobonds (the "Notes") through a structured entity, VFU Funding PLC. The Notes have a five year term and amount of USD 500 million (UAH 12,259 million as of the date of the issue) with a coupon rate of 6.2%. At initial recognition, the Notes were accounted for at fair value less transaction costs that were directly attributable to the issue. Subsequently, the financial liability is measured at amortized cost using the effective interest rate method (approximated effective interest rate is 7.1%). The Group has complied with all debt covenants as at 31 December 2020 and during the respective reporting period.

In 2020, the Group agreed with J.P. Morgan Securities plc to repurchase certain Notes from the open market for up to USD 49 million of the principal amount. During the reporting period, the Group repurchased and cancelled Notes in the amount of USD 34 million (UAH 963 million).

During 2020 the Ukrainian Hryvnia significantly devaluated against the USD, thus the Group incurred significant foreign currency exchange losses on the Notes in the amount of UAH 1,812 million. For management of currency risk in relation to the upcoming interest payments, the Group entered into currency derivative agreements for the total notional amount of USD 26 million (UAH 789 million), which is equal to the amount of interests to be paid in 2021. As at 31 December 2020 the Group recognised a derivative liability in the amount of UAH 17 million measured at FVTPL, included in other financial liabilities in the consolidated statement of financial position.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

21. PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of the 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 and decommissioning and restoration obligations.

Movements in provisions were as follows:

	Provision for decom-missioning and restoration	Employee bonuses and other rewards	Material rights	Other provisions	Social contri-butions	Total
1 January 2019	**228**	**139**	**49**	**44**	**13**	**473**
Arose during the period	26	318	407	12	27	**790**
Utilised	(24)	(262)	(382)	(9)	(13)	**(690)**
Change in estimates	22	-	-	-	-	**22**
Unwinding of discount	35	-	-	-	-	**35**
Unused amounts reversed	-	(19)	-	(40)	(7)	**(66)**
31 December 2019	**287**	**176**	**74**	**7**	**20**	**564**
Current	-	176	74	7	20	**277**
Non-current	287	-	-	-	-	**287**
Arose during the period	9	330	329	274	32	**974**
Utilised	(3)	(219)	(337)	(66)	(29)	**(654)**
Unwinding of discount	43	-	-	-	-	**43**
Change in estimates	180	-	-	-	-	**180**
Unused amounts reversed	(12)	(16)	-	(15)	(1)	**(44)**
31 December 2020	**504**	**271**	**66**	**200**	**22**	**1,063**
Current	-	271	66	200	22	**559**
Non-current	504	-	-	-	-	**504**

Since 2020 the accrued vacations have been reclassified from provisions to trade and other payables.

During 2020, the Group implemented a new profit-sharing bonuses program for the senior management team and the effect of such program was recognised within employee bonuses and other rewards in the amount of UAH 130 million as at 31 December 2020.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Provision for decommissioning and restoration

The Group recognises a provision for decommissioning and restoration when there is a legal or constructive obligation in connection with the retirement of property and equipment. The Group's obligations relate primarily to the cost of removing property and equipment from sites.

Provision for decommissioning and restoration recognised at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate, which is adjusted when necessary to reflect the risks specific to the liability. The unwinding of the discount is expensed over time and recognised in the consolidated statement of profit or loss and other comprehensive income as a part of finance costs. The estimated future costs of decommissioning are reviewed on a regular basis and adjusted as appropriate. Changes in the estimated future costs or the discount rate applied are added to or deducted from the cost of the asset, in a case if the amount is higher than the carrying amount of the corresponding cost of asset, the excess is recognised in the consolidated statements of profit or loss and other comprehensive income.

Key assumptions used to calculate the provision for decommissioning were as follows:

	31 December 2020	**31 December 2019**
Discount rate, %	8.80%	17.00%
Inflation rate, %	5.25%	5.12%

The sensitivity of the provision for decommissioning and restoration to changes in the key assumptions was as follows:

	31 December 2020	**31 December 2019**
Discount rate increase/decrease by 1%	UAH (33)/36 million	UAH (16)/16 million
Inflation rate increase/decrease by 1%	UAH 37/(34) million	UAH 18/(18) million

Material rights are in connection with loyalty points awarded to subscribers (considered a "material right" on the subscribers behalf against the Group), which can be redeemed for purchases of a third party (partners) goods and services, and estimated present obligation to dealers for variable consideration which will be settled in the future.

Other provisions as at 31 December 2020 mainly consist of the provision for management fees to a related party in the amount of UAH 164 million.

22. OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities comprised the following:

	31 December 2020	**31 December 2019**
VAT payable	206	166
Other taxes and related payables	81	77
Total other non-financial liabilities	**287**	**243**

Other taxes and related payables at 31 December 2020 mainly consist of a fee for the use of radio frequency resource of Ukraine in the amount of UAH 57 million (31 December 2019: UAH 55 million).

23. FAIR VALUE DISCLOSURES AND PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

The Group applies a fair value hierarchy to its financial assets and liabilities and other areas, such as asset impairment assessments, according to the best information available. Level 1 fair values are those values that have pricing available in a quoted market, for example listed equity or debt securities. Level 2 fair values may use reference to Level 1 inputs, but as the underlying asset or liability is not the same, would require additional adjustments to the price. Examples of potential Level 2 fair values would include the use of valuation comparables when assessing an investment (e.g., market capitalization/EBITDA). Level 3 of the fair value hierarchy uses limited to potentially no market based inputs, therefore generally has more subjective estimates. Using a discounted cash flow model to value the recoverable value of a subsidiary would be a Level 3 fair valuation approach (with inputs such as the future expected cash flows, terminal growth rates and weighted average cost of capital being significant inputs with limited to no market based inputs). All three of these levels are considered to be "fair value" measurements, and the Group uses the best level available when it is necessary to measure an asset or liability for accounting purposes and seeks to match the underlying data available. The application of the fair value hierarchy results in the valuation measurement of the underlying asset or liability, from there how the Group either intends to recover the asset or liability (e.g., sell, settle or hold to maturity), determines where and how that fair value is recorded in our consolidated financial statements.

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

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 at 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 a 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 cost.

Fair values of financial assets and liabilities carried at amortized cost as at 31 December 2020 and 2019 approximated their carrying amounts (except for the borrowings).

The Group estimated the fair value of the borrowings using the Level 1 valuation technique based on quoted market prices as of 31 December 2020 in the amount of UAH 13,864 million (carrying amount: UAH 13,108 million). For other financial assets and liabilities the Group applied Level 3 in the fair value hierarchy, except for cash and cash equivalents that classified as Level 1.

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

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The Group's financial assets and liabilities that are measured at amortized cost are of:

	31 December 2020	31 December 2019
Trade and other receivables (Note 13)	12,205	635
Cash and cash equivalents (Note 11)	2,820	1,434
Short-term investments (Note 12)	664	436
Total financial assets measured at amortized cost	**15,689**	**2,505**
Borrowings (Note 20)	13,108	4
Lease obligations (Note 19)	4,799	4,641
Trade and other financial payables	1,351	3,633
Total financial liabilities measured at amortized cost	**19,258**	**8,278**

24. CONTRACT LIABILITIES

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

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 and paid for goods or services that are yet to be transferred. Typically, subscribers make payments on a monthly basis, which are immediately credited to the monthly fee or prepay for service "Year without fees", which is then amortized to revenue on a monthly basis during the year. Therefore, contract liabilities are mostly short-term (the long-term part is insignificant).

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

	31 December 2020	31 December 2019
Mobile telecommunication services	1,387	1,328
Other mobile services	40	40
Loyalty programme	20	13
Total contract liabilities	**1,447**	**1,381**
Less current portion	(1,446)	(1,377)
Total non-current contract liabilities	**1**	**4**

The following table provides information about contract liabilities structure:

	31 December 2020	31 December 2019
Deferred income	883	825
Subscriber prepayments and other advances received	564	556
Total contract liabilities	**1,447**	**1,381**

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Movements in the contract liabilities balances were as follows:

	2020	**2019**
1 January	**1,381**	**1,246**
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	(1,341)	(1,223)
Increase due to cash received, excluding the amount recognised as revenue during the period	1,407	1,358
31 December	**1,447**	**1,381**

The Group expects to recognize revenue related to performance obligations that were unsatisfied (or partially unsatisfied) during the next year:

	2021
Mobile bundle packages and other services	1,427
Loyalty programme	20
Total	**1,447**

The amount of performance obligations that were unsatisfied (or partially unsatisfied) for post-paid subscribers is not material as most contracts with post-paid subscribers are concluded for a non-determined period and can be terminated at any time without penalties.

25. RELATED PARTIES

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

Terms and conditions of transactions with related parties

Outstanding balances as of 31 December 2020 and 2019 were unsecured and settlements are made on a cash basis.

In December 2019, the Company entered into the pledge agreement to secure the obligations of Telco Solutions and Investments LLC under the bank debt used for the acquisition of Preludium B.V. by Telco Solutions and Investments LLC. The Company pledged cash at banks and short-term investments in the amount of UAH 1,595 million as of 31 December 2019. On 2 March 2020 Telco Solutions and Investments LLC settled its obligations related to the bank debt by and the pledge over cash was terminated. Since then there have been no guarantees provided or received for any related party receivables or payables.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

As at 31 December 2020 and 2019, balances from and to related parties were as follows:

Description	**31 December 2020**	**31 December 2019**
The Group's immediate parent company	11,569	-
Entities under common control and ownership with the Group	49	-
Total other receivables from related parties	**11,618**	**-**
Entities under common control and ownership with the Group	164	15
The Group's indirect parent company	-	1,776
Total provisions and trade and other payables to related parties	**164**	**1,791**

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

Description	**2020**	**2019**
The Group's indirect parent companies	-	6
Entities under common control and ownership with the Group	289	510
Total purchases of property and equipment and intangible assets from related parties	**289**	**516**

Turnovers with related parties were as follows:

Description	**2020**	**2019**
The Group's indirect parent companies	-	374
Total service revenue from related parties	**-**	**374**
Entities under common control and ownership with the Group	(6)	(100)
The Group's indirect parent companies	-	(356)
Total costs of services with related parties	**(6)**	**(456)**
Entities under common control and ownership with the Group	(222)	(41)
The Group's indirect parent companies	-	(13)
Total selling, general and administrative expenses with related parties	**(222)**	**(54)**
Entities under common control and ownership with the Group	-	(57)
Total finance expenses with related parties	**-**	**(57)**

Remuneration of key management personnel

Key management personnel of the Group includes members of the Steering Committee and Supervisory Board. During the year ended 31 December 2020 the short-term key management personnel's total compensation amounted to UAH 115 million that include salaries, social contributions, sick pay, bonuses, termination and other benefits-in-kind (2019: UAH 201 million, including one-off bonuses payment in December 2019). The senior management team are also entitled to profit-sharing bonus payments. Related compensation accrued during the reporting year amounted to UAH 130 million, which are payable in 2021.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

26. COMMON STOCK

The Company has a legal status of a Private Joint-Stock Company at 31 December 2020 and 2019.

The Group had 781,662,116 authorized ordinary shares with a par value of UAH 0.01 as of 31 December 2020 and 2019, for the total amount of UAH 8 million.

The Company's major shareholders as at 31 December 2020 and 2019 are presented in the tables below:

	31 December 2020	
	Number of shares	**Ownership, %**
Telco Solutions and Investments LLC	773,845,495	99.0%
Enterprise with 100% foreign investment "PTT Telecom Kyiv"	7,816,621	1.0%
Total	**781,662,116**	**100%**

	31 December 2019	
	Number of shares	**Ownership, %**
Preludium B.V. (Netherlands)	773,845,495	99.0%
Enterprise with 100% foreign investment "PTT Telecom Kyiv"	7,816,621	1.0%
Total	**781,662,116**	**100%**

On 24 December 2020, Preludium B.V and Telco Solutions and Investments LLC signed the handover protocol according to which 99% of the shares (773,845,495 ordinary registered shares with a nominal value UAH 0,01) of the Company were transferred to Telco Solutions and Investments LLC. As at 31 December 2020, the Company's ultimate parent company was Telco Solutions B.V.

27. MANAGEMENT OF CAPITAL

The primary objective of the Group's capital management is to maximise the shareholder value and to maintain an optimal capital structure to reduce the cost of capital. In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the loans and borrowings that define capital structure requirements.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Group monitors its consolidated leverage ratio, which is according to debt covenants is equal to the ratio of the Group's net debt to the EBITDA, where net debt equals the amount of the Group's borrowings and lease liabilities less cash and cash equivalents. As at 31 December 2020 the consolidated leverage ratio was 1.5 while the maximum ratio covenant is 2.75.

The Group complied with all externally imposed capital requirements as at 31 December 2020 and 2019.

28. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 31 December 2020, the Group had unexecuted purchase agreements of approximately UAH 415 million to network equipment, tangible and intangible assets that were still in progress (31 December 2019: UAH 605 million).

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

The Group has already allocated the necessary resources in respect to these commitments. The Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

Taxation

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

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

Generally, according to Ukrainian tax legislation, the tax period remains open for tax audits for three years after the respective tax return submission and seven years for transfer pricing verification. In the case of submitting corrections to CIT return, tax audits cover only related transactions. As of 31 December 2020 open periods for tax audits are 2018, 2019 and 2020.

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

Legal proceedings

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

Operating environment

At the beginning of 2020, the novel coronavirus (COVID-19) began quickly spreading globally, causing the World Health Organization to declare a pandemic in March 2020. The measures taken by many countries to contain the spreading of COVID-19 have resulted in significant disruptions to operations for many businesses and significantly affected global financial markets. The impact of COVID-19 will largely depend on the duration and extent of the effects of the pandemic on the global and Ukrainian economy.

The macroeconomic situation during the first months of 2020 facilitated the stability of the financial system in Ukraine. During 2020, consumer inflation in Ukraine was 5% (compared to 4.1% in 2019). However, internal and external factors that began to impact the Ukrainian economy in the second half of 2019 and significantly strengthened in 2020 resulted in Hryvnia devaluation. As at 31 December 2020, the official exchange rate of Hryvnia against US dollar was UAH 28.27 per USD 1 compared to UAH 23.69 per USD 1 as at 31 December 2019.

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

	USD/UAH	**Euro/UAH**
31 December 2019	23.69	26.42
31 December 2020	28.27	34.74
Average for 2019	25.84	28.94
Average for 2020	26.96	30.8

The repayment period of the sovereign debt raised by Ukraine to maintain the liquidity position during the crisis periods continues. The foreign currency sovereign debt repayments remain concentrated. In 2020-2022, the foreign currency repayments of the Government and the National Bank of Ukraine (the "NBU") including interest payments will cumulatively exceed USD 24 billion. The major portion of this amount is expected to be refinanced in external markets.

Over the subsequent periods, the key macroeconomic risk is represented by significant sovereign debt repayments. Thus, implementation of the new International Monetary Fund programme and terms of cooperation with other international financial organisations remain critically important.

As of the end of 2019, the NBU set its discount rate at 13.5%, During 2020, the NBU further eased the monetary policy and the NBU's discount rate was decreased to 6%. Rapid developments driven by the coronavirus spread resulted in liquidity gaps of certain banks and a growth in demand for interbank credit facilities. To support the financial stability, the NBU changed the operational design of its monetary policy, implemented long-term refinancing of banks, supported banks by foreign currency cash, postponed the formation of the capital buffer by banks, proposed banks to implement a special grace period of loan servicing over the quarantine period for the population and businesses (relief measures).

A significant number of companies in Ukraine have to terminate or limit their operations for an indefinite period of time as of the date of these consolidated financial statements. Measures that were taken to constrain the spread of the coronavirus including quarantine, social distancing, suspension of the social infrastructure activities, impact the economic activities of businesses including the Group.

The Government formed after parliamentary elections in July 2019 was dissolved on 4 March 2020 and a new Government was appointed. Amid political changes, the degree of uncertainty including in respect of the future direction of the reforms in Ukraine remains very high. In addition, negative trends in global markets due to the coronavirus epidemic may further affect the Ukrainian economy. The final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group's business.

The Group may face the effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and the Ukrainian economy. Currently, the COVID-19 outbreak has a minor impact on the Group operations and the negative impact was only related to a decline in international wireless roaming services with a corresponding decrease in roaming revenues of about 40% in 2020, temporary and permanent closures of retail stores, which contributed to lower equipment sales. At the same time, Group's service revenue and OIBDA increased by 15.2% and 18.1% respectively, driven mainly by revenue from mobile subscribers.

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

Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects. In 2021, the Group does not expect a significant increase in roaming revenues from its own subscribers. The general economic downturn due to COVID-19 impact could have a negative impact on the Group's financial results.

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

29. FINANCIAL RISK MANAGEMENT

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in currency all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Foreign currency risks

The Group uses derivative financial instruments for currency risk management. Forward contracts were concluded in 2020 to manage foreign currency risks on payment of interests on the Notes for the year ending 31 December 2021.

The weakening of Ukrainian Hryvnia against the USD and/or Euro can increase expenses denominated in foreign currencies but has a positive impact on revenues denominated in foreign currency. However, strengthening of Ukrainian Hryvnia against the USD and/or Euro decreases revenues denominated in foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	31 December 2020		**31 December 2019**	
	USD	**Euro**	**USD**	**Euro**
Trade and other receivables	85	469	12	413
Cash and cash equivalents	971	868	24	125
Short-term investments	368	296	-	436
Total financial assets	**1,424**	**1,633**	**36**	**974**
Borrowings	(13,108)	-	-	-
Lease obligations	(283)	(1,644)	(216)	(1,464)
Trade and other payables	(363)	(255)	(113)	(151)
Other financial liabilities	(17)	-	-	-
Total financial liabilities	**(13,771)**	**(1,899)**	**(329)**	**(1,615)**
Net position	**(12,347)**	**(266)**	**(293)**	**(641)**

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

	Change in rate		**USD – Impact on net profit or loss/equity**	**Euro – Impact on net profit or loss/equity**
	USD	**Euro**	**UAH million**	**UAH million**
	+20%	+20%	(1,920)	(44)
2020	-20%	-20%	1,883	44
	+30%	+30%	(72)	(158)
2019	-30%	-30%	72	158

(Amounts are in millions of Ukraine Hryvnias unless otherwise stated)

Impact on net profit or loss and equity was calculated at statutory tax rate - 18%. 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. As of 31 December 2020 current assets exceeded current liabilities by UAH 11,006 million (31 December 2019: current liabilities exceeded current assets by UAH 3,609 million). Change during 2020 is mainly explained by the financial aid and loan provided to related parties in the amount of UAH 11,618 million.

During 2020, the Group demonstrated positive trends in operating cash flows and used operating cash flow to early retire Notes for USD 34 million (UAH 963 million).

Maturity analysis

The maturity analysis represents undiscounted cash flows. Future cash flows were translated using the exchange rate as of 31 December 2020 and 2019 where applicable:

31 December 2020	**Trade and other financial payables**	**Borrowings**	**Leases**
Due within three months	976	406	301
Due from three months to twelve months	375	408	880
Due from 1 year to 5 years	-	16,025	4,223
Over 5 years	-	-	2,344
Total	**1,351**	**16,839**	**7,748**

31 December 2019	**Trade and other financial payables**	**Borrowings**	**Leases**
Due within three months	1,801	3	290
Due from three months to twelve months	1,832	1	814
Due from 1 year to 5 years	-	-	3,866
Over 5 years	-	-	3,240
Total	**3,633**	**4**	**8,210**

Management believes the Group has 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 a financial instrument, leading to a financial loss. Bankruptcy or financial insolvency of the banks wherein the Group 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 substantive negative consequences for business, financial position and results of activities.

The Group keeps its cash and cash equivalents and short-term investments mainly in large banks, which are located in Ukraine and have a reliable reputation with good credit quality. The Group sets credit limits (revised every six months) in different groups of banks and separate financial institutions: for Ukrainian subsidiaries of foreign banks - up to 100% of the cash and cash equivalents and short-term investments balances, but not more than 30% held with one bank; for state banks - up to 30% of the cash and cash equivalents and short-term investments balances, but not more than 15% held with one bank.

30. SUBSEQUENT EVENTS

Purchase of Ukrainian government bonds

On 26 February 2021 and 3 March 2021 the Group purchased Ukrainian government bonds in the amount of USD 15 million (the equivalent of UAH 428 million). The maturity of such instruments is less than one year.

31. AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Management of the Group on 31 March 2021.