

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2017

Consolidated Balance Sheet (Statement of Financial Position)

Public Joint-Stock Company Ukrtelecom

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

31 December 2017

The accompanying notes are an integral part of these financial statements

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INDEPENDENT AUDITOR'S REPORT

To the shareholders and Supervisory Board of PJSC "Ukrtelecom"

Qualified opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Ukrtelecom" (hereinafter referred to as "the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in paragraphs (i) and (ii) of the *Basis for qualified opinion* section of our report, and except for the effects of matters described in paragraphs (iii) and (iv) of the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

(i) Valuation of certain categories of property, plant and equipment

As described in Notes 2 and 6 to the consolidated financial statements, the Group applies revaluation model for measuring its property, plant and equipment after initial recognition.

As at 31 December 2016 the Group performed regular revaluation of certain items of non-specialized property, plant and equipment and recorded them in the consolidated financial statements at the estimated fair values. These items are included in the category "Telecommunication assets subject to release" in the amount of UAH 1,695,652 thousand.

The gain on revaluation of UAH 437,177 thousand, net of related deferred tax effect, was recorded in other comprehensive income. In addition, the Group recognised in profit and loss a gain on revaluation of previously impaired property, plant and equipment in the amount of UAH 666 thousand, and related deferred tax effects.

Predecessor auditor was unable to obtain sufficient appropriate audit evidence in respect of the results of revaluation of the items of property, plant and equipment mentioned above and, therefore, modified its auditor's report on the consolidated financial statements for 2016. We were also unable to obtain sufficient appropriate audit evidence in respect of the results of revaluation performed in 2016. As a result, we were unable to determine whether any adjustments were necessary in respect of results of revaluation recognised in other comprehensive income and in profit or loss for 2017.

(ii) Recoverability of balances due from the parent company

As described in Note 9, as at 31 December 2017 other current receivables of the Group included non-interest bearing loan granted to the parent company in the amount of UAH 737,983 thousand (31 December 2016: UAH 737,983 thousand), investments in bonds issued by the parent company of

UAH 160,872 thousand (31 December 2016: current financial investments - UAH 160,872 thousand) and related interest receivable of UAH 73,522 thousand (31 December 2016: UAH 65,588 thousand). We were unable to obtain sufficient appropriate audit evidence in respect of recoverability of these balances. Therefore, we were unable to determine whether any adjustments to these balances and the accumulated deficit were necessary as at 31 December 2017 and 2016.

(iii) Obligations for the bonds issued by the parent company

In 2015, the Company entered into the contracts with two banks to acquire the bonds issued by its parent, for a total consideration being the nominal value of UAH 2,000,000 thousand plus unpaid accrued interest. These contracts met the definition of derivative financial instrument under *IAS 39 Financial Instruments: Recognition and Measurement* as at 31 December 2015 and 2016. The Company did not recognize in the statement of financial position the fair value of its rights and obligations under the above contracts as at 31 December 2015 and 2016.

As discussed in Note 26 to the consolidated financial statements, in March 2017 the Company received legal title to the bonds under one of the contracts and became liable to transfer contractual consideration to one of the banks. The Company contested this contract in the court, however, the legal proceeding has not been completed at the reporting date. The Company did not recognize liability under the contract as at 31 December 2017, which constitutes a departure from IFRS, as the Company could not unilaterally avoid discharging its obligations to pay former owner for the bonds transferred.

The effect of non-recognition of the derivative financial instruments as at 31 December 2015 and 2016 has not been determined. Should the Company recorded its liabilities for the bonds transferred by one of the banks, its accounts payable as at 31 December 2017 would have been increased by UAH 1,036,820 thousand. Simultaneously, the Company should have recorded the fair value of accounts receivable for redemption of the bonds due from its parent. The fair value of such accounts receivable at the date of initial recognition and as at 31 December 2017 was not determined.

(iv) Non-current assets held for sale

As discussed in the Note 7 to the consolidated financial statements, as at 31 December 2017 and 2016 the Company classified its mobile segment, represented by wholly-owned subsidiary LLC Trimob, as a disposal group held for sale. Accordingly, the Group's consolidated financial statements as at and for the year ended 31 December 2017 included the assets classified as held for sale in the amount of UAH 271,908 thousand (31 December 2016: UAH 147,542 thousand), liabilities associated with those assets held for sale in the amount of UAH 38,229 thousand (31 December 2016: UAH 32,890 thousand) and loss from discontinued operations, net of tax, in the amount of UAH 212,210 thousand (2016: 340,444 thousand).

IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires classification of a component as a disposal group held for sale provided that such component is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups and its sale is highly probable. Whereas the disposal of LLC Trimob was conditional upon approval of the State Property Fund of Ukraine and such approval was not received as at 31 December 2016 and 2017, LLC Trimob could not be classified as a disposal group held for sale and discontinued operations at the respective dates. The financial information of LLC Trimob should have been consolidated, after adjusting the carrying amount of its non-current assets for depreciation, amortisation and possible impairment that would have been recognised had LLC Trimob not been classified as held for sale. The effect of this departure from IFRS on the Group's consolidated financial statements was not determined.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the*

audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material uncertainty related to going concern

We draw attention to Note 1 to the consolidated financial statements. As described in Note 1, as at 31 December 2017 current liabilities of the Group exceeded its current assets by UAH 677,404 thousand (2016: UAH 744,986 thousand). Along with other matters as set forth in Note 1, this indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor, who expressed a qualified opinion on those statements regarding:

- valuation of certain items of property, plant and equipment;
- recoverability of the balances due from the parent company;
- classification of the non-current assets held for sale

and included an emphasis of matter paragraph drawing attention to uncertainty related to the Group's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matters described in the *Basis for qualified opinion* and *Material uncertainty related to going concern* sections of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Impairment test of property, plant and equipment</i>	
As at 31 December 2017 property, plant and equipment with total carrying amount of UAH 8,627,127 thousand constitutes 71% of the total assets. Testing of property, plant and equipment for impairment was one of the most significant matters in our audit as estimating the	We analyzed the management's assessment of impairment indications for property, plant and equipment. We involved our internal valuation specialists to assist us in testing management's assumptions used in the value in use calculations, by comparing them to historical data and, where

recoverable amount of the assets requires management to make assumptions in respect of future sales, gross margins, operating costs, terminal value growth rates, capital expenditures and the discount rate. There were impairment indications caused by the risks associated with operating and economic environment as disclosed in Note 1 to the consolidated financial statements. Disclosure of impairment test of property, plant and equipment is presented in Note 6 to the consolidated financial statements.

Analysis of compliance with loan covenants

According to the terms of the loan agreements, the Company must comply with a number of financial and non-financial covenants. The contracts provide for a list of default events that entitle the lenders to demand an early repayment of the credit facilities.

The analysis of compliance with loan agreements was one of the matters of most significance to our audit, as the fulfilment of loan contract requirements affects the management assertion related to the Group's ability to continue as a going concern.

The disclosures in respect of covenants compliance and going concern are presented in Notes 12 and 1 to the consolidated financial statements.

Classification of investment property

As at 31 December 2017 the Group owned investment property with a carrying value of UAH 319,746 thousand, which was held mainly to earn rentals or for capital appreciation or both.

The appropriate classification of real estate as investment property objects or a portion of property, plant and equipment was one of the matters of most significance in our audit, because it affects the requirement to charge depreciation throughout the reporting period, as well as the allocation of properties to different cash-generating units for the purpose of testing the Company's property, plant and equipment for impairment.

applicable, external benchmarks. We tested cash flow projections, growth rates and discount rates used by the Group and sensitivity of the model to the key inputs as well as mathematical accuracy of the model.

We reviewed the terms of the loan agreements concluded by the Group as at 31 December 2017 and analysed the compliance with financial and non-financial covenants specified in these agreements. In addition, we have paid special attention to the events of default, assessed the rights to demand an early repayment and waivers received by the Group.

We also assessed the disclosures regarding the loan agreements included in the consolidated financial statements.

Our audit procedures included an assessment of the future and current use of the real estate in order to support the classification as investment property. We have performed an analysis of investment property and rental income and discussed with the management its plans for future use of this real estate. We have evaluated the lease agreements effective as of the reporting date and analysed the proportion of investment and owner-occupied part of the property.

Other information included in the Group's Annual information of the Securities Issuer for 2017

Other information consists of the information included in the Annual information of the Securities Issuer for 2017, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual information of the Securities Issuer for 2017 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

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

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The partner in charge of the audit resulting in this independent auditor's report is Olesya Melnyk.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

12 April 2018

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2017
Consolidated Balance Sheet (Statement of Financial Position)

Entity	PJSC Ukrtelecom	Date (year, month, day)	2018.01.01
Location	Ukraine	EDRPOU	21560766
Form of ownership	Public Joint-Stock Company	KOATUU	8039100000
State administration authority		KOPFG	230
Principal activity	Telecommunications	SPODU	
Average number of employees	24,358	KVED	61.10
Measurement unit:	thousand UAH		2643
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 2016	31 December 2017	Note
1	2	3	4	5
I. Non-current assets				
Intangible assets:	1000	57,444	178,201	
<i>historical cost</i>	1001	480,576	637,481	
<i>accumulated amortization</i>	1002	(423,132)	(459,280)	
Construction in progress	1005	665,579	516,418	6
Property, plant and equipment:	1010	8,839,758	8,627,127	
<i>cost or valuation</i>	1011	8,839,758	9,070,786	6
<i>accumulated depreciation</i>	1012	-	(443,659)	6
Investment property:	1015	180,100	319,746	
<i>cost or valuation</i>	1016	180,100	319,746	
<i>accumulated depreciation</i>	1017	-	-	
Long-term biological assets	1020	-	-	
Long-term financial investments:				
<i>accounted for on an equity basis</i>	1030	345	76	
<i>other financial investments</i>	1035	-	-	
Long-term receivables	1040	555	85	
Deferred tax assets	1045	-	-	
Other non-current assets	1090	-	-	
Total non-current assets	1095	9,743,781	9,641,653	
II. Current assets				
Inventories:	1100	143,940	124,993	
<i>production supplies</i>	1101	113,741	82,708	
<i>finished goods</i>	1103	-	-	
<i>merchandise</i>	1104	30,199	42,285	
Current biological assets	1110	-	-	
Trade accounts receivable	1125	501,226	531,696	8
Taxes and other receivables:				
advances paid	1130	57,543	63,181	
budget	1135	7,466	6,865	
<i>including income tax</i>	1136	801	493	
accrued income	1140	5,184	4,216	27
receivables from subsidiary	1146	-	-	
Other current receivables	1155	830,824	993,168	9
Current financial investments	1160	160,872	219,816	27
Cash and cash equivalents	1165	141,542	284,505	
Deferred expenses	1170	13,232	19,444	
Other current assets	1190	7,447	11,098	
Total current assets	1195	1,869,276	2,258,982	
III. Assets held for sale and disposal groups	1200	147,542	271,908	7
Total assets	1300	11,760,599	12,172,543	

The accompanying notes are an integral part of these financial statements

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2017

Consolidated Balance Sheet (Statement of Financial Position) (continued)

