Public Joint-Stock Company Ukrtelecom

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

31 December 2016

These consolidated financial statements contain 48 pages

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Independent auditor's report

To the Shareholders and Supervisory Board of Public Joint Stock Company Ukrtelecom

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Ukrtelecom (the "Company") (EDRPOU Code 21560766, located at 18 Shevchenko Blvd., Kyiv, 01601, Ukraine, registered in Kyiv on 15 December 1993) and its subsidiaries (collectively the "Group"), which comprise the consolidated balance sheet (statement of financial position) as at 31 December 2016 and the consolidated income statement and statement of other comprehensive income, consolidated statements of changes in equity and consolidated cash flows for the year then ended, and accompanying notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the requirements of the Law of Ukraine on Audit Activities and International Standards on Auditing (2014 edition of the IAASB handbook) accepted as National Standards on Auditing based on the Decisions of the Chamber of Auditors of Ukraine dated 18 April 2003 and 29 December 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Valuation of certain property, plant and equipment. As disclosed in Note 5 to the consolidated financial statements, the Group applies revaluation model for the measurement of property, plant and equipment and performs the revaluation with sufficient regularity to ensure that the carrying amount of property, plant and equipment as at the reporting date does not differ materially from its fair value. We were unable to obtain sufficient and appropriate audit evidence to support the fair value of certain items within property, plant and equipment totaling to UAH 1,707,263 thousand as at 31 December 2016, out of which UAH 592,156 thousand is included within "Switching and other network equipment" and UAH 1,115,107 thousand is included within "Ducts and cables", as inadequate records, calculations and other potential sources of evidence supporting those market-based fair values were not retained by management and made available to us. Similarly, our audit opinion on the consolidated financial statements for the year ended 31 December 2015 was also modified with regard to UAH 690,111 thousand included within "Switching and other network equipment" and UAH 131,072 thousand included within "Buildings and leasehold improvements".

In respect of these assets, the Group recorded a revaluation gain net of income tax in other comprehensive income of UAH 437,177 thousand (2015: UAH 551,313 thousand), and a gain on reversal of previously recognized impairment loss of UAH 666 thousand (2015: UAH 59,325 thousand), and a respective deferred tax charge of UAH 120 thousand in profit or loss for the year ended 31 December 2016 (2015: UAH 10,679 thousand). Deferred tax liability related to revaluation of these assets as at 31 December 2016 amounted to UAH 96,086 thousand (31 December 2015: UAH 133,132 thousand). Due to the reasons described above, we were unable to determine whether any adjustments to these amounts were necessary.

Balances due from the parent company (the "Parent"). As at 31 December 2016, the Group had a current balance of the loan receivable from the Parent of UAH 737,984 thousand (31 December 2015: UAH 734,006 thousand), a balance of investment in bonds issued by the Group's Parent of UAH 160,872 thousand (31 December 2015: UAH 160,872 thousand), and a current balance of accrued interest receivable on the bonds in the amount of UAH 65,588 thousand (31 December 2015: UAH 26,870 thousand). We were unable to obtain sufficient appropriate evidence over recoverability of the above balances and to determine whether any adjustments were necessary in respect of these balances and the accumulated deficit as at 31 December 2016.

Non-current assets held for sale. As at 31 December 2015 and 31 December 2016, the Group classifies its mobile segment as an asset held for sale and disposal group and a discontinued operation. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requires that a component of the entity shall be classified as a disposal group held for sale if it is available for the immediate sale in its present condition and its sale is highly probable within one year from the date of classification. IFRS 5 also allows an extension of the period required to complete a sale if the delay is caused by the events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group) provided that the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale within one year period is highly probable. As disclosed in Note 6 to the consolidated financial statements, during 2015 and 2016 the Group had been in negotiations regarding the sale of its mobile segment and expected to complete the disposal in a short-term perspective upon approval of the transaction by the State Property Fund of Ukraine. No approval was received as of the year ended 31 December 2016. In addition, the potential buyer withdrew its preliminary purchase offer. As such, as at 31 December 2016, there was insufficient evidence that classification of the Group's mobile segment as a disposal group held for sale and a discontinued operation meets the requirements of IFRS 5. Had the Group ceased to classify its mobile segment as a disposal group held for sale and a discontinued operation, non-current assets held for sale and disposal group would have been decreased by UAH 147,542 thousand, total non-current assets and total current assets of the Group would have been increased by UAH 128,736 thousand and UAH 18,806 thousand, respectively, as at 31 December 2016. Liabilities associated with assets held for sale and disposal group as at 31 December 2016 would have been decreased by UAH 32,890 thousand, total current liabilities would have been increased by UAH 32,890 thousand. Additionally, profit from continuing operations before tax would have been decreased by UAH 340,444 thousand for the year ended 31 December 2016 (2015: UAH 177,047 thousand) upon reclassification of loss from discontinued operations. No assessment has been made by the Group in respect of the depreciation expense for all periods during which the mobile segment was classified as held for sale, which should have been recognized in the year ended 31 December 2016, and in respect of any potential adjustments regarding the valuation and impairment of mobile segment's assets, that might have been required had the disposal group not been classified as held for sale as at 31 December 2016.

Qualified Opinion

In our opinion, except for the effects and possible effects of the matters described in the Basis for Qualified Opinion section, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter - Going Concern

We draw your attention to Note 1 to the consolidated financial statements. As disclosed in Note 1, as at the year-end, the Group's current liabilities exceed its current assets by UAH 1,824,082 thousand, not including the possible additional effect of any impairment of the total balances due from the Parent of UAH 964,444 thousand described in the Basis for Qualified Opinion section above. Note 1 also describes that at the year-end, contingent liabilities existed in respect of repurchase of the bonds issued by the Parent, in the nominal amount of UAH 2,000,000 thousand plus interest accrued, out of which bonds in the nominal amount of UAH 1,000,000 thousand were presented to the Group on the Notary deposit account on 15 March 2017 and remain unpaid as of the date of the issue of these consolidated financial statements. These matters, along with other matters as described in Note 1, indicate the existence of a material uncertainty, which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

LLC AF PricewaterhouseCoopers (Audit)

26 April 2017
Kyiv, Ukraine

		Date (year, month, day)	2017.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
Form of ownership	Public Joint-Stock Company	KOPFG	230
State administration authority		SPODU	
Principal activity	Telecommunications	KVED	61.10
Average number of employees	28,942		2643
Measurement unit:	thousand UAH		
Address	18 Taras Shevchenko Blvd, Kyiv		
Prepared in accordance with (put "v" where appropriate):			
National Accounting Standards			
International Financial Reporting Standards			V

Consolidated Balance Sheet (Statement of Financial Position)

Form No.1 DKUD Code 1801001

Assets	Line Code	31 December 2015	31 December 2016	Note
1	2	3	4	5
I. Non-current assets				
Intangible assets:	1000	49,158	57,444	
historical cost	*1001*	*465,541*	*480,576*	
accumulated amortization	*1002*	*(416,383)*	*(423,132)*	
Construction in progress	1005	115,930	665,579	5
Property, plant and equipment:	1010	8,873,137	8,839,758	
cost or valuation	*1011*	*8,873,137*	*8,839,758*	*5*
accumulated depreciation	*1012*	-	-	*5*
Investment property:	1015	112,104	180,100	
cost or valuation	*1016*	112,104	*180,100*	
accumulated depreciation	*1017*	-	-	
Long-term biological assets	1020	-	-	
Long-term financial investments:				
accounted for on an equity basis	*1030*	*545*	*345*	
other financial investments	*1035*	*160,872*	-	*9, 27*
Long-term receivables	1040	328	555	
Deferred tax assets	1045	-	-	23
Other non-current assets	1090	-	-	
Total non-current assets	**1095**	**9,312,074**	**9,743,781**	
II. Current assets				
Inventories:	1100	120,564	143,940	
production supplies	*1101*	*97,707*	*113,741*	
finished goods	*1103*	-	-	
merchandise	*1104*	*22,857*	*30,199*	
Current biological assets	1110	-	-	
Trade accounts receivable	1125	453,381	501,226	7
Taxes and other receivables:				
advances paid	1130	69,458	57,543	
budget	1135	10,496	7,466	
including income tax	*1136*	*6,016*	*801*	
accrued income	1140	31,455	70,772	9, 27
receivables from subsidiary	1146	-	-	
Other current receivables	1155	753,469	765,236	8
Current financial investments	1160	-	160,872	9, 27
Cash and cash equivalents	1165	156,364	141,542	
Deferred expenses	1170	34,580	13,232	
Other current assets	1190	14,124	7,447	
Total current assets	**1195**	**1,643,891**	**1,869,276**	
III. Assets held for sale and disposal groups	**1200**	**264,693**	**147,542**	6
Total assets	**1300**	**11,220,658**	**11,760,599**	

The accompanying notes are an integral part of these financial statements

Equity and Liabilities	Line Code	31 December 2015	31 December 2016	Note
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
I. Equity				
Registered share capital	1400	4,681,562	4,681,562	10
Revaluation surplus	1405	8,699,417	8,885,075	10
Additional capital	1410	417,773	418,842	10
Reserves	1415	222,812	222,812	10
Accumulated deficit	1420	(6,507,177)	(6,203,987)	10
Unpaid capital	1425	-	-	
Capital withdrawals	1430	-	-	
Total equity	**1495**	**7,514,387**	**8,004,304**	
II. Non-current liabilities and provisions				
Deferred tax liabilities	1500	678,465	712,465	23
Long-term borrowings	1510	487,100	-	12
Other long-term financial liabilities	1515	-	-	12
Long-term provisions	1520	227,311	282,026	11
Target financing	1525	-	-	
Total non-current liabilities and provisions	**1595**	**1,392,876**	**994,491**	
III. Current liabilities and provisions				
Short-term borrowings	1600	1,002,864	1,072,611	12
Promissory notes issued	1605	-	-	
Current portion of long-term borrowings	1610	445,528	846,858	12
Trade and other accounts payable	1615	353,984	326,338	13
Taxes and other payables:				
Budget	1620	88,185	84,162	
including income tax	*1621*	-	*5,444*	
social charges (salary related)	1625	18,611	11,310	
salaries	1630	47,660	46,278	
advances received	1635	56,359	68,050	
payables to shareholders	1640	1,898	1,898	
payables to subsidiary	1645	-	-	
Current provisions	1660	230,219	252,832	14
Deferred income	1665	769	1,901	
Other current liabilities	1690	48,583	16,676	
Total current liabilities	1695	**2,294,660**	**2,728,914**	
IV. Liabilities associated with assets held for sale and disposal groups	1700	**18,735**	**32,890**	6
Total equity and liabilities	**1900**	**11,220,658**	**11,760,599**	

Approved for issue and signed

Director ______ (signature) Y.P. Kurmaz __/__/__
name

«Укртелеком» Ідентифікаційний код 21560766

Chief Accountant ______ (signature) I.V. Kuts __/__/__
name

The accompanying notes are an integral part of these financial statements

		Date (year, month, day)	2017.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
State administration authority		SPODU	
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v" where appropriate):			
National Accounting Standards			
International Financial Reporting Standards			V
Measurement unit:	thousand UAH		

Consolidated Income Statement and Statement of Other Comprehensive Income

Form No.2 DKUD Code 1801003

I. INCOME STATEMENT

Item	**Line Code**	**Reporting Period - 2016**	**Prior Period - 2015**	**Note**
Revenue	2000	6,246,144	6,326,423	15
Cost of revenue	2050	(3,821,622)	(3,604,624)	16
Gross:				
profit	2090	2,424,522	2,721,799	
loss	2095	-	-	
Other operating income	2120	255,024	194,544	20
Administrative expenses	2130	(871,803)	(778,327)	17
Selling expenses	2150	(477,605)	(527,899)	18
Other operating expenses	2180	(321,137)	(376,005)	19
Financial result of operations:				
profit	2190	1,009,001	1,234,112	
loss	2195	-	-	
Equity earnings	2200	-	-	
Finance income	2220	57,862	137,795	22
Other income	2240	-	-	
Finance costs	2250	(429,029)	(671,992)	21
Losses on equity investments	2255	(200)	(71)	
Other expenses	2270	-	-	
Financial result from continuing activities before tax:				
profit	2290	637,634	699,844	
loss	2295	-	-	
Income tax (expense)/benefit	2300	(110,049)	(151,322)	23
Loss from discontinued operations after tax	2305	(340,444)	(177,047)	6
Net financial result of operations:				
profit	2350	187,141	371,475	
loss	2355	-	-	

The accompanying notes are an integral part of these financial statements

II. OTHER COMPREHENSIVE INCOME

Item	Line Code	Reporting Period - 2016	Prior Period - 2015	Note
Revaluation gain/(loss) on non-current assets	2400	416,601	4,779,690	5
Revaluation of financial instruments	2405	-	-	
Currency translation reserve	2410	1,069	3,415	
Share of comprehensive loss of equity accounted investees	2415	-	-	
Other comprehensive income (loss)	2445	(61,288)	(8,919)	
Other comprehensive income (loss) before tax	**2450**	**356,382**	**4,774,186**	
Income tax attributed to other comprehensive income	2455	(70,136)	(836,511)	23
Other comprehensive income (loss) after tax	**2460**	**286,246**	**3,937,675**	
Total comprehensive income	**2465**	**473,387**	**4,309,150**	

Line 2400 "Revaluation gain/(loss) on non-current assets" includes UAH 369,764 thousand of revaluation surplus on property, plant and equipment (2015: UAH 4,739,026 thousand) and UAH 46,837 thousand of revaluation surplus on investment property recognised as at the date of its transfer from owner-occupied property (2015: UAH 40,664 thousand).

Line 2445 "Other comprehensive income (loss)" in amount of UAH (61,288) thousand (2015: UAH (8,919) thousand) is represented by the actuarial gain / (loss) from post-employment long-term benefit obligations (Note 11).

All items of other comprehensive income, except for currency translation reserve, will not be subsequently reclassified to profit or loss.

