Public Joint-Stock Company Ukrtelecom

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

31 December 2019

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ukrtelecom

better starts today

Consolidated Company Report 2019

April 2020

Contents

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Ukrtelecom today is the largest fixed telecom provider in Ukraine and a leading provider of Internet services

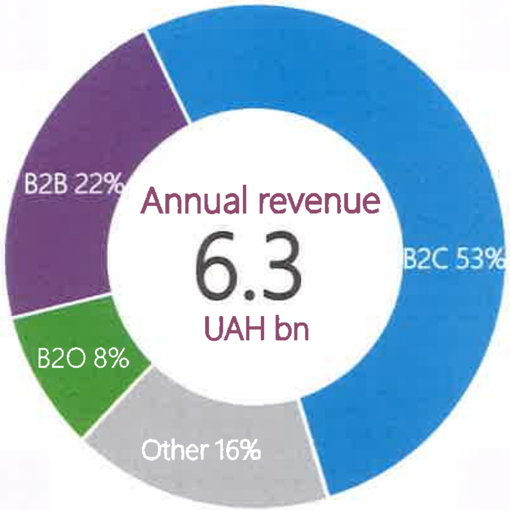
Internet services in more than 2.4 k settlements

54 k km of FOCL (+4 k km in 2019)

2 data centers with the total capacity of 5.8 k units

10 k real estate objects throughout the country

One of the largest payers of taxes and fees in Ukraine – UAH 1.8 bn



3 m fixed voice subscribers

1.2 m Internet subscribers

79 k IPTV subscribers

20 k cloud PBX lines

18 k employees

Note: Revenue and taxes for 2019

2 CEO's Review

Dear Partners,

The year 2019 has enriched us with new experiences and created preconditions for new achievements and further development. Strategic transformation and efficient operating activity made it possible to ensure a high level of profitability of the Company and stability of its financial performance. According to the consolidated results for 2019, Ukrtelecom's total revenue remains stable at UAH 6.3 bn. EBITDA amounted to more than UAH 1.5 bn. EBITDA margin increased to 25%.

Ukrtelecom continues to expand its coverage, modernize equipment and improve the quality of its Internet services. Due to our efforts in 2019, residents of 280 settlements received an opportunity to use modern Internet services. About 4 k km of fiber-optic cable were laid for this purpose. By the way, 160 settlements, where around 150 000 people reside, had no broadband Internet access before. At the end of last year, the Company's Internet access network covered 2,424 cities and villages in different regions of Ukraine.

Due to the aforementioned actions, the Company is increasing its revenue from Internet services. Thus, over the last five years, we have seen a steady increase in revenue in this direction. In the last five years, on average, in the context of providing Internet services, this is an annual increase of 7-12%. The share of revenue from Internet services in total telecom revenue is growing by 2-4 pp. annually. In 2019, revenue from Internet and data transfer services increased by 6.2% compared to the previous year and amounted to almost UAH 2 bn.

Ukrtelecom also continued to connect social infrastructure objects. Thus, more than 550 medical and educational institutions and more than 150 united territorial communities were connected to the optical Internet in 2019. Also, nearly 400 objects of business concentration obtained high-speed optical Internet.

However, there are factors that are holding back our development. These include theft and damage of telecom infrastructure. Despite systematic measures to strengthen and improve the physical and technical security of our cable networks, the mass theft and damage of telephone cable and equipment continues. Almost 13 k cases of malicious theft of Ukrtelecom's network were recorded last year. It is worth noting that the urgency of the issue was emphasized during the presidential and parliamentary elections. The number of thefts during the election period decreased by overall 40%, and in some regions by 60-70%. This suggests that with proper attention of law enforcement agencies, the public and local authorities to the problem, it will not remain without a solution.

Over the last four years, we have invested more than UAH 3 bn in the development and modernization of the network. In 2020, Ukrtelecom will continue its development by investing resources to bridge the digital divide in Ukraine and provide quality IP services to the population and business customers based on multiservice telecommunication technologies.

Sincerely,
Yuriy Kurmaz
CEO of Ukrtelecom PJSC

Mission

Mission of the Company includes three key aspects:

To meet the needs of businesses and citizens of Ukraine in high-quality telecommunication services

To meet the interests of shareholders by achieving high financial performance

To meet the interests of society by creating highly developed information and telecommunication infrastructure of the state

Values

The corporate culture of the Company is built on the value system **KRASHCHE* ("CRASE")**

C — Client orientation

We always put the needs of our clients, partners and colleagues at the center of attention. We provide services of the highest quality and build open, strong and lasting partner relationships

R — Results orientation

We are focused on achieving high results. We set ambitious targets and achieve them. We organize our work efficiently and find effective instruments to realize our ideas

A — Activity

We constantly move forward and inspire others by our actions. We are a team of professionals, each of us is a leader in his/her field

S — Sincerity

We are sincere, honest and responsible. We treat our clients, partners, colleagues and society in a good faith

E — Enthusiasm

We are energetic, ready for changes and new victories. We are constantly evolving and helping others

*Translated from Ukrainian as "Better"

History

From a national communications operator to the leading telecommunication company

1991 - 1995
The Ukrainian Telecom Association "Ukrelektrozvyazok" is established, serving as a national communications operator in Ukraine

1999
Corporatization of Ukrtelecom

2000
The Public Joint Stock Company Ukrtelecom is registered

2000
The Cabinet of Ministers of Ukraine approves the start of Ukrtelecom's privatization

2007
Ukrtelecom starts selling 3G mobile services

2011
Privatization of Ukrtelecom PJSC is completed

2011
Ukrtelecom PJSC has established a mobile operator TryMob LLC

2013
Ukrtelecom PJSC becomes a part of SCM Group

2015
Large-scale modernization of the telecommunication network of Ukrtelecom PJSC begins

2019
A two-year project to connect 300 settlements to the optical Internet has been launched

Modernization of the product portfolio

B2B

2011

- Fixed voice telephony
- DSL-Internet
- Communication channels

2015

- Fixed voice telephony
- DSL-Internet
- Communication channels
- SIP
- Cloud PBX
- Optical Internet 1 Gbps
- VPN L2/L3
- Data center services

2019

- Fixed voice/ converged telephony
- DSL-Internet
- Communication channels
- SIP
- Cloud PBX
- Optical Internet 10 Gbps
- VPN L2/L3
- Data center services
- TV Business
- Anti-DDoS
- Cloud services - IaaS, BaaS

Укртелеком 2011 — укртелеком 2015 — ukrtelecom ВРАЖАЮЧА ШВИДКІСТЬ НОВОЇ МЕРЕЖІ 2019

B2C

2011

- Fixed voice telephony
- DSL-Internet
- Dial-up Internet

2015

- Fixed voice telephony
- SIP
- DSL-Internet
- Interactive TV

2019

- Fixed voice/ converged telephony
- SIP
- ADSL Internet up to 20 Mbps
- VDSL Internet up to 50 Mbps
- Optical Internet 1 Gbps
- Interactive TV: Multiscreen