Equity and Liabilities	Line Code	31 December 2016	31 December 2017	Note
1	2	3	4	5
I. Equity				
Registered share capital	1400	4,681,562	4,681,562	10
Revaluation surplus	1405	8,885,075	8,291,743	10
Additional capital	1410	418,842	421,133	10
Reserves	1415	222,812	222,812	10
Accumulated deficit	1420	(6,203,987)	(5,578,127)	
Unpaid capital	1425	-	-	
Capital withdrawals	1430	-	-	
Total equity	1495	8,004,304	8,039,123	
II. Non-current liabilities and provisions				
Deferred tax liabilities	1500	712,465	595,278	23
Long-term borrowings	1510	-	-	12
Other long-term financial liabilities	1515	-	-	
Long-term provisions	1520	282,026	329,848	11
Target financing	1525	-	-	
Total non-current liabilities and provisions	1595	994,491	925,126	
III. Current liabilities and provisions				
Short-term borrowings	1600	1,072,611	2,048,009	12
Promissory notes issued	1605	-	-	
Current portion of long-term borrowings	1610	846,858	2,550	12
Trade and other accounts payable	1615	326,338	490,688	13
Taxes and other payables:				
Budget	1620	84,162	214,455	
including income tax	1621	5,444	54,044	
social charges (salary related)	1625	11,310	8,185	
salaries	1630	46,278	44,980	
advances received	1635	68,050	87,617	
payables to shareholders	1640	1,898	1,898	
payables to subsidiary	1645	-	-	
Current provisions	1660	252,832	249,249	14
Deferred income	1665	1,901	2,518	
Other current liabilities	1690	16,676	19,916	
Total current liabilities	1695	2,728,914	3,170,065	
IV. Liabilities associated with assets held for sale and disposal groups	1700	32,890	38,229	7
Total equity and liabilities	1900	11,760,599	12,172,543	

Approved for issue and signed

Director



(signature)

Y.P. Kurmaz
name

12 / 04 / 2018

Chief Accountant

I.V. Kuts
name

12 / 04 / 2018

The accompanying notes are an integral part of these financial statements

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2017

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017

Entity	PJSC Ukrtelecom	Date (year, month, day)	2018.01.01
Location	Ukraine	EDRPOU	21560766
State administration authority		KOATUU	8039100000
Form of ownership	Public Joint-Stock Company	SPODU	
Principal activity	Telecommunications	KOPFG	230
Prepared in accordance with (put "v" where appropriate):		KVED	61.10
National Accounting Standards			
International Financial Reporting Standards			V
Measurement unit:	thousand UAH		

Consolidated Statement of financial results (Consolidated Statement of Comprehensive Income)

Form No.2

DKUD Code

1801003

I. INCOME STATEMENT

Item	Line Code	Reporting Period - 2017	Prior Period - 2016	Note
1	2	3	3	5
Revenue	2000	6,044,178	6,246,144	15
Cost of sales	2050	(3,575,606)	(3,821,622)	16
Gross:				
Profit	2090	2,468,572	2,424,522	
Loss	2095	-	-	
Other operating income	2120	525,129	255,024	20
Administrative expenses	2130	(932,391)	(871,803)	17
Selling expenses	2150	(430,099)	(477,605)	18
Other operating expenses	2180	(253,345)	(321,137)	19
Financial result of operations:				
Profit	2190	1,377,866	1,009,001	
Loss	2195	-	-	
Gain from share in associates	2200	-	-	
Finance income	2220	39,314	57,862	22
Other income	2240	-	-	
Finance costs	2250	(443,603)	(429,029)	21
Loss from share in associates	2255	(269)	(200)	
Other expenses	2270	-	-	
Financial result from continuing activities before tax:				
Profit	2290	973,308	637,634	
Loss	2295	-	-	
Income tax (expense)/benefit	2300	(177,319)	(110,049)	23
Loss from discontinued operations after tax	2305	(212,210)	(340,444)	7
Net financial result of operations:				
Profit	2350	583,779	187,141	
Loss	2355	-	-	

The accompanying notes are an integral part of these financial statements

II. OTHER COMPREHENSIVE INCOME

Item	Line Code	Reporting Period - 2017	Prior Period - 2016	Note
1	2	3	3	5
Revaluation (impairment) of non-current assets	2400	(602,524)	416,601	6
Revaluation (impairment) of financial instruments	2405	-	-	
Currency in translation reserve	2410	2,291	1,069	
Share comprehensive loss of associates and joint ventures	2415	-	-	
Other comprehensive income (loss)	2445	(50,188)	(61,288)	11
Other comprehensive income (loss) before tax	2450	(650,421)	356,382	
Income tax attributed to other comprehensive income	2455	100,670	(70,136)	23
Other comprehensive income (loss) after tax	2460	(549,751)	286,246	
Total comprehensive income	2465	34,028	473,387	

Line 2400 "Revaluation (impairment) of non-current assets" includes UAH 643,441 thousand of impairment on property, plant and equipment (2016: revaluation in amount of UAH 369,764 thousand) and UAH 40,917 thousand of revaluation surplus on investment property recognised as at the date of its transfer from owner-occupied property (2016: UAH 46,837 thousand).

Line 2445 "Other comprehensive income (loss)" in amount of UAH 50,188 thousand (2016: loss of UAH 61,288 thousand) is represented by the actuarial loss from post-employment long-term benefit obligations (Note 11).

All items of other comprehensive income will not be subsequently reclassified to profit or loss.

III. NATURE OF OPERATING EXPENDITURES

Item	Line Code	Reporting period - 2017	Prior period - 2016	Note
1	2	3	3	5
Materials and supplies	2500	846,096	954,305	
Salaries and related charges	2505	1,860,363	1,902,123	
Social charges	2510	377,158	362,969	
Depreciation and amortization	2515	518,996	500,125	
Other operating expenses	2520	1,588,828	1,772,645	
Total	2550	5,191,441	5,492,167	

IV. EARNINGS PER SHARE

Item	Line Code	Reporting Period - 2017	Prior period - 2016	Note
1	2	3	4	5
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	0.0312	0.0100	
Diluted earnings (loss) per ordinary share, UAH	2615	0.0312	0.0100	
Dividend per ordinary share, UAH	2650	-	-	
Basic and diluted earnings (loss) per ordinary share from continued operations, UAH		0.0425	0.0282	
Basic and diluted earnings (loss) per ordinary share from discontinued operations, UAH		(0.0113)	(0.0182)	

Approved for issue and signed

Director

(signature)

Y.P. Kurmaz
name

12 / 04 / 2018

Chief Accountant

(signature)

I.V. Kuts
name

12 / 04 / 2018

The accompanying notes are an integral part of these financial statements

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2017

Consolidated Statement of Cash Flows for the year ended 31 December 2017

Entity	PJSC Ukrtelecom	Date (year, month, day)	2018.01.01
Location	Ukraine	EDRPOU	21560766
Form of ownership	Public Joint-Stock Company	KOATUU	8039100000
Principal activity	Telecommunications	KOPFG	230
Prepared in accordance with (put "v" where appropriate):		KVED	61.10
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 - 2017	Prior period - 2016
1	2	3	4
I. Cash flows from operating activities			
Proceeds from:			
Sale of goods and services	3000	7,207,664	6,715,691
Return of taxes and duties	3005	9,545	122
VAT	3006	8,500	-
Target financing	3010	10,205	964
Prepayments from customers	3015	22,321	22,663
Return of advances	3020	7,800	1,339
Interests on current bank accounts	3025	-	-
Penalties, fines and forfeits	3035	-	8,385
Operating lease	3040	325,684	296,611
Other proceeds	3095	35,219	212,457
Expenditures for payment for:			
Settlements for goods and services	3100	(1,739,189)	(1,814,544)
Payments to employees	3105	(1,522,537)	(1,516,661)
Social charges	3110	(379,277)	(378,230)
Other taxes and duties payable	3115	(1,424,851)	(1,344,022)
Advances to suppliers	3135	(494,413)	(340,847)
Return of prepayments from customers	3140	(6,178)	(138)
Other expenditures	3190	(212,815)	(283,547)
Net cash flows from operating activities	3195	1,839,178	1,580,243
II. Cash flows from investing activities			
Proceeds from sale of:			
Financial investments	3200	1,334,975	-
Non-current assets	3205	101,252	227,849
Proceeds from receipts of:			
Interest	3215	29,020	13,673
Dividends	3220	-	-
Derivatives	3225	-	-
Other proceeds	3250	29,170	947
Expenditures for acquisition of:			
Financial investments	3255	(1,533,186)	-
Non-current assets	3260	(867,788)	(849,084)
Expenses on derivatives	3270	-	-
Other payments	3290	(430,683)	(280,235)
Net cash flows from investing activities	3295	(1,337,240)	(886,850)

The accompanying notes are an integral part of these financial statements

Item	Line Code	Reporting period – 2017	Prior period - 2016
1	2	3	4
III. Cash flows from financing activities			
Proceeds from issuance of equity	3300	-	-
Borrowings received	3305	595,380	1,454,948
Other proceeds	3340	-	-
Repurchase of treasury shares	3345	-	-
Repayment of borrowings	3350	(601,550)	(1,760,426)
Dividends paid	3355	-	-
Interest paid	3360	(360,883)	(351,351)
Finance lease	3365	-	-
Other payments	3390	-	(45,831)
Net cash flows from financing activities	3395	(367,053)	(702,660)
Net cash flows for the period	3400	134,885	(9,267)
Cash and cash equivalents at the beginning of the year	3405	141,542	156,364
Effect of change in exchange rates on cash and cash equivalents	3410	8,078	(5,555)
Cash and cash equivalents at the year-end	3415	284,505	141,542

Approved for issue and signed

Director



(signature)

Y.P. Kurmaz
name

12 / 04 / 2018

Chief Accountant

(signature)

I.V. Kuts
name

12 / 04 / 2018

Line 3095 "Other proceeds" in "Cash-flows from operating activities" in amount of UAH 20,681 thousand includes cash proceeds received from state special purpose funds (Social Insurance Fund for Temporary Disability). In 2016 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 switching equipment. In 2017, similar proceeds from the sale of copper cable lines and non-ferrous scrap were included in line 3000 "Proceeds from Sale of Goods and Services" in the amount of UAH 404,953 thousand.

Line 3115 "Expenditures for payment of other taxes and duties payable" in "Cash flows from operating activities" includes UAH 145,356 thousand of cash outflows from income tax paid (2016: UAH 136,933 thousand).

Line 3190 "Other expenditures" in "Cash flows from operating activities" in amount of UAH 212,815 thousand (2016: UAH 283,547 thousand) includes cash outflows under agency agreements, foreign currency purchase transactions, payments under collective agreement, insurance payments and other cash outflows.

Line 3200 "Proceeds from sale of financial investments" in "Cash flows from investing activities" includes cash proceeds from the sale of securities in the amount of UAH 1,334,975 thousand (2016: nil).

Line 3250 "Other proceeds" in "Cash flows from investing activities" includes UAH 28,100 thousand cash proceeds from the return of financial aid by Trimob LLC (2016: UAH 245 thousand of proceeds from loan settled by the parent LLC "ESU"), and other cash inflows.

Line 3255 "Expenditure for the acquisition of financial investments" in "Cash flows from investing activities" includes cash expenditure on the purchase of securities in the amount of UAH 1,533,186 thousand (2016: nil).