III. NATURE OF OPERATING EXPENDITURES

Item	Line Code	Reporting period - 2016	Prior period - 2015	Note
Materials and utilities	2500	954,305	887,327	
Salaries and related charges, employee expenses under collective agreement	2505	1,902,123	1,793,366	
Social charges	2510	362,969	592,412	
Depreciation and amortization	2515	500,125	472,529	
Other operating expenses	2520	1,772,645	1,520,818	
Total	**2550**	**5,492,167**	**5,266,452**	

IV. EARNINGS PER SHARE

Item	Line Code	Reporting Period - 2016	Prior period - 2015	Note
Average annual number of ordinary shares	2600	18,726,248,000	18,726,248,000	10
Adjusted average annual number of ordinary shares	2605	18,726,248,000	18,726,248,000	10
Basic earnings (loss) per ordinary share, UAH	2610	0.0100	0.0198	
Diluted earnings (loss) per ordinary share, UAH	2615	0.0100	0.0198	
Dividend per ordinary share, UAH	2650	-	-	
Basic and diluted earnings (loss) per ordinary share from continued operations, UAH		0.0282	0.0293	
Basic and diluted earnings (loss) per ordinary share from discontinued operations, UAH		(0.0182)	(0.0095)	

Approved for issue and signed

Director (signature) Y.P. Kurmaz __/__/__
name

Chief Accountant (signature) I.V. Kuts __/__/__
name

The accompanying notes are an integral part of these financial statements

		Date (year, month, day)		2017.01.01
Entity	PJSC Ukrtelecom		EDRPOU	21560766
Location	Ukraine		KOATUU	8039100000
Form of ownership	Public Joint-Stock Company		KOPFG	230
Principal activity	Telecommunications		KVED	61.10
Prepared in accordance with (put "v" where appropriate):				
National Accounting Standards				
International Financial Reporting Standards				v
Measurement unit: thousand UAH				
			DKUD Code	1801004

Consolidated Cash Flow Statement (Direct method)

Form No.3

Item	Line Code	Reporting period - 2016	Prior period - 2015
1	2	3	4
I. Cash flows from operating activities			
Proceeds from:			
Sale of goods and services	3000	6,715,691	6,981,654
Return of taxes and duties	3005	122	361
VAT	3006	-	-
Target financing	3010	964	11,293
Prepayments from customers	3015	22,663	44,279
Return of advances	3020	1,339	2,150
Interests on current bank accounts	3025	-	-
Penalties, fines and forfeits	3035	8,385	38,307
Operating lease	3040	296,611	325,113
Other proceeds	3095	212,457	315,209
Expenditures from:			
Settlements for goods and services	3100	(1,814,544)	(1,518,903)
Payments to employees	3105	(1,516,661)	(1,480,555)
Social charges	3110	(378,230)	(655,322)
Other taxes and duties payable	3115	(1,344,022)	(1,306,498)
Advances to suppliers	3135	(340,847)	(236,221)
Reversal of advances from customers	3140	(138)	(379)
Other expenditures	3190	(283,547)	(251,155)
Net cash flows from operating activities	**3195**	**1,580,243**	**2,269,333**
II. Cash flows from investing activities			
Disposals:			
Financial investments	3200	-	250
Non-current assets	3205	227,849	80,690
Receipts:			
Interest	3215	13,673	2,147
Dividends	3220	-	-
Derivatives	3225	-	-
Other proceeds	3250	947	88,081
Acquisitions:			
Financial investments	3255	-	(161,119)
Non-current assets	3260	(849,084)	(292,142)
Expenses on derivatives	3270	-	-
Other payments	3290	(280,235)	(987,413)
Net cash flows from investing activities	**3295**	**(886,850)**	**(1,269,506)**

Item	Line Code	Reporting period – 2016	Prior period - 2015
III. Cash flows from financing activities			
Proceeds from issuance of equity	3300	-	-
Borrowings received	3305	1,454,948	298,807
Other proceeds	3340	-	-
Repurchase of treasury shares	3345	-	-
Repayment of borrowings	3350	(1,760,426)	(666,402)
Dividends paid	3355	-	-
Interest paid	3360	(351,351)	(418,549)
Finance lease	3365	-	-
Other payments	3390	(45,831)	(139,165)
Net cash flows from financing activities	**3395**	**(702,660)**	**(925,309)**
Net cash flows for the period	3400	(9,267)	74,518
Cash and cash equivalents at the beginning of the year	3405	156,364	78,489
Effect of change in exchange rates on cash and cash equivalents	3410	(5,555)	3,357
Cash and cash equivalents at the year-end	3415	141,542	156,364

Approved for issue and signed

Director ______ (signature) Y.P. Kurmaz (name) __/__/__

«Укртелеком» Ідентифікаційний код 21560766

Chief Accountant ______ (signature) I.V. Kuts (name) __/__/__

Line 3095 "Other proceeds" in "Cash-flows from operating activities" in amount of UAH 212,457 thousand includes cash proceeds from sale of copper scrap from dismantled cable lines and from sale of copper and non-ferrous metals scrap from dismantled switching equipment in the amount of UAH 182,745 thousands (2015: 213,190 thousands) as a result of non-current assets disposals.

Line 3115 "Other taxes and duties payable" in "Cash flows from operating activities" includes UAH 136,933 thousand of cash outflows from income tax paid (2015: nil)

Line 3190 "Other expenditures" in "Cash flows from operating activities" in amount of UAH 283,547 thousand (2015: UAH 251,155 thousand) includes cash outflows from rent paid, foreign currency purchase transactions, payments under collective agreement, insurance payments and other cash outflows.

Line 3250 "Other proceeds" in "Cash flows from investing activities" includes UAH 245 thousand of proceeds from loan settled by direct shareholder LLC "ESU" (2015: UAH 72,500 thousand), and other cash inflows.

Line 3290 "Other payments" in "Cash flows from investing activities" includes UAH 1,453 thousand of cash outflows for loan granted to direct shareholder LLC "ESU" (2015: UAH 400,860 thousand), and UAH 278,343 thousand of net cash outflows for loan granted to discontinuing operations LLC "Trimob" (2015: UAH 577,143 thousand).

Line 3390 "Other payments" in "Cash flows from financing activities" includes UAH 22,131 thousand of repaid loans to suppliers (2015: UAH 133,898 thousand), and other cash outflows.

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Form of ownership	Public Joint-Stock Company	KOPFG		230
Principal activity	Telecommunications	KVED		61.10
Prepared in accordance with (put "v" where appropriate):				
National Accounting Standards				
International Financial Reporting Standards				v
Measurement unit:	thousand UAH			

Consolidated Statement of Changes in Equity

For the year 2016

Form No.4 DKUD Code 1801005

Item	Line Code	Registered share capital	Revaluation surplus	Additional capital	Other additional capital	Reserves	Accumulated deficit	Unpaid capital	Capital withdrawals	Total
Balance as at 31 December 2015	**4000**	**4,681,562**	**8,699,417**	**417,773**	**-**	**222,812**	**(6,507,177)**	**-**	**-**	**7,514,387**
Restatements: Change of accounting policy	4005	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-	-
Restated balance as at 31 December 2015	**4095**	**4,681,562**	**8,699,417**	**417,773**	**-**	**222,812**	**(6,507,177)**	**-**	**-**	**7,514,387**
Net profit (loss) for the period	4100	-	-	-	-	-	187,141	-	-	**187,141**
Other comprehensive income (loss)	4110	-	341,613	1,069	-	-	(56,436)	-	-	**286,246**
Retained earnings distributed: Distributions to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	-
Reinvestment in authorized capital	4205	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-
Shareholders/contributions: Equity contributions	4240	-	-	-	-	-	-	-	-	-
Capital repayment	4245	-	-	-	-	-	-	-	-	-
Capital withdrawals: Repurchase of treasury shares (participatory interest)	4260	-	-	-	-	-	-	-	-	-
Reverse repurchase of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-
Equity divestment	4275	-	-	-	-	-	-	-	-	-
Other changes in equity (Note 10)	4290	-	(155,955)	-	-	-	172,485	-	-	**16,530**
Total changes in equity	**4295**	**-**	**185,658**	**1,069**	**-**	**-**	**303,190**	**-**	**-**	**489,917**
Balance as at 31 December 2016	**4300**	**4,681,562**	**8,885,075**	**418,842**	**-**	**222,812**	**(6,203,987)**	**-**	**-**	**8,004,304**

and signed

Director (signature) Y.P. Kurmaz (name) __/__/__

Chief Accountant I.V. Kuts __/__/__

«Укртелеком»
Україна
м. Київ
Публічне акціонерне товариство
Ідентифікаційний код 21560766

The accompanying notes are an integral part of these financial statements

		Date (year, month, day)	2017.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
State administration authority		SPODU	
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v" where appropriate):			
National Accounting Standards			
International Financial Reporting Standards			v
Measurement unit:	thousand UAH		

(signature) (name)

Consolidated Statement of Changes in Equity

For the year 2015
Form No.4

DKUD Code 1801005

Item	Line Code	Registered share capital	Revaluation surplus	Additional capital	Other additional capital	Reserves	Accumulated deficit	Unpaid capital	Capital withdrawals	Total
Balance as at 31 December 2014 (as originally presented)	**4000**	**4,681,562**	**5,648,029**	**414,358**	-	**222,812**	**(7,016,518)**	-	-	**3,950,243**
Restatements: Change of accounting policy	4005	-	-	-	-	-	-	-	-	-
Correction of errors (Note 2)	4010	-	(641,639)	-	-	-	(61,360)	-	-	**(702,999)**
Other changes	4090	-	-	-	-	-	-	-	-	-
Restated balance as at 31 December 2014	**4095**	**4,681,562**	**5,006,390**	**414,358**	-	**222,812**	**(7,077,878)**	-	-	**3,247,244**
Net profit (loss) for the period – restated	4100	-	-	-	-	-	371,475	-	-	**371,475**
Other comprehensive income (loss)	4110	-	3,937,680	3,415	-	-	(3,420)	-	-	**3,937,675**
Retained earnings distributed: Distributions to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	-
Reinvestment in authorized capital	4205	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-
Shareholders/contributions: Equity contributions	4240	-	-	-	-	-	-	-	-	-
Capital repayment	4245	-	-	-	-	-	-	-	-	-
Capital withdrawals: Repurchase of treasury shares (participatory interest)	4260	-	-	-	-	-	-	-	-	-
Reverse repurchase of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-
Equity divestment	4275	-	-	-	-	-	-	-	-	-
Other changes in equity (Note 10)	4290	-	(244,653)	-	-	-	202,646	-	-	**(42,007)**
Total changes in equity	**4295**	-	**3,693,027**	**3,415**	-	-	**570,701**	-	-	**4,267,143**
Balance as at 31 December 2015	**4300**	**4,681,562**	**8,699,417**	**417,773**	-	**222,812**	**(6,507,177)**	-	-	**7,514,387**

Approved for issue and signed

Україна * м. Київ * «Укртелеком» * Публічне акціонерне товариство * ідентифікаційний код 21560766

Director	(signature)	Y.P. Kurmaz (name)	__/__/__
Chief Accountant		I.V. Kuts	__/__/__

The accompanying notes are an integral part of these financial statements

1. Reporting entity

Organisation and operations

Public Joint-Stock Company Ukrtelecom (the "Company") is the Ukraine's largest provider of fixed line telephony and internet services that operates telecommunication assets previously owned by the State of Ukraine. On 11 May 2011 as a part of the Ukrainian privatisation program LLC "ESU" ("ESU"), a subsidiary of Austrian company Epic, acquired a 92.791% stake in the Company. On 30 September 2013 Ukrainian financial and industrial group System Capital Management ("SCM") acquired a 100% stake of "ESU".

As at 31 December 2016 and 2015, the Company's shares are owned by LLC "ESU" (92.791%), other legal entities (5.911%) and individuals (1.298%).

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries LLC "TriMob" and Ukrtel GmbH (together referred to as the "Group"). The Group is beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as "SCM". Related party transactions are detailed in Note 27.

The Group provides fixed line communication services including installation and maintenance of subscriber access lines, local, intercity and international switching and transmission services and data transmission, as well as other related services including Internet, ISDN, Frame Relay, audiotext and other computer communication services.

In 2007 the Group started to deploy a mobile network using its IMT-2000 CDMA (UMTS/WCDMA) mobile license (commonly referred to as a 3G mobile license). During the year 2011 shareholders of the Group have declared their intention to dispose of the mobile segment. Since then, the Group has classified its mobile segment as a discontinued operation. As at 31 December 2016 the mobile segment is represented solely by subsidiary LLC "TriMob" (Note 6).

The Company's legal address is 18, Taras Shevchenko Boulevard, Kyiv, Ukraine, 01601.

Ukrainian regulatory and business operating environment

Tariffs are set by the National Commission on Regulation of Communications and Information ("NCRCI"), the Ukrainian telecommunications market regulator, in particular, for publicly accessible fixed line communication services (Note 15). Tariffs for domestic fixed line communication traffic may not necessarily reflect the costs of providing telecommunication services and required capital expenditures for network development. This fact, together with other political, economic, tax and legal uncertainties in Ukraine, has and may continue to have implications on future profitability of the Group and, accordingly, on the ability of the Group to recover the carrying value of its non-current assets.

In addition, the state regulates the Group through NCRCI, which issues, extends, reissues and cancels licenses for rendering telecommunication services/using radio-frequency resources and permissions to use number resources. NCRCI also regulates tariffs for publicly accessible fixed line communication services, fees for provision of telecommunication channels for use set by the operators that hold a monopolistic or dominating position on the market, charges for traffic transfer to telecommunication networks of operators that have a significant advantage on a certain traffic transfer services market or hold a monopolistic or dominating position on the telecommunications services market, and telecommunications operators' fees for provision of cable ducts for use.

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and depreciation of the national currency against major foreign currencies has continued in 2016, though to a lesser extent as compared to 2014–2015.

The inflation rate in Ukraine during 2016 reduced to 12% (as compared to 43% in 2015), while GDP returned to growth of 1% (after 9.9% decline in 2015). In line with Monetary Policy Guidelines for 2017 and medium term the NBU's headline inflation target (i.e., changes in the consumer price index) for 2017 is 8% ± 2 pp. The mid-term target for inflation is set at 5% ± 1 pp (the annual growth of consumer price index) and to be achieved gradually. In particular, the following trajectory has been defined as to the targets for annual changes in consumer price index: December 2018: 6% ± 2 pp; December 2019: 5% ± 1 pp. CPI for 2016 was 12.4%.

Devaluation during 2016 has been moderate. As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 26.63 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016 (31 December 2015: UAH 24.00 per USD 1). In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 65% starting from 9 June 2016 and the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 July 2016. Also starting from 13 June 2016, the NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of USD 5 million per month.

The central bank of Ukraine prolonged these restrictions several times during 2015 – 2016 years and the current restrictions are effective until rescinded by the NBU (with minor exceptions, including mandatory conversion of foreign currency proceeds, which are set to expire on 16 June 2017). The IMF continued to support the Ukrainian government under the four-year Extended Fund Facility ("EFF") Programme approved in March 2015, providing the third tranche of approximately USD 1 billion in September 2016. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

1. Reporting entity (continued)

The banking system is fragile due to its: weak level of capital; its weakening asset quality caused by the economic situation; currency depreciation; and other factors.

The conflict in the parts of Eastern Ukraine which started in spring 2014 has not been resolved to date.

The relationships between Ukraine and the Russian Federation remained strained. In March 2014 various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. As a result the Group ceased control over the Sevastopol branch in 2014 and the Crimean branch in 2015 that were located in Crimea. Upon the loss of control the net assets value was impaired to nil. On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. Just after that the Russian government implemented a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

In 2016 the Group had acting operations in two branches located in the Donetsk and Lugansk regions, where there has been armed conflict. These represent 3.4% of net trade receivables, 9.1% of inventory and 22.8% of advances paid as at 31 December 2016 and 3.5 % of revenue for the year ended 31 December 2016. Sales volumes and activity at these branches have been negatively impacted by the situation, primarily from the second half of 2014. The negative impact has been caused by disruptions in infrastructure, the ability of some customers to pay and general demand for the services provided in these regions. As described in Note 5, as at 31 December 2016 the Group has impaired property, plant and equipment located in Donetsk and Lugansk branches to nil. Management maintained control over the assets and operations of Donetsk and Lugansk branches as at 31 December 2016. As described in Note 28, in March and April 2017, the Group lost control over the Donetsk and Lugansk branches respectively.

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 including the application of relevant estimates and judgments when preparing the consolidated financial statements (Note 2).

Whilst management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group’s results and financial position in a manner not currently determinable. These consolidated financial statements reflect management’s current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group’s financial position, current intentions, profitability of operations and access to financial resources, and analyzed the impact of the situation in the financial markets on the operations of the Group.

While management believes that the going concern assumption is appropriate, there is a material uncertainty related to events or conditions described below, which may cast doubt on the Group's ability to continue as a going concern.

As of 31 December 2016, the Group’s current liabilities exceeded its current assets by UAH 859,638 thousand, primarily due to a material amount of short-term borrowings, including bank loans of UAH 1,410,458 thousand, out of which UAH 342,733 thousand were reclassified to short-term because of covenants breach, and UAH 491,700 thousand of bonds (Note 12). Though the bonds are placed for more than 12 months, they are classified as current, since, according to their terms, the bondholders have a right to demand early repayment of the nominal amount of all or part of the bonds annually within a certain time period as indicated in the prospectus. As presented in Note 24, UAH 1,712,229 thousand out of total borrowings are due in the first quarter of 2017 and represent the contractual principal amount plus the interest expense to be accrued for the first quarter. This amount includes UAH 1,189,341 thousand of bank loans and UAH 507,974 thousand of bonds. The Group typically finances its operations using a series of short-term bank loans, which it renews throughout the year.