Subsidiaries

Ukrtelecom owns 100% in the share capital of TryMob LLC and Ukrtel Global GmbH

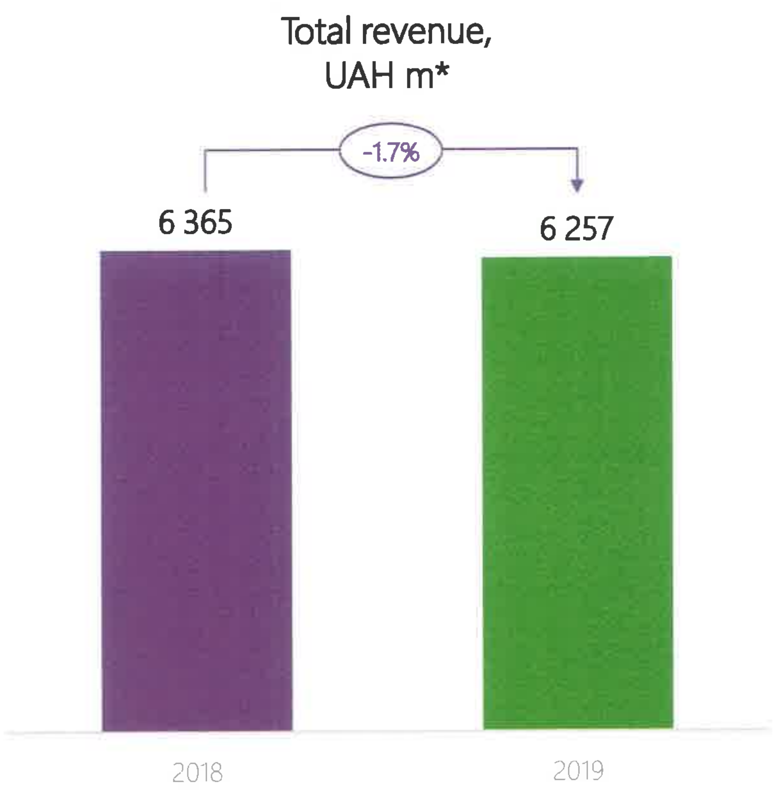
TryMob LLC

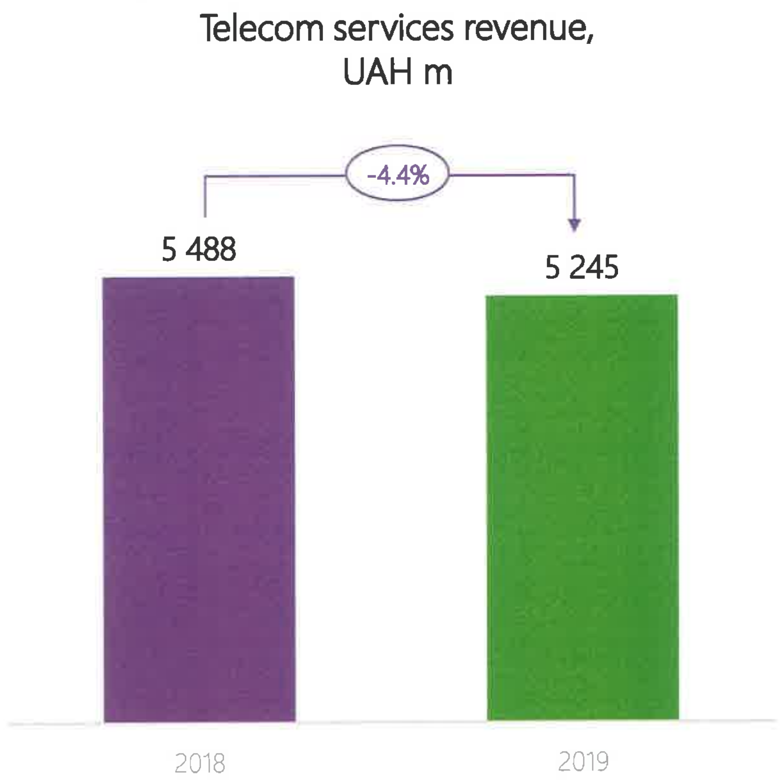
TryMob LLC is an operator providing mobile services of UMTS / WCDMA standard. The Company owns a 2*5 MHz license in the 2100 MHz band in Kyiv. Services outside the coverage area are provided in the network of Vodafone Ukraine PJSC, with which a national roaming agreement has been signed.

Ukrtel Global GmbH

Ukrtel GMBH is a company incorporated under the German law. The subject of the Company's activities is the provision of telecommunication services, technical support and management of telecommunication devices, as well as possession and management of own assets, including purchase and sale of financial instruments.

Revenue

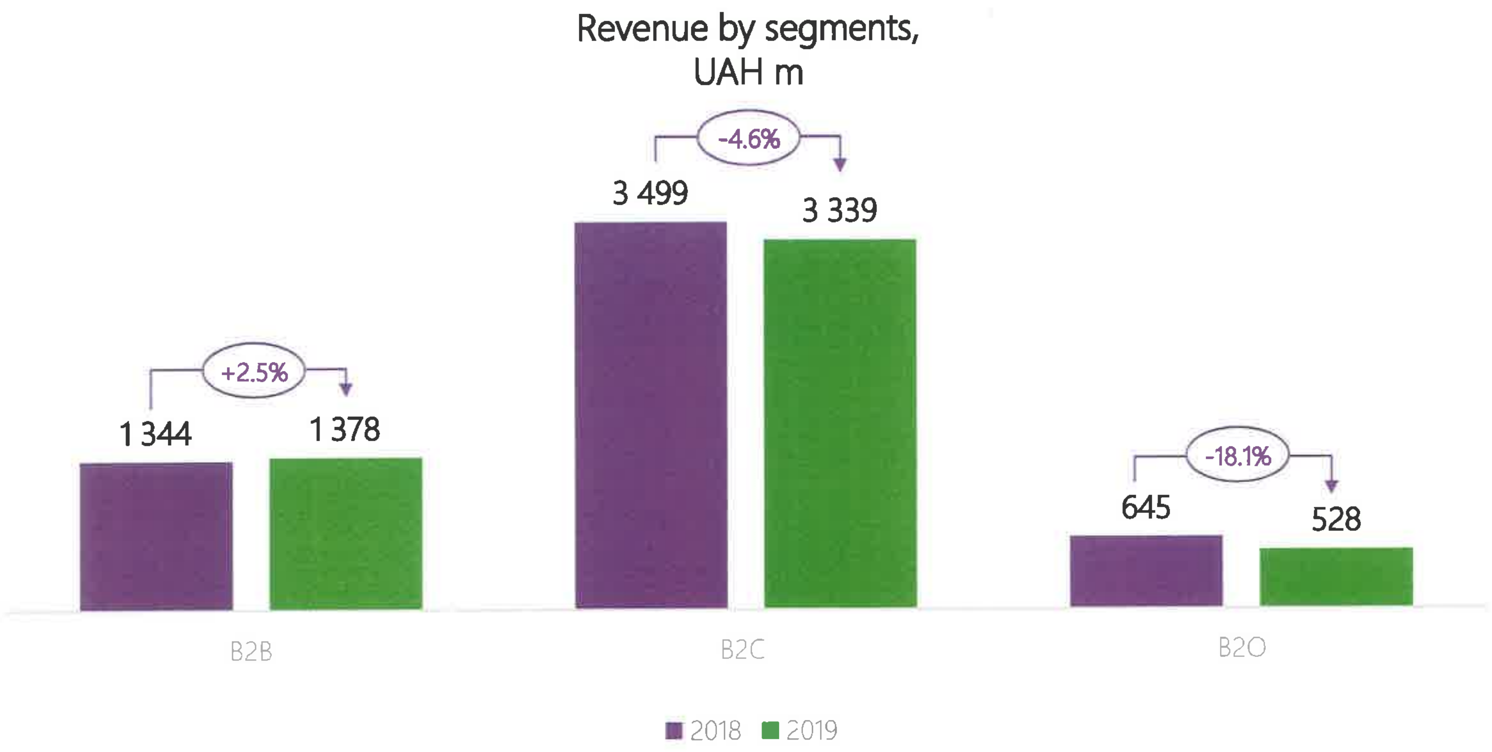




* Revenue and Other operating income according to the consolidated financial statements 2019