Line 3290 "Other payments" in "Cash flows from investing activities" includes UAH 430,683 thousand of cash outflows for loan granted to discontinuing operations of Trimob LLC (2016: UAH 278,343 thousand of net cash outflows for loan granted to discontinuing operations LLC "Trimob", and UAH 1,453 thousand of cash outflows for loan granted to the parent LLC "ESU").

Line 3390 "Other payments" in "Cash flows from financing activities" in 2017 is nil (2016: UAH 22,131 thousand of repaid loans to suppliers, and other cash outflows).

The accompanying notes are an integral part of these financial statements

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2017
Consolidated Statement of Changes in Equity for the year ended 31 December 2017

Entity	PJSC Ukrtelecom	Date (year, month, day)	2018.01.01
Location	Ukraine	EDRPOU	21560766
State administration authority		KOATUU	8039100000
Form of ownership	Public Joint-Stock Company	SPODU	
Principal activity	Telecommunications	KOPFG	230
Prepared in accordance with (put "v" where appropriate):		KVED	61.10
National Accounting Standards			
International Financial Reporting Standards			
Measurement unit:	thousand UAH		v

Consolidated Statement of Changes in Equity

For the year 2017

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	
1	2	3	4	5	6	7	8	9	10	11	
Balance as at 31 December 2016	4000	4,681,562	8,885,075	418,842	-	222,812	(6,203,987)	-	-	8,004,304	
Restatements: Change of accounting policy	4005	-	-	-	-	-	-	-	-	-	
Correction of errors	4010	-	-	-	-	-	-	-	-	-	
Other changes	4090	-	-	-	-	-	-	-	-	-	
Restated balance as at 31 December 2016	4095	4,681,562	8,885,075	418,842	-	222,812	(6,203,987)	-	-	8,004,304	
Net profit (loss) for the period	4100	-	-	-	-	-	583,779	-	-	583,779	
Other comprehensive income (loss)	4110	-	(509,612)	2,291	-	-	(42,430)	-	-	(549,751)	
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 acquisition of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-	
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-	
Equity divestment	4275	-	-	-	-	-	-	-	-	-	
Other changes in equity (Note 10)	4290	-	(83,720)	-	-	-	84,511	-	-	791	
Total changes in equity	4295	-	(593,332)	2,291	-	-	625,860	-	-	34,819	
Balance as at 31 December 2017	4300	4,681,562	8,291,743	421,133	-	222,812	(5,578,127)	-	-	8,039,123	

Approved for issue and signed:  (signature)

Director

Y.P. Kurmaz
(name)

12 / 04 / 2018

Chief Accountant

I.V. Kuts
(name)

12 / 04 / 2018

The accompanying notes are an integral part of these financial statements

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2016

Consolidated Statement of Changes in Equity for the year ended 31 December 2016 (continued)

Entity	2018.01.01
Location	21560766
State administration authority	8039100000
Form of ownership	
Principal activity	230
Prepared in accordance with (put "v" where appropriate):	61.10
National Accounting Standards	
International Financial Reporting Standards	
Measurement unit:	v

Date (year, month, day)
EDRPOU
KOATUU
SPODU
KOPFG
KVED

PJSC Ukrtelecom
Ukraine

Public Joint-Stock Company
Telecommunications

Prepared in accordance with (put "v" where appropriate):

National Accounting Standards
International Financial Reporting Standards

thousand UAH

Consolidated Statement of Changes in Equity

For the year 2016
Form No.4

		DKUD Code										1801005	
		Form No.4											
Item	Line Code	Registered share capital	Revaluation surplus	Additional capital	Other additional capital	Reserves	Accumulated deficit	Unpaid capital	Capital withdrawals	Total			
1	2	3	4	5	6	7	8	9	10	11			
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 – restated	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 acquisition 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			

Approved for issue and signed

Director

Y.P. Kurmaz
(name)

12 / 04 / 2018

Chief Accountant

I.V. Kuts
(name)

12 / 04 / 2018



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 2017 and 2016, 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 2017 comprise the Company and its subsidiaries LLC "TriMob" and Ukrtel GmbH (together referred to as the "Group"). The Group is controlled by its ultimate beneficiary Mr. Rinat Akhmetov, through various entities commonly referred to as "SCM". Related party transactions are detailed in Note 27.

The Group provides its customers with nearly all types of modern telecommunications services, in particular fixed-line services (international, long-distance and local telephony); data transmission services and VPN construction services; Internet access services; IP-permanent connection via a dedicated line; hardware and virtual hosting; provision of dedicated non-commutated communication channels; videoconferencing; audio text; IPTV and other telecommunications services.

Since 2016, the Group has been providing ICT services, including cloud PBX services, lease of cloud IT infrastructure, DDoS attack protection 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 2017 and 2016 the mobile segment is represented solely by subsidiary LLC "TriMob" (Note 7).

The Group'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 geopolitical challenges for Ukraine in early 2014 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 2017, though to a lesser extent as compared to 2014–2016.

The inflation rate in Ukraine during 2017 increased to 13% (as compared to 12% in 2016), while GDP returned to growth of 2% (as compared to 1% in 2016). CPI for 2017 was 13.7%.

Devaluation during 2017 has been moderate. As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 25.93 per USD 1, compared to UAH 28.07 per USD 1 as at 31 December 2017 (31 December 2016: UAH 27.19 per USD 1). In 2017 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 65% to 50% starting from 4 April 2017. After the reporting date, starting from March 2018, the compulsory sale of 50% of foreign currency earnings under loan agreements, which funds are used exclusively to pay off debts under other loan agreements in foreign currency, has been canceled, the limit on paying dividends to foreign investors has been increased to USD 7 million per a calendar month, excluding the period for which the dividends are accrued, and the list of cases when businesses are able to early repay loans and credit lines received by residents from non-residents in foreign currency (up to USD 2 million per month) has been expanded.

1. Reporting entity (continued)

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. As of the reporting date, the country received four tranches for a total of USD 8.7 billion (SDR 6.2 billion), the last one was received in April 2017. The further allocation of IMF tranches depends on the further implementation of reforms by the Government of Ukraine and other factors of an economic, legal and political nature.

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 events in the Crimea in March 2014 led to the annexation of the Republic of Crimea to the Russian Federation. As a result, the Group lost control over the Sevastopol branch located in Crimea in 2014 and over the Crimean branch in 2015. After the loss of control, the net asset value was impaired to nil.

The armed conflict on separate territories of Donetsk and Luhansk regions of Ukraine which started in spring 2014 has not been resolved to date. By March-April 2017, the Group had two operating branches located in Donetsk and Lugansk regions experiencing the armed conflict. These branches accounted for 3.4% of net trade receivables for goods, works and services, 22.8% of receivables for advances paid, 9.1% of the Group's intontory as of December 31, 2016, as well as 3.5% of revenue for 2016 financial year. The sales volume and activities of these branches experienced a negative impact starting mainly from the second half of 2014 due to the destruction of the infrastructure, the insolvency of some customers to pay for the services provided and the general decline in demand for services provided in these regions.

In March-April 2017, the armed groups seized control of the property of the Group's Donetsk and Lugansk branches. Executives of branches were forced to suspend management and could not provide operational control over their activities. Property, plant and equipment were fully impaired as of December 31, 2016. Revenue and losses after tax of Donetsk and Lugansk branches for 2016 amounted to UAH 220,089 thousand and UAH 72,958 thousand respectively. As of 31 December 2016, Donetsk and Lugansk branches had no significant obligations to third parties. Upon the loss of control, the net asset value was impaired to nil.

It is extremely difficult to predict the further development of the political and economic situation in Ukraine and its impact. It may have further negative consequences for the Ukrainian economy and the Group's business, including application of relevant accounting estimates and judgements in the preparation of 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 material doubt on the Group's ability to continue as a going concern.

As of 31 December 2017, the Group's current liabilities exceeded its current assets by UAH 677,404 thousand (2016: UAH 744,986 thousand), primarily due to a material amount of short-term borrowings, including bank loans of UAH 2,005,915 thousand (2016: UAH 1,410,458 thousand), out of which UAH 667,306 (2016: UAH 347,371 thousand) were reclassified to short-term because of technical breach of covenants. As presented in Note 24, UAH 2,090,908 thousand out of total borrowings are due in the first quarter of 2018 and represent the contractual principal amount plus the interest expense to be accrued for the first quarter. The Group typically finances its operations using a series of short-term bank loans, which it renews throughout the year.

In 2015, during the restructuring by the Group's parent company of its bonds issued in 2013, the Group entered into the 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 not 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 Group were pledged as a collateral for the Group's commitment to purchase the bonds. As described in Note 7, for a long time the Group negotiated the sale of assets of its mobile segment, that required the approval of the State Property Fund and the Antimonopoly Committee of Ukraine. The Group preliminary agreed with state banks that the purpose of concluding the above agreements was repayment of a part of the Parent's obligations under the bonds, by channeling the proceeds, expected from the sale of the mobile segment, to the banks. However, in 2016, the State Property Fund of Ukraine refused to approve the sale of mobile segment assets until it would be confirmed that the privatization obligations assumed by the

1. Reporting entity (continued)

Parent had been met. Although the Group is further committed to the sale of its mobile segment, the fulfillment of the Parent's privatization obligations was out of the Group's control.

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 Group to the State. This has also put on hold negotiations with the banks on the restructuring by the Parent company of its bonds.

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 challenged its obligations under the agreement in court. 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 requirement 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-fulfilment 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 6) 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 January 2017, the Group filed a request and in February 2017 it received from the Chinese bank a waiver of compliance with the financial covenant under the terms and conditions of the loan agreement, which required the channeling of certain cash proceeds through accounts pledged to the bank. This covenant was breached as of 31 December 2016. Compliance with this condition of the loan agreement was subsequently achieved, and the Group continued to use the loan facility.

In August 2017, the Group filed a request and received from the Chinese bank a new waiver from compliance with the covenants for the absence of material legal proceedings, the absence of non-payment under agreements, and the absence of audit qualifications for the financial statements for 2016. These breaches arose as a result of lawsuits initiated by state banks in connection with bonds issued by the Parent, a lawsuit initiated by the State Property Fund of Ukraine against the Parent, and also due to the foreign currency regulation restrictions in Ukraine. After having received the bank's waiver letter, the Group continued to use the loan facility and receive new financing tranches.

In December 2017, the Group again applied for a waiver letter and in February 2018 it received a new waiver from compliance with the covenants for the absence of material legal proceedings, as well as the absence of non-payment under agreement. One of the breaches was caused by the unfavourable court decision on the previously mentioned court case initiated by the State Property Fund of Ukraine against the Parent regarding the termination of the privatization agreement. The second breach resulted from the Group's failure to pay the full amount of interest due in November 2017 in connection with the restriction of the interest rate under the foreign currency regulation set by the National Bank of Ukraine. The waiver letter was granted subject to payment of the full amount of interest before 15 February 2018, and subject to absence of adverse decisions made by court on the results of the trial proceedings of cases. As of the date of these consolidated financial statements, these conditions have been met.