As described in Note 25, in 2015, during the restructuring by the Group’s parent company (‘Parent’) of its bonds issued in 2013, the Group entered into agreements with the Parent’s bondholders (two Ukrainian government controlled banks) to repurchase certain of the Parent’s bonds for UAH 2,000,000 thousand (at face value) plus a respective portion of accrued and not paid interest no later than 15 March 2017, if the bonds were still held by the banks at that date. The Group has also ensured the agreement between the parent company and the banks under which 92.791% of shares in the Company were pledged as a collateral for the Group’s commitment to purchase the bonds. As described in Note 6, since 2015 the Group has been in negotiation for sale of its mobile segment assets that required the approval of the State Property Fund and the Antimonopoly Committee of Ukraine. The Group has preliminarily agreed with the banks to conclude the abovementioned agreements with the purpose to settle certain part of the Parent’s bonds by channeling the proceeds, expected from the sale of the mobile segment, to the banks. However, in 2016 the State Property Fund refused to approve the sale of the mobile segment assets until it could be confirmed that the privatization obligations assumed by the Parent had been met. Though the Group remained committed to the anticipated sale of its mobile segment, the fulfilment of the Parent’s privatization obligations was out of the Group’s control. This further led to extended negotiations between the Group’s Parent and the banks to settle the Parent’s bonds in exchange for a minority holding in Ukrtelecom.

1. Reporting entity (continued)

In February 2017, the State Property Fund concluded that certain privatization obligations were not fulfilled by the Parent. The conclusion has raised the risk of potential legal proceedings against the Parent, including the risk of terminating the original privatization agreement and the return of the shares of the Company to the State. This has also put on hold negotiations with the banks.

Considering the abovementioned, as of 15 March 2017 the Group did not receive any proceeds from the sale of its mobile segment assets previously earmarked for the bondholders.

The agreement with one of the bondholders required the Group to accept and pay for the bonds if they are transferred by the bondholder to the Group no later than 15 March 2017. On 15 March 2017, the bondholder presented UAH 1,000,000 thousand of the Parent's bonds plus the respective accrued unpaid interest of UAH 36,820 thousand for repurchase to the Group on the Notary deposit account. As of the date of the issue of these consolidated financial statements, the Group has not paid for the bonds and is going to dispute its obligation under the agreement. The other bondholder eventually presented UAH 1,000,000 thousand of the Parent's bonds plus the respective accrued unpaid interest of UAH 36,820 thousand for redemption to the Parent on 17 March 2017, which is considered by management as a termination of the Group's obligation to repurchase these bonds.

Non-settlement of the obligations arising from the agreements with bondholders of the Parent may trigger a demand for the early repayment of the outstanding loan balances due to the Group's other lenders. Any legal disputes either initiated by the bondholder regarding non-fulfillment of the bonds purchase agreements or by the state authorities regarding non-fulfilment of the privatization obligations by the Parent would lead to the breach of the covenant under the loan agreements with certain lenders, including the bank financing the massive network modernization (as described in more details in Note 5) that would potentially result in their rights to demand the immediate repayment of the outstanding loans. As has been publicly disclosed by the Parent, it is going to dispute the conclusion of the State Property Fund regarding the non-fulfilment of its privatization obligations. The Group's management has been keeping the lenders informed of the recent developments, and no banks have exercised their rights to the early repayment up to the date of the issue of these consolidated financial statements. In addition, in 2017 the Group has been successful in the renegotiation of the maturity dates of the existing revolving facilities and obtaining the new tranches from the existing lenders.

Management believes it is taking appropriate measures to support the liquidity and the ability of the Group to continue as a going concern.

In February 2017, the Group requested and received a waiver from a Chinese bank for a covenant that required the channeling of cash proceeds through the accounts pledged to the bank, which was in a breach as at 31 December 2016. The covenant was remedied and the Group continued the utilization of the loan facility.

As at 31 December 2016 the Group had a multicurrency revolving credit line with the total availability equivalent to USD 30,000 thousand, being UAH 815,726 thousand at the exchange rate as at the reporting date. As at 31 December 2016, the unused balance on this credit line was UAH 48,001 thousand (Note 24). In January 2017, the Group repaid UAH 110,000 thousand and in February 2017 raised UAH 151,570 thousand under this credit line. During the first quarter and in April 2017 the balances due were continuously extended to May 2017. Revolving credit line agreements mature in September 2017. Upon the expiration of the contract, the Group plans to conduct refinancing from the available resources on the market.

In January 2017, the Group raised additional financing from a Ukrainian bank amounting to UAH 250,000 thousand. In March 2017, the Group repaid UAH 86,950 thousand of bonds. Another UAH 400,000 thousand bonds maturing in March 2017 were extended for one year, up to March 2018. Buildings and equipment with carrying value UAH 687,440 thousand and UAH 21,864 thousand respectively were pledged to secure these borrowings.

The Group's business is concentrated in Ukraine, the majority of its revenue is generated in Ukraine and denominated in UAH (2016: 88%, 2015: 89%), although the Group receives foreign currencies from sales to foreign operators. Strong foreign currency inflow provides extra security and minimizes negative forex exposures on the Group's liabilities.

The positive developments described above demonstrated that the management was able to solve the liquidity issues on an ongoing basis. Management believes that the Group will be able to re-finance its existing agreements beyond 2017 and these funds will be sufficient to sustain the Group's operations. Together with this, management acknowledges that the ability of the Group to continue as a going concern is dependent on the willingness of the Group's lenders not to demand repayment and to continue their support to the Group by refinancing the existing loans and prolongation of the payment terms due in 2017 to future periods, as well as on management's ability to minimize risks resulting from potential disputes described above, including the potential effects from the findings of the State regarding the Parent not meeting its privatization obligations.

Management is taking further steps for improvement of the performance and liquidity position of the Group, including the modernization of the network, costs optimization programs, etc. Based on positive developments from renegotiating the terms of the borrowings in 2017 until the date of issuance of these financial statements, the Group's positive operating cash flows, expected proceeds from the disposal of assets released in the course of modernization and assuming the availability of financing for its investing cash flows, management considers that the application of the going concern assumption for the preparation of these consolidated financial statements is appropriate.

1. Reporting entity (continued)

Corporate governance

The Group's corporate governance bodies comprise the General Meeting of Shareholders, the Supervisory Board, the Director.

The General Meeting is the Group's highest decision-making body in respect of any matters related to its business. The Annual General Meeting is convened every year and held no later than on the 30th day of April following the reporting year. All other General Meetings are deemed extraordinary.

The Supervisory Board protects the Shareholders' rights and oversees the Director within its competence as defined by the Charter, Regulation on the Supervisory Board and Ukrainian law. The Supervisory Board decides on the matters as stipulated by Ukrainian law and the Charter, including those delegated by the General Meeting.

No matters within the sole competence of the Supervisory Board shall be decided upon by any corporate governance bodies of the Group other than the General Meeting except as in the cases provided by Ukrainian law.

The Director, who is the Group's Chief Executive Officer, is the sole member of executive body of the Group. The Director is in charge for the Group's day-to-day activities, acting on behalf and in the best interests of the Group without any power of attorney within the powers granted by the Charter.

As at 31 December 2016 and 2015, the Group had no internal audit function responsible for internal control and reporting directly to the General Meeting of Shareholders or the Supervisory Board.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises and equipment. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented. New and amended standards adopted by the Group are disclosed in Note 3.

For presentation of primary financial statements, the Group uses the format prescribed by the current Ukrainian legislation (i.e Forms 1-4) applicable for annual financial statements submitted for statutory reporting purposes.

Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH), which is the functional currency of the Company and its subsidiaries and the currency in which these consolidated financial statements are presented. All financial information presented in UAH is rounded to the nearest thousands, except when otherwise indicated.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- **_Valuation of property, plant and equipment and construction in progress_**

The Group applies the revaluation model for measurement of property, plant and equipment and performs revaluations with sufficient regularity so that the carrying amount of property, plant and equipment as at the reporting date does not differ materially from its fair value.

The valuation is carried out by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets of similar categories, as well as internal experts with the relevant qualification and experience.

Fair values of specialised assets owned by the Group and representing the main part of property, plant and equipment are determined by using depreciated replacement cost approach (Level 3) as no market values are available for such items. The fair values obtained using depreciated replacement cost are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using the income approach are lower than those obtained using depreciated replacement cost (i.e. there is economic obsolescence).

2. Basis of preparation (continued)

The fair value of other than specialised property, plant and equipment is determined by reference to market values (Level 2) of those items at the valuation date.

When performing valuations using these methods, the key estimates and judgements applied are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and hand-books, estimates for cost of construction of various equipment etc.);
- determination of comparatives for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment; and
- selection of market data when determining market value where it is available.

A fair value measurement of property, plant and equipment takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible. As disclosed in Note 5, as at the end of 2015, following the decision to proceed with the network modernization program, management was able to identify particular assets/groups of assets and concluded that there was reasonably available information indicating that the value of those assets would be maximized if they are released from continuing use by the Group and converted to those which could potentially be sold in an open market to another market participants that would use the assets in their highest and best use. Therefore management determined that market approach would be most representative of their fair value and performed valuation using market values adjusted for any costs associated with release of the assets from their current use and conversion to those which could be sold in the open market. Had this plan not been implemented and those assets had not been available for release and subsequent disposal, their fair value (less costs of disposal) would be determined based on cash flows from continuing use within a single CGU together with other specialized assets of the Group.

Changes in the above estimates and judgements could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued (Note 5).

- ***Impairment of property, plant and equipment and construction in progress***

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use/fair value less costs of disposal of the cash generating units to which the item is allocated. Estimating the value in use/fair value less costs of disposal requires the Group to make an estimate of the expected future cash flows and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management identifies three cash-generating units within the Group. The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset. Additional information is disclosed in Note 5.

- ***Allowance for accounts receivable***

The Group makes allowances for doubtful accounts receivable (Note 7). Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements.

As described in Note 7, throughout 2016 the accounts receivable from the governmental agencies for reimbursement of the compensation for difference between the Group's standard tariffs for telecommunication services and those beneficial for certain categories of its customers regulated by the State increased significantly. This has occurred as a result of the transfer of financing obligations for such reimbursements from the State budget to the budgets of regional/local authorities. Starting from January 2016 the compensation for the difference in tariffs was not included either in the State budget or those of the regional/local authorities. Beginning November 2016, the Group initiated a number of court cases to enforce reimbursements of the compensation from regional/local authorities. Taking into account the positive court decisions obtained in 2016, management estimated the receivables as recoverable. At the same time management acknowledges that the recoverability is fully dependent on the availability of the dedicated funds on the accounts of the regional/local budgets, as well as the intention to settle the debts by those regional/local budgets where no dedicated funds are available. Taking into account this and the absence of past Group's history on similar cases, no reliable estimate on the amount or timing of the reimbursement can be made by management until the situation crystallises in the following year. As such, the Group has recorded the circa 50% provision for the abovementioned receivables that represents the best management's estimate on the amount and timing of the reimbursement as at year end.

2. Basis of preparation (continued)

- ***Inventory allowance***

Inventory is carried at lower of cost and net realisable value. Estimates of inventory allowance are based on the calculation of turnover ratios. Allowance for inventory is recorded within other operating expenses.

- ***Assets classified as held for sale and discontinued operations***

The Group classifies its non-current assets (or disposal groups) as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the management should assess whether the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control, there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group) provided that the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such sales and its sale within one year period is highly probable. Significant judgment is used to conclude that all these criteria are met as at reporting date. Management believes that the assets classified as held for sale and disposal groups comply with all these criteria (Note 6). Had a different judgement been applied, all assets classified as held for sale and all liabilities associated with these assets would have been consolidated into the respective financial statement line items.

- ***Pension obligations under defined benefit plan***

The Group collects information relating to its employees in service and pensioners receiving pension benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate and future projected salary). More details are provided in Note 11.

- ***Taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance, including the potential reversal of deferred tax liabilities against the tax assets. Further details on taxes are disclosed in Note 23.

Value-added tax recoverable is reviewed at each reporting date and reduced to the extent that it is no longer probable that refund or VAT liabilities will be available. The Group considers that the amount due from the state will be either recovered in cash or will be reclaimed against the VAT liabilities related to sales.

Changes in presentation

In the financial statements for the year ended 2016, management presented other income together with other operating income in a single line item, same applies for other operating expenses and other expenses. Corresponding figures were adjusted to comply with this approach.

Certain other changes to comparative information were made in these consolidated financial statements to conform to the current year presentation.

3. Significant accounting policies, new standards and interpretations

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

3. Significant accounting policies, new standards and interpretations (continued)

Consolidated subsidiaries include the following:

Name Consolidated:	Country of incorporation	Activity	Actual % of ownership 2016	2015
Ukrtel GmbH	Germany	Telecommunications	100.0	100.0
LLC “TriMob”	Ukraine	Mobile Telecommunications	100.0	100.0

As at 31 December 2016 and 2015 mobile segment is represented by subsidiary LLC “TriMob” (Note 6).

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment

Interest in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Interests in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to UAH at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-measured to UAH at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-measured to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction.

Foreign currency differences arising in re-measurement are recognised in profit or loss.

Financial instruments

Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Significant accounting policies, new standards and interpretations (continued)

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise the following classes of financial assets: trade and other receivables as presented in Note 7, other current receivables as presented in Note 8, other long term and current financial investments as presented in Note 9, cash and cash equivalents as presented in Note 24.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise long-term borrowings, other long-term financial liabilities and current portion of long-term liabilities as presented in Note 12, short-term borrowings, including bank overdrafts, and trade accounts payable.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Property, plant and equipment

With effect from 31 December 2013 property, plant and equipment and construction in progress are stated at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Fair values are based on valuations by external independent valuers and internal experts. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditures directly attributable to acquisition of the assets. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Increases in the carrying amount arising from revaluation are credited to other comprehensive income and increase the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases in prior fair value adjustments for the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised on the retirement or disposal of the asset.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets are ready for use. The estimated initial useful lives are as follows:

Buildings and leasehold improvements	8 – 50 years
Switching equipment and other network equipment	3 – 20 years
Ducts and cables	20 – 30 years
Radio and fixed link transmission equipment	15 years
Computer, office and other equipment	3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies, new standards and interpretations (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

Construction in progress represents the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are ready for use.

Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Expenditures for internally generated intangible assets are recognised in profit or loss as an expense as incurred.

Subsequent expenditure

Subsequent expenditure on an intangible asset after its purchase or completion are recognised as an expense when incurred unless:

- it is probable that the expenditure would enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and
- the expenditure can be measured and attributed to the asset reliably.

Amortisation

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives are as follows:

Billing and other software	3 – 10 years
Other intangibles	3 – 10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's consolidated statement of financial position.

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both, and which is not occupied by the Group. The Group's investment property is formed by existing property due to a change in use and transfer from owner occupied property to investment property. If the property comprises a portion that is held to earn rentals or for capital appreciation and another portion is held for use in the supply of telecommunication services or for administrative purposes, then the portions are accounted separately if they could be sold or leased out under a finance lease separately. Otherwise, the property is investment property only if 70% or more of this property is held to earn rental oncome or for capital appreciation.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value to reflect market conditions at the reporting date. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

3. Significant accounting policies, new standards and interpretations (continued)

Market value of the Group's investment property is determined predominantly based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

Earned rental income is recorded in profit or loss for the year within revenue. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately. Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes. If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the specific identification principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include: default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the group, economic conditions that correlate with defaults, observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for individual impairment. All individually significant receivables found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3. Significant accounting policies, new standards and interpretations (continued)

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non-financial assets

The carrying amounts of non-financial assets, other than inventories, deferred expenses and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing fair value less costs of disposal, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in profit or loss. Impairment losses of revalued assets are treated as a revaluation decrease and recognised in other comprehensive income to the extend that the impairment loss does not exceed the amount in the revaluation surplus for the same asset. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Assets classified as held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution.