Structure of telecom services revenue

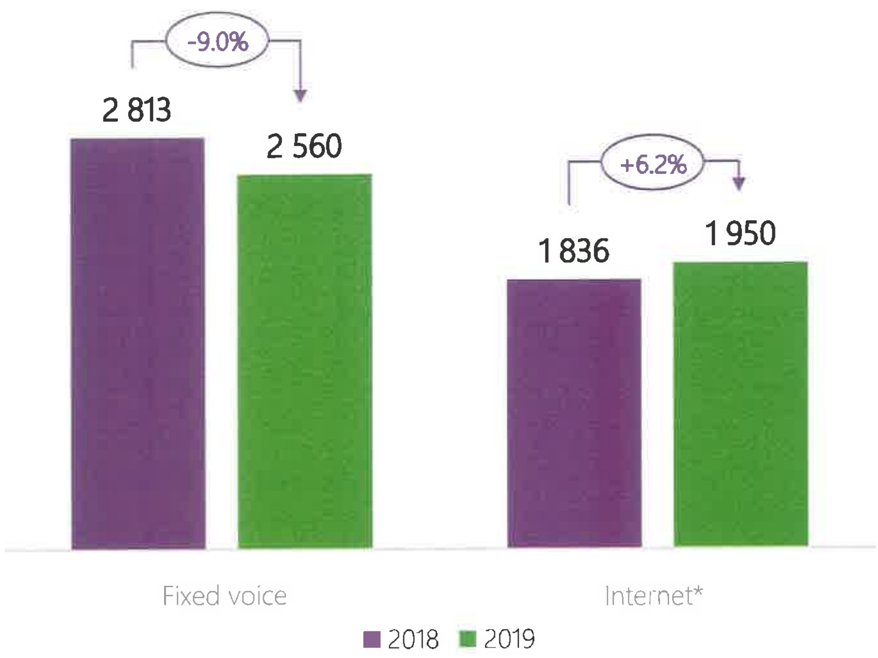
Sustainable growth in B2B segment



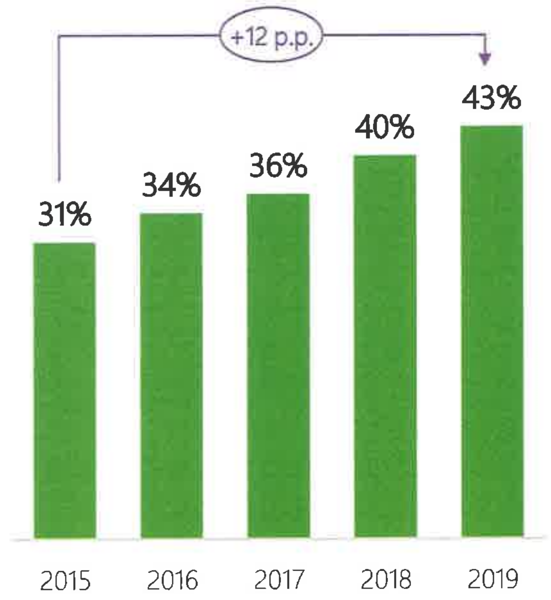
Structure of key telecom services revenue

Increase in revenue from Internet services

Key telecom services revenue, UAH m



Revenue share from Internet services



* Internet and data transfer services

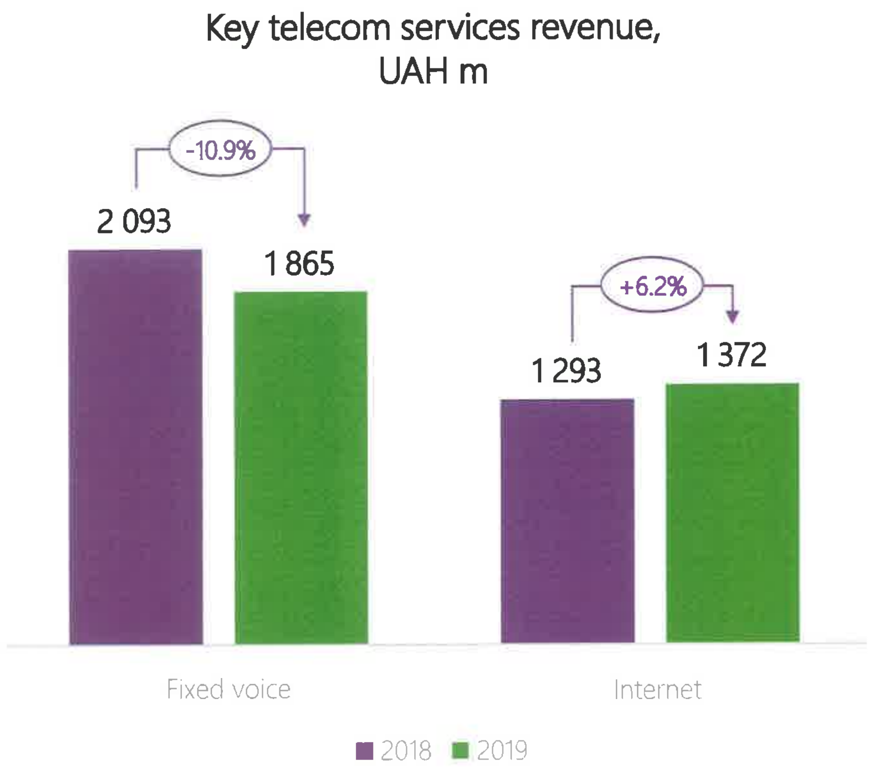
4 **Results for the Year 2019**

B2C

▪ 2.3 m subscribers	ARPU ▪ 2018 – UAH 51 ex. VAT ▪ 2019 – UAH 58 ex. VAT
▪ 1.04 m subscribers ▪ +280 settlements with GPON ▪ coverage in 2,420 settlements (+7%)	ARPU ▪ 2018 – UAH 86 ex. VAT ▪ 2019 – UAH 99 ex. VAT
▪ 78 k subscribers ▪ 14% IPTV penetration among FTTx subscribers	▪ 120+ channels and radio stations ▪ 10 k film library