As at 31 December 2017, the Group had a multicurrency revolving credit line with a total limit of USD 30,000 thousand with the total availability equivalent to UAH 810,759 thousand. The validity term of the revolving credit line contract has been extended until September 2018. As at 31 December 2017, the unused balance on this credit line comprised UAH 1,464 thousand (Note 24). In March 2018, the maturity term for short-term tranches was postponed to June 2018. After the agreement expiration the Group plans to conduct full or partial refinancing from the available financing 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 its bonds. Additional portion of UAH 400,000 thousand of its bonds was repaid in November 2017.

1. Reporting entity (continued)

Also, during 2017 the attracted additional financing from a foreign bank in the total amount of USD 10,980 thousand, being UAH 308,178 thousand at the exchange rate as of the reporting date.

The Group's business is concentrated in Ukraine, the majority of its revenue is generated in Ukraine and denominated in UAH (2017: 92%, 2016: 88%), 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 management was able to solve the liquidity issues on an ongoing basis. The management believes that the Group will be able to re-finance its existing agreements beyond 2018 and these funds will be sufficient to sustain the Group's operations. Together with this, the 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 2018 to future periods, as well as on the 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.

The management is taking further steps for improvement of 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 2018 until the date of issuance of these consolidated 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.

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, the Group had no internal audit function responsible for internal control and reporting directly to the General Meeting of Shareholders or the Supervisory Board. In August 2017, it was decided to include the position of internal audit in the management structure.

2. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), based on the historical cost approach with adjustments for the property, plant and equipment and investment property revaluation. 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 in the financial statements. New and amended standards adopted by the Group are disclosed in Note 3.

For the presentation of basic forms of consolidated financial statements (forms 1-4) the Group uses the format provided for by the current legislation of Ukraine.

Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH), which is the functional currency of the Group 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.

2. Basis of preparation (continued)

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

The fair value of specialized assets owned by the Group, which form the main part of its property, plant and equipment, is determined using the amortized replacement cost method (Level 3), since there is no information on the market value of these assets. The fair value, determined on the basis of amortized replacement cost, is verified using discounted cash flow models (income approach, Level 3) and adjusted if the results obtained from the income approach are less than the figures calculated on the basis of amortized replacement cost (that is, under conditions of economic obsolescence). The measurement of property, plant and equipment was carried out as of 31 December 2013 (Note 6). As of 31 December 2017, the Group conducted an impairment test of specialized assets. According to the results of the test, there was no impairment. Based on the results of the test, management of the Group y believes that the revaluation of these assets as of 31 December 2017 is not required.

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 (factual 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 6, 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 had 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.

As of 31 December 2016 and 2017, due to changes made to the network modernization plans, the Group revised the list of objects to be released. In Note 6 to these consolidated financial statements, these assets are listed in a separate group of the property, plant and equipment "Telecommunication assets subject to release".

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 6).

2. Basis of preparation (continued)

- ***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 two cash-generating units within the Group. These include operating assets used in providing of telecommunications services and assets that are estimated by the market method and are subject to release during the modernization process or are used as an asset, which is leased out. As of each reporting date, the Group's management assesses the existence of evidence that an impairment loss recognized in prior periods is no longer available or has been decreased. If such evidence exists, management of the Group estimates the cost of the asset recovering. For more information, refer to Note 6.

- ***Allowance for accounts receivable***

The Group makes allowances for doubtful accounts receivable (Note 8). 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 consolidated financial statements.

- ***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. Should this to be the case, the the management should assesses 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 the 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. The management believes that the assets classified as held for sale and disposal groups comply with all these criteria (Note 7). Had a different judgement been applied, all assets classified as held for sale and all liabilities associated with these assets would have been included into the respective consolidated 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.

2. Basis of preparation (continued)

Changes in presentation

In the consolidated financial statements for the year ended 31 December 2017, the management:

- reclassified assets that are subject to market valuation to a separate group of the property, plant and equipment “Buildings and constructions recognized at fair value”
- reclassified telecommunication assets, which are subject to release in process of network modernization, to a separate group of the property, plant and equipment “Telecommunication assets intended for release” and adjusted the comparative information to comply with this approach.

In these consolidated financial statements, certain other changes have been made to comparative information to comply with the current year presentation format (Note 4).

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.

Consolidated subsidiaries include the following:

Name Consolidated:	Country of incorporation	Activity	Actual % of ownership	
			2017	2016
Ukrtel GmbH	Germany	Telecommunications	100.0	100.0
LLC “TriMob”	Ukraine	Mobile Telecommunications	100.0	100.0

As at 31 December 2017 and 2016 mobile segment is represented by subsidiary LLC “TriMob” (Note 7).

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.

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

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 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.

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 8, other current receivables 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

Financial liabilities include long-term borrowings, other long-term financial liabilities and current debt on long-term liabilities, as described in Note 12, short-term borrowings, including bank overdrafts and accounts payable for goods, works and services.

Initial recognition of such financial liabilities is carried out at fair value, which is reduced by the amount of costs directly related to the transaction. After initial recognition, these financial liabilities are measured using the effective interest method.

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 the 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 profit and loss 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.

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

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.

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 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 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.

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

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 as a result of a change in its 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 income 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.

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 allowance 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 a 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.

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

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.

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 extent 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.

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

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 7).

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.

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 7.

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 reporting 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.

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

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.

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

The Group's deductions for social programs are recognized in the profit and loss statement in the period in which they are 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.

Gain and loss on foreign currency exchange differences, arising on transactions and balances in foreign currencies, are accounted on a net basis as other operating income or other operating expense, depending on the dynamics of exchange rates, which leads to profit or loss. 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;

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

- 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 at 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.

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, at prices that may differ from fair value. 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. During the 2017 year there were no such transactions.

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 standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and does not expect to restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance is expected to increase.

(c) Hedge accounting

The Group does not expect any impact on its statement of financial position and equity except for the effect of applying hedge accounting requirements of IFRS 9 as there were no such transactions in current and prior reporting periods.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five -step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

The Group's activity is providing of telecommunication services and the sale of related products, carried out both through individually identified contracts with subscribers / counterparties, and in multi-component arrangements. In addition, the Group receives substantial revenue from lease of premises and from sale of components of fixed assets released during the implementation of the network modernization program.

Management has assessed the effects of applying the new standard on the Group's consolidated financial statements and has identified the following areas that will be affected:

(a) Providing equipment to subscribers

Under some contracts, the Group provides subscribers with the equipment, which provides the technical possibility of consuming the Group's telecommunication services. In accordance with IFRS 15, at time of contract conclusion, the Group should assess the goods and services subject to transfer under the contract and divide them for separate performance obligations.

The Group has determined that equipment that can not be used by the subscriber separately from the services does not have an individual value. Accordingly, revenue and expenses related to sale of such equipment should be recorded in financial statement during the period of providing services to the subscriber.

Based on analysis of current performance indicators, the Group has established that the application of IFRS 15 as of 1 January 2018 to customer's equipment, that has no separate value, will have no significant effect on the consolidated financial statements.

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

(b) Incremental costs of obtaining a contract

Under the IFRS 15, the Group should capitalize additional expenses for the conclusion of contracts with subscribers as an contract asset, if such costs are expected to be reimbursed. Additional contract costs are costs that the Group would not have incurred if the contract had not been concluded, such as fees charged for B2C subscribers, and staff compensation that is involved in the process of connecting new subscribers.

The corresponding costs will be capitalized by the Group as intangible assets and will be recognized in the income statement during average expected period of contractual relations with subscribers.

The amount of contractual asset that will be recognized by the Group as of 1 January 2018 is expected to be not material to the consolidated financial statements.

(c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. Management believes that the Group's revenue presented in income statement will correspond to requirements of IFRS 15 and will be not necessary to disclose additional information. The Group will continue to analyze the disclosure requirements of IFRS 15, as well as to study the best practices in the industry in this regard.

IFRS 16 Lease

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group will assess the potential impact of IFRS 16 on its consolidated financial statements in 2018.

The amendments to the standards that were issued but not yet effective as of the reporting date are below. The Company intends to apply these amendments from the effective date and does not expect their application to have a significant impact on the consolidated financial statements:

Ammendments	Changes	Effective date
<i>Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.	The IASB has deferred the effective date of these amendments indefinitely
<i>Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions</i>	The IASB issued amendments to IFRS 2 regarding classification and evaluation of share-based payments.	Annual periods beginning on or after 1 January 2018, with early application permitted.
<i>Amendments to IAS 40 Investment Property</i>	The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property.	Annual periods beginning on or after 1 January 2018, with early application permitted.
<i>Amendments to IFRS 4 Insurance Contracts Applying IFRS 9 Financial Instruments</i>	The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4.	Annual periods beginning on or after 1 January 2018, with early application permitted.
<i>IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration</i>	The Interpretation clarifies approach to determine the date of the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it).	Annual periods beginning on or after 1 January 2018, with early application permitted.
<i>IFRIC Interpretation 23 Uncertainty over Income Tax Treatment</i>	The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.	Annual periods beginning on or after 1 January 2019, with early application permitted.

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

Annual Improvements 2014-2016 Cycle

IFRS 1 First-time Adoption of International Financial Reporting Standards

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

Annual periods beginning on or after 1 January 2018, with early application permitted.

IAS 28 Investments in Associates and Joint Ventures

An entity that is an company with venture capital, or another entity that meets the criteria, may choose accounting at fair value through profit or loss at the date of initial recognition of each investment in associates and joint ventures.

Annual periods beginning on or after 1 January 2018, with early application permitted.

4. Changes in comparative information

As at 31 December 2017 the Group classified interest income accrued on bonds issued by the Parent in the amount of UAH 73,522 thousand as other accounts receivable. Comparative information as at 1 January 2017 was adjusted for the respective amount of UAH 65,588 thousand.

Changes in the statement of financial position as at 31 December 2016 are as follows:

	As at 31 December 2016 (as previously reported)	Corrections	31 December 2016 (restated)
Current assets			
Accrued income	70,772	(65,588)	5,184
Other current receivables	765,236	65,588	830,824
Total current assets	2,016,818	-	2,016,818
Total assets	11,760,599	-	11,760,599

5. Segment information

The Group has two reporting 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 investment in subsidiary LLC "TriMob" classified as an asset held for sale in these consolidated financial statements pursuant to the decision of the shareholders of the Group regarding its disposal (Note 7).

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 536,490 thousand for the year ended 31 December 2017 (31 December 2016: UAH 678,746 thousand) (Note 15). The management considers all revenue, including revenue from services to operators located in foreign countries, as revenue generated in Ukraine.