Assets are reclassified when all of the following conditions are met:

(a) the assets are available for immediate sale in their present condition;
(b) the Group's management approved and initiated an active programme to locate a buyer;
(c) the assets are actively marketed for sale at a reasonable price;
(d) the sale is expected within one year; and
(e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset provided that the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such sales and its sale within one year period is highly probable (Note 6).

Such assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs of disposal.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

3. Significant accounting policies, new standards and interpretations (continued)

Transactions and balances between the continuing and the discontinued operations are eliminated on consolidation. The cash flows of discontinued operations are not included into the Consolidated Statement of Cash Flows and instead are presented in Note 6.

Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Ukrainian's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plan

The Group participates in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs and current service costs are recognised immediately in profit or loss. The defined benefit plan is unfunded.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis and where provision has been made for the impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Revenue

Revenue from telecommunication services rendered to the customers and revenue for settlements with telecommunication operators are recognised in profit or loss on the accrual basis in the period when the service is provided and when the amount of revenue can be measured reliably.

Installation and connection fees are recognised upon provision of the installation and connection service.

Expenses

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies, new standards and interpretations (continued)

Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses arising on financing activities and balances are classified as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position. All other currency gains and losses are classified as other operating income or other operating expense.

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. Interests and penalties on tax liabilities, if any, would be recorded in income tax expense. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

3. Significant accounting policies, new standards and interpretations (continued)

Segment information

The Group determines operating segments based on the information that internally is provided to the Director, who is the Group's chief operating decision maker in accordance with IFRS 8 Operating Segments.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Director of the Group to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Director of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

Non-reciprocal transactions

Transactions between unrelated parties are presumed to be exchanges of equal fair values. The Group from time to time is engaged in particular transactions with the owner in its capacity as owner, where there is no presumption of equal fair values. This includes, but not limited to loans issued at non-market interest rates and other. The Group accounts for the effect of such transactions directly in equity as distribution to or capital from shareholders, in accordance with their substance.

Contingent assets and liabilities

A contingent asset is not recognised in the financial statements but is disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

New Standards and Interpretations

The following new standards and interpretations which are relevant to the Group's financial statements became effective for the Group from 1 January 2016:

- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group has not early adopted.

- IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 – Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements. Like many other telecommunications companies, the Group currently expects that the adoption of this new standard may affect the Group, primarily in respect of the timing of revenue recognition and in respect of the capitalization of costs of obtaining a contract with a customer and contract fulfilment costs. Group's operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the

3. Significant accounting policies, new standards and interpretations (continued)

accounting policies, estimates, judgments and processes (including incremental requirements of Group's information technology systems) to comply with the new standard is expected to span in 2017 and 2018. As a result, at this time, it is not possible to make reasonable quantitative estimates of the effects of the new standard.

- IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The effects of the new standard will mostly affect the Group's land and building leases. The Group has yet to assess the impact of IFRS 16, which may effect the consolidated income statement and consolidated financial position upon adoption in 2018.
- Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.
- Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The Group is currently assessing the impact of the new standards on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

4. Segment information

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's Director reviews internal management reports on a monthly basis:

- Fixed line telecommunications.
- Mobile telecommunications. This segment is presented as discontinued operations in these consolidated financial statements pursuant to the decision of the shareholders of the Group regarding its disposal (Note 6).

Changes in the composition of segments can arise from either changes in management responsibility, or from acquisitions and divestitures. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Group's Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment results, assets and liabilities include items directly attributable to a segment and measured using the same principles as used for consolidated financial statements of the Group.

The Group's revenue streams are disclosed in Note 15.

Geographical information

Substantially all of the Group's non-current assets are located in Ukraine. The Group has revenue from services to foreign operators located in various countries amounting to UAH 678,746 thousand for the year ended 31 December 2016 (31 December 2015: UAH 729,212 thousand) (Note 15). Management considers all revenue, including revenue from services to operators located in foreign countries, as revenue generated in Ukraine.

4. Segment information (continued)

Major customers

During 2016 and 2015, no individual customer represented more than 10% of the Group's total revenue.

Information about reportable segments

(in thousands of Ukrainian hryvnias)	**Fixed line telecommunications**		**Mobile telecommunications (discontinued)**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
External revenues	6,246,144	6,326,423	129,500	213,841	**6,375,644**	**6,540,264**
Inter-segment revenue	80,969	68,334	-	-	**80,969**	**68,334**
Finance income	57,862	137,795	-	24,924	**57,862**	**162,719**
Finance costs	(429,029)	(671,992)	-	-	**(429,029)**	**(671,992)**
Depreciation and amortization	(500,125)	(472,529)	-	-	**(500,125)**	**(472,529)**
Revaluation	203,809	4,853,074	-	-	**203,809**	**4,853,074**
Derecognition of Crimean branches	-	(212,184)	-	-	**-**	**(212,184)**
Provision for impairment of trade accounts	(130,258)	(90,876)	-	-	**(130,258)**	**(90,876)**
Profit (loss) before income tax	637,634	699,844	(340,444)	(177,047)	**297,190**	**522,797**
Reportable segment assets	11,613,057	10,955,965	147,542	264,693	**11,760,599**	**11,220,658**
Reportable segment liabilities	(3,723,405)	(3,687,536)	(32,890)	(18,735)	**(3,756,295)**	**(3,706,271)**
Capital expenditure	(1,020,420)	(264,401)	(4,252)	(1,784)	**(1,024,672)**	**(266,185)**

5. Property, plant and equipment

Movements in property, plant and equipment were as follows:

(in thousands of Ukrainian hryvnias)	**Buildings and leasehold improvements**	**Switching and other network equipment**	**Ducts and cables**	**Radio and fixed link transmission equipment**	**Computers, office and other equipment**	**Construction in progress**	**Total**
Valuation at 1 January 2015	834,897	429,043	3,429,365	319,882	118,232	144,297	5,275,716
Accumulated depreciation	(109,712)	(76,507)	(317,701)	(51,330)	(40,076)	-	(595,326)
Carrying amount at 1 January 2015	**725,185**	**352,536**	**3,111,664**	**268,552**	**78,156**	**144,297**	**4,680,390**
Additions	-	-	-	-	-	264,401	264,401
Transfers	(381)	173,235	73,114	(79,490)	122,783	(289,261)	-
Transfers to investment property	(439)	-	-	-	-	-	(439)
Disposals	(8,337)	(2,020)	(117,408)	(481)	(1,381)	-	(129,627)
Depreciation charge	(48,405)	(68,295)	(251,283)	(21,301)	(36,901)	-	(426,185)
Derecognition of Crimean branch	(44,746)	(18,838)	(127,068)	(14,924)	(3,101)	(3,507)	(212,184)
Revaluation	3,917,070	607,319	321,010	(18,292)	(14,396)	-	4,812,711
Carrying amount at 31 December 2015	**4,539,947**	**1,043,937**	**3,010,029**	**134,064**	**145,160**	**115,930**	**8,989,067**
Valuation at 31 December 2015	4,539,947	1,043,937	3,010,029	134,064	145,160	115,930	8,989,067
Accumulated depreciation	-	-	-	-	-	-	-
Carrying amount at 31 December 2015	**4,539,947**	**1,043,937**	**3,010,029**	**134,064**	**145,160**	**115,930**	**8,989,067**
Additions	-	-	-	-	-	1,020,420	1,020,420
Transfers	4,466	127,157	135,602	4,766	187,017	(459,008)	-
Transfers to investment property	(22,949)	-	-	-	-	-	(22,949)
Disposals	(71,922)	(35,196)	(73,335)	(394)	(2,380)	-	(183,227)
Depreciation charge	(89,321)	(57,132)	(205,576)	(25,940)	(76,977)	-	(454,946)
Revaluation	12,261	(97,232)	276,390	(10,148)	(12,536)	(11,763)	156,972
Carrying amount at 31 December 2016	**4,372,482**	**981,534**	**3,143,110**	**102,348**	**240,284**	**665,579**	**9,505,337**
Valuation at 31 December 2016	4,372,482	981,534	3,143,110	102,348	240,284	665,579	9,505,337
Accumulated depreciation	-	-	-	-	-	-	-
Carrying amount at 31 December 2016	**4,372,482**	**981,534**	**3,143,110**	**102,348**	**240,284**	**665,579**	**9,505,337**

5. Property, plant and equipment (continued)

Acquired/constructed assets are initially recorded into “Construction in progress” category and transferred to particular categories when ready for use and put into operation. Transfers also comprise reclassifications of certain items primarily between “Switching and other network equipment” and “Radio and fixed link transmission equipment” categories.

At the end of 2015 the Company signed a number of agreements with China Development Bank (CDB) and Huawei on the long-term strategic partnership. Under these agreements, the Company receives technological support of Huawei and financial support of CDB to conduct a massive network modernization that will cover the six largest cities of Ukraine as well as fiber optic network roll-out in rural areas within 2016-2019. Network modernization is aimed at transition of fixed voice services from TDM to VoIP technology. Furthermore, it assumes a creation of a technological base which shall enable the Company to provide its customers with Broadband Internet services with an access speed of up to 50 Mb/s using VDSL and up to 1 Gb/s using FTTH/GPON technologies. A new fiber infrastructure to be deployed during network modernization and rural roll-out will be used to provide fixed Broadband Internet and related services of a greater consumer value which shall allow to further strengthen the Company’s position on the market. Total investment in this project is expected to amount for circa UAH 4,916,000 thousand from both own and borrowed funds. Certain of the Company’s buildings will be pledged as security for a loan financing.

Modernisation will allow the release of a significant amount of copper cables, old telephone exchanges and buildings where those exchanges are located. Released assets are planned to be sold in an open market, as well as other copper cables and analogue telephone exchanges, which are either no longer used by the Company or currently used but planned to be released as a result of subscribers reconnection to another cables and exchanges with spare capacity. As at 31 December 2014, the abovementioned property, plant and equipment items were considered to be of specialized nature and could not be sold in the open market in Ukraine other than as a part of the continuing business. Further, as of those date, there was no evidence suggesting that a different use of those assets, which was physically possible, legally permissible and financially feasible, would maximise their value. Therefore, in the past those assets were valued using depreciated replacement cost approach subjected to profitability test using discounted cash flow technique to assess economic obsolescence (Level 3 valuation).

As at 31 December 2015, following the decision to proceed with the network modernization program, management was able to identify particular assets/groups of assets and concluded that there was reasonably available information indicating that the value of those assets would be maximized if they are released from continuing use by the Group and converted to those which could potentially be sold in an open market to another market participants that would use the assets in their highest and best use. Therefore management determined that market approach would be most representative of their fair value and performed valuation using market values adjusted for any costs associated with release of the assets from their current use and conversion to those which could be sold in the open market (Level 2 valuation).

As at 31 December 2016 and 31 December 2015, fair valuation of buildings, which are planned to be released in the course of modernization, was carried out by the independent appraisers, who hold a recognized and relevant professional qualification and have recent experience in valuation of assets of similar location and category. As at 31 December 2016, the independent appraiser also estimated fair value of other buildings determined to have market value and planned for future disposal. As at 31 December 2015, other buildings determined to have market value, which are located in regional centres, were valued by independent appraiser, while the buildings determined to have market value and located in cities other than regional centers were valued by internal experts using prices per square meter for analogues with similar characteristic based on regional real estate markets data with certain adjustments depending on technical condition of the assets.

As at 31 December 2016 and 31 December 2015, copper cables and analogue telephone exchanges, which are to be released in the course of modernization and optimization program, were valued by the Group’s internal experts as follows. Copper cables were valued using market prices for each particular type of cable and taking into account dismantling costs, based on the Group’s recent sales with the adjustment for change in market quotations for copper to the valuation date. Analogue telephone exchanges have substantial portion of scrap and precious metals in their ports. Fair value of such stations was determined by internal experts with the reference to the quantities of ports at the particular station using average prices per port of the recent sales of such assets.

As such, based on the results of fair valuation using market approach, as at 31 December 2016 management has determined and included in Group’s property, plant and equipment fair value of copper cables within “Ducts and cables” in the amount of UAH 1,115,107 thousand with carrying value of UAH 598,984 thousand prior to revaluation (31 December 2015: fair value of UAH 773,184 thousand with the carrying value of UAH 89,999 prior to revaluation), fair value of analogue telephone exchanges within “Switching and other network equipment” in the amount of UAH 592,156 thousand with carrying value of UAH 647,848 thousand prior to revaluation (31 December 2015: fair value of UAH 690,111 thousand with the carrying value of UAH 21,359 thousand prior to revaluation) and fair value of buildings within “Buildings and leasehold improvements” in the amount of UAH 4,010,593 thousand with carrying value of UAH 3,962,686 thousand prior to revaluation (31 December 2015: fair value of UAH 4,222,792 thousand with the carrying value of UAH 146,396 thousand prior to revaluation). As a result of this, UAH 369,764 thousand was recorded as a revaluation surplus in other comprehensive income and UAH 212,792 thousand was recorded as a reversal of previously recognized impairment loss in profit and loss for 2016 (31 December 2015: UAH 4,739,026 thousand and UAH 73,684 thousand respectively).

5. Property, plant and equipment (continued)

The remaining part of the Group's property, plant and equipment is specialized in nature and rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of such items is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence. As at 31 December 2013, depreciated replacement cost of specialized assets was determined by the independent appraiser based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data etc., and industry experts and suppliers. The fair value of assets determined on the basis of depreciated replacement cost approach was subjected to profitability test using discounted cash flow technique to assess economic obsolescence. The results of profitability test have significantly decreased the amounts obtained by depreciated replacement cost method. As at 31 December 2014, using a discounted cash flows technique, excluding Crimea and the Eastern regions with armed conflict, where Donetsk and Lugansk branches are located, management have determined that fair value less costs of disposal was not materially different from the carrying value of the Group's property, plant and equipment for which the test was performed. As such, no impairment or reversal of previously recognized impairment was recorded as at 31 December 2014.

As at 31 December 2015, management has performed the impairment test using discounted cash flow technique to estimate the fair value less costs of disposal for specialized assets, excluding assets related to Donetsk and Lugansk regions. Cash flow projections (Level 3) were prepared by management based on approved by senior management nine-year period financial projections including the effect of modernisation. Based on the results of this assessment, UAH 383,568 thousand of impairment loss was recognised as a revaluation decrease in these financial statements, out of which UAH 151,999 thousand was recorded in profit and loss and UAH 231,569 thousand was recorded in the other comprehensive income for 2015.

Same approach was used by management as at 31 December 2016 to determine fair value less costs of disposal of specialized assets, excluding assets related to Donetsk and Lugansk regions, based on cash flow projections for eight-year period including the effect of modernisation. As a result of this assessment, UAH 314,994 thousand of impairment loss was recognised as a revaluation decrease in these financial statements, out of which UAH 150,377 thousand was recorded in profit and loss and UAH 164,617 thousand was recorded in the other comprehensive income for 2016.

Consistent with the prior year, all specialized fixed-line assets, excluding Donetsk and Lugansk branches, which are analysed by management separately, are considered single cash generating units because they are integrated and it is not possible to identify specific assets or groupings of assets that generate largely independent cash inflows and management monitors fixed line operating activities as a single unit.

As at 31 December 2015, taking into account the intention to dispose certain assets upon their release from continuing use in the course of modernization, management has determined that the value of these assets will be realized from sale rather than continued use, therefore, the market prices (less costs of disposal) were used in the calculation of the fair value less costs to dispose in place of the cash flows from use in Group's operating activities. The recoverable amounts of these assets were estimated on the individual basis separately from the CGU to which they might otherwise have been included had they not been planned for disposal, as fair values (less costs of disposal) of these assets were individually determinable and were higher than their carrying amounts at that date. Same approach to determination of fair values less costs of disposal of such assets was applied as at 31 December 2016.