B2C

Increase in revenue from Internet services



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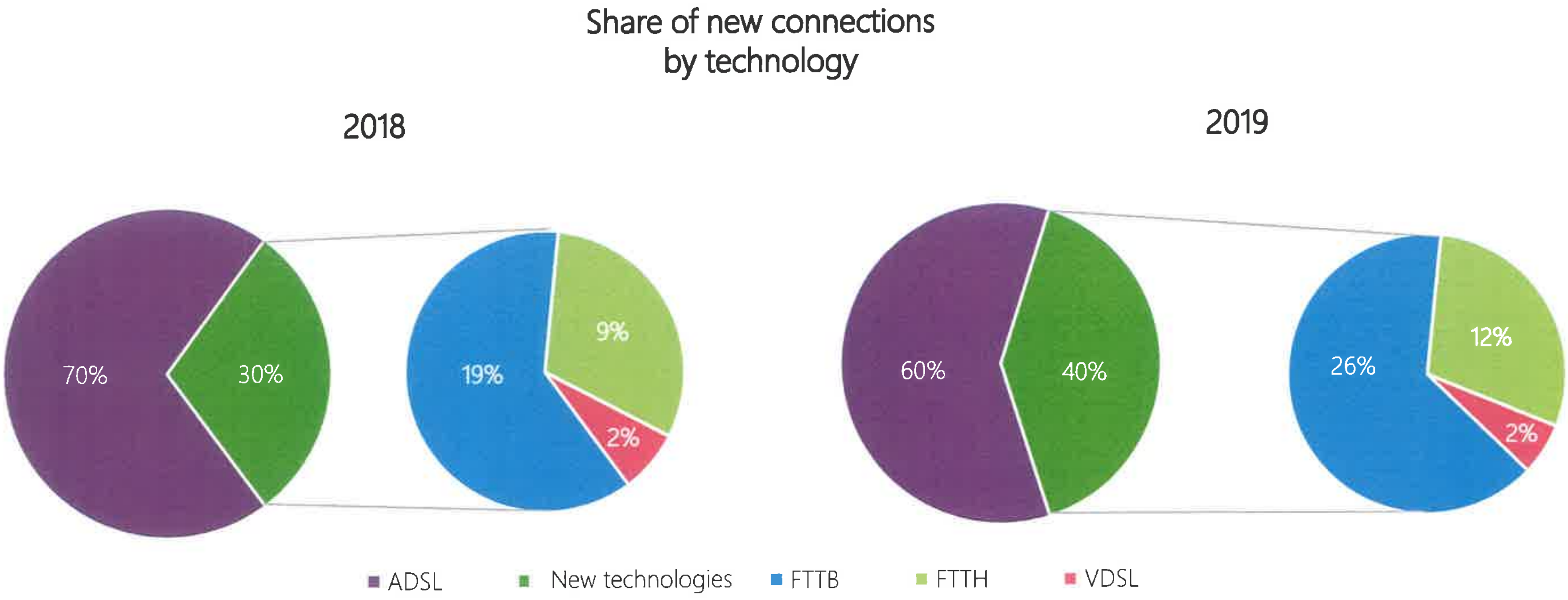
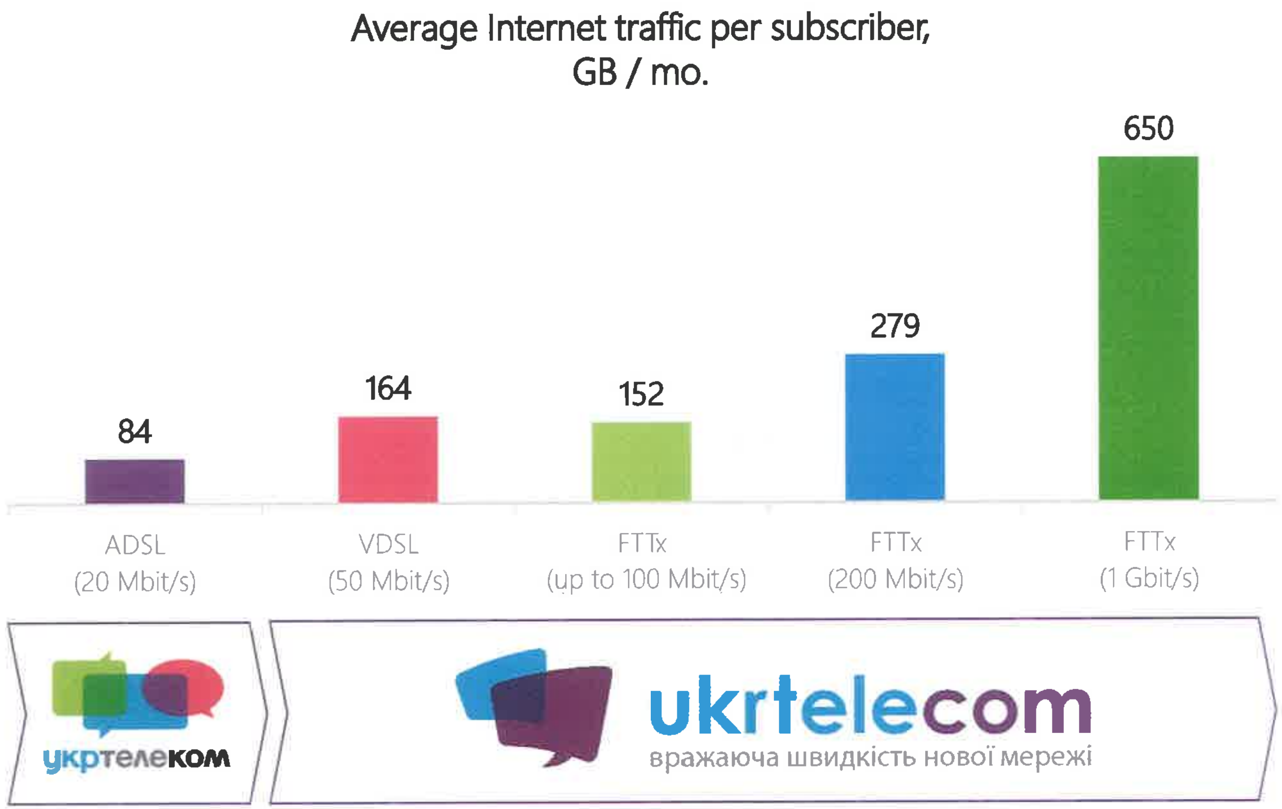
B2C

Increase in the share of optical connections



B2C

Internet traffic by technology



4 **Results for the Year 2019**

B2B

- 790 k subscribers

ARPU
- 2018 – UAH 68 ex. VAT
- 2019 – UAH 70 ex. VAT

- 150 k subscribers

ARPU
- 2018 – UAH 175 ex. VAT
- 2019 – UAH 198 ex. VAT

- 5,800 Units (93% utilization)