5. Segment information (continued)**Major customers**

During 2017 and 2016, 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	
	2017	2016	2017	2016	2017	2016
External revenues	6,044,178	6,246,144	123,727	129,500	6,167,905	6,375,644
Inter-segment revenue	72,937	80,969	-	-	72,937	80,969
Finance income	39,314	57,862	302	-	39,616	57,862
Finance costs	(443,603)	(429,029)	-	-	(443,603)	(429,029)
Depreciation and amortization	(518,996)	(500,125)	-	-	(518,996)	(500,125)
Revaluation	(483,145)	203,809	-	-	(483,145)	203,809
Provision for impairment of trade accounts	(51,405)	(130,258)	-	-	(51,405)	(130,258)
Profit (loss) before income tax	973,308	564,642	(212,210)	(340,444)	761,098	224,198
Reportable segment assets	11,900,635	11,613,057	271,908	147,542	12,172,543	11,760,599
Reportable segment liabilities	(4,095,191)	(3,723,405)	(38,229)	(32,890)	(4,133,420)	(3,756,295)
Capital expenditure	(904,162)	(1,020,420)	(2,550)	(4,252)	(906,712)	(1,024,672)

6. Property, plant and equipment

Movements in property, plant and equipment and construction in progress were as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Buildings and leasehold improve- ments	Buildings and constructions valued by market approach	Switching and other network equipment	Ducts and cables	Telecommunication assets intended for release	Radio and fixed link transmission equipment	Computers, office and other equipment	Construction in progress	Total
Revalued at 1 January 2016	4,539,947	-	353,826	2,236,845	1,463,295	134,064	145,160	115,930	8,989,067
Accumulated depreciation	-	-	-	-	-	-	-	-	-
Carrying value at 1 January 2016	4,539,947		353,826	2,236,845	1,463,295	134,064	145,160	115,930	8,989,067
Additions	-	-	-	-	-	-	-	-	-
Transfers	4,466	-	139,490	254,459	(131,190)	4,766	187,017	1,020,420	1,020,420
Transfers to investment property	(22,949)	-	-	-	-	-	-	(459,008)	-
Disposals	(71,922)	-	(5,267)	(6,379)	(96,885)	(394)	(2,380)	-	(22,949)
Depreciation charge	(89,321)	-	(57,132)	(205,576)	-	(25,940)	(76,977)	-	(183,227)
Revaluation	12,261	-	(41,541)	(239,733)	460,432	(10,148)	(12,536)	(11,763)	(454,946)
Carrying value at 31 December 2016	4,372,482	-	389,376	2,039,616	1,695,652	102,348	240,284	665,579	9,505,337
Revalued amount at 31 December 2016	4,372,482	-	389,376	2,039,616	1,695,652	102,348	240,284	665,579	9,505,337
Accumulated depreciation	-	-	-	-	-	-	-	-	-
Carrying value at 31 December 2016	4,372,482	-	389,376	2,039,616	1,695,652	102,348	240,284	665,579	9,505,337
Additions	-	-	-	-	-	-	-	-	-
Transfers	10,696	-	605,118	305,253	(186,582)	2,858	314,748	(1,052,091)	-
Transfers from/to investment property	(62,013)	-	-	-	-	-	-	-	(62,013)
Disposals	(370)	-	(1,270)	(23,556)	(97,363)	(43)	(5,148)	(1,234)	(128,984)
Depreciation charge	(85,894)	-	(61,640)	(187,942)	-	(16,267)	(120,457)	-	(472,200)
Revaluation	41,994	421,421	-	-	(1,066,174)	-	-	-	(602,759)
Transfer to new group	(1,715,601)	1,715,601	-	-	-	-	-	-	-
Carrying value at 31 December 2017	2,561,294	2,137,022	931,584	2,133,371	345,533	88,896	429,427	516,418	9,143,545
Revalued value at 31 December 2017	2,619,351	2,137,022	993,599	2,318,913	345,533	105,219	551,149	516,418	9,587,204
Accumulated depreciation	(58,057)	-	(62,015)	(185,542)	-	(16,323)	(121,722)	-	(443,659)
Carrying value at 31 December 2017	2,561,294	2,137,022	931,584	2,133,371	345,533	88,896	429,427	516,418	9,143,545

6. Property, plant and equipment (continued)

Acquired or constructed assets are initially recorded as "Construction in progress" category and are 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", "Ducts and Cables" and "Telecommunication assets intended for release" categories.

At the end of 2015 the Group signed a number of agreements with China Development Bank (CDB) and Huawei on the long-term strategic partnership. Under these agreements, the Group 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 Group 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 that shall allow to further strengthen the Group's position on the market. Some of the Group's buildings are pledged as security for a loan financing.

Modernisation will allow to release the significant volume 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 Group 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 dates, 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 impairment 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 that could be sold in the open market (Level 2 valuation).

As at 31 December 2017 and 31 December 2016, revaluation of buildings, which are planned to be released in the course of modernization, was carried out by the independent appraisers, which hold a recognized and relevant professional qualification and have relevant experience in valuation of assets of similar location and category. As at 31 December 2017, the independent appraiser also estimated fair value of other buildings determined to have market value and planned for future disposal. As at 31 December 2016, 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 of 31 December 2017 and 2016, the telecommunications assets, which are entitled for release during the network modernization and optimization, were revalued by the Group's internal experts, as described below. Copper cables were revalued based on market prices for each type of cable, taking into account the cost of dismantling, based on the Group's recent sales with an adjustment to the change in market prices for copper before the valuation date. Analog PBXs have a significant content of scrap and precious metals in ports. The fair value of these PBXs was determined by the Group's internal experts in accordance with the number of ports in a particular PBX and the average selling prices of such assets in terms of port.

Based on the results of valuation according to the market approach as of 31 December 2017, the management included the fair value of the copper cable in the amount of UAH 177,513 thousand (as of 31 December 2016 - UAH 1,103,496 thousand) in the category "Telecommunication assets intended for release", the fair value of analogue PBX in the amount of UAH 168,020 thousand (as of 31 December 2016 - UAH 592,156 thousand). As of 31 December 2016, the fair value of buildings in the category "Buildings and leasehold improvements" was UAH 4,010,593 thousand. As of 31 December 2017, for presenting the real estate objects, which are entitled for release by the Group, a separate group "Buildings and constructions recognized at fair value", which is stated at fair value in the amount of UAH 2,137,022 thousand.

6. Property, plant and equipment (continued)

Based on results of revaluation as of 31 December 2017, there was a reduction in the other comprehensive income in the amount of UAH 748,608 thousand, that was caused by reversal of previously recognized increase in the value in the amount of UAH 1,351,132 thousand (in 2016 - other comprehensive income increased due to increase of revaluation by UAH 369,764 thousand). The income statement for the year ended 31 December 2017 included an impairment loss in the amount of UAH 235 thousand (in 2016 profit and loss included gain on reversal of previously recognized impairment loss in the amount of UAH 212,792 thousand).

Buildings recognized at fair value in the amount of UAH 84,930 thousand, with the net book value before revaluation of UAH 42,936 thousand, were transferred from Buildings and leasehold improvements group to "Investment property" group (as of 31 December 2016, the fair value comprised UAH 176,353 thousand and the net book value before revaluation was UAH 80,902 thousand). As a result of valuation as of 31 December 2017, a revaluation in the amount of UAH 40,917 thousand was included in the other comprehensive income, and a profit in the amount of UAH 1,077 thousand was included in profit and loss for 2017 (as of 31 December 2016 of UAH 94,435 thousand and UAH 1,016 thousand respectively).

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 impairment test using discounted cash flow technique to assess economic obsolescence. The results of impairment test have significantly decreased the amounts obtained by depreciated replacement cost method.

As of 31 December 2016, the management performed impairment testing of specialized telecommunication assets, except for those located in Donetsk and Lugansk regions, based on cash flow forecasts for the period of eight years approved by senior management, taking into account the effect of modernization. Based on the results of the evaluation, an impairment loss of UAH 314,994 thousand was recognized in the consolidated financial statements for 2016 as relevant asset write-downs, where UAH 150,377 thousand was recognized in profit and loss and UAH 164,617 thousand was recognized in other comprehensive income for 2016.

A similar approach was applied by the management as of 31 December 2017, while performing impairment testing of specialized assets, based on cash flow forecasts for the next seven years approved by the senior management. Management has determined that there are no indicators of impairment of property, plant and equipment. Thus, as at 31 December 2017, value in use of assets exceeded the book value of assets.

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

As of 31 December 2017 and 2016, considering plans to dispose certain assets after their release in the course of modernization, management determined that the value of these assets would be reimbursed as a result of the sale, rather than as a result of long-term use. Consequently, the calculation of fair value was performed based on market prices (net of disposal costs), rather than cash flows from operational usage in the course of the Group's business. The recoverable amounts of these assets were calculated for each asset separately from cash generating units, which could include this asset if it was not planned to be disposed, since the fair value (net of disposal costs) of these assets could be determined for each asset separately and was higher than their book value as of that date.

A similar approach of determining the fair value (net of disposal costs) of such assets was applied as of 31 December 2017.

The management determined that as of 31 December 2016, there were indications of impairment of property, plant and equipment of Donetsk and Lugansk branches, and conducted an impairment test based on fair value excluding disposal costs (level 3). When conducting the impairment test, management used cash flow forecasts after tax, based on the assumption that there was no growth in activity. Based on the impairment assessment, management determined negative cash flows for these assets. Accordingly, the value of all property, plant and equipment was determined to be zero. The Group recognized an impairment loss in the amount of UAH 62,878 thousand as relevant asset writedowns included in the income statement for 2016. The main reason for the loss in value is the low level of payment by customers in regions experiencing the armed conflict.

6. Property, plant and equipment (continued)

The following table summarises 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 2017.

Post-tax discount rate	17.0%
Terminal period growth rate	5.2%
ARPU growth rate fixed line telephony	B2C: 10.1% in 2018 to 5.2% in terminal period, peak growth in 2018. B2B: 0.2% in 2018 to 5.8% in terminal period, 5.5% growth at peak in 2021.
ARPU growth rate internet services	B2C: 12.0% in 2018 to 5.2% in terminal period, peak growth in 2018. B2B: 15.7% in 2018 to 5.2% in terminal period, peak growth in 2018.
Churn rate fixed line telephony	Long-term subscribers base decrease rate of 1.6% applied starting from 2024 for B2C segments and from 2019 for B2B segments. Up to these years it is normalized from current level of 13.7%(B2C) and 3.3%(B2B) to long-term level.
Churn rate internet services	B2C: Outflow of 5.2% in 2018 with subsequent changes in the dynamics of the base reduction by 1.2% in 2019 to 1.4% growth in 2024 B2B: outflow of 3.2% in 2018 with subsequent changes in the dynamics of the base growth by 0.6% in 2019 to 0.8% reduction in 2024.
CAPEX	UAH 0.43 billion for network modernisation project.
EBITDA margin	Increasing from 15.1% in 2017 to 25.5% in 2024.

The 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 2017 long-term churn rate for fixed line telephony was taken from the report of external agency BMI and for the internet services applied assumptions were 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 summarises 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.

The following table illustrates sensitivity of fair value estimates for specialised assets to changes in the key assumptions as of 31 December 2017:

Input	% change	(in thousands of Ukrainian hryvnias) Change in fair value estimates
Post-tax discount rate	+0.5% / -0.5%	(258,185) / 280,691
Terminal period growth rate	+0.5% / -0.5%	156,029 / (143,324)
ARPU growth rate fixed line telephony	+1% / -1%	822,837 / (784,499)
ARPU growth rate internet services	+1% / -1%	629,687 / (628,001)
Churn rate fixed line telephony	+1% / -1%	(358,292) / 376,492
Churn rate internet services	+1% / -1%	(375,666) / 342,999
CAPEX	+1% / -1%	(32,031) / 32,031
EBITDA margin	+1% / -1%	393,380 / (393,380)

6. Property, plant and equipment (continued)

Depreciation charge

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

<i>(in thousands of Ukrainian hryvnias)</i>	Note	2017	2016
Charged to:			
Cost of revenue	16	445,711	443,189
Administrative expenses	17	13,103	4,923
Selling expenses	18	5,426	1,500
Other operating expenses	19	7,960	5,334
Total depreciation charge		472,200	454,946

Pledged assets

As at 31 December 2017, property and equipment with a carrying amount of UAH 2,504,108 thousand (31 December 2016: UAH 1,829,531 thousand) is pledged to secure bank loans.

Borrowing costs

During 2017, the Group capitalized interest expenses on loans in the amount of UAH 10,901 thousand relating to Property, plant and equipment inputted into operation, which met qualification assets criteria, within network modernization project.

7. Assets held for sale

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 2017 and 2016 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 affects the decision of potential investors. In addition, the sale of mobile assets in previous periods was largely influenced by the nationwide tender for the provision of 3G services, which was announced but was constantly postponed during the last few years. The uncertainty of conditions caused by the armed conflict in Ukraine, uncertainty of conditions for military conversion of the allocated frequency spectrum and their related cost led to additional uncertainty in the course of all ongoing negotiations on the sale.

Despite the above circumstances, the Group did not terminate negotiations on the sale of mobile segment assets. In 2016, the essential conditions for the sale of TriMob LLC were agreed with one 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 similar transactions.

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.

In 2017, the majority shareholder of the Group initiated an appeal against the above-mentioned Act of the State Property Fund, which was not finally reviewed as of the reporting date. If the Parent successfully appeals the decision of the State Property Fund, the Group expects that all obstacles to the adoption of the sale transaction will be eliminated. As at 31 December 2017 LLC "Trimob" is classified as asset held for sale.

7. Assets held for sale (continued)

Assets held for sale and disposal groups are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Assets held for sale and disposal groups – mobile segment:		
Intangible assets	14,080	12,645
Construction in progress	27,881	31,591
Property, plant and equipment	84,043	84,500
Inventories	2,372	2,326
Trade accounts receivable	23,805	5,122
Receivables from budget (VAT receivable)	1,303	3,471
Advances paid	3,157	3,014
Other current accounts receivable	1,673	1,544
Cash and cash equivalents	112,365	3,081
Other assets	1,260	539
Deferred expenses	145	153
Total assets held for sale and disposal groups	272,084	147,986
<i>Less intercompany balances</i>	<i>176</i>	<i>444</i>
Total assets held for sale and disposal groups net of intercompany balances	271,908	147,542
Total Non-current assets held for sale and disposal groups	271,908	147,542

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Liabilities associated with assets held for sale and disposal groups		
Trade accounts payable	13,192	19,030
Current payables on advances received	2,384	2,445
Current payables to budget	13,400	13,450
Current payables on salary related charges	1,904	1,307
Current payables on salaries	1,556	1,572
Other current liabilities	1,545,799	1,134,698
Total liabilities associated with assets held for sale and disposal groups	1,578,235	1,172,502
<i>Less intercompany balances</i>	<i>1,540,006</i>	<i>1,139,612</i>
Total liabilities on settlements for disposal groups net of intercompany balances	38,229	32,890

Financial result attributable to discontinued operations is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Discontinued operation results		
Net revenue	123,727	129,500
Cost of revenue	(361,438)	(375,795)
Administrative expenses	(38,466)	(38,687)
Selling expenses	(6,981)	(6,781)
Other operating income/expences, net	4,294	(121,147)
Finance income/(costs), net	302	-
Total discontinued operation results	(278,562)	(412,910)
<i>Less result of intercompany transactions</i>	<i>66,352</i>	<i>72,466</i>
Total discontinued operation results net of intercompany transactions	(212,210)	(340,444)

Cash flows from discontinued operations are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Cash flows from discontinued operations		
Net cash from operating activities	(290,441)	(277,911)
Net cash from investing activities	(2,886)	(276)
Net cash from financing activities	402,583	278,080
Net cash flows for the year	109,256	(107)

In 2017 net cash flows from discontinued operations include net cash inflows from operations with PJSC "Ukrtelecom" in amount of UAH 320,794 thousand (2016: net cash inflow UAH 192,927 thousand).

7. Assets held for sale (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 2017 represent capital expenditures incurred during the years ended 31 December 2011- 2017.

8. Trade accounts receivable

Trade accounts receivable are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Trade receivables from:		
Individuals	265,238	305,630
Commercial entities	354,929	338,061
Government agencies	235,583	219,337
	855,750	863,028
Impairment provision for doubtful receivables from:		
Individuals	(89,734)	(127,198)
Commercial entities	(117,088)	(112,922)
Government agencies	(117,232)	(121,682)
	(324,054)	(361,802)
Total trade accounts receivable	531,696	501,226

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Individuals		
- current and overdue less than 90 days	146,203	163,483
- 90 to 180 days overdue	16,465	17,108
- 180 to 360 days overdue	27,862	27,599
- over 360 days overdue	74,708	97,440
Total individuals, gross	265,238	305,630
Commercial entities		
- current and overdue less than 90 days	222,217	213,091
- 90 to 180 days overdue	15,430	18,943
- 180 to 360 days overdue	19,878	15,610
- over 360 days overdue	97,404	90,417
Total commercial entities, gross	354,929	338,061
Government agencies		
- current and overdue less than 90 days	43,821	48,333
- 90 to 180 days overdue	25,317	31,628
- 180 to 360 days overdue	49,999	81,465
- over 360 days overdue	116,446	57,911
Total government agencies, gross	235,583	219,337
Total trade receivables, gross	855,750	863,028
Impairment provision for doubtful receivables	(324,054)	(361,802)
Total trade receivables, net of provision	531,696	501,226

The current and overdue less than 90 days category in the table above mainly consists of the December revenues (approximately 71%) to be billed in early January next year. The contractual due date for payment of these bills is 20th January.

In previous periods, payment for approximately 60% of services provided to individuals was received by the end of the following month in which the service were consumed (excluding Donetsk, Lugansk, Crimean and Sevastopol branches).

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

8. Trade accounts receivable (continued)

Impairment of trade accounts receivable as at 31 December 2017 is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
<i>Trade receivables from individuals</i>				
Receivables with individual impairment	-	-	-	-
Receivables with collectively identified impairment	265,238	(89,734)	175,504	34%
Total trade receivables from individuals	265,238	(89,734)	175,504	34%
<i>Trade receivables from commercial entities</i>				
Receivables with individual impairment	59,382	(43,018)	16,364	72%
Receivables with collectively identified impairment	295,547	(74,070)	221,477	25%
Total trade receivables from commercial entities	354,929	(117,088)	237,841	33%
<i>Trade receivables from government agencies</i>				
Receivables with individual impairment	1,149	(1,149)	-	100%
Receivables with collectively identified impairment	234,434	(116,083)	118,351	50%
Total trade receivables from government agencies	235,583	(117,232)	118,351	50%
Total	855,750	(324,054)	531,696	38%

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

<i>(in thousands of Ukrainian hryvnias)</i>	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
<i>Trade receivables from individuals</i>				
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%
<i>Trade receivables from commercial entities</i>				
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%
<i>Trade receivables from government agencies</i>				
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%

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

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Balance at beginning of the year	361,802	318,820
Provision for impairment	51,405	130,258
Release of provision	(89,153)	(87,276)
Balance at year end	324,054	361,802

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

9. Other current receivables

An interest free loan provided to the Parent

As of 31 December 2016 and 2017, the other current receivables included an interest-free loan granted to the parent company "ESU" LLC in the amount of UAH 737,983 thousand with a nominal amount of UAH 737,983 thousand. According to the terms and conditions of the agreement, the balance of the interest-free loan granted to the parent in the amount of UAH 678,726 thousand matured October 2015, in the amount of UAH 32,000 thousand - in January 2016, and the residual balance in the amount of UAH 27,257 thousand matured before July 1, 2017.

At date of initial recognition, the fair value of the loan was discounted using market interest rates for similar interest bearing instruments. The corresponding impact of the initial recognition in the amount of UAH 2,372 thousand for the year ended 31 December 2016 was included in other changes in equity as an increase of Accumulated loss (Note 10). The effect of discount unwinding in the amount of UAH 5,141 thousand for the year ended 31 December 2016 was recognized as financial income.

Interest bearing bonds of Parent

In addition, as of 31 December 2017, other current accounts receivable included interest bearing bonds issued by "ESU" LLC in the amount of UAH 160,872 thousand (as of 31 December 2016, other current financial investments in the amount of UAH 160,872 thousand) repayable in March 2017, which were overdue for 9 months as of 31 December 2017. The effective interest rate on these bonds is 24%.

As of 31 December 2017, the amount of interest receivable on these bonds comprised UAH 73,522 thousand (2016: UAH 65,588 thousand).

10. Equity

As at 31 December 2017, the authorised share capital comprises 18,726,248 thousand of issued and registered ordinary shares (31 December 2016: 18,726,248 thousand) with a par value of UAH 0.25. As at 31 December 2017 and 2016, all shares are outstanding. As at 31 December 2017 and 2016, total amount of the registered and fully paid share capital is UAH 4,681,562 thousand.

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.

Revaluation surplus also includes the effect of revaluation of property, plant and equipment. As a result of disposal of certain property, plant and equipment revalued in prior periods, in 2017 the Group transferred to the accumulated loss revaluation reserve of these assets, net of income tax in the amount of UAH 83,720 thousand (2016: UAH 155,955 thousand).

As at 31 December 2017, additional capital in the amount of UAH 421,133 thousand is represented mainly by share premium and differences on translation of subsidiary's operations (31 December 2016: UAH 418,842 thousand).

As at 31 December 2017, 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 2016: 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:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Post-employment long-term benefit obligations	322,415	272,234
Other long-term employee benefit obligations	7,433	9,792
Total long-term provisions	329,848	282,026

11. Long-term provisions (continued)

Post-employment long-term benefit obligations

The movement in post-employment long-term benefit obligations during 2017 is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	One-time payment on retirement	Hazardous pensions	Total post- employment benefit obligations
Present value of obligations as at 1 January 2017	84,365	187,869	272,234
Current service cost	4,031	535	4,566
Interest cost on post-employment obligations	12,724	26,762	39,486
Recognised past service gain/curtailment	(4,264)	(6,801)	(11,065)
Actuarial loss (gain) in the statement of comprehensive income	7,089	43,099	50,188
Benefits paid	(2,294)	(30,700)	(32,994)
Present value of obligations as at 31 December 2017	101,651	220,764	322,415

Actuarial loss recognised in the statement of comprehensive income in 2017 is mainly represented by the increase in actual salary in 2017. Past service gain/curtailment recognised in 2017 includes UAH 4,547 thousand of gain from curtailment resulting from decrease in the Company's headcount for the year ended 31 December 2017 (2016: UAH 10,437 thousand).

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

<i>(in thousands of Ukrainian hryvnias)</i>	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

The amounts recognised in the profit or loss for 2017 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	One-time payment on retirement	Hazardous pensions	Total post- employment benefit obligations
Interest cost on post-employment obligations	12,724	26,762	39,486
Current service cost	4,031	535	4,566
Past service gain/curtailment	(4,264)	(6,801)	(11,065)
	12,491	20,496	32,987

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 2016 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	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

11. Long-term provisions (continued)

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

	31 December 2017	31 December 2016
Nominal discount rate	15.4%	16.04%
Staff turnover	6.20%	6.00%

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 2017
Nominal discount rate increase/decrease by 1%	(14,151)/15,470
Nominal salary increase/decrease by 1%	9,434/(8,708)

As at 31 December 2017, the weighted average maturity of the Group's long-term employee benefit obligations is 6 years (31 December 2016: 6 years). Payments in respect of these obligations expected to be made during the year 2018 are UAH 72,862 thousand (2016: UAH 51,992 thousand).

12. Loans and borrowings

Loans and borrowings are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2017	31 December 2016
Current borrowings		
Bank loans	2,005,915	1,410,458
Bonds issued	150	491,700
Interest payable	42,096	14,914
Other	2,398	2,397
Total current borrowings	2,050,559	1,919,469
Total borrowings	2,050,559	1,919,469

Information on credit risk, concentration risk, currency and interest rate risks, including those related to the Group's loan portfolio, is disclosed in Note 24.

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

	Currency	31 December 2017		31 December 2016	
(in thousands of Ukrainian hryvnias)		Carrying amount	Nominal value	Carrying amount	Nominal value
Current borrowings					
Bank loans	USD, UAH	2,005,915	2,042,382	1,410,458	1,430,927
Bonds issued	UAH	150	150	491,700	491,700
Interest payable	USD, UAH	42,096	42,096	14,914	14,914
Other	UAH	2,398	2,398	2,397	2,397
Total current borrowings		2,050,559	2,087,026	1,919,469	1,939,938
Total borrowings		2,050,559	2,087,026	1,919,469	1,939,938

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). As of 31 December 2017, the Group repaid all obligations under these bonds (series P, Q).

12. Loans and borrowings (continued)

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%. During 2014-2016, the Group redeemed bonds of these series in the amount of UAH 705,000 thousand, after which the balance as of 31 December 2016 amounted to UAH 487,100 thousand and was subject to repayment in March 2017. As of December 31, 2017, the balance of bonds in circulation of series U was UAH 150 thousand and was presented as a current liability.

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. The terms and conditions of the agreement provide for a three-year grace period for the repayment of the debt. As at 31 December 2017 effective interest rate of this facility is 10.37% (31 December 2016: 9.34%). Outstanding balance on this facility as at 31 December 2017 is the equivalent of UAH 646,620 thousand (31 December 2016: 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 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 2017 is UAH 809,295 thousand (31 December 2016: UAH 767,725 thousand).

In October 2016, the Group signed a loan agreement with a Ukrainian bank for UAH 150,000 thousand. In December 2016 the respective limit was increased up to UAH 300,000 thousand. In January 2017, the respective limit was increased up to UAH 600,000 thousand. The outstanding amount as at 31 December 2017 is UAH 550,000 thousand (31 December 2016: UAH 300,000 thousand).

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

In % per annum	2017			2016		
	UAH	UAH	USD	UAH	USD	USD
	18.0 % - 21 %	UIRD (3M)+4%	10,37%	18.0 % - 21 %	UIRD (3M)+4%	9.34%
Total borrowings	552,548	809,295	646,620	794,097	767,725	342,733

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 requirements. The agreements provide for a list of non-compliance cases that give creditors the right to demand early repayment of loan funds.

As at 31 December 2016 the Group technically breached the covenant with one bank relating to channeling certain level of cash proceeds through special accounts that are pledged to the bank. After the end of 2016 respective waiver was requested and obtained in February 2017 from bank waving the compliance with this covenant until 31 May 2017. Despite the subsequent event after the year end 2016, UAH 342,733 thousand outstanding balance of this loan was reclassified to short-term and presented as current as at 31 December 2016. Since May 2017, this covenant has not been violated.

During 2017, the following cases of non-compliance under the agreement with Chinese bank occurred:

- 1) non-compliance of the obligation to pay interest payable on 10 November 2017, in the amount of USD 626,860 due to the restriction of the maximum interest rate established by the National Bank of Ukraine;
- 2) the existence of significant legal proceedings initiated against the Parent: a) by the Ukrainian state bank to recover the obligation on redemption of bonds issued by the Parent; b) the State Property Fund regarding non-fulfillment by the Parent of certain privatization obligations.

At the end of the year, the Group filed a request and in February 2018 it received from the Chinese bank a waiver letter regarding the aforementioned non-compliance cases, subject to payment of interest by 15 February 2018 and provided that the courts of appropriate instances do not approve unfavourable decisions as a result of the above-mentioned significant proceedings, and in the event of the closure of such proceedings based on the outcome of an alternative settlement, the settlement agreement will, in the opinion of the creditor, have no significant negative effect on the Group. As of 31 December 2017, the loan indebtedness to Chinese bank in the amount of UAH 646,620 thousand was short-term and was included in current liabilities.

Pledges

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 channelled through special accounts. In case of the event of default proceeds on these accounts can be used to fulfill the obligations under the loan agreement. Despite the breach of the covenant on channelling certain amount of cash

12. Loans and borrowings (continued)

proceeds through charged accounts as at 31 December 2016, the bank has not exercised its right for the pledged accounts.

In addition, in 2017 the Group pledged movable property in the amount of USD 28,779 thousand under the pledge agreement for future deliveries of movable property.

For information about property, plant and equipment pledged to secure the loans, refer to Note 6.

As at 31 December 2017, investment property with a carrying amount of UAH 112,784 thousand (31 December 2016: UAH 74,281 thousand) is pledged to secure bank loans.

As at 31 December 2017, intangible assets with a carrying amount of UAH 3,124 thousand (31 December 2016: null) is pledged to secure bank loans.

13. Trade and other accounts payables

Trade and other accounts payable are presented as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Accounts payable for services	137,745	143,246
Accounts payable for non-current assets	252,842	106,088
Accounts payable for inventories	61,487	48,757
Accounts payable to operators	31,287	19,986
Other accounts payable	7,327	8,261
Total trade and other accounts payable	490,688	326,338

14. Current provisions

Current provisions are presented as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Provision for payments to employees	124,142	132,473
Provision for unused vacation	121,463	120,348
Provision for legal cases	3,644	11
Total current provisions	249,249	252,832

15. Revenue

Revenue analysis by principle revenue streams:

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Local calls and subscription-based fees	2,421,182	2,713,162
Internet services	1,734,448	1,636,911
Services to foreign operators	536,490	678,746
Traffic-based fees for local calls to mobile and domestic long-distance calls	482,524	296,210
Income from operating leases of assets	255,337	210,444
Fees for use of lines and channels, incoming calls and transit of telephone traffic	153,504	173,847
International traffic	127,398	168,045
Revenue from fixed line radio points	131,311	146,816
Fees for use of cable ducts	119,570	122,807
Revenue from sale of goods	4,282	8,078
Other revenue	78,132	91,078
Net revenue	6,044,178	6,246,144

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.

15. Revenue (continued)

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 sales

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Salaries and related charges	1,436,282	1,389,473
Utilities	520,295	518,687
Depreciation of property, plant and equipment (Note 6)	445,711	443,189
Materials	252,367	322,444
Maintenance and repairs	301,906	287,505
Services provided by foreign operators	191,555	228,522
Impairment / revaluation of property, plant and equipment (Note 6)	-	198,276
Use of lines and channels, outgoing costs and transit of telephone traffic	124,815	152,473
Rent expenses	105,694	100,958
Amortisation of intangible assets	42,734	40,370
Other	154,247	139,725
Total cost of revenue	3,575,606	3,821,622

17. Administrative expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Salaries and related charges	498,996	544,441
Land and other taxes	173,059	114,363
Rent expenses	102,078	67,165
Professional fees	17,883	23,347
Materials	20,591	19,140
Utilities	14,314	15,295
Maintenance and repairs	13,600	10,373
Bank commissions and charges	1,609	5,566
Depreciation of property, plant and equipment (Note 6)	13,103	4,923
Impairment/ revaluation of property, plant and equipment (Note 6)	-	1,170
Amortisation of intangible assets	550	312
Other	76,608	65,708
Total administrative expenses	932,391	871,803

18. Selling expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Salaries and related charges	259,007	259,715
Advertising and printing services	63,720	67,211
Commission fee	11,054	40,089
Bank commissions and charges	28,568	31,422
Delivery of bills	23,403	29,235
Utilities	16,789	26,210
Materials	8,446	10,567
Amortisation of intangible assets	3,510	4,497
Depreciation of property, plant and equipment (Note 6)	5,426	1,500
Maintenance and repairs	610	1,094
Impairment/ revaluation loss of property, plant and equipment (Note 6)	-	666
Other	9,566	5,399
Total selling expenses	430,099	477,605

19. Other operating expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Impairment of doubtful trade and other receivables	94,531	141,164
Employee expenses under collective agreement	43,206	71,463
Utilities	10,647	38,067
Impairment/ revaluation loss on property, plant and equipment (Note 6)	5,716	12,680
Penalties	7,045	5,368
Depreciation of property, plant and equipment (Note 6)	7,960	5,334
Impairment/(reversal of impairment) of inventories	21,963	1,916
Other	62,277	45,145
Total other operating expenses	253,345	321,137

Allowance for impairment of doubtful trade and other receivables includes impairment of doubtful trade receivables of UAH 51,405 thousand (2016: UAH 130,258 thousand) and impairment of doubtful other receivables of UAH 43,126 thousand (2016: UAH 10,906 thousand).

Employee expenses under collective agreement contain UAH 39,167 thousand of payments under the termination of employment contracts during the year ended 31 December 2017 (31 December 2016: UAH 57,105 thousand).

20. Other operating income

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Gain on disposal of non-current assets	348,542	158,402
Fines and penalties	10,325	25,468
Gain on payables write-off	3,962	23,330
Gain on inventory surpluses	9,904	11,100
Foreign exchange gain	14,869	7,128
Gain on revaluation of non-current assets and investment property	81,038	-
Other	56,489	29,596
Total other operating income	525,129	255,024

In 2017 and 2016 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 2017 and 2016 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

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Interest expense on loans and borrowings	366,743	356,482
Net foreign exchange loss	32,133	37,312
Interest cost on post-employment long-term employee benefit-obligations (Note 11)	39,486	31,840
Interest cost on other long-term employee benefit obligations	1,320	1,309
Other finance costs	3,921	2,086
Total finance costs	443,603	429,029

22. Finance income

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Interest income	39,314	52,718
Unwinding of discount on loan granted to the parent company (Note 9)	-	5,141
Other finance income	-	3
Total finance income	39,314	57,862

23. Income tax expense

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Deferred tax benefit	16,517	36,136
Income tax expense— current	(193,836)	(146,185)
Income tax (expense)	(177,319)	(110,049)

Reconciliation of effective tax rate:

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Profit before tax	973,308	637,634
Income tax (expense) at effective rate 18%	(175,195)	(114,774)
Effect on income tax of:		
Non-deductible expenses	(1,890)	(3,645)
Elimination with discontinued operations	(11,943)	(13,044)
Non-taxable income	(367)	(236)
Deferred tax recognized due to changes in Tax Code	12,076	40,896
Change in estimate on deferred tax assets recognized in prior periods	-	(21,460)
Unrecognised deferred tax assets utilized	-	2,214
Income tax (expense)	(177,319)	(110,049)

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.