Management has identified that there were indicators of impairment in respect of property, plant and equipment in the Donetsk and Lugansk branches and performed impairment test using the fair value less cost of disposal model (Level 3). In performing its impairment test management used post tax cash flows projections assuming no growth in the level of operations. As a result of impairment assessment management identified negative cashflows associated with these assets. Correspondingly, all property plant and equipment were valued at nil. The Group recognised an impairment loss of UAH 62,878 thousand as a revaluation decrease recorded in profit and loss for 2016 (2015: revaluation decrease of UAH 191,511 thousand, our of which UAH 59,370 thousand was recorded in profit and loss and UAH 132,141 thousand was recorded in other comprehensive income). The primary cause of the impairment is the low collection rates from customers in the regions with armed conflict.

Upon the loss of control over Crimean branch in February 2015, the Company derecognised its property, plant and equipment and recorded the respective loss of UAH 217,117 thousand within profit and loss for 2015 being their carrying value as of the derecognition date. UAH 117,238 of revaluation surplus net of income tax was transferred to accumulated deficit.

5. Property, plant and equipment (continued)

The following table summarise key assumptions on which management has based its cash flow projections when determined the recoverable amount of specialised property, plant and equipment (Level 3) as at 31 December 2016.

Post-tax discount rate	18.4%
Terminal period growth rate	5%
ARPU growth rate fixed line telephony	B2C: 5.5% in 2017 to 5.8% in terminal period, 8.5% growth at peak in 2018. B2B: 2.2% in 2017 to 4.8% in terminal period, 5.5% growth at peak in 2021.
ARPU growth rate internet services	B2C: 4.4% in 2017 to 5.8% in terminal period, 9% growth at peak in 2018. B2B: 11.4% in 2017 (peak level) to 5.8% in terminal period.
Churn rate fixed line telephony	Long-term subscribers base decrease rate of 1.6% applied starting from 2021 for B2C segments and from 2019 for B2B segments. Up to these years it is normalized from current level of 15.6%(B2C) and 5%(B2B) to long-term level.
Churn rate internet services	B2C: Outflow of 6.3% in 2017, following by linear decrease from 2.4% to 0% for the period 2018-2024. B2B: outflow of 0.2% in 2017 and flat rate of 0.7% increase of subscribers numbers during forecasted period of 2018-2024.
CAPEX	UAH 4.4 billion for network modernisation project. Maintenance CAPEX of 4.2% of revenue.
EBITDA margin	Increasing from 15% in 2017 to 30% in 2024.

Management determined the projected EBITDA margin based on the past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. For the purpose of discounted cash flows model prepared as at 31 December 2016 long term churn rate for fixed line telephony were taken from report of external agency BMI and for the internet services applied assumptions developed from market data and internal reports. The values assigned to the key assumptions represent management's best assessment of future trends in the business and are based on both external and internal sources.

The following tables summarise key assumptions on which management has based its cash flow projections when determined the recoverable amount of specialised property, plant and equipment (Level 3) as at 31 December 2015.

Post-tax discount rate	18.0%
Terminal period frowth rate	3%
ARPU growth rate fixed line telephony	B2C: declining from 9.0% (peak level) in 2017 to 6.0% in terminal period. B2B: growing from 1.2% in 2017 to 3.0% (peak level) in terminal period.
ARPU growth rate internet services	B2C: growing from 4.6% in 2017 to 6.0% (peak level) in terminal period. B2B: growing from 3.8% in 2017 to 7.0% (peak level) in terminal period.
Churn rate fixed line telephony	B2C: outflow of 12.0% in 2017 with linear decrease to 2.0% outflow in terminal period. B2B: outflow of 11.0% in 2017 with linear decrease to 2.0% outflow in terminal period.
Churn rate internet services	B2C: outflow of 5.4% in 2017 with linear decrease to 0.5% outflow in terminal period. B2B: flat rate of 0.2% decrease of subscribers numbers during 2017-2024.
CAPEX	UAH 3.8 billion for network modernisation project. Maintenance CAPEX of 3.2% of revenue.
EBITDA margin	Increasing from 18% in 2017 to 28% in 2024.

The following table illustrates sensitivity of fair value estimates for specialised assets to changes in the key assumptions as of 31 December 2016:

(in thousands of Ukrainian hryvnias)

Input	% change	Change in fair value estimates
Post-tax discount rate	+0.5% / -0.5%	(228,621) / 246,510
Terminal period frowth rate	+0.5% / -0.5%	111,927 / (103,861)
ARPU growth rate fixed line telephony	+1% / -1%	160,322 / (105,339)
ARPU growth rate internet services	+1% / -1%	102,522 / (102,544)
Churn rate fixed line telephony	+1% / -1%	680,014 / (669,482)
Churn rate internet services	+1% / -1%	423,159 / (402,497)
CAPEX	+1% / -1%	(134,148) / 132,335
EBITDA margin	+1% / -1%	90,110 / (90,136)

5. Property, plant and equipment (continued)

Depreciation charge

Total depreciation charge for the years ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	Note	2016	2015
Charged to:			
Cost of revenue	16	443,189	368,069
Administrative expenses	17	4,923	41,108
Selling expenses	18	1,500	4,334
Other operating expenses	19	5,334	12,674
Total depreciation charge		**454,946**	**426,185**

The increase of depreciation charge allocated to cost of revenue in 2016 was caused by the increase of transfers from construction in progress to particular categories of property, plant and equipment which is ready for use and put into operation from UAH 289,261 thousand in 2015 to UAH 459,008 thousand in 2016. The decrease of depreciation charge allocated to administrative expenses in 2016 was mainly caused by the revision of useful life and residual values of buildings, performed by management given the market prices at which those assets could be disposed at the end of their useful life less the estimated costs of disposal.

Pledged assets

As at 31 December 2016, property and equipment with a carrying amount of UAH 1,829,531 thousand (31 December 2015: UAH 1,424,995 thousand) is pledged to secure bank loans.

Borrowing costs

Due to absence of qualifying assets, the Group did not capitalise interest expenses on borrowings during the years ended 31 December 2016 and 2015.

6. Discontinued operations

Mobile segment

Subsequent to finalisation of the privatisation process in 2011, the shareholders of the Group approved the sale of its mobile communications segment. The Group decided to dispose of the abovementioned segment following a decision of the shareholders to place greater focus on the Group's key competencies, being fixed line telecommunications.

As at 31 December 2016 and 2015 mobile segment is represented solely by the subsidiary LLC "TriMob" and classified as a disposal group held for sale, presented as discontinued operations.

Following classification of the investment as an asset held for sale, management remained committed to its plan to sell the asset, however the period required to complete a sale was first extended due to particular circumstances beyond the Group's control. Geopolitical instability in Ukraine with subsequent economic crisis has impacted on decisions of potential investors. Additionally, disposal of mobile assets in previous periods was significantly influenced by the 3G nationwide tender in Ukraine that has been announced but continuously postponed during the last few years. Stipulated by the armed conflict in Ukraine, uncertainty of conditions for military conversion of dedicated frequency spectrum and its related cost have added extra uncertainties to all ongoing negotiations of the sale.

Together with the above circumstances, in 2014 the Group continued a negotiation process regarding the sale of its mobile segment assets. In the second quarter of 2015, being in the final stage of negotiations, the parties could not reach the deal on particular terms of the sale and finalise the disposal. Therefore, in the third quarter of 2015 the Group entered into negotiations with another interested potential buyer. During 2016 the parties have finalized the material terms of the sale and the transaction has been expected to be completed by the end of 2016 upon approval from the governmental authorities, in particular State Property Fund and Antimonopoly Committee of Ukraine as such approval was required for such kind of transaction.

In May 2016 State Property Fund started the inspection of the Group's parent company with the purpose to confirm the compliance with the terms of the privatization agreement. At the same time it refused to approve the sale of LLC "TriMob" before the inspection is finished. In February 2017 State Property Fund finished its inspection. The Act summarizing the result stated failure of the Group's majority shareholder to fulfill certain obligations under the privatization agreement. The Group was not able to complete the sale transaction due to these developments as at the reporting date. During 2017 the Group's majority shareholder will appeal the aforementioned Act of the State Property Fund. In case of successful resolution of appeal from parent company to State Property Fund the Group expects to resolve all obstacles to approval of the sale transaction. As at 31 December 2016 LLC "Trimob" is still classified as held for sale.

6. Discontinued operations (continued)

Assets held for sale and disposal groups are as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
Assets held for sale and disposal groups – mobile segment:		
Intangible assets	12,645	12,442
Construction in progress	31,591	30,278
Property, plant and equipment	84,500	84,273
Inventories	2,326	3,241
Trade accounts receivable	5,122	11,481
Receivables from budget (VAT receivable)	3,471	116,260
Advances paid	3,014	2,781
Other current accounts receivable	1,544	975
Cash and cash equivalents	3,081	3,188
Other assets	539	526
Deferred expenses	153	104
Total assets held for sale and disposal groups	**147,986**	**265,549**
Less intercompany balances	_444_	_856_
Total assets held for sale and disposal groups net of intercompany balances	**147,542**	**264,693**
Total Non-current assets held for sale and disposal groups	**147,542**	**264,693**

Liabilities associated with assets held for sale and disposal groups, represented by mobile segment, are as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
Liabilities associated with assets held for sale and disposal groups		
Trade accounts payable	19,030	16,966
Current payables on advances received	2,445	2,453
Current payables to budget	13,450	412
Current payables on salary related charges	1,307	1,254
Current payables on salaries	1,572	1,800
Other current liabilities	1,134,698	772,583
Total liabilities associated with assets held for sale and disposal groups	**1,172,502**	**795,468**
Less intercompany balances	_1,139,612_	_776,733_
Total liabilities on settlements for disposal groups net of intercompany balances	**32,890**	**18,735**

Financial result attributable to discontinued operations is as follows:

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Discontinued operation results		
Net revenue	129,500	213,841
Cost of revenue	(375,795)	(363,846)
Administrative expenses	(38,687)	(48,306)
Selling expenses	(6,781)	(13,373)
Other operating income/expences, net	(121,147)	(9,589)
Finance income/(costs), net	-	24,924
Total discontinued operation results	**(412,910)**	**(196,349)**
Less result of intercompany transactions	_72,466_	_19,302_
Total discontinued operation results net of intercompany transactions	**(340,444)**	**(177,047)**

Cash flows from discontinued operations are as follows:

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Cash flows from discontinued operations		
Net cash from operating activities	(277,911)	(468,228)
Net cash from investing activities	(276)	(689)
Net cash from financing activities	278,080	469,535
Net cash flows for the year	**(107)**	**618**

Net cash flows from discontinued operations include net cash inflows from operations with PJSC “Ukrtelecom” in amount of UAH 192,927 thousand (2015: net cash inflow UAH 243,808 thousand).

6. Discontinued operations (continued)

Property, plant and equipment and intangible assets pertaining to the mobile segment, that were transferred to the share capital of LLC "TriMob" during the year ended 31 December 2011, were recognised as impaired for the amount of UAH 614,119 thousand in the consolidated financial statements of the Group as at 31 December 2010. The mobile segment's property, plant and equipment included in assets classified as held for sale as at 31 December 2016 represent capital expenditures incurred during the years ended 31 December 2011, 2012, 2013, 2014, 2015 and 2016.

7. Trade accounts receivable

Trade accounts receivable are as follows:

(in thousands of Ukrainian hryvnias)	31 December 2016	31 December 2015
Trade receivables from:		
Individuals	305,630	342,267
Commercial entities	338,061	330,082
Government agencies	219,337	99,852
	863,028	**772,201**
Impairment provision for doubtful receivables from:		
Individuals	(127,198)	(156,623)
Commercial entities	(112,922)	(115,673)
Government agencies	(121,682)	(46,524)
	(361,802)	**(318,820)**
Total trade accounts receivable	**501,226**	**453,381**

Analysis of trade accounts receivable by credit quality is as follows:

(in thousands of Ukrainian hryvnias)	31 December 2016	31 December 2015
Individuals		
- current and overdue less than 90 days	163,483	176,396
- 90 to 180 days overdue	17,108	19,779
- 180 to 360 days overdue	27,599	28,199
- over 360 days overdue	97,440	117,893
Total individuals, gross	**305,630**	**342,267**
Commercial entities		
- current and overdue less than 90 days	213,091	219,015
- 90 to 180 days overdue	18,943	18,224
- 180 to 360 days overdue	15,610	19,481
- over 360 days overdue	90,417	73,362
Total commercial entities, gross	**338,061**	**330,082**
Government agencies		
- current and overdue less than 90 days	48,333	44,625
- 90 to 180 days overdue	31,628	10,659
- 180 to 360 days overdue	81,465	10,862
- over 360 days overdue	57,911	33,706
Total government agencies, gross	**219,337**	**99,852**
Total trade receivables, gross	**863,028**	**772,201**
Impairment provision for doubtful receivables	**(361,802)**	**(318,820)**
Total trade receivables, net of provision	**501,226**	**453,381**

The current and overdue less than 90 days category in the table above mainly consists of the December revenues which are billed in early January (except for internet services revenue stream for individuals where the prepayment scheme is used). The contractual due date for payment of these bills is 20th January.

Historically approximately 90% of each month revenue from individuals is paid before the end of the next month after using of the service.

The current and overdue less than 90 days category for commercial entities includes receivables from the other telecom operators and Ukrainian legal entities, which have been using the Group's services for a long period of time.

7. Trade accounts receivable (continued)

Impairment of trade accounts receivable as at 31 December 2016 is as follows:

(in thousands of Ukrainian hryvnias)	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
Trade receivables from individuals				
Receivables with individual impairment	-	-	-	-
Receivables with collectively identified impairment	305,630	(127,198)	178,432	42%
Total trade receivables from individuals	**305,630**	**(127,198)**	**178,432**	**42%**
Trade receivables from commercial entities				
Receivables with individual impairment	52,270	(44,776)	7,494	86%
Receivables with collectively identified impairment	285,791	(68,146)	217,645	24%
Total trade receivables from commercial entities	**338,061**	**(112,922)**	**225,139**	**33%**
Trade receivables from government agencies				
Receivables with individual impairment	1,149	(1,149)	-	100%
Receivables with collectively identified impairment	218,188	(120,533)	97,655	55%
Total trade receivables from government agencies	**219,337**	**(121,682)**	**97,655**	**55%**
Total	**863,028**	**(361,802)**	**501,226**	**42%**

Impairment of trade accounts receivable as at 31 December 2015 is as follows:

(in thousands of Ukrainian hryvnias)	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
Trade receivables from individuals				
Receivables with individual impairment	-	-	-	-
Receivables with collectively identified impairment	342,267	(156,623)	185,644	46%
Total trade receivables from individuals	**342,267**	**(156,623)**	**185,644**	**46%**
Trade receivables from commercial entities				
Receivables with individual impairment	52,996	(48,978)	4,018	92%
Receivables with collectively identified impairment	277,086	(66,695)	210,391	24%
Total trade receivables from commercial entities	**330,082**	**(115,673)**	**214,409**	**35%**
Trade receivables from government agencies				
Receivables with individual impairment	1,149	(1,149)	-	100%
Receivables with collectively identified impairment	98,703	(45,375)	53,328	46%
Total trade receivables from government agencies	**99,852**	**(46,524)**	**53,328**	**47%**
Total	**772,201**	**(318,820)**	**453,381**	**41%**

Movement in the impairment provision for doubtful trade receivables is as follows:

(in thousands of Ukrainian hryvnias)	2016	2015
Balance at beginning of the year	**318,820**	**273,697**
Provision for impairment	130,258	90,876
Release of provision	(87,276)	(45,753)
Balance at year end	**361,802**	**318,820**

7. Trade accounts receivable (continued)

Throughout 2016 the accounts receivable from the governmental agencies for reimbursement of the compensation for difference between the Group's standard tariffs for telecommunication services and those beneficial for certain categories of its customers regulated by the State increased significantly. This has occurred as a result of the transfer of financing obligations for such reimbursements from the State budget to the budgets of regional/local authorities. Starting from January 2016 the compensation for the difference in tariffs was not included either in the State budget or those of the regional/local authorities. The Group does not have a legal right to stop rendering services to such customers on its own discretion. Beginning November 2016, the Group initiated a number of court cases to enforce reimbursements of the compensation from regional/local authorities. Taking into account the positive court decisions obtained in 2016, management estimated the receivables as recoverable. At the same time management acknowledges that the recoverability is fully dependent on the availability of the dedicated funds on the accounts of the regional/local budgets, as well as the intention to settle the debts by those regional/local budgets where no dedicated funds are available. Taking into account this and the absence of past Group's history on similar cases, no reliable estimate on the amount or timing of the reimbursement can be made by management until the situation crystallises in the following year. As such, the Group has recorded the circa 50% provision for the abovementioned receivables that represents the best management's estimate on the amount and timing of the reimbursement as at year end.