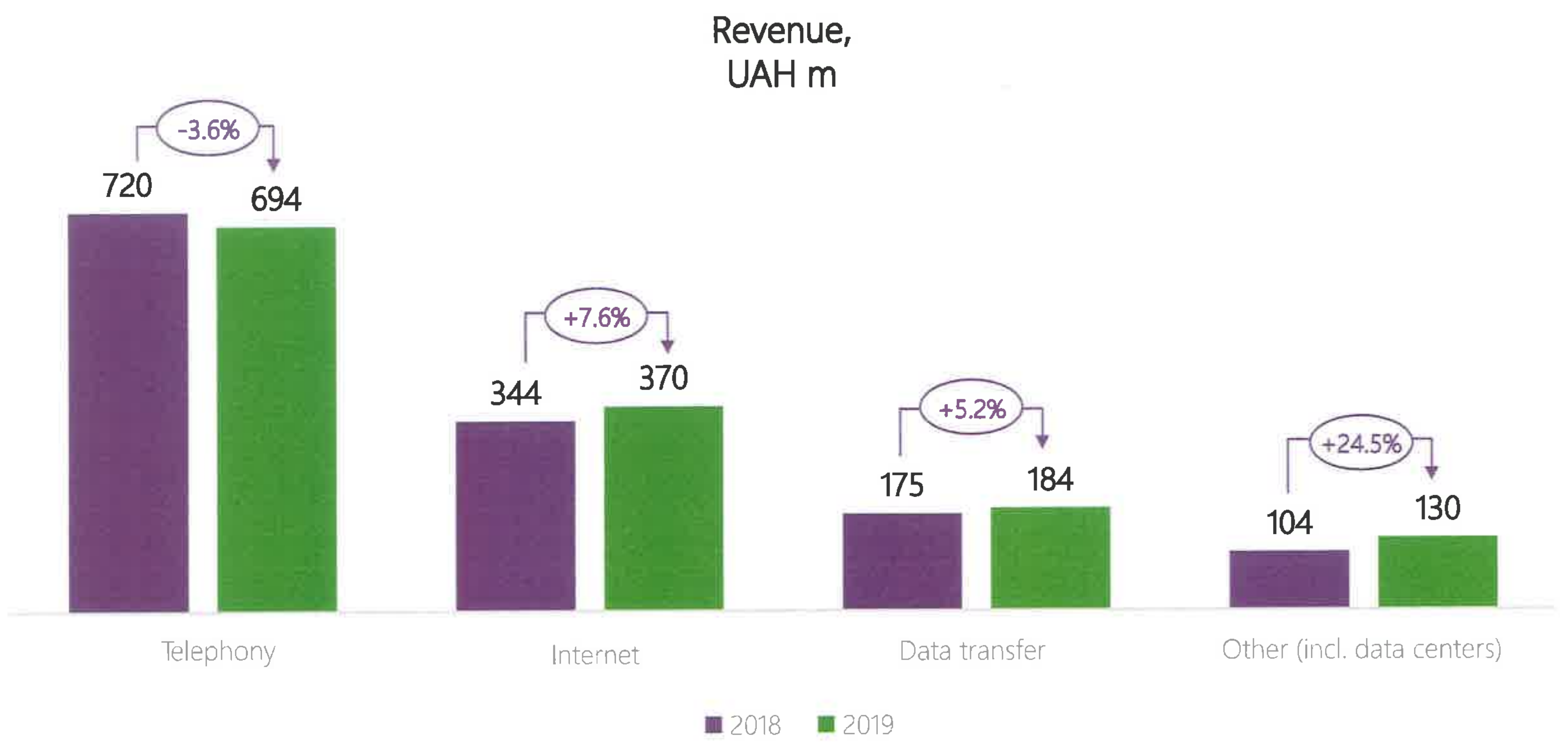
- 20.2 k lines (+13% y-o-y)