The movements in recognised temporary differences during the year ended 31 December 2017 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	1 January 2017	(Charged)/ credited to profit or loss	Recognised in other comprehensive income	31 December 2017
Property, plant and equipment and investment property	(822,276)	17,673	92,912	(711,691)
Intangible assets	(3,841)	671	-	(3,170)
Accounts receivable	79,836	9	-	79,845
Provision for hazardous pensions	33,816	(1,836)	7,758	39,738
Deferred tax asset/(liability)	(712,465)	16,517	100,670	(595,278)
Unrecognised deferred tax asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	(712,465)	16,517	100,670	(595,278)

23. Income tax expense (continued)

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

<i>(in thousands of Ukrainian hryvnias)</i>	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)

The Company did not recognize the deferred tax, that arise on investment in subsidiary in the amount of UAH 277,255 thousand, as the Company controls the timing and recoverability of these temporary differences.

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 2017 and 31 December 2016.

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 2017 and 2016 at fair value (less costs of disposal) with the use of unobservable inputs and thus fall within Level 3 hierarchy.

24. Financial risk and capital management (continued)

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.

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 2017 and 2016 in respect of financial assets. Fair values of financial instruments in the Group's balance sheet as at 31 December 2017 and 2016 approximate their carrying 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 that are directly or indirectly observable.

Level 3: Description of inputs used and the sensitivity of fair value measurement to changes in those inputs are disclosed in Note 6.

Financial risk management

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

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

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 2017, 96% of Group's cash is held in 4 Ukrainian banks (31 December 2016: 90% in 4 Ukrainian banks) thus doesn't expose the Group to a concentration of credit risk.

24. Financial risk and capital management (continued)

As at 31 December 2017 and 2016, analysis by credit quality of bank balances by Fitch/Moody's credit rating system is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
A	-	11,704
A-	12,216	-
B-	27,244	8,209
Caa2	141,842	2,199
Caa3	-	105,716
non-rated	103,203	13,714
	284,505	141,542

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 provides for reasonable assurance of constant liquidity, 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.

The Group ensures 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 Group signed a long-term loan facility agreement with a Chinese bank with a limit of USD 50,000 thousand, being UAH 1,403,361 thousand at exchange rate as at reporting date, repayable up to December 2022. Outstanding principal balance as of 31 December 2017 is UAH 683,087 thousand (31 December 2016: UAH 363,202 thousand).

As of 31 December 2017 the Group had multicurrency revolving credit line with the total availability of equivalent USD 30,000 thousand, being UAH 810,759 thousand at exchange rate as at reporting date. As of 31 December 2017, used balance on this credit line was UAH 809,295 thousand (31 December 2016: UAH 767,725 thousand). This agreement matures in September 2018.

In October 2016, the Group signed a loan agreement with a Ukrainian bank for UAH 150,000 thousand. In December 2016 the respective limit was increased up to UAH 300,000 thousand. In January 2017 the respective limit was increased up to UAH 600,000 thousand. The outstanding amount as at 31 December 2017 is UAH 550,000 thousand (31 December 2016: UAH 300,000 thousand). This agreement matures in October 2019.

The Group carries out transactions of purchase and sale of securities (state government bonds) in order to receive interest income and gain from fluctuations in the value of securities.

The contractual maturities of non-derivative financial liabilities including future interest payments as at 31 December 2017 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	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	2,005,915	2,090,908	695,170	1,395,738	-	-
Bonds issued	150	172	-	6	166	-
Supplier credits	2,398	2,398	-	2,398	-	-
Interest payable	42,096	42,096	42,095	1	-	-
Total borrowings	2,050,559	2,135,574	737,265	1,398,143	166	-
Trade and other accounts payable	490,688	490,688	490,688	-	-	-
Other current liabilities	19,916	19,916	19,916	-	-	-
Total	2,561,163	2,646,178	1,247,869	1,398,143	166	-

As of 31 December 2017, a long-term credit facility received from the Chinese bank was classified as one due for repayment within a period of up to one month. The undiscounted indebtedness under this facility was UAH 683,087 thousand. This classification is a consequence of breach of covenants under the loan agreement (Note 12). Repayment of this amount is made in nine equal installments every six months. The first payment is due in November 2019. In December 2022, the Group will pay the last two installments under this agreement.

24. Financial risk and capital management (continued)

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

<i>(in thousands of Ukrainian hryvnias)</i>	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	-

As of 31 December 2016, a long-term credit facility granted by the Chinese bank and classified as due for repayment within a period of up to one month in the amount of UAH 363,202 thousand was reclassified as a consequence of breach of a covenant under the relevant loan agreement (Note 12).

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:

<i>(in thousands of Ukrainian hryvnias)</i>	USD-denominated		Euro-denominated	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade accounts receivable	41,724	46,540	21,040	46,354
Cash and cash equivalents	64,761	16,995	44,952	137
Current portion of long-term loans and borrowings	-	(367,840)	-	-
Short-term loans and borrowings	(703,773)	-	-	-
Trade accounts payable	(37,487)	(855)	(2,722)	(2,613)
Net long (short) position	(634,775)	(305,160)	63,270	43,878

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
USD	(156,155)	(74,441)
EUR	15,564	10,797

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.

24. Financial risk and capital management (continued)

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 2017, 40% of the total borrowings was provided to the Group at floating rates (31 December 2016: 40%).

Effective interest rates of financial instruments are disclosed in Note 12. The revision of the interest rate both for instruments with a fixed interest rate and for instruments with a floating interest rate occurs at maturity.

A change of 100 basis points in interest rates would have increased or decreased post-tax profit and increased or decreased equity by UAH 8,092 thousand (31 December 2016: UAH 7,677 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.

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 2017 net assets of the Group in amount of UAH 8,039,123 thousand (31 December 2016: UAH 8,004,304 thousand) exceed the Group's registered share capital as indicated in the Charter in amount of UAH 4,681,562 thousand (31 December 2016: UAH 4,681,562 thousand).

25. Commitments

Capital commitments

As at 31 December 2017, the Group has commitments in respect of contracts for purchase of property, plant and equipment of UAH 1,453,287 thousand (31 December 2016: UAH 920,374 thousand) and in respect of software and other intangible assets of UAH 133,476 thousand (2016: UAH 70,840 thousand).

Operating lease

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2017	31 December 2016
Less than one year	157,253	114,210
Between one and five years	186,627	220,078
More than five years	1,132	794
	345,012	335,082

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 2017, UAH 204,673 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2016: UAH 168,123 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.

26. Contingencies (continued)

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 procedure 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 taxation system can be characterised by numerous taxes and frequently changing legislation, which may be applied retrospectively, open to wide interpretation and in some cases 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.

Tax returns are subject to verification by the tax authorities, which are legally authorized to apply penalties, as well as to charge a fines. The tax year remains open for inspections conducted by the tax authorities during the next three calendar years. In certain circumstances, however, the tax year may remain open longer. These facts create more serious tax risks in Ukraine, compared to the usual risks existing in countries with more developed taxation systems.

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 2017 and 2016 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 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 Group's transfer prices cannot be reliably estimated; however, it may eventually be significant to the financial position and/or the overall transactions of the Group 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.

The Group executes certain transactions that are subject to control according to the transfer pricing legislation in Ukraine, in particular, during 2015-2017 the Group was involved in the controlled transactions in respect of international traffic termination and consulting services. Prices for such transactions are set according to market principles. The management takes all necessary steps to ensure continued compliance with transfer pricing legislation. Specific control procedures were implemented within the Group to identify, challenge and support controlled transactions, and as such ensure compliance with new transfer pricing legislation.

Litigation

As of 31 December 2017, the Group was a defendant in various legal proceedings, the most significant of which are cases involving claims filed by two state-owned banks on a recovery of obligations under agreements for purchase of bonds issued by the parent company for a total amount of UAH 2,073,640 thousand, not including indemnity (loss of profit, penalty, inflation losses and 3% per annum) in a total amount of UAH 141,735 thousand. These agreements were signed in 2015, provided for the transfer of bonds and their payment in March 2017, and were collateralized by a pledge in the form of all ordinary shares of the Group owned by the Parent (92.791%).

One of the banks did not transfer the bonds to the Group's ownership, but eventually presented them for redemption directly to the parent company, which, in the management's opinion, is the termination of all obligations of the parties under the relevant agreement.

Another bank transferred the bonds to the deposit account of the public notary, accordingly, transferring the ownership of the relevant bonds (Note 1). As of the date of issuance of these consolidated financial statements, the Group did not accept and pay for these bonds, and has challenged its obligations under the agreement in court. The decision of the court of the first instance to terminate the agreement, extinguish of obligations of the parties thereto and cancel the transfer of the bonds to the deposit account of the public notary was appealed by the bank and did not enter into legal force as of 31 December 2017.

In the opinion of the management, the possible additional obligations of the Group as a result of the final consideration of these cases will not exceed UAH 63,000 thousand. As of 31 December 2017, no provision in respect of legal proceedings was created by the Group.

27. Related parties

The Group enters 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 2017 and 2016 the Group's immediate parent company is LLC "ESU".

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

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Short-term employee benefits	69,069	97,279
	69,069	97,279

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.

Balances and transactions with the immediate parent company

Credit terms of the interest free loan are disclosed in Note 9.

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Balances:		
Interest bearing bonds issued by the parent (Note 9)	160,872	160,872
Interest receivable on bonds issued by the parent (effective rate 24%)	73,522	65,588
Interest free loan provided to the parent (Note 9)	737,983	737,983
Transactions:		
Interest free loan provided	-	(1,453)
Repayment of interest free loan	-	245
Unwinding of discount on interest free loan (Note 22)	-	5,141
Difference between nominal and fair value of interest free loan recognised in equity (Note 10)	-	(2,372)
Interest income on bonds issued by the parent	7,934	38,718

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.

<i>(in thousands of Ukrainian hryvnias)</i>	2017	2016
Balances:		
Trade accounts receivable	20,465	8,036
Advances paid	15,726	14,931
Trade accounts payables	(18,356)	(13,051)
Other current liabilities	(63)	(6,464)
Transactions:		
Sales of equipment and services	904,771	76,065
Purchases of equipment and services	(312,325)	(207,485)

As at 31 December 2017 and 31 December 2016 none of the balances with related parties are secured.

As at 31 December 2017, property with a carrying amount of UAH 405,877 thousand is pledged in favour of one of the companies under control of the ultimate parent company (31 December 2016: UAH 413,200 thousand).

28. Subsequent events

Loans and borrowings

During January-March, 2018, the Group did not receive new tranches of loan funds under existing loan agreements. The Group did not sign new loan agreements with existing and new banks.

In March 2018, the Group signed an agreement with ZTE Ukraine LLC and ZTE Corporation on a long-term financing facility in the amount of USD 10,000 thousand for a period of 3 years. The financing is dedicated for the implementation of projects aimed to expand the coverage of locations with optical access to the Internet, modernization of access network and other elements of the Group's infrastructure.

The financial aid provided to the subsidiary TriMob LLC amounted to UAH 320,160 thousand.

Legal proceedings

The decision of the first instance court in the case referred to in Note 26 (concerning termination of the agreement, extinguishment of obligations of the parties thereto and cancellation of the transfer of bonds to the deposit account of the notary public) has entered into legal force as of 10 April 2018.

Director

Kurmaz Y.P.

12 / 04 / 2018



Chief Accountant

Kuts I.V.