Refer to Note 24 for information on credit, concentration, currency and interest rate risks.

8. Other current receivables

Other current receivables include an interest free loan provided to the parent company LLC "ESU" in the amount of UAH 737,983 thousand with nominal value UAH 737,983 thousand as at 31 December 2016 (31 December 2015: UAH 734,006 thousand and nominal value of UAH 736,775 thousand). In accordance with the contractual arrangement UAH 678,726 thousand was due in October 2015 and UAH 32,000 thousand was due in January 2016, i.e. was overdue for 14 months and 11 months as at 31 December 2016, respectively, and the remaining portion in the amount of UAH 27,257 thousand is to be settled until 1 July 2017 (31 December 2015: UAH 678,726 thousand was due in October 2015, i.e. was overdue for 2 months, while the remaining portion in the amount of UAH 55,280 thousand was to be settled until February-July 2016).

On initial recognition its fair value was discounted using the interest rates corresponding to prevailing market rates for similar interest earning instruments. The resulting effect from initial recognition in the amount of UAH 2,372 thousand for the year ended 31 December 2016 (UAH 42,007 thousand for the year ended 31 December 2015) was included in other changes in equity increasing the accumulated deficit (Note 10). For the year ended 31 December 2016 UAH 5,141 thousand of unwinding of discount was recognised in finance income (31 December 2015: UAH 106,588 thousand).

9. Other long-term and current financial investments

As at 31 December 2016 current financial investments included UAH 160,872 thousand of interest bearing bonds issued by the direct shareholder (ESU), which matures in March 2017 (31 December 2015: other long-term financial investments UAH 160,872 thousand), with effective interest rate of 24%.

As at 31 December 2016, interest receivable on these bonds amounted to UAH 65,588 thousand (31 December 2015: UAH 26,870 thousand).

10. Equity

As at 31 December 2016, the authorised share capital comprises 18,726,248 thousand of issued and registered ordinary shares (31 December 2015: 18,726,248 thousand) with a par value of UAH 0.25. As at 31 December 2016 and 2015, all shares are outstanding.

Prior to 1 January 2001 the economy of Ukraine was considered to be a hyperinflationary economy. International Financial Reporting Standard IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29) requires all components of equity, except retained earnings (accumulated deficit), to be restated by application of conversion factors. Thus, in accordance with IAS 29, share capital was restated by applying conversion factors from the dates components of share capital were contributed or otherwise arose until 31 December 2000 resulting in a revaluation surplus amounting to UAH 3,011,892 thousand recorded within revaluation surplus in equity. As at 31 December 2016 and 2015, total amount of the registered and fully paid share capital is UAH 4,681,562 thousand.

During 2016 the Group recognized UAH 2,372 thousand, representing the difference between nominal and fair value of the interest free loan provided to its immediate parent company (Note 27), directly in equity (2015: UAH 42,007 thousand).

For the year ended 31 December 2016 the Group transferred revaluation surplus net of income tax in the amount of UAH 155,955 thousand to accumulated deficit as a result of disposal of property, plant and equipment (2015: UAH 244,653 thousand).

10. Equity (continued)

As at 31 December 2016, additional capital in the amount of UAH 418,842 thousand is represented mainly by share premium (31 December 2015: UAH 417,773 thousand).

As at 31 December 2016, reserves in the amount of UAH 222,812 thousand represent transfers of a percentage of the annual profits and share capital as was required by the Ukrainian legislation prior to the Company's privatization (31 December 2015: UAH 222,812 thousand).

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at general meetings of shareholders.

In accordance with the Ukrainian legislation, distributable reserves are limited to the balance of retained earnings.

11. Long-term provisions

The amounts recognized in the consolidated statement of financial position are:

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
Post-employment long-term benefit obligations	272,234	218,020
Other long-term employee benefit obligations	9,792	9,291
Total long-term provisions	**282,026**	**227,311**

Post-employment long-term benefit obligations

The movement in post-employment long-term benefit obligations during 2016 is as follows:

(in thousands of Ukrainian hryvnias)	**One-time payment on retirement**	**Hazardous pensions**	**Total post-employment benefit obligations**
Present value of obligations as at 1 January 2016	**50,648**	**167,372**	**218,020**
Current service cost	2,451	470	2,921
Interest cost on post-employment obligations	7,987	23,853	31,840
Recognised past service gain/curtailment	(9,347)	(24)	(9,371)
Actuarial loss (gain) in the statement of comprehensive income	34,333	26,955	61,288
Benefits paid	(1,707)	(30,757)	(32,464)
Present value of obligations as at 31 December 2016	**84,365**	**187,869**	**272,234**

Actuarial loss recognised in the statement of comprehensive income in 2016 is mainly represented by the increase in actual salary in 2016 and decrease in forecasted employees turnover rate. Past service gain/curtailment recognised in 2016 includes UAH 10,437 thousand of gain from curtailment resulting from decrease in the Company's headcount for the year ended 31 December 2016.

The movement of post-employment long-term benefit obligations during 2015 is as follows:

(in thousands of Ukrainian hryvnias)	**One-time payment on retirement**	**Hazardous pensions**	**Total post-employment benefit obligations**
Present value of obligations as at 1 January 2015	**67,157**	**173,526**	**240,683**
Current service cost	7,004	893	7,897
Interest cost on post-employment obligations	10,426	22,005	32,431
Recognised past service gain/ curtailment	(19,239)	(21,771)	(41,010)
Actuarial loss (gain) in the statement of comprehensive income	(11,735)	21,859	10,124
Benefits paid	(2,965)	(29,140)	(32,105)
Present value of obligations as at 31 December 2015	**50,648**	**167,372**	**218,020**

As a result of several changes into the pensions legislation in 2015 the early retirement age has been increased by additional 5 years. Consequently, the Group recognised past service gain in amount of UAH 22,443 thousand. In addition the Group recognized UAH 21,578 thousand of gain from curtailment resulting from decrease in the Company's headcount for the year ended 31 December 2015.

11. Long-term provisions (continued)

The amounts recognised in the profit or loss for 2016 are as follows:

(in thousands of Ukrainian hryvnias)	One-time payment on retirement	Hazardous pensions	Total post-employment benefit obligations
Interest cost on post-employment obligations	7,987	23,853	31,840
Current service cost	2,451	470	2,921
Past service gain/curtailment	(9,347)	(24)	(9,371)
	1,091	**24,299**	**25,390**

Current service cost and past service gain/curtailment are included in employee expenses under collective agreement within other operating expenses (Note 19).

Amounts recognised in profit or loss for the year ended 31 December 2015 are as follows:

(in thousands of Ukrainian hryvnias)	One-time payment on retirement	Hazardous pensions	Total post-employment benefit obligations
Interest cost on post-employment obligations	10,426	22,005	32,431
Current service cost	7,004	893	7,897
Past service gain/curtailment	(19,239)	(21,771)	(41,010)
	(1,809)	**1,127**	**(682)**

The principal actuarial assumptions used in determining these obligations are as follows:

	31 December 2016	31 December 2015
Nominal discount rate	16.04%	16.04%
Staff turnover	6.00%	10.67%

Since reliable market data are not generally available in Ukraine, management uses its own assumptions in calculating the liability related to these obligations at each year-end date. Actual results could significantly vary from estimates made at the year-end date.

The salary increase rate is estimated based on the expected budgeted and forecasted salary increases for employees.

The sensitivity of post-employment benefit obligations to changes in the principal assumptions is:

	(in thousands of Ukrainian hryvnias) 31 December 2016
Nominal discount rate increase/decrease by 1%	(12,468)/13,693
Nominal salary increase/decrease by 1%	8,412/(5,673)

As at 31 December 2016, the weighted average maturity of the Group's long-term employee benefit obligations is 6 years (31 December 2015: 6 years). Payments in respect of these obligations expected to be made during the year ending 31 December 2017 are UAH 51,992 thousand (2016: UAH 42,996 thousand).

12. Loans and borrowings

Loans and borrowings are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2016	31 December 2015
Non-current borrowings		
Bonds issued	-	487,100
Total non-current borrowings	**-**	**487,100**
Current borrowings		
Bank loans	1,410,458	997,915
Bonds issued	491,700	403,100
Supplier credits	-	31,595
Interest payable	14,914	13,385
Other	2,397	2,397
Total current borrowings	**1,919,469**	**1,448,392**
Total borrowings	**1,919,469**	**1,935,492**

12. Loans and borrowings (continued)

Going concern considerations are disclosed in Note 1.

For more information about exposure to interest rate and foreign currency risks, refer to Note 24.

Terms and conditions of outstanding loans and borrowings are as follows:

		31 December 2016		31 December 2015	
(in thousands of Ukrainian hryvnias)	**Currency**	**Carrying amount**	**Nominal value**	**Carrying amount**	**Nominal value**
Non-current borrowings					
Bonds issued	UAH	-	-	487,100	487,100
Supplier credits and other borrowings	USD	-	-	-	-
		-	**-**	**487,100**	**487,100**
Current borrowings					
Bank loans	USD, UAH	1,410,458	1,430,927	997,915	997,915
Bonds issued	UAH	491,700	491,700	403,100	403,100
Supplier credits	USD, EUR	-	-	31,595	31,595
Interest payable	USD, UAH	14,914	14,914	13,385	13,385
Other	UAH	2,397	2,397	2,397	2,397
Total current borrowings		**1,919,469**	**1,939,938**	**1,448,392**	**1,448,392**
Total borrowings		**1,919,469**	**1,939,938**	**1,935,492**	**1,935,492**

Currency and liquidity risks are disclosed in Note 24.

Bonds

As at 31 December 2015 the Group had an outstanding balance of bonds (series P, Q) with a nominal amount of UAH 3,100 thousand bearing an annual nominal interest rate of 21% (effective interest rate of 21%). In 2016 the Group placed another UAH 1,500 thousand of bonds (series Q) bearing an annual nominal interest rate of 21% (effective interest rate of 21%). As at 31 December 2016 outstanding balance is UAH 4,600 thousand (series P, Q) presented as current liabilities.

In August 2014 the Group placed bonds (series T, U, V) with a nominal value of UAH 1,192,100 thousand bearing an annual nominal interest rate of 16.5% (effective interest rate of 16.5%). In March and August 2015 interest rate was increased up to 21%. The Group repurchased UAH 305,000 thousand during 2014-2015 having an outstanding balance of UAH 887,100 thousand as at 31 December 2015 with UAH 487,100 thousand presented as non-current liabilities as they were renegotiated to March 2017. Further UAH 400,000 thousand of series T bonds were repurchased during 2016. As at 31 December 2016 outstanding balance constituted UAH 487,100 thousand of series U, V presented as current liabilities according to contractual terms.

All liabilities on the bonds as at 31 December 2016 and the part of liabilities on the bonds as at December 2015 were presented as current, as according to the terms of placement, the bondholders have a right to demand early repayment of the nominal amount of all or part of the bonds annually within a certain time period as indicated in the prospectus. There are no covenants for bonds.

Supplier credits

Loans from a supplier of equipment denominated in EUR and USD with effective interest rate of approximately 6% were fully repaid as at 31 December 2016 (31 December 2015: UAH 31,595 thousand and included in current portion of long-term borrowings).

Bank loans and borrowings

In December 2015, the Group signed a long-term loan facility agreement with a Chinese bank with a limit of USD 50,000 thousand repayable up to December 2022. Terms of contract allows for 3 years grace period. Effective interest rate of this facility is 9.34%. Outstanding balance on this facility as at 31 December 2016 is the equivalent of UAH 342,733 thousand.

In 2011, the Group signed a multi-currency revolving loan facility agreement with a Ukrainian bank with a limit of USD 48,000 thousand. In 2012, the Group signed an agreement on an additional loan facility with a limit of USD 22,000 thousand. During 2015 year the respective limit was decreased up to USD 45,000 thousand and in December 2016 up to USD 30,000 thousand. The total outstanding amount under these loan facilities as at 31 December 2016 is UAH 767,725 thousand (31 December 2015: UAH 837,915 thousand).

In June 2015, the Group signed a credit agreement with a Ukrainian bank for UAH 160,000 thousand. The outstanding amount as at 31 December 2016 is nill (31 December 2015: UAH 160,000 thousand).

In October 2016, the Group signed a credit agreement with a Ukrainian bank for UAH 150,000 thousand. In December 2016 the respective limit was increased up to UAH 300,000 thousand. The outstanding amount as at 31 December 2016 is UAH 300,000 thousand.

12. Loans and borrowings (continued)

The effective interest rates and currency denomination of loans and borrowings as at the balance sheet date were as follows:

	2016			2015				
In % per annum	**UAH**	**UAH**	**USD**	**UAH**	**UAH**	**USD**	**USD**	**EUR**
	18.0 % - 21 %	UIRD (3M)+4%	9.34%	21.0 % - 24.5 %	KIEVPRIME (1 M)+5%	6.5%	Libor USD 12M +11.20%	6%
Total borrowings	**794,097**	**767,725**	**342,733**	**1,052,597**	**628,725**	**11,155**	**209,190**	**20,440**

The Group has no subordinated debt or debt convertible into equity.

Compliance with covenants

The Group is subject to certain financial and non-financial covenants related to its borrowings, including financial and non-financial disclosure requirement and maximum level of leverage. Events of default are comprehensive and include cross-default provisions. As at 31 December 2016 the Group technically breached the covenant with one bank relating to chanelling certain level of cash proceeds through charged accounts which are pledged to the bank. After the year end respective waiver was requested and obtained in February 2017 from creditor waving the compliance with this covenant. Despite the subsequent event, UAH 342,733 thousand outstanding balance of this loan were reclassified to short-term and presented as current as at 31 December 2016.

Based on credit line conditions with one Ukrainian bank the Group was obliged to pledge additional specific building by year end 2016. That condition was not compliant as at 31 December 2016. Despite that unfulfilled conditions the Group on mutual agreement with the bank correspondingly substituted pledge objects after year end and still continues regular utilization of credit line as of date of reporting.

Security

The Group has pledged rights on certain bank accounts to fulfil collateral requirements of loan agreement with Chinese bank. The Group shall ensure that certain amount of proceeds from customers (subject to minimum level requirements) will be chanelled through the charged accounts. In case the event of deafault occurs proceeds to these accounts can be used to fulfill the obligations under the credit agreement. Despite the breach of the covenant on chanelling certain amount of cash proceeds through charged accounts as at 31 December 2016, the Bank has not exercised its right for the pledged accounts.

In addition the Group has pledged titles on equipment which will be supplied under the network modernisation project amounting to USD 45,000 thousand. Following the supply these equipment will become pledged as property plant and equipment items.

For information about property, plant and equipment pledged to secure the loans, refer to Note 5.

As at 31 December 2016, investment property with a carrying amount of UAH 74,281 thousand (31 December 2015: UAH 70,380 thousand) is pledged to secure bank loans.

13. Trade and other accounts payables

Trade and other accounts payable are presented as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
Accounts payable for services	143,246	128,171
Accounts payable for non-current assets	106,088	132,197
Accounts payable for inventories	48,757	56,383
Accounts payable to operators	19,986	32,166
Other accounts payable	8,261	5,067
Total trade and other accounts payable	**326,338**	**353,984**

14. Current provisions

Current provisions are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2016	31 December 2015
Provision for payments to employees	132,473	129,604
Provision for unused vacation	120,348	100,508
Other	11	107
Total current provisions	**252,832**	**230,219**

15. Revenue

Revenue analysis by principle revenue streams:

(in thousands of Ukrainian hryvnias)	2016	2015
Local calls and subscription-based fees	2,713,162	2,776,793
Internet services	1,636,911	1,471,705
Services to foreign operators	678,746	729,212
Traffic-based fees for local calls to mobile and domestic long-distance calls	296,210	255,110
Income from operating leases of assets	210,444	187,190
Fees for use of lines and channels, incoming calls and transit of telephone traffic	173,847	263,892
International traffic	168,045	204,989
Revenue from fixed line radio points	146,816	153,322
Fees for use of cable ducts	122,807	121,692
Revenue from sale of goods	8,078	16,115
Other revenue	91,078	146,403
Net revenue	**6,246,144**	**6,326,423**

Local traffic and subscription-based fees, fees for use of cable ducts are determined based on authorised tariffs for telecommunication services approved by NCRCI.

Traffic-based fees for local calls to mobile and domestic long-distance calls include charges for outgoing traffic within Ukraine based on tariffs authorised by the Group. Traffic is measured in seconds.

International traffic comprises charges for outgoing traffic of international calls made by the Group's subscribers.

Services to foreign operators include regular (monthly, quarterly, annual) fees for use of the lines and charges for traffic of international operators' customers located abroad and are based on individual agreements with international operators.

Fees for use of lines and channels, incoming calls and transit of telephone traffic are payments received from Ukrainian operators of telecommunication services, comprising fixed fees for access to the Group's network and charges for outgoing traffic of customers of these operators. Unlike termination and transit of telephone traffic, fees for use of lines and channels are determined based on authorised tariffs for telecommunication services approved by NCRCI.

Internet services include fixed internet fees, Voice-IP services, revenue from sale of internet cards, data transmission services, internet connection fees and other fees.

16. Cost of revenue

(in thousands of Ukrainian hryvnias)	2016	2015
Salaries and related charges	1,389,473	1,487,390
Utilities	518,687	471,334
Depreciation of property, plant and equipment (Note 5)	443,189	368,069
Materials	322,444	322,462
Maintenance and repairs	287,505	178,506
Services provided by foreign operators	228,522	251,528
Impairment / revaluation of property, plant and equipment (Note 5)	198,276	(94,779)
Use of lines and channels, outcoming costs and transit of telephone traffic	152,473	195,526
Rent expenses	100,958	86,210
Amortisation of intangible assets	40,370	41,548
Loss on derecognition of branch located in Crimea (Note 5)	-	181,765
Other	139,725	115,065
Total cost of revenue	**3,821,622**	**3,604,624**

17. Administrative expenses

(in thousands of Ukrainian hryvnias)	2016	2015
Salaries and related charges	544,441	500,770
Land and other taxes	114,363	42,017
Rent expenses	67,165	48,831
Professional fees	23,347	22,546
Materials	19,140	18,372
Utilities	15,295	12,097
Maintenance and repairs	10,373	4,974
Bank commissions and charges	5,566	8,557
Depreciation of property, plant and equipment (Note 5)	4,923	41,108
Impairment/ revaluation of property, plant and equipment (Note 5)	1,170	15,183
Amortisation of intangible assets	312	90
Loss on derecognition of branch located in Crimea (Note 5)	-	21,085
Other	65,708	42,697
Total administrative expenses	**871,803**	**778,327**

18. Selling expenses

(in thousands of Ukrainian hryvnias)	2016	2015
Salaries and related charges	259,715	329,242
Advertising and printing services	67,211	68,902
Commission fee	40,089	13,165
Bank commissions and charges	31,422	31,247
Delivery of bills	29,235	33,654
Utilities	26,210	25,133
Materials	10,567	7,621
Amortisation of intangible assets	4,497	4,706
Depreciation of property, plant and equipment (Note 5)	1,500	4,334
Maintenance and repairs	1,094	2,340
Impairment/ revaluation loss of property, plant and equipment (Note 5)	666	1,385
Loss on derecognition of branch located in Crimea (Note 5)	-	1,922
Other	5,399	4,248
Total selling expenses	**477,605**	**527,899**

19. Other operating expenses

(in thousands of Ukrainian hryvnias)	2016	2015
Impairment of doubtful trade and other receivables	141,164	127,412
Employee expenses under collective agreement	71,463	68,376
Impairment of cash balances	41,663	46,036
Utilities	38,067	30,308
Impairment/ revaluation loss on property, plant and equipment (Note 5)	12,680	4,526
Penalties	5,368	16,229
Depreciation of property, plant and equipment (Note 5)	5,334	12,674
Impairment/(reversal of impairment) of inventories	1,916	6,144
Loss on derecognition of branch located in Crimea (Note 5)	-	7,412
Other	3,482	56,888
Total other operating expenses	**321,137**	**376,005**

Provision for impairment of doubtful trade and other receivables includes impairment of doubtful trade receivables of UAH 130,258 thousand (2015: UAH 90,876 thousand) and impairment of doubtful other receivables of UAH 10,906 thousand (2015: UAH 36,536 thousand).

Impaired cash balances as at 31 December 2016 and 2015 are represented by cash on hand accumulated in the regions with armed conflict, which can not be withdrawn from those territories.

Employee expenses under collective agreement contain UAH 57,105 thousand of payments under the termination of employment contracts during the year ended 31 December 2016 (31 December 2015: UAH 74,776 thousand).

20. Other operating income

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Gain on disposal of non-current assets	158,402	145,150
Fines and penalties	25,468	14,550
Gain on payables write-off	23,330	3,780
Gain on inventory surpluses	11,100	5,670
Foreign exchange gain	7,128	585
Other	29,596	24,809
Total other operating income	**255,024**	**194,544**

In 2016 and 2015 gain on disposal of non-current assets was mainly represented by the sale of dismantled copper cables no longer used by the Group and certain property of the Group. Copper cables sold in 2016 and 2015 were dismantled in the course of the ongoing process of network optimization and subscribers reconnection to another cables with spare capacity. Prior to dismantling, no sufficient information was available on the particular assets which could be subject to optimization and subsequent disposal, therefore these copper cables were considered to be of specialized nature and valued within a single CGU with other specialised assets of the Group using depreciated replacement cost approach subjected to economic obsolescence test using discounted cash flow technique. As such, the excess of proceeds from sale of these cables over their then carrying values resulted in significant gain on their disposal.

21. Finance costs

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Interest expense on loans and borrowings	356,482	423,256
Net foreign exchange loss	37,312	199,405
Interest cost on post-employment long-term employee benefit-obligations (Note 11)	31,840	32,431
Interest cost on other long-term employee benefit obligations	1,309	1,824
Other finance costs	2,086	15,076
Total finance costs	**429,029**	**671,992**

22. Finance income

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Interest income	52,718	23,847
Unwinding of discount on loan granted to the parent company (Note 8)	5,141	106,588
Other finance income	3	7,360
Total finance income	**57,862**	**137,795**

23. Income tax expense

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Deferred tax (expense)/benefit	36,136	(151,440)
Income tax (expense)/benefit – current	(146,185)	118
Income tax (expense)	**(110,049)**	**(151,322)**

Under the effective changes of the Ukrainian tax legislation during 2013-2014, the income tax rate applicable for Ukrainian companies in 2013 was 19%; starting from 1 January 2014 is 18%. Revisions were introduced to the Tax Code of Ukraine from 1 January 2015. Further revisions were introduced to the Tax Code from 1 January 2016. These changes were considered to be substantially enacted with respect of calculation of deferred taxes as at 31 December 2015.

23. Income tax expense (continued)

Reconciliation of effective tax rate:

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Profit before tax	**637,634**	**699,844**
Income tax (expense) at 18%	(114,774)	(125,972)
Effect on income tax of:		
Non-deductible expenses	(3,645)	(155)
Impairment of assets in Crimea	-	(39,081)
Expenses on provision on accounts receivable	-	(14,751)
Elimination with discountinued operations	(13,044)	(9,407)
Non-taxable income	(236)	2,379
Deferred tax recognised due to changes in Tax Code	40,896	-
Change in estimate on deferred tax assets recognized in prior periods	(21,460)	-
Unrecognised deferred tax assets utilized	2,214	35,665
Income tax (expense)	**(110,049)**	**(151,322)**

Differences between IFRS and Ukrainian taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences has been determined based on management's estimate of when these differences will be charged or credited in the Group's tax filings using 18% rate. Revised corporate tax computation rules, whereby the basis for calculating corporation tax is adjusted accounting profit, rather than a separate calculation of taxable income and deductible expenses, became effective from 1 January 2015.

The movements in recognised temporary differences during the year ended 31 December 2016 are as follows:

(in thousands of Ukrainian hryvnias)	**1 January 2016**	**(Charged)/credited to profit or loss**	**Recognised in other comprehensive income**	**31 December 2016**
Property, plant and equipment and investment property	(746,476)	(812)	(74,988)	(822,276)
Intangible assets	2,683	(6,524)	-	(3,841)
Accounts receivable	-	79,836	-	79,836
Provision for unused vacations and other payments to employees	23,228	(23,228)	-	-
Provision for hazardous pensions	30,128	(1,164)	4,852	33,816
Tax loss carry forwards	11,972	(11,972)	-	-
Deferred tax asset/(liability)	**(678,465)**	**36,136**	**(70,136)**	**(712,465)**
Unrecognised deferred tax asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	**(678,465)**	**36,136**	**(70,136)**	**(712,465)**

Movements in recognised temporary differences during the year ended 31 December 2015 are as follows:

(in thousands of Ukrainian hryvnias)	**1 January 2015**	**(Charged)/credited to profit or loss**	**Recognised in other comprehensive income**	**31 December 2015**
Property, plant and equipment and investment property	115,084	(19,850)	(841,710)	(746,476)
Intangible assets	(5,335)	8,018	-	2,683
Inventories	9,776	(9,776)	-	-
Provision for unused vacations and other payments to employees	49,800	(26,572)	-	23,228
Provision for hazardous pensions	31,235	(6,306)	5,199	30,128
Tax loss carry forwards	108,926	(96,954)	-	11,972
Deferred tax asset/(liability)	**309,486**	**(151,440)**	**(836,511)**	**(678,465)**
Unrecognised deferred tax asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	**309,486**	**(151,440)**	**(836,511)**	**(678,465)**

24. Financial risk and capital management

Exposure to credit, interest rate and currency risk and liquidity risk arises in the normal course of the Group's business.

Measurement of fair value

A number of the Group's disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between participants at the measurement date (i.e. exit price).

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The carrying value of all financial assets and liabilities is estimated to not significantly vary from their fair value as at 31 December 2016 and 31 December 2015.

Fair value hierarchy

In order to adhere to the requirements of IFRS 13 relating to fair value disclosures, all the financial and non-financial assets and liabilities, for which fair value disclosures are made, are mapped to a level of the fair value hierarchy of disclosure. IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- **Level 1 —** Valuations based on quoted prices in active markets for identical assets or liabilities that the Group has the ability to access.
- **Level 2** — Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** — Valuations based on inputs for the asset and liability that are significant unobservable or significant adjustments to observable inputs based on unobservable inputs.

Fair value disclosures made for the Group's financial and non-financial assets and liabilities were determined under valuations that fall within Level 2 of the fair value hierarchy, except for specialised property, plant and equipment, which was valued as at 31 December 2016 and 2015 at fair value (less costs of disposal) with the use of unobservable inputs and thus fall within Level 3 hierarchy.

Level 2: Key inputs and assumptions used in the fair value determinations for financial instruments are represented by market interest rates that approximate the Group's effective interest rates at the reporting date. Also, there has been no change in the valuation technique for fair value determination and no transfers between the fair value categories during the years ended 31 December 2016 and 2015 in respect of financial assets. Fair values of financial instruments in the Group's balance sheet as at 31 December 2016 and 2015 approximate their carying value.

Key inputs and assumptions used in the fair value determinations for non-financial assets are represented by market prices for similar assets and prices of recent sales with certain adjustments which are directly or indirectly observable. During 2015 there was a change in valuation technique for certain items of property, plant and equipment which could be released from operating activity and sold in the open market as described in Note 5. Such assets were transferred from Level 3 to Level 2 valuation category and valued by market approach as at 31 December 2015 and 31 December 2016.

Level 3: Description of inputs used and the sensitivity of fair value measurement to changes in those inputs are disclosed in Note 5.

Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

24. Financial risk and capital management (continued)

This note presents information about the Group's exposure to each of these risks, and the objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Supervisory Board has overall responsibility for the establishment and oversight of the risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Supervisory Board oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from receivables from customers and investment securities.

The Group does not require collateral for financial assets. Exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Trade and other receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk, except for customers located in Donetsk and Lugansk regions, where there has been armed conflict.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, national or international operators or government agencies and according to their aging profile. Management doesn't analyse credit quality of accounts receivable before they are 90 days overdue. If the individual customer is not paying for more than 3 months the service is temporary stopped by the Group until the payment is received.

Management established a credit policy under which each international operator is analysed individually for creditworthiness at the point of entering into business relationships. Subject to this payment and service rendering terms and conditions are offered. However after that only the payment discipline is reviewed on on-going basis.

Although collection of receivables could be influenced by economic and political factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash balances

The Group places cash on deposit in accounts with banks based on credit risk characteristics. In selecting a bank for placement of deposits, the Group considers the counterparty's credit rating, the history of business with this counterparty and the interest rate offered by the bank.

As at 31 December 2016, 90% of Group's cash is held in 4 Ukrainian banks (31 December 2015: 91% in 4 Ukrainian banks) thus exposing the Group to a concentration of credit risk.

As at 31 December 2016 and 2015, analysis by credit quality of bank balances by Fitch/Moody's credit rating system is as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
A	11,704	-
B-	8,209	-
Caa2	2,199	11,517
Caa3	105,716	51,675
non-rated	13,714	93,172
	141,542	**156,364**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

24. Financial risk and capital management (continued)

Typically the Group ensures that it has sufficient cash and cash equivalents available at the first demand to meet expected short-term operating expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In December 2015, the Company signed a long-term loan facility agreement with a Chinese bank with a limit of USD 50,000 thousand, being UAH 1,359,543 thousand at exchange rate as at reporting date, repayable up to December 2022. Outstanding principal balance as at 31 December 2016 is UAH 363,202 thousand.

As at 31 December 2016 the Group had multicurrency revolving credit line with the total availability of equivalent USD 30,000 thousand, being UAH 815,726 thousand at exchange rate as at reporting date. As at 31 December 2016, used balance on this credit line was UAH 767,725 thousand (31 December 2015: UAH 837,915 thousand). This agreement matures in September 2017.

In June 2015, the Group signed credit agreement with a Ukrainian bank for UAH 160,000 thousand financing. The outstanding amount was repaid in four equal instalments up to June 2016.

In October 2016, the Group signed a credit agreement with a Ukrainian bank for UAH 150,000 thousand. In December 2016 the respective limit was increased up to UAH 300,000 thousand. The outstanding amount as at 31 December 2016 is UAH 300,000 thousand.

The contractual maturities of non-derivative financial liabilities including future interest payments as at 31 December 2016 are as follows:

(in thousands of Ukrainian hryvnias)	**Carrying amount**	**Contractual cash flows**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 2 years**
Borrowings:						
Bank loans	1,410,458	1,446,937	1,135,896	53,445	257,596	-
Bonds issued	491,700	513,285	-	507,974	5,311	-
Supplier credits	2,397	2,397	-	-	2,397	-
Interest payable	14,914	14,914	9,761	5,153	-	-
Total borrowings	**1,919,469**	**1,977,533**	**1,145,657**	**566,572**	**265,304**	**-**
Trade and other accounts payable	326,338	326,338	326,338	-	-	-
Other current liabilities	16,676	16,676	16,676	-	-	-
Total	**2,262,483**	**2,320,547**	**1,488,671**	**566,572**	**265,304**	**-**

A long-term loan facility agreement with a Chinese bank classified as payable within the period less than one month includes the amount of UAH 363,202 thousand reclassified as a consequence of loan covenant breach (Note 12). Initial contractual maturity of this amount is nine equal instalments semiannually from November 2019. In December 2022 the Group will repay two last instalments of this amount.

A credit agreement with a Ukrainian bank classified as payable within the period less than one month include the amount of UAH 767,725 thousand reclassified as a consequence of loan covenant breach (Note 12). Initial contractual maturity of this amount is January 2017.

The contractual maturities of non-derivative financial liabilities including future interest payments as at 31 December 2015 are as follows:

(in thousands of Ukrainian hryvnias)	**Carrying amount**	**Contractual cash flows**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 2 years**
Borrowings:						
Bank loans	997,915	1,031,892	636,986	50,445	344,461	-
Bonds issued	890,200	1,031,257	-	438,884	79,770	512,603
Supplier credits	33,992	34,651	2,407	16,019	16,225	-
Interest payable	13,385	13,385	5,054	8,331	-	-
Total borrowings	**1,935,492**	**2,111,185**	**644,447**	**513,679**	**440,456**	**512,603**
Trade and other accounts payable	353,984	353,984	353,984	-	-	-
Other current liabilities	48,583	48,583	48,583	-	-	-
Total	**2,338,059**	**2,513,752**	**1,047,014**	**513,679**	**440,456**	**512,603**

24. Financial risk and capital management (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by management. The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Group incurs foreign currency risk related to transactions with foreign operators and to borrowings that are denominated in a currency other than hryvnia. The currencies giving rise to this risk are primarily the US dollar and Euro. Ukrainian legislation restricts the Group's ability to hedge its exposure to foreign currency risk, and, accordingly, the Group does not hedge its exposure to foreign exchange risk. However, the currency risk is taken into account by management when selecting a currency of settlements with telecommunication operators and suppliers of goods and services.

The exposure to foreign currency risk is as follows:

	USD-denominated		Euro-denominated	
(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Trade accounts receivable	46,540	64,752	46,354	27,347
Cash and cash equivalents	16,995	3,077	137	5,414
Current portion of long-term loans and borrowings	(367,840)	(11,250)	-	(20,544)
Short-term loans and borrowings	-	(209,399)	-	-
Trade accounts payable	(855)	(72,730)	(2,613)	(5,339)
Net long (short) position	**(305,160)**	**(225,550)**	**43,878**	**6,878**

A 30 percent weakening of the Ukrainian hryvnia against the following currencies at 31 December would have increased (decreased) post-tax profit and increased (decreased) equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
USD	(74,441)	(55,485)
EUR	10,797	1,692

A 30 percent strengthening of the Ukrainian hryvnia against these currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be at fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-term borrowings. As at 31 December 2016, 40% of the total borrowings was provided to the Group at floating rates (31 December 2015: 43%).

Effective interest rates of financial instruments are disclosed in Note 12. Re-pricing for fixed rate financial instruments occurs at maturity of fixed rate financial instruments. Re-pricing of floating rate financial instruments occurs continually.

A change of 100 basis points in interest rates would have increased or decreased post-tax profit and increased or decreased equity by UAH 7,677 thousand (31 December 2015: UAH 8,379 thousand) as a result of higher/lower net interest expense on variable rate financial assets and liabilities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Other market price risk

The Group does not enter into commodity contracts other than to meet expected usage and sale requirements; such contracts are not settled net.

Master netting or similar agreements

The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

24. Financial risk and capital management (continued)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors both the composition of shareholders, as well as the return on capital.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantage and security afforded by a sound capital position.

There were no changes in the approach to capital management during the reporting period.

As at 31 December 2016 net assets of the Group in amount of UAH 8,004,304 thousand (31 December 2015: UAH 7,514,387 thousand) exceed the Group's registered share capital as indicated in the Charter in amount of UAH 4,681,562 thousand (31 December 2015: UAH 4,681,562 thousand).

25. Commitments

Commitment for purchase of immediate parent company bonds

In 2015 the Group joined its Parent in negotiation for a restructuring plan with the latter's bondholders. In September 2015, the Group entered into agreements with the Parent's bondholders (two Ukrainian government controlled banks) to repurchase certain of the Parent's bonds for UAH 2,000,000 thousand (at face value) plus a respective portion of accrued and not paid interest no later than 15 March 2017, if the bonds were still held by the banks at that date. Further, the Parent pledged all ordinary shares of the Company owned by the Parent (92.791%) as a collateral for the Group's commitment to purchase the bonds. As described in Note 6, since 2015 the Group has been in negotiation for the sale of its mobile segment assets that required the approval of the State Property Fund and the Antimonopoly Committee of Ukraine. The Group has preliminary agreed with the banks to conclude the abovementioned agreements with the purpose to settle certain part of the Parent's bonds by channeling the proceeds, expected from the sale of the mobile segment, to the banks. However, in 2016 the State Property Fund refused to approve the sale of the mobile segment assets until fulfillment of the Parent's privatization obligations were confirmed. Though the Group remained committed to the anticipated sale of its mobile segment, the fulfilment of the Parent's privatization obligations was out of the Group's control. This further led to extended negotiations between the banks and the Parent to settle the Parent's bonds in exchange for a minority holding in the Company. The negotiations were not finalized as at 31 December 2016.

In February 2017, the State Property Fund concluded that certain privatization obligations were not fulfilled by the Parent that raised the risk of legal proceedings against the Parent including the risk of terminating the original privatization agreement and the return of the shares of the Company to the State. This has also put on hold negotiations with the banks.

The agreement with one of the bondholders required the Group to accept and pay for the bonds if they are transferred by the bondholder to the Group no later than 15 March 2017. On 15 March 2017, the bondholder presented UAH 1,000,000 thousand of the Parent's bonds plus the respective accrued unpaid interest of UAH 36,820 thousand for repurchase to the Group on the Notary deposit account. As of the date of the issue of these consolidated financial statements, the Group has not paid for the bonds and is going to dispute its obligation under the agreement. The other bondholder eventually presented UAH 1,000,000 thousand of the Parent's bonds plus the respective accrued unpaid interest of UAH 36,820 thousand for redemption to the Parent on 17 March 2017, which is considered by management as a termination of the Group's obligation to repurchase these bonds.

Capital commitments

As at 31 December 2016, the Group has commitments in respect of contracts for purchase of property, plant and equipment of UAH 920,374 thousand (31 December 2015: UAH 48,918 thousand) and in respect of software and other intangible assets of UAH 70,840 thousand (2015: nill).

Operating lease

Minimum payments on non-cancelable operating lease are presented below:

(in thousands of Ukrainian hryvnias)	**31 December 2016**	**31 December 2015**
Less than one year	114,210	111,135
Between one and five years	220,078	195,760
More than five years	794	1,105
	335,082	**308,000**

The Group leases land and a number of premises, where its telecommunication equipment is located, under operating leases. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2016, UAH 168,123 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2015: UAH 135,041 thousand).

26. Contingencies

Insurance

The Group does not have full coverage for its plant facilities, business interruption, or third party liability for property or environmental damage arising from accidents on property or relating to operations as management obtains insurance coverage only if it believes it is economically feasible. Management believes that, based on their assessment of insurance risks and the availability and affordability of insurance products in Ukraine, the significant risks are appropriately addressed. However, until more comprehensive insurance coverage is obtained by the Group, the potential loss or destruction of certain assets results in corresponding risks to the operations and financial position.

Land use

As at 31 December 2016, a substantial part of land plots, utilised by the Group in operating activities under equipment and real estate, was used by the Group without legally formalised documents.

The use of land without formalised documents or in violation of public lands granting discipline may be treated by supervisory authorities as a breach of land legislation. This may result to the issue of requirements to align land relations in accordance with existing laws, imposition of penalties for the illegal use of land.

The cost of the above cannot be reliably estimated as at reporting date, but it may be material to the consolidated financial statements.

Taxation contingencies

The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual.

In late December 2014 the Parliament of Ukraine passed a law which significantly revised the tax code effective 1 January 2015. The most significant changes are:

- Revised corporate tax computation rules, whereby the basis for calculating corporation tax is now an adjusted accounting profit, rather than a separate calculation of taxable income and deductible expenses;
- Revisions to the rules governing the payment of VAT, which require output VAT to be paid to the tax authorities based on the supply of the good or service, net of input VAT if this VAT is determined to have been paid to the tax authorities by the Group's suppliers;
- A new real estate (property) tax to be levied based on the floor area of the Group's buildings (subject to certain reliefs).

VAT revision impacts the timing of cash flows and new property tax and corporate tax rules impact both timing and amounts of tax payments.

Tax declarations are subject to review and investigation by tax authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

The Group conducts transactions with related parties, both within and external to the Group. The implementation of Ukrainian transfer pricing rules is both new and still evolving and assessment practices are not well developed, therefore the impact of any challenge to the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. As at 31 December 2016 and 2015 no provision attributable to taxation contingencies was created by the Group.

Transfer pricing

The Group executes certain transactions with related and unrelated parties that are subject to control according to the new transfer pricing legislation in Ukraine.

Given the complexity of the telecommunication business and that the practice of implementation of the new transfer pricing rules is still not developed in Ukraine, the impact of any challenge of Company's transfer prices cannot be reliably estimated; however, it may eventually be significant to the financial position and/or the overall transactions of the Company depending on how the local tax authorities implement the final rules. It is also not clear how Ukrainian courts will rule in case of significant disagreements between the tax office and management.

26. Contingencies (continued)

The Company executes certain transactions that are subject to control according to the transfer pricing legislation in Ukraine, in particular, during 2015-2016 the Company was involved in the controlled transactions in respect of international traffic termination and consulting services. Prices for such transactions are applied based on an arm's length principle. The management takes all necessary steps to ensure continued compliance with transfer pricing legislation. Specific control procedures were implemented within the Company to identify, challenge and support controlled transactions, and as such ensure compliance with new transfer pricing legislation.

Litigation

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the Group's financial position or results of operations. As at 31 December 2016 and 2015 no provision attributable to litigations was created by the Group.

27. Related parties

The Group enteres into transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial and operational decisions. Related parties comprise shareholders, key management personnel and their close family members, and companies that are controlled or significantly influenced by shareholders. Prices for related party transactions are determined on an ongoing basis. The terms of some related party transactions may differ from market terms.

Parent and ultimate controlling party

As at 31 December 2016 and 2015 the Group`s immediate parent company is LLC "ESU".

Starting from 30 September 2013, the Group's ultimate parent company is JSC "SCM" and ultimate controlling party is Ukrainian individual Mr. Rinat Akhmetov, who has the power to direct the transactions of the Group at his own discretion and for his own benefit. Prior to that date the Group's ultimate parent company and ultimate controlling party was Austrian company Epic.

Publicly available financial statements are not produced by JSC "SCM".

Transactions with management

During the years ended 31 December key management received the following remuneration, which is included in payroll costs:

(in thousands of Ukrainian hryvnias)	**2016**	**2015**
Short-term employee benefits	97,279	70,682
	97,279	**70,682**

Provision for bonuses to key management personnel amounted to UAH 52,757 thousand as at 31 December 2016 and UAH 27,759 thousand as at 31 December 2015.

The key management personnel are those individuals that have authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly.

The key management of the Group are presented by the Members of the Supervisory Board, the Director of the Group, the Leaders of the Functional Streams.

27. Related parties (continued)

Balances and transactions with the immediate parent company

Credit terms of the interest free loan are disclosed in Note 8.

(in thousands of Ukrainian hryvnias)	2016	2015
Balances:		
Interest bearing bonds issued by direct shareholder (Note 9)	160,872	160,872
Interest receivable on bonds issued by direct shareholder (effective rate 24%) (Note 9)	65,588	26,870
Interest free loan provided to the direct shareholder (Note 8)	737,983	734,006
Transactions:		
Interest free loan provided	(1,453)	(400,860)
Repayment of interest free loan	245	72,500
Unwinding of discount on interest free loan (Note 22)	5,141	106,588
Difference between nominal and fair value of interest free loan recognised in equity (Note 10)	(2,372)	(42,007)
Interest income on bonds issued by direct shareholder	38,718	19,994

As described in Note 25 in September 2015 the Company entered into agreements with the holders of bonds issued by its immediate parent company LLC "ESU" under which the Company is obliged to repurchase the bonds of UAH 2,000,000 thousand until 15 March 2017 and respective accrued and unpaid interest until the date of the purchase. More detailed description is presented in Note 25.

Transactions with subsidiaries/associates of the ultimate parent company

Credit terms on sales and purchase transactions with subsidiaries/associates of the ultimate parent company are set within the range of 30-60 days.

(in thousands of Ukrainian hryvnias)	2016	2015
Balances:		
Trade accounts receivable	8,036	7,406
Advances paid	14,931	24,490
Trade accounts payables	(13,051)	(20,895)
Other current liabilities	(6,464)	(6,082)
Transactions:		
Sales of equipment and services	76,065	96,408
Purchases of equipment and services	(207,485)	(229,751)

As at 31 December 2016 and 31 December 2015 none of the balances with related parties are secured.

As at 31 December 2016, property with a carrying amount of UAH 413,200 thousand is pledged in favour of one of the companies under control of the ultimate parent company (31 December 2015: UAH 264,449 thousand).

28. Subsequent events

Donetsk and Lugansk branches

Subsequent to the reporting date, in March-April 2017 control over the property and operations of the Donetsk and Lugansk branches of the PJSC Ukrtelecom was seized by armed forces. Executives of the branches were forced to suspend control over its activities. As at 31 December 2016, the assets of the Donetsk and Lugansk branches were represented by UAH 17,115 thousand of net trade receivables, UAH 13,138 thousand of inventory and UAH 13,115 thousand of advances paid. Property, plant and equipment were fully impaired as at year end. Revenue and after tax loss of Donetsk and Lugansk branches for 2016 amounted to UAH 220,089 thousand and UAH 72,958 thousand respectively. Donetsk and Lugansk branches had no significant third parties obligations as at 31 December 2016. Upon the loss of control the net assets value was impaired to nil.

Borrowings

During the first quarter of 2017 the Group raised additional financing from one Ukrainian bank amounting UAH 250,000 thousand. Additionally, UAH 400,000 thousand bonds series V due in March 2017 were extended to one year, repayable in March 2018. Buildings and equipment with carrying value UAH 687,440 thousand and UAH 21,864 thousand respectively were pledged to secure these borrowings.

28. Subsequent events (continued)

Commitments to repurchase parent company bonds

As described in Note 1 and 25, as a result of the conclusion of the State Property Fund in February 2017 regarding the non-fulfillment of certain privatization obligations by the Parent and the resulting risks of potential legal proceedings against the Parent, including the risk of terminating the original privatization agreement and the return of the shares of the Company to the State, the negotiations held by the Parent with the two governmental banks on the settlement of the Parent's obligations were put on hold, and in March 2017 the Group's commitments in respect of repurchase of the Parent's bonds from the bondholders became due.

As described in Note 1, 6 and 25, as of 15 March 2017 the Group did not receive any proceeds from the sale of its mobile segment assets previously earmarked for the bondholders.

The agreement with one of the bondholders required the Group to accept and pay for the bonds if they are transferred by the bondholder to the Group no later than 15 March 2017. On 15 March 2017, the bondholder presented UAH 1,000,000 thousand of Parent's bonds plus the respective accrued unpaid interest of UAH 36,820 thousand for repurchase to the Group on the Notary deposit account. As of the date of these consolidated financial statements, the Group has not paid for the bonds and is going to dispute its obligation under the agreement. The other UAH 1,000,000 thousand Parent's bonds were eventually presented by the other bondholder for redemption to the Parent on 17 March 2017, which the management considers as a termination of the Group's obligation to repurchase these specific bonds.

Director	Chief Accountant
Kurmaz Y.P.	Kuts I.V.

26 April 2017