- 1.3 k screens

- +51% revenue y-o-y

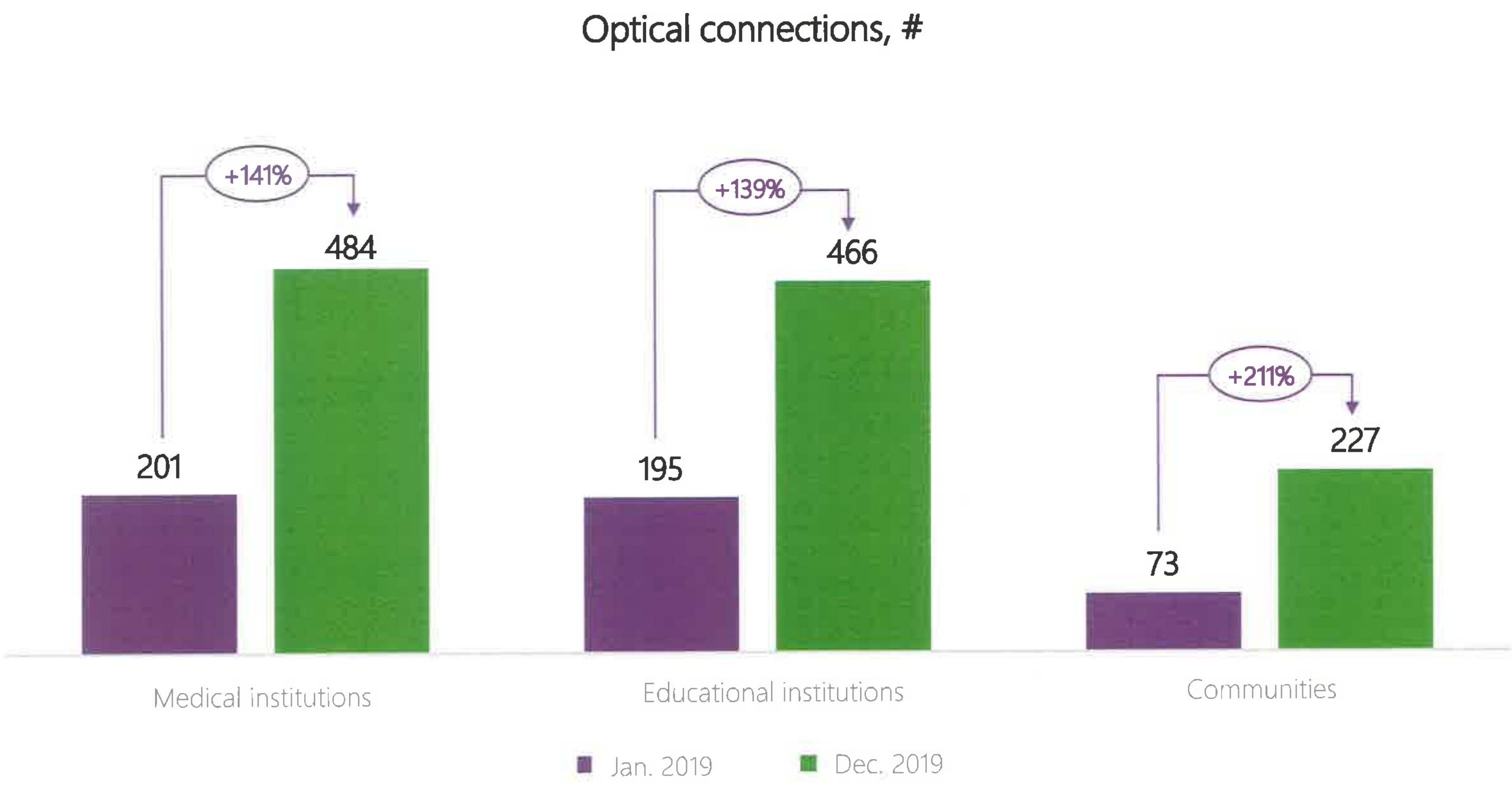
B2B

Revenue growth from ICT services



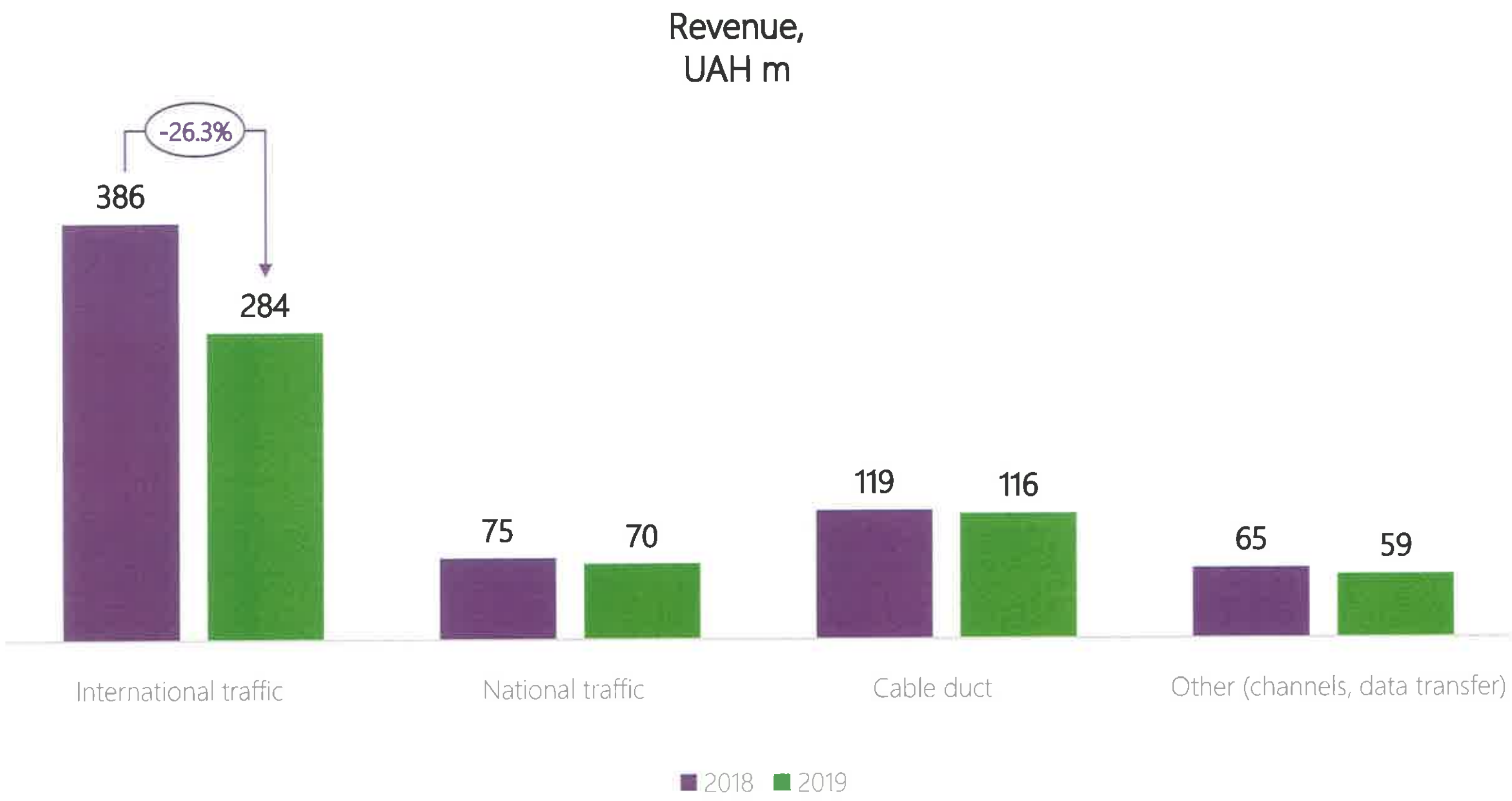
B2B

Increase in subscriber base of social infrastructure objects



4 **Results for the Year 2019**

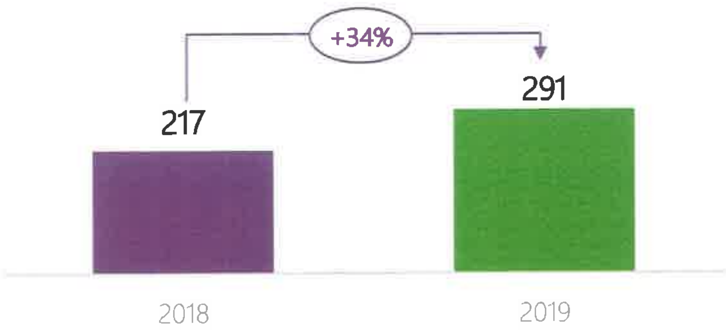
B2O



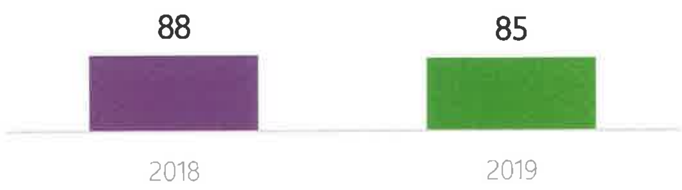
Revenue from asset management

Increase of revenue from lease of commercial real estate

Revenue from lease of commercial real estate, UAH m



Revenue from technological lease, UAH m

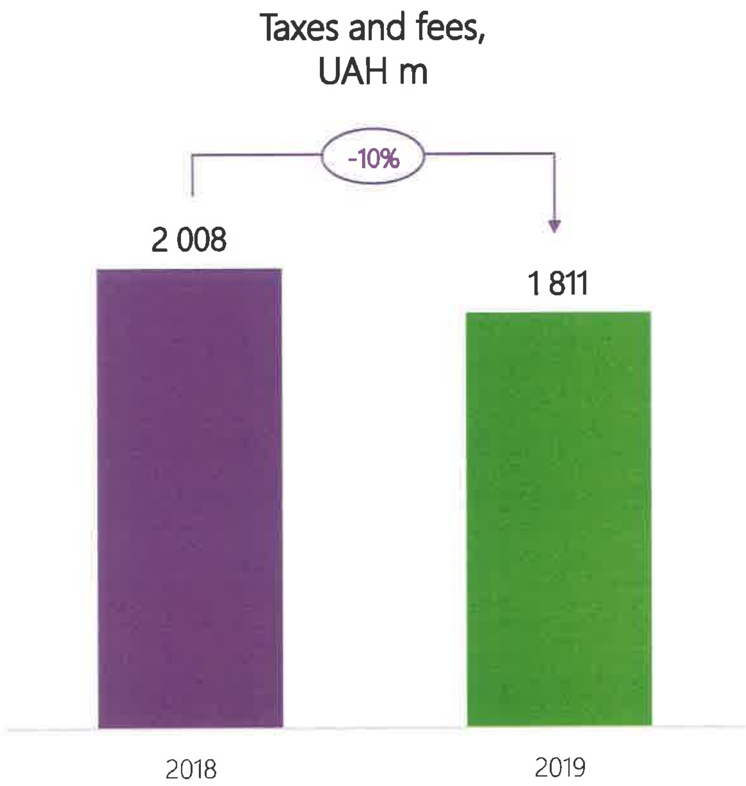


Revenue from sale of disposed assets, UAH m*

* included in Other operating income according to the consolidated financial statements 2019

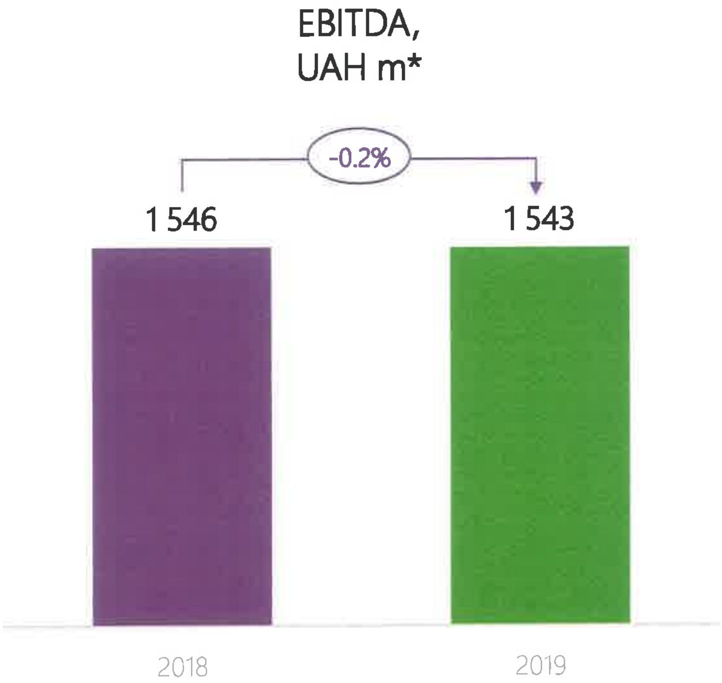
Taxes and fees

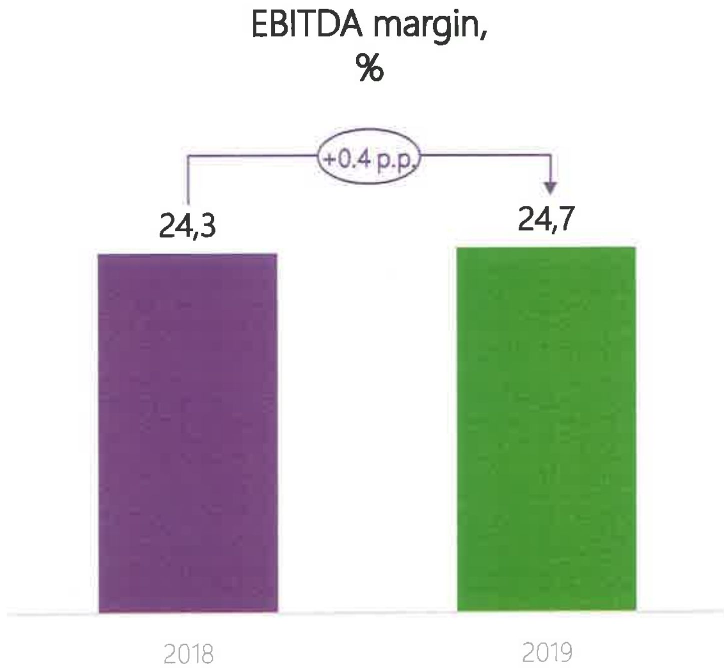
Ukrtelecom is one of the largest payers of taxes and fees in telecom industry



*excl. TryMob LLC

EBITDA



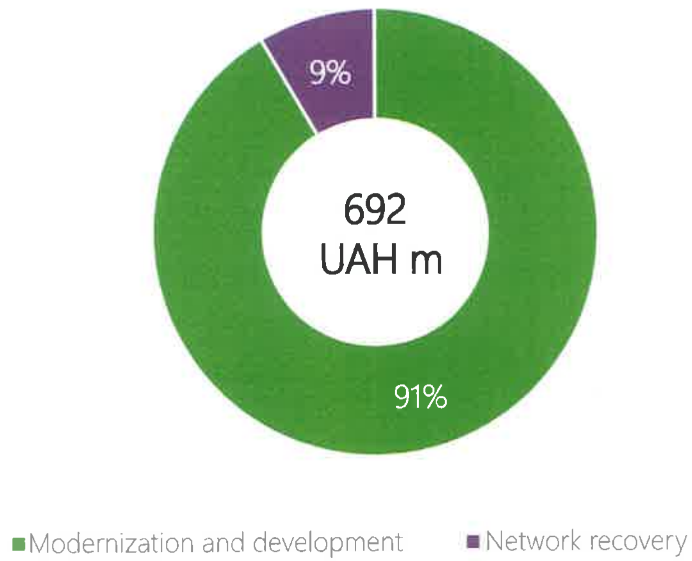


* According to the management accounting. Adjusted EBITDA according to the financial statement 2018: UAH 1 551 m; 2019: UAH 1 552 m

Capital expenditures

Capital expenditures were mainly directed at network modernization and development

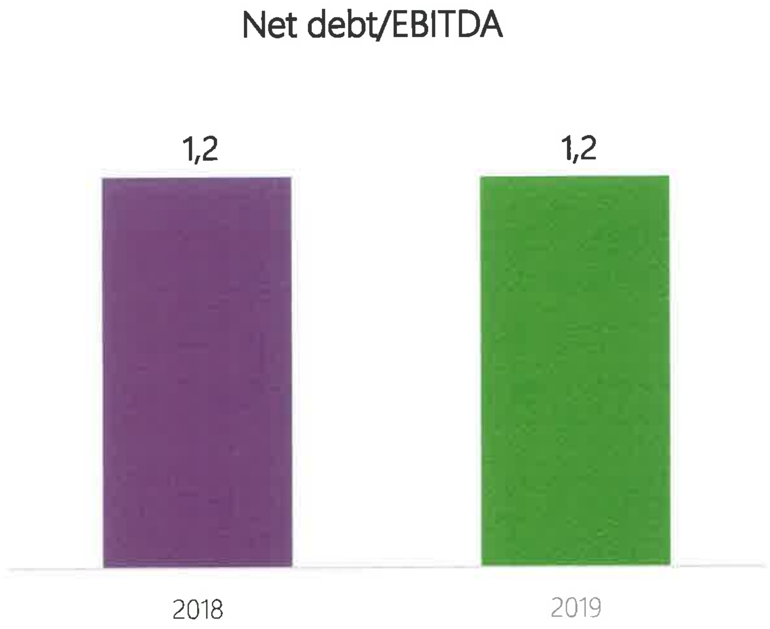
Capital expenditures structure in 2019*

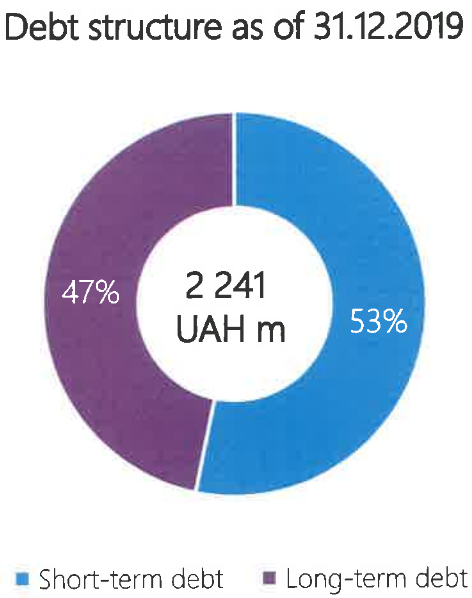


*According to the management accounting. Additions of construction in progress according to the Note 6 of the financial statement in 2019 – UAH 626 m
** excl. TryMob LLC

Liquidity and debt

The Company has a stable financial position and low net debt to EBITDA ratio





Infrastructure development

Core network

IMS core,
8 P, 81 PE routers, 1.7K of 10 Gb ports

Transport network

Internal 1 060 Gbps, external 250 Gbps, parity channels 550 Gbps

Fiber optic network

54 k km (+4 k km in 2019)

Internet access network

2.4 k settlements (+160 in 2019)

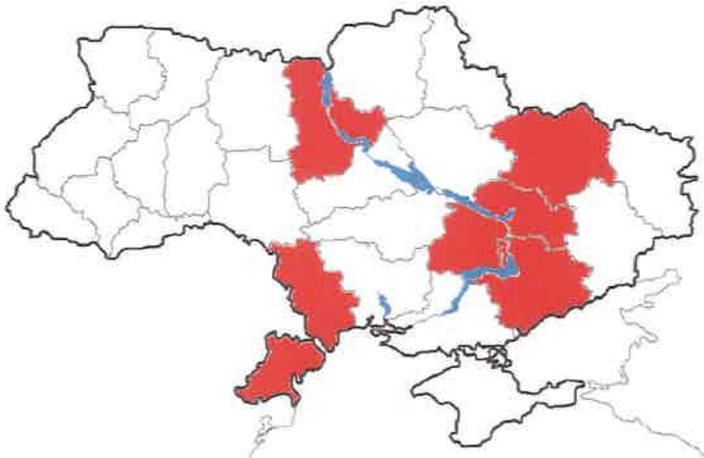
Thefts and malicious damages of telecom infrastructure

In 2019, Ukrtelecom recorded:

- 13 k cases of theft and damage;
- 1.7 k km of cable stolen or damaged.

TOP 5 oblasts by number of cases:

Dnipropetrovsk	4 730
Kyiv	1 614
Odesa	1 558
Zaporizhzhya	1 213
Kharkiv	976



In order to reduce the number of thefts and preserve telecommunication infrastructure, the Company cooperates with law enforcement bodies and private security organizations, installs locking devices on manholes, replaces copper cables with optical ones and switches to the use of other modern technologies (i.e. FMC).

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Research and innovation

In 2019, Ukrtelecom implemented modern technologies:

- started large-scale implementation of Fixed Mobile Convergence (FMC) technology to restore fixed voice services following thefts and damages of telecom infrastructure;
- introduced Unified Endpoint Management (UEM) platform to manage enterprise applications, mobile devices and PCs for more than 8,000 Company's employees. UEM implementation in Ukrtelecom was recognized as the largest in Eastern Europe at the International Forum "Mobileiron LIVE! 2019 »;
- continued to invest in the development of fiber optic access networks using GPON and Ethernet technologies;
- expanded the capacity of the DWDM transport network by building six new 100 Gbps optical channels;
- continued to use the most up-to-date types of optical fiber.

In 2019, Ukrtelecom's representatives took an active part in scientific and technical work:

- participated in the development of international and national regulatory documents, in particular:
  - two State Technical Standards Committees: TC 155 "Radiotechnology" and TC 157 "Telecommunications";
  - the Technical Commission of the State Security Service of Ukraine on determining the list of technical equipment that can be used in public telecommunication networks of Ukraine;
  - 15th International Telecommunication Union (ITU) Study Group.
- participated in seven specialized international scientific and technical conferences where they presented scientific reports;
- A representative of Ukrtelecom is a member of the International Telecommunication Union (UN agency) and was recognized as the "Telecommunications Expert of the Year" at the Telecom Ukraine 2019 International Conference.

5 Strategic Directions of Development

- Strategic priorities of Ukrtelecom's development remain unchanged, i.e. to maintain a leading position in the telecom market of Ukraine in the long term by modernizing telecom network and developing it in the most promising locations;
- Implementation of this task in 2019 was facilitated by realization of projects in three strategic directions of Ukrtelecom's business development:

1 Expansion and modernization of the telecom network

- Construction of new modern fiber-optic networks;
- Modernization of the existing network.

2 Development of adjacent and additional business lines

- Smart home, Internet of things, cybersecurity, cloud solutions, remote control network services (Smart Wi-Fi, SD WAN) etc;
- Lease of real estate, released in the process of telecom network modernization.

3 Further increase in operational efficiency

- Modernization of the service portfolio with regard to technological and market factors;
- Implementation of management system and automation of business processes.

Expansion and modernization of the telecom network

Brownfield

- Project on GPON network development in small settlements of Ukraine;
- In 2019, more than 2,000 km of fiber optic communication lines were laid in 280 settlements, of which 160 settlements had no Ukrtelecom's Internet network before;
- 10.7 k new subscribers connected, 4.6 k existing subscribers switched from ADSL to GPON.

FTTB Swap

- Stage 6 of the Project implemented: FTTB network with a total capacity of 2 k ports in 12 settlements constructed;
- In total, 11 k new Internet subscribers connected, 7.7 k existing Internet subscribers switched from ADSL to FTTB Ethernet.

B2B Optics

- 283 medical institutions and 271 educational institutions connected to the optical Internet;
- 2.7 k optical Internet services in 154 united territorial communities connected.

Development of adjacent and additional business lines

Development of adjacent business lines

- The total capacity of Ukrtelecom's data centers increased by 35% in 2019;
- The number of cloud PBX lines (VPBX) increased by 133 to 20 k in 2019;
- Revenue from cybersecurity services (anti-DDOS) increased by 51% in 2019.

Lease of real estate, released in the process of modernization

- Ukrtelecom's real estate portfolio comprises 2.8 m m^2;
- As of the end of 2019, 350 k m^2 were leased and 1.3 k real estate objects not involved in operating activities were offered for rent;
- 25% of spaces are located in regional centers.

Further increase in operational efficiency

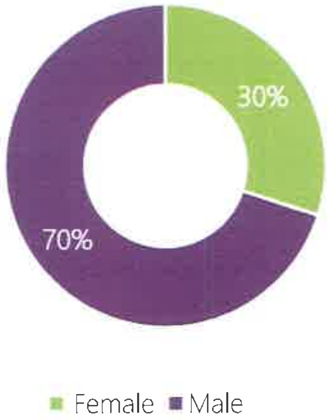
Modernization of the service portfolio	▪ Wired broadcasting service discontinued in Odesa since January 1, 2019; ▪ Wired broadcasting service discontinued in Dnipro since April 1, 2019.
Alternative telephony	▪ The Project combines capabilities of both mobile and fixed voice communication; ▪ According to the resolution of the Cabinet of Ministers of Ukraine, convergence technology is approved as a technology for providing fixed voice communication along with classic wired technology; ▪ Phase II of the pilot project on implementation of convergence communication in Kyiv, Kharkiv, Dnipro, Zaporizhzhya, