PrJSC VF Ukraine

Interim Condensed Consolidated
Financial Statements as of and for the
Six Months Ended 30 June 2023

PrJSC VF UKRAINE

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Report on Review of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Private Joint Stock Company "VF Ukraine" and its subsidiaries (together – the "Group") as at 30 June 2023 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Emphasis of Matter - Material uncertainty relating to going concern

We draw attention to Note 2 in the interim condensed consolidated financial statements, which highlights that since 24 February 2022 the Group's operations and cash flows are significantly affected by the invasion of Ukraine and the ongoing military offensive of the Russian Federation. These events, along with the resulting foreign currency control restrictions in place, make the Group's ability to repay the principal amount of its borrowings dependent on the potential lifting of these restrictions by the repayment date, as well as the implementation of other strategies to align with the anticipated timing of future operating cash flows. The magnitude of the further developments of military actions is uncertain, including the intensity or the duration of those actions. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

LLC AF „PricewaterhouseCoopers (Audit)"

29 August 2023

Limited Liability Company Audit Firm "PricewaterhouseCoopers (Audit)"
75 Zhylyanska Str., Kyiv, 01032, Ukraine
T: +380 44 354 0404, www.pwc.com/ua

PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Note	Six months ended 30 June 2023	Six months ended 30 June 2022
Service revenue	5	10,059	9,659
Sales of goods		345	257
Revenue		**10,404**	**9,916**
Cost of services	6	(2,228)	(2,370)
Cost of goods		(319)	(211)
Selling, general and administrative expenses	7	(1,967)	(1,649)
Depreciation and amortization		(2,169)	(2,391)
Losses due to war	8	(116)	(951)
Gains due to war	8	46	145
Net credit/(charge) for operating expected credit losses of financial assets		7	(9)
Other operating income, net		54	78
Operating profit		**3,712**	**2,558**
Net charge for non-operating expected credit losses of financial assets		(67)	(223)
Finance income		171	38
Finance costs		(845)	(660)
Non-operating currency exchange losses, net		(117)	(822)
Other non-operating expenses		(40)	(35)
Profit before tax		**2,814**	**856**
Income tax expense		(548)	(193)
Profit for the period		**2,266**	**663**
Total comprehensive income for the period		**2,266**	**663**

Signed on behalf of the Group's Management:

Olga Ustynova
Chief Executive Officer

Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 22 form an integral part of these interim condensed consolidated financial statements.

PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 30 JUNE 2023

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

PrJSC VF UKRAINE

	Notes	30 June 2023	31 December 2022
Assets			
Non-current assets			
Property and equipment	12	10,148	9,744
Intangible assets and goodwill	12	6,466	6,129
Right-of-use assets	13	3,239	3,305
Costs to obtain contracts		226	210
Deferred tax assets		170	142
Other financial non-current assets		26	40
Total non-current assets		**20,275**	**19,570**
Current assets			
Trade and other receivables	10	13,544	13,865
Cash and cash equivalents	9	5,304	5,082
Short-term investments	11	4,126	1,594
Advances paid and prepaid expenses		246	281
Inventories		196	153
Current income tax assets		-	10
Other non-financial current assets		200	149
Indemnification asset		-	1
Current contract assets		10	10
Total current assets		**23,626**	**21,145**
Total assets		**43,901**	**40,715**
Equity and liabilities			
Equity			
Common stock		8	8
Other components of equity		2	2
Retained earnings		17,439	17,001
Equity attributable to the owners of the Company		**17,449**	**17,011**
Non-controlling interests		2	2
Total equity		**17,451**	**17,013**
Non-current liabilities			
Borrowings	15	14,445	14,394
Lease obligations	13	2,857	3,110
Provisions	16	430	367
Deferred tax liabilities		27	27
Contract liabilities		3	2
Total non-current liabilities		**17,762**	**17,900**
Current liabilities			
Trade and other payables	14	3,466	1,560
Contract liabilities		1,663	1,568
Lease obligations	13	1,628	1,249
Provisions	16	982	832
Borrowings	15	351	351
Current income tax liabilities		311	19
Other financial liabilities		20	24
Other non-financial liabilities		267	199
Total current liabilities		**8,688**	**5,802**
Total equity and liabilities		**43,901**	**40,715**

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Olena Solovyova
Head of Department for the Financial Statements and Accounting

PrJSC VF UKRAINE

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2022 AND ENDED 30 JUNE 2023
Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	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 2022	8	2	15,901	15,911	2	15,913
Profit for the period	-	-	663	663	-	663
Total comprehensive income for the period	-	-	663	663	-	663
Balances at 30 June 2022	8	2	16,564	16,574	2	16,576

FOR THE SIX MONTHS ENDED 30 JUNE 2023

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

Signed on behalf of the Group's Management:

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Natalia Shevchenko
Chief Finance Officer

Olena Solovyova
Head of Department for the Financial Statements and Accounting

The notes on pages 5 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2023

Amounts are in millions of Ukrainian Hryvnias unless otherwise stated

	Notes	Six months ended 30 June 2023	Six months ended 30 June 2022
Cash flows from operating activities			
Profit before tax		2,814	856
Adjustments for:			
Depreciation and amortization		2,169	2,391
Finance income		(171)	(38)
Finance costs		845	660
Net currency exchange losses		99	831
Losses due to war	8	116	951
Gains due to war	8	(46)	(145)
Change in provisions		722	498
Net charge for expected credit losses of financial assets except for cash and cash equivalents		54	232
Gain from lease termination and rent concessions		(53)	(79)
Other non-cash items, net		22	(2)
Movements in operating assets and liabilities:			
Decrease/(increase) in trade and other receivables and other financial non-current assets		465	(722)
Increase in inventory		(50)	(23)
Increase in other non-financial assets		(115)	(92)
Decrease in advances paid and prepaid expenses		37	37
Increase/(decrease) in contract liabilities		99	(122)
(Decrease)/increase in trade and other payables and other liabilities		(104)	542
Utilized provision	16	(651)	(610)
Income taxes paid		(275)	(160)
Interest received		167	34
Interest paid	13,15	(760)	(622)
Net cash provided by operating activities		**5,384**	**4,417**
Cash flows from investing activities			
Purchases of property and equipment		(1,170)	(742)
Purchases of intangible assets		(1,061)	(534)
Proceeds from sale of property and equipment		8	9
(Placements of)/Proceeds from short-term investments		(2,803)	97
Other investing activity		-	(37)
Net cash used in investing activities		**(5,026)**	**(1,207)**
Cash flows from financing activities			
Lease obligation principal paid	13	(172)	(144)
Repayment of borrowings		-	(1,235)
Dividends paid		-	(26)
Net cash used in financing activities		**(172)**	**(1,405)**
Net increase in cash and cash equivalents		**186**	**1,805**
Cash and cash equivalents, beginning of the period	9	5,082	2,717
Effect of exchange rate changes on cash and cash equivalents		36	9
Cash and cash equivalents, end of the period	9	**5,304**	**4,531**

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Head of Department for the Financial Statements and Accounting

1. BUSINESS DESCRIPTION

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

VF Ukraine is the parent company that exercises control over the following subsidiaries (together referred to as the "Group"): LLC "VF Retail" (retail sales of phones and smartphones), LLC "ITSF" (a software developer, support and integration services provider), PLC "VFU Funding" (structured entity incorporated to issue Eurobonds), PrJSC "Farlep-Invest" (fixed-line business) and LLC "Cable TV-Finance" (telecommunications activities).

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

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

On 3 December 2019, Preludium B.V., including its controlling interest in the Group, was sold to Telco Solutions and Investments LLC, whose ultimate beneficiary is Mr. Nasib Hasanov (Azerbaijan). On 24 December 2020, Preludium B.V. and Telco Solutions and Investments LLC signed the hand over protocol and on 28 December Preludium B.V. transferred its shares. From this time on Telco Solutions and Investments LLC holds 99% of the shares in the Company. "PTT Telecom Kiev" owns 1% of the shares. The ultimate beneficiary of the Company remains the same after these changes.

On 6 February 2020, the Group raised funds by issuing Eurobonds ("the Notes") with a five year maturity in the amount of USD 500 million (UAH 12,259 million as of the issue date). The proceeds from the Notes issued by PLC "VFU Funding" were provided to the Company in the form of an intragroup loan, which further used the funds for the refinancing of a USD 464 million bridge facility obtained by LLC "Telco Solutions and Investments" in order to acquire Preludium B.V. from MTS Group. On 10 February 2020, the Group provided interest-free financial aid to LLC "Telco Solutions and Investments" in the amount of UAH 11,569 million (Note 9). The loan is refundable within 10 days after a written request from the Group.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and should be read in conjunction with the annual consolidated statements of the Group for the year ended 31 December 2022.

These interim condensed consolidated financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Group omitted disclosures which would substantially duplicate the information contained in annual consolidated financial statements for the year ended 31 December 2022, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Group has provided disclosures of significant events that occurred subsequent to the issuance of its annual consolidated statements of the Group for the year ended 31 December 2022.

Management believes that the disclosures in these interim condensed consolidated financial statements are adequate to make the presented information not misleading if these interim condensed consolidated financial statements are read in conjunction with the annual consolidated statements of the Group for the year ended 31 December 2022 and the notes related thereto. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments necessary to present fairly the Group's consolidated financial position, consolidated financial performance and consolidated cash flows for the interim reporting period in accordance with IAS 34 "*Interim Financial Reporting*". Results as of and for the six months ended 30 June 2023 are not necessarily indicative of the results that may be expected for the year ending 31 December 2023.

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

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

Going concern

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

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

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

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

As at 30 June 2023, the Group was in compliance with all debt covenants. Management has reached the goal of servicing the Group's financial liabilities in a timely manner in accordance with the debt agreement at the time of the scheduled interest payment due dates. Management plans to continue servicing the Group's financial liabilities in a timely manner, although there is some inherent uncertainty related to the moratorium on cross-border foreign currency payments. If restrictions on cross-border foreign currency payments remain, the Group may use its foreign bank accounts or other options to cover future interest payments. However, the ability to repay the principal amount of the debt, which is USD 400 million and becomes due in February 2025 (Note 15), largely depends on the persistence of foreign currency control restrictions at that time. Depending on whether these restrictions are lifted, management is considering several options. These include refinancing from financial institutions, negotiating changes to the terms of the bonds with lenders, possible partial parent support and implementing additional measures to manage and control cash outflows to maximise cash conservation to align with the expected timing of future operating cash flows. Based on management forecasts, it's expected that the Group will be able to meet the covenants for the upcoming twelve months from the date of these interim condensed consolidated financial statements with sufficient headroom for the existing financial ratio.

The Group has taken appropriate actions to ensure the continuity of communication services and operations. Management has prepared and reviewed the updated financial forecasts including cash flow projections, for the twelve months from the date of approval of these interim condensed consolidated financial statements, taking into consideration the most likely and possible downside scenarios for the ongoing business impacts of the war. These forecasts were based on the following key assumptions:

- the degree of intensity of hostilities and the scope of the territories of Ukraine invaded by Russian troops will not increase significantly;
- the Group will be able to carry out maintenance and repair work to maintain a reasonable level of network performance in those territories of Ukraine where it is possible from the point of view of the physical security of technical specialists;
- the Group will be able to secure continuity of its critical IT infrastructure in accordance with the measures taken by management and incident response and disaster recovery plans;
- the amount of revenue from sales of services and goods will allow the Group to cover the level of operating expenses, the necessary capital investments and maintain debt servicing.

These forecasts indicate that taking account of reasonably possible downsides, management has a reasonable expectation that the Group has sufficient resources to manage the business for the next twelve months from the date of these interim condensed consolidated financial statements. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

Management has reviewed the Group's ability to continue as a going concern at the date of issue of these interim condensed consolidated financial statements and has concluded that there is a material uncertainty about further significant escalation in hostilities that can disrupt infrastructure and the Group's operations and currency control restrictions caused by the war that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

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

Identifying the cash-generating unit and impairment test

The Group is required to perform impairment tests for those cash-generating units (CGU) where impairment indicators are identified. The commence of the war in Ukraine is considered by the Group as a triggering event that required performing an impairment test in accordance with *IAS 36, Impairment of Assets.* As a result, an impairment test was conducted as of 31 December 2022.

The Group assessed whether there is any evidence, as of the date of these interim consolidated financial statements, that a CGU may be impaired. It concluded that there are no new external or internal sources of information indicating impairment. The key inputs used in the latest model were also reviewed. Additionally, the financial performance for the first half of 2023 was better than what was included in the base scenario of the latest impairment test, and the pre-tax discount rate decreased. This suggests that if the test were conducted at the reporting date, the recoverable amount would be higher than that at 31 December 2022. The results of the latest impairment test, as of 31 December 2022, are provided in this note.

One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. The Group performed the impairment test for its core mobile business combined with the operations of subsidiaries as its business activities are in convergence with the rest of the Group and its cash flows are considered as the extension of the core mobile business.

Management considered both individual impairment of specific assets and impairment of the identified cash-generating units (CGU).

Management analysed the assets located in areas with intense military activity or on temporarily occupied territories as of 31 December 2022 and the reporting date and posted 100% impairment for such assets being mainly network and base station equipment (Note 8). On the territories that have been liberated, the Group regained access to some of the assets and assessed their condition, resulting in a partial reversal of the impairment provision. However, due to ongoing military activities near the liberated area, the Group has not yet regained access to all such assets, thus was unable to examine their condition and reassess the impairment provision.

For the identified CGU management performed the impairment test as at 31 December 2022 and the recoverable amount was estimated to be higher than the carrying amount, thus no economic impairment of the cash-generating unit was recognized. The recoverable amount has been determined based on value in use estimations.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and excludes the risks specific to the asset. The pre-tax discount rate used in the impairment test as of 31 December 2022 comprised 19,5%. Management reflected the identifiable risks and uncertainties related to the current economic environment in the expected cash flows and, therefore, they have not been embedded in the discount rate. This is an area of significant judgement.

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

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

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

The Group assessed the key assumptions used to determine the recoverable amount for the CGU. Three scenarios were considered in such an assessment. Major inputs of such scenarios were determined by the variation of the subscriber's base and average revenue per user (ARPU) which are the most important for determining expected cash flows in the telecommunication industry. The values assigned to the key assumptions represent management's assessment of future trends in the business and migration of the population. Management also considered different macroeconomic factors including inflation and USD/UAH exchange rate which are different for each scenario. Management applied the same pre-tax discount rate for each scenario as specific risks related to future economic conditions affected by the ongoing war were included in cash flows. The pessimistic and optimistic scenarios both were considered with 15% probability and the assessed most realistic basic scenario has 70% probability as management believes that the basic scenario is the most likely. Major downturns or improvements are much less likely to happen and their probabilities are considered to be equal. No impairment losses were identified as a result of impairment testing at 31 December 2022.

Management also calculated the sensitivity of key estimates used for the impairment test being pre-tax discount rate and proceeds from sales of services, which is primarily a function of customer base and ARPU, and goods, included in cash flow forecasts in each scenario. The sensitivity analysis disclosed below shows changes in key assumptions that would cause the recoverable amount of the CGU to be less than its carrying amount at the 31 December 2022. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant except for the change in capital expenditures which are linked to proceeds from sales included in cash flow forecasts. The sensitivity analysis may not be representative of an actual change in the recoverable amount of the CGU as it is unlikely that changes in assumptions would occur in isolation from one another.

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

	Change in key assumption
Proceeds from sales of services and goods included in cash flow forecasts	Decrease by 3.1%
Discount rate	Increase by 3.8 p.p.

Classification of the financial aid provided to a related party

On 10 February 2020, the Group provided interest-free financial aid in the amount of UAH 11,569 million to Telco Solutions and Investments LLC. The aid is repayable within 10 days after a written request by the Group. According to the corporate reorganisation plan, LLC "Telco Solutions and Investments" is expected to be merged with the Company in 2023 (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. As of the reporting date, the management believed that the Merger will be completed within six month after the reporting date (Note 1) and therefore considered that the financial aid provided to the parent company should be presented within the current assets in the interim condensed consolidated statement of the financial position. As the loan is expected to be settled through the Merger, there is no expectation to call the loan from the parent.

Basis of consolidation

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

Functional currency

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

Ownership of subsidiaries

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

	Accounting method	**30 June 2023**	**31 December 2022**
LLC "VF Retail"	Consolidated	100.0%	100.0%
LLC "ITSF"	Consolidated	100.0%	100.0%
LLC "Cable TV-Finance"	Consolidated	100.0%	100.0%
PrJSC "Farlep-Invest"	Consolidated	99.9%	99.9%
PLC "VFU Funding" *	Consolidated	0.0%	0.0%

* Starting from 6 February 2020 the Group consolidated VFU Funding PLC, a special purpose entity (the "SPE"), incorporated in England and Wales for the purpose of issuing the Notes (Note 15). The Group has no legal ownership of the SPE but exercises control over the entity according to the requirements of IFRS 10 *Consolidated Financial Statements*. The Group will cease consolidation of VFU Funding PLC after the repayment date of the Notes.

Reclassifications in the interim condensed consolidated financial statements

Certain comparative information presented in these interim consolidated financial statements as at and for the comparative period ended 30 June 2022 has been revised in order to achieve comparability with the presentation used in the interim condensed consolidated financial statements for the six months ended 30 June 2023. Particularly, the split of provisions within a disclosure was updated. These reclassifications were not considered material.

Standards, interpretations and amendments adopted on 1 January 2023

None of the interpretations and amendments to standards adopted by the Group on 1 January 2023 and on had a significant effect on the Group's interim condensed consolidated financial statements.

Standards and Interpretations in issue, but not yet effective

At the date of authorization of these interim condensed consolidated financial statements, the following standards and interpretations, as well as amendments to the standards that have been issued and are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Group has not early adopted:

- IAS 1 *Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current* - the amendments are effective for annual reporting periods beginning on or after 1 January 2024;
- IFRS 16 *Leases* – amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions – effective for annual periods beginning on or after 1 January 2024;
- IAS 1 *Presentation of Financial Statements - Amendments regarding the classification of debt with covenants* - the amendments are effective for annual reporting periods beginning on or after 1 January 2024;
- IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures - Supplier Finance Arrangements* - The amendments add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements – effective for annual periods beginning on or after 1 January 2024;
- IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - effective date to be determined by the IASB.

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

Significant accounting policies and estimates

The accounting policies and method of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those disclosed in the annual consolidated statements of the Group for the year ended 31 December 2022.

3. SEASONALITY

The Group does not view its business as highly seasonal as defined by IAS 34, *Interim Financial Reporting*. The financial results of the Group are insignificantly impacted by seasonality throughout the calendar year: higher consumption of roaming services in May-September mostly due to vacation period and increased demand for handsets and accessories at the year-end before winter holidays increase revenue from services and sales of goods for the second half of the year. During the war some seasonal trends which were typical for the business may vary.

4. SEGMENT INFORMATION

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

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

Financial information of the reportable segment is presented below:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Revenue	**10,404**	**9,916**
OIBDA	**5,934**	**5,764**
Depreciation and amortization	(2,169)	(2,391)
Operating currency exchange gains/(losses), net	17	(9)
Losses due to war	(116)	(951)
Gains due to war	46	145
Operating profit	**3,712**	**2,558**

5. SERVICE REVENUE

Service revenue during the six months to 30 June 2023 and 30 June 2022 comprised the following:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Revenue from mobile subscribers	8,140	7,116
Interconnect revenue	1,112	1,736
Roaming revenue	446	477
Other revenue	361	330
Total service revenue	**10,059**	**9,659**

6. COST OF SERVICES

Cost of services during the six months to 30 June 2023 and 30 June 2022 comprised the following:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Electricity and other production costs	782	592
Radio frequency usage tax	510	486
Interconnect expenses	451	884
Salaries	202	192
Roaming expenses	164	112
Social contributions	36	35
Other	83	69
Total cost of services	**2,228**	**2,370**

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended 30 June 2023 and 30 June 2022 comprised the following:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Salaries	925	774
Dealers commission	198	148
Advertising and marketing expenses	163	111
General office expenses	155	126
Consulting expenses	153	146
Billing and data processing	124	102
Social contributions	120	115
Taxes other than income tax	47	55
Other personnel expenses	47	43
Other	35	29
Total selling, general and administrative expenses	**1,967**	**1,649**

8. LOSSES AND GAINS DUE TO WAR, NET

	Six months ended 30 June 2023	Six months ended 30 June 2022
Electricity charges on non-controlled territories	77	-
Impairment loss on property and equipment (Note 12)	23	833
Disposal of damaged or destroyed property and equipment	14	60
Changes in estimates in provision for decommissioning and restoration (Note 16)	2	(53)
Reversal of impairment of property and equipment (Note 12)	(42)	-
Modification of leases (Note 13)	(2)	(50)
Expected credit losses on receivables from aggressor countries	(2)	47
Write-off of payables to aggressor countries	-	(42)
Impairment loss on inventories	-	11
Total losses due to war, net	**70**	**806**

The Group identified assets and liabilities in non-controlled territories (NCT) which consists of occupied territories and areas with intense military actions. The Group lacks the ability to direct the use of these assets to obtain the economic benefits generated by them at the reporting date, therefore respective assets have been fully impaired.

Despite some income from the decrease in liabilities overall the Group considers the war started by the Russian Federation against Ukraine caused significant losses to the Group. Moreover, real economic losses due to the Russian invasion are considered much higher than accounting losses recognized in accordance with IFRS.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	30 June 2023	31 December 2022
Cash on current accounts	3,112	989
Short-term deposits	2,224	4,084
Cash in transit and on hand	21	56
Allowance for ECL	(53)	(47)
Total cash and cash equivalents	**5,304**	**5,082**

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

Cash and cash equivalents comprised the following currencies:

	Interest rates	30 June 2023	Interest rates	31 December 2022
Cash at banks, on hand and in transit in:				
Euro *(in Ukrainian Hryvnia equivalent)*	0%	1,395	0%	450
Ukrainian Hryvnia	0%-7%	1,332	0%-7%	549
USD *(in Ukrainian Hryvnia equivalent)*	0%	406	0%	46
Allowance for ECL		(9)		(5)
Short-term bank deposits with an original maturity less than 92 days in:				
Ukrainian Hryvnia	6.5%-12%	2,224	6.5%-13%	1,595
USD *(in Ukrainian Hryvnia equivalent)*	-	-	0.01%-4.3%	2,178
Euro *(in Ukrainian Hryvnia equivalent)*	-	-	1.25%	311
Allowance for ECL		(44)		(42)
Total cash and cash equivalents		**5,304**		**5,082**

Cash and cash equivalents are held mainly in large Ukrainian and European banks that have a reliable reputation. As of 30 June 2023, 89% of cash and cash equivalents were held in four banks – subsidiaries of the large international banking groups (31 December 2022: 90% respectively).

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

	30 June 2023		31 December 2022	
	Cash and cash equivalents	Short-term investments (Note 11)	Cash and cash equivalents	Short-term investments (Note 11)
A rating	1,343	-	975	-
CCC rating	-	-	2,147	-
CCC- rating	1,763	2,199	319	1,084
Non-rated*	2,251	2,099	1,688	529
Allowance for ECL	(53)	(172)	(47)	(19)
Total	**5,304**	**4,126**	**5,082**	**1,594**

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

As of 30 June 2023, an allowance for expected credit loss (ECL) is recognized based on the probability of default of banks.

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

Trade and other receivables comprised of the following:

	30 June 2023	31 December 2022
Roaming	1,560	1,996
Interconnect	301	320
Subscribers	251	221
Dealers	6	8
Other trade receivables	60	64
Allowance for ECL	(245)	(250)
Total trade receivables	**1,933**	**2,359**
Financial aid and loan provided to related parties (see Note 18)	11,632	11,632
Cash balance in distressed bank	247	247
Other receivables	14	13
Allowance for ECL	(282)	(386)
Total other receivables	**11,611**	**11,506**
Total trade and other receivables	**13,544**	**13,865**

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

11. SHORT-TERM INVESTMENTS

Short-term investments represent term deposits and government bonds, which have original maturities of longer than three months and are repayable in less than twelve months. Any investment or term deposit with an initial maturity of more than three months does not become a cash equivalent when the remaining maturity period reduces to under three months.

Short-term investments comprised the following:

	Deposit rates	30 June 2023	Deposit rates	31 December 2022
USD *(in Ukrainian Hryvnia equivalent)*	4.25%	736	3.7%	1,084
Allowance for ECL		(7)		(8)
Total government bonds		**729**		**1,076**
USD *(in Ukrainian Hryvnia equivalent)*	0.01%-0.75%	3,512	0.2%	439
Ukrainian Hryvnia	13.5%	50	12.0%	51
Euro *(in Ukrainian Hryvnia equivalent)*		-	0.01%	39
Allowance for ECL		(165)		(11)
Total deposits		**3,397**		**518**
Total short-term investments		**4,126**		**1,594**

The impact of allowances for ECL on short-term investments balances is recognized based on the probability of default of banks and increased in the reporting period mainly due to higher volume and durations of investments.

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS AND GOODWILL

The table below represents changes in the Group's property, plant and equipment during the six months ended 30 June 2023:

	Network and base station equipment	Land and buildings	Office equipment, vehicles and other	Construction in progress and equipment for installation	Total
1 January 2023	**7,536**	**394**	**639**	**1,175**	**9,744**
Additions	279	9	9	905	**1,202**
Transferred into use	527	3	68	(598)	**-**
Depreciation	(656)	(9)	(95)	-	**(760)**
Disposals (net book value)	(22)	(4)	(24)	(7)	**(57)**
Impairment loss due to war (Note 8)	(23)	-	-	-	**(23)**
Impairment loss due to war reversed	42	-	-	-	**42**
30 June 2023	**7,683**	**393**	**597**	**1,475**	**10,148**

The table below represents changes in the Group's intangible assets during the six months ended 30 June 2023:

	Licences	Billing software and other	Other	Goodwill	Total
1 January 2023	**4,210**	**1,673**	**226**	**20**	**6,129**
Additions	-	764	516	**-**	**1,280**
Amortization	(232)	(705)	**-**	**-**	**(937)**
Disposals (net book value)	-	-	(6)	**-**	**(6)**
30 June 2023	**3,978**	**1,732**	**736**	**20**	**6,466**

The management believes that as of 30 June 2023, the Group complied with the conditions of all licences as due to war the legislation allows to postpone deadlines for some licensing requirements till the later period after completion of military actions.

Other intangible assets include prepayments for non-current assets. During the period ended 30 June 2023 the Group has made advance payment for a new billing system.

For impairment testing, goodwill acquired through business combinations is allocated to the core mobile business CGU, which represents the lowest level within the Group at which the goodwill is monitored by management and which is not larger than a segment. The Group concluded that no impairment of goodwill should be recognised as at 30 June 2023 and 31 December 2022.

13. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

The table below represents changes in the Group's right-of-use assets during the six months ended 30 June 2023:

	Sites for placement of network and base station equipment	Exclusive rights for trademarks	Admini-strative buildings	Retail store and other	Total
1 January 2023	**2,150**	**750**	**277**	**128**	**3,305**
Additions	49	-	5	19	**73**
Lease modifications	394	-	(115)	13	**292**
Depreciation	(191)	(121)	(37)	(40)	**(389)**
Disposals (net book value)	(13)	-	(16)	(13)	**(42)**
Modification of right-of-use assets on non-controllable territories	(5)	-	-	-	**(5)**
Restoration of facilities in the de-occupied territories	5	-	-	-	**5**
30 June 2023	**2,389**	**629**	**114**	**107**	**3,239**

The table below represents changes in the Group's lease obligations during the six months ended 30 June 2023:

	Lease obligations
1 January 2023	**4,359**
New obligations arising during the six months ended 30 June 2023	73
Modifications of existing leases	290
Termination of leases	(63)
Modification of liabilities on non-controllable territories	(7)
Restoration of facilities in the de-occupied territories	5
Rent concessions	(30)
Accrued interest	307
Payment of principal	(172)
Payment of interest	(307)
Currency exchange losses	30
30 June 2023	**4,485**

As agreed with Vodafone Sales & Services, there were no payments for Vodafone trademark during the first half of 2023.
The Group represents discounts obtained due to war in the same way as Covid-19-Related Rent Concessions as in most cases they cannot be separated. The Group considers the rent reduction to be a partial extinguishment of the lease liability. The forgiveness is recognised as a gain in the consolidated statement of profit or loss and other comprehensive income, with a corresponding reduction in the lease liability in the period in which the reduction is contractually agreed.

Due to legal restrictions, which don't allow settlement of leases in the temporarily occupied territories of Ukraine and other existing uncertainties, the Group revised lease terms and the discounted cash flows for the lease of facilities in these territories, which resulted in the decrease of lease liabilities and respective right-of-use assets.

14. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following balances:

	30 June 2023	31 December 2022
Trade accounts payable	757	799
Accounts payable for property, equipment and intangible assets	559	324
Accrued liabilities	196	333
Accrued payroll and vacation	126	104
Total trade payables	**1,638**	**1,560**
Dividends payable	1,828	-
Total other payables	**1,828**	**-**
Total trade and other payables	**3,466**	**1,560**

Accounts payable increased compared to the end of the previous year mainly due to an increase in accounts payable for the radio access network software and installation services.

In April 2023, the Company declared dividends in the total amount of UAH 1,828 million or UAH 2.34 per share. As of 30 June 2023 no dividends have been paid.

15. BORROWINGS

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

The Group's borrowings comprise the following:

	30 June 2023	31 December 2022
Notes	14,795	14,744
Other	1	1
Total borrowings	**14,796**	**14,745**
Less: Interest accrued	(351)	(351)
Total borrowings, non-current	**14,445**	**14,394**

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

	Six months ended 30 June 2023
1 January	**14,745**
Accrued interest	504
Payment of interest	(453)
30 June	**14,796**

The maturity analysis of borrowings disclosed in the table below represents undiscounted cash flows. Future cash flows were translated using the exchange rate as of 30 June 2023:

Due within three months	454
Due from three months to twelve months	453
Due from 1 year to 5 years	15,528
Total	**16,435**

On 6 February 2020, the Group raised funds by issuing Eurobonds (the "Notes") through a structured entity, PLC "VFU Funding". The Notes have a five year term and amount of USD 500 million (UAH 12,259 million as of the date of the issue) with a coupon rate of 6.2%. At initial recognition, the Notes

were accounted for at fair value less transaction costs that were directly attributable to the issue. Subsequently, the financial liability is measured at amortized cost using the effective interest rate method (approximate effective interest rate is 7.1%).

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

The Group has complied with all debt covenants as at 30 June 2023 and during the respective reporting period.

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

16. PROVISIONS

The following table summarizes movements in provisions for the six months ended 30 June 2023:

	Provision for decommis-sioning and restoration	**Employee bonuses and other rewards**	**Other provi-sions**	**Material rights**	**Social contri-butions**	**Total**
At 31 December 2022	**367**	**699**	**24**	**81**	**28**	**1,199**
Current	-	699	24	81	28	**832**
Non-current	367	-	-	-	-	**367**
Arising during the period	3	425	215	187	23	**853**
Utilised		(345)	(86)	(200)	(20)	**(651)**
Unwinding of discount	33	-	-	-	-	**33**
Change in estimates	25					**25**
Change in estimate due to war	2					**2**
Unused amounts reversed		(37)	(1)	-	(11)	**(49)**
At 30 June 2023	**430**	**742**	**152**	**68**	**20**	**1,412**
Current	-	742	152	68	20	**982**
Non-current	430	-	-	-	-	**430**

The Group reassessed the probability of outflow of economic resources related to the provision for decommissioning and restoration in the temporarily occupied territories and derecognized part of the provision. However, upon return of these territories to controllable by Ukraine the obligation is recalculated and recorded in the provision.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group’s financial instruments are represented by trade and other receivables, cash and cash equivalents, short-term investments, trade and other payables and borrowings. All these financial instruments are carried at amortized cost using the effective interest method. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 30 June 2023 fair values of the Group’s financial instruments that are not carried at fair value in the interim condensed consolidated statement of financial position approximate their carrying amounts (except for the borrowings).

The Group estimated the fair value of the borrowings using the Level 2 valuation technique based on quoted market prices as of 30 June 2023 in the amount of UAH 10,967 million (carrying amount: UAH 14,795 million). For other financial assets and liabilities the Group applied Level 3 in the fair value hierarchy, except for cash and cash equivalents that are classified as Level 1 and Ukrainian government bonds (as part of short-term investments) that are classified as Level 2.

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

18. RELATED PARTIES

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

Terms and conditions of transactions with related parties

Outstanding balances as of 30 June 2023 and 31 December 2022 were unsecured and settlements are made on a cash basis.

As at 30 June 2023 and 31 December 2022, balances from and to related parties were as follows:

Description	**30 June 2023**	**31 December 2022**
Entities under common control and ownership with the Group	37	37
ECL on the Entities under common control and ownership with the Group	(13)	-
Total other financial assets, non-current	**24**	**37**
The Group's immediate parent company	11,569	11,569
ECL on the Group's immediate parent company receivables (Note 10)	(36)	(140)
Entities under common control and ownership with the Group	69	65
Total other receivables from related parties	**11,602**	**11,494**
Entities under common control and ownership with the Group	19	7
Advances paid and prepaid expenses	**19**	**7**
Entities under common control and ownership with the Group	124	216
Advances paid for PPE	**124**	**216**
Total advances paid and prepaid expenses	**143**	**223**
Entities under common control and ownership with the Group	25	32
Total provisions, trade and other payables to related parties	**25**	**32**
The Group's immediate parent company	1,810	
Entities under common control and ownership with the Group	18	-
Total dividends payable	**1,828**	**-**

The Group's declared dividends were as follows:

Description	**Six months ended 30 June 2023**	**Six months ended 30 June 2022**
The Group's immediate parent company	1,810	-
Entities under common control and ownership with the Group	18	-
Dividends declared	**1,828**	**-**

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

Description	**Six months ended 30 June 2023**	**Six months ended 30 June 2022**
Entities under common control and ownership with the Group	316	108
Total purchases of property and equipment and intangible assets from related parties	**316**	**108**

Turnovers with related parties were as follows:

Description	Six months ended 30 June 2023	Six months ended 30 June 2022
Entities under common control and ownership with the Group	5	-
Total service revenue from related parties	**5**	-
Entities under common control and ownership with the Group	(24)	(19)
Total costs of services with related parties	**(24)**	**(19)**
Entities under common control and ownership with the Group	(143)	(138)
Total selling, general and administrative expenses with related parties	**(143)**	**(138)**
Entities under common control and ownership with the Group	4	**2**
Total finance income with related parties	**4**	**2**

Remuneration of key management personnel

Key management personnel of the Group includes members of the Steering Committee and Supervisory Board. During the year ended 30 June 2023 the short-term key management personnel's total compensation amounted to UAH 86 million that include salaries, social contributions, sick pay, bonuses, termination and other benefits-in-kind (six months ended 30 June 2022: UAH 79 million). The senior management team and other governance bodies are also entitled to profit-sharing bonus payments. Related compensation accrued during the reporting year amounted to UAH 277 million (six months ended 30 June 2022: UAH 152 million).

19. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of 30 June 2023, the Group had unexecuted purchase agreements of approximately UAH 1,716 million to network equipment, tangible and intangible assets that were still in progress (31 December 2022: UAH 1,605 million).

Taxation

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

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

Generally, according to Ukrainian tax legislation, the tax period remains open for tax audits for three years after the respective tax return submission and seven years for transfer pricing verification. In the case of submitting corrections to CIT return, tax audits cover only related transactions. As of 30 June 2023 open periods for tax audits are from 1 July 2021 and further reporting periods, as for transfer pricing issues from 1 January 2013.

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

Legal proceedings

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

Operating environment

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

- The Group operates one of the largest communication networks in the country of Ukraine. It has been targeted by the Russian military in order to weaken overall communications in the country. In some parts of the country, the network is not operating any longer due to significant infrastructure damage.
- Martial law was imposed in Ukraine on 24 February 2022. The banking system has restricted certain types of transactions, including but not limited to, a moratorium on cross-border foreign financial payments, except for the purchase of critical goods. In the event of further restrictions, the Group has the opportunity to use its foreign banks' accounts to make a further interest payment.
- While the network has been targeted, the Group has worked tirelessly to keep the network running and repair it when damaged. New capital expenditures have been suspended, however, maintenance and repairs have been proceeding to maintain a reasonable level of network performance.
- Tax payments to government authorities have continued, however, cash outflows have been actively managed and controlled to maximise the conservation of cash.
- The Group continues to pay its employees, many of which have been dislocated but continue to work remotely, except for those that are involved in maintenance and operations of the network.
- The Group has not, at the date of these interim condensed consolidated financial statements, been able to take a full inventory of its assets, including network, buildings and other infrastructure, to make a full assessment of the damage done.
- The war has resulted in the significant displacement of Ukrainian citizens, mostly to the adjacent countries in the European Union. The gradual return of migrants will contribute to the revival of consumer demand, and investments will increase significantly during the country's reconstruction phase.

The official UAH to USD exchange rate has been fixed at the level of UAH 36.57 per USD 1 starting from 21 July 2022.
The following table summarizes the exchange rates of UAH against USD and Euro:

	USD/UAH	Euro/UAH
31 December 2022	36.57	38.95
30 June 2023	36.57	40.00
Average for 6m 2022	28.91	31.74
Average for 6m 2023	36.57	39.52

The Ukrainian government has already made several steps toward liberalizing the foreign exchange market this year, allowing investors in government debt to repatriate some interest payments, easing operations for insurance firms and letting borrowers repay some foreign loans.

The National Bank of Ukraine (NBU) has updated its macroeconomic forecast and moderately increased the expectation of real GDP growth in 2023 - from 2.0% to 2.9% as it announced cutting the key interest rate from 25% to 22% in the end of July 2023.

Taking into account the favorable dynamics of the first half of the year, the NBU significantly improved the inflation forecast for this year - from 14.8% to 10.6% in 2023 thanks to stable situation in the energy sector and strengthening of hryvnia exchange rate.

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

20. SUBSEQUENT EVENTS

The Russian invasion and other events in Ukraine

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

In early June 2023, during the Russian invasion of Ukraine, Ukraine launched a substantial counteroffensive against Russian forces occupying its territory with a long-term goal of breaching the frontlines. It has already liberated more territory than Russia captured during a months-long winter offensive, which took the eastern town of Bakhmut and little else. Efforts were made in several directions, particularly in Donetsk and Zaporizhzhia regions. The counteroffensive is widely regarded as a crucial breakthrough moment in the war.

Repayment of other financial payables

On 9 August 2023, the Group repaid UAH 1,810 million as part of the outstanding amount to Telco Solutions and Investments LLC (see Note 14).

The Eurobonds semi-annual interest payment

In August 2023, the Group paid its semi-annual interest payment that was due of USD 12.4 million (UAH 453.3 million).

The Share Purchase Agreement of the participatory interest in the charter capital of Limited Liability Company "Freenet"

On 23th of August, the Company has entered into the Share Purchase Agreement based on which it undertook to purchase the controlling participatory interest of the fixed-line telecommunication business, namely 90,60% in the charter capital of LLC "Freenet". The respective payment of 746 MUAH has been made on the same date and transaction has been completed and registered in accordance the applicable law.

The acquisition of LLC "Freenet" is part of the Group's strategy to develop convergent services and tariffs.

The initial accounting for the business combination is incomplete at the time the interim condensed consolidated financial statements are authorised for issue as LLC "Freenet" prepares its accounts in accordance with Ukrainian GAAP and will be subject to purchase price allocation and other necessary IFRS adjustments.

21. AUTHORISATION OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were authorized for issue by the Management of the Group on 25 August 2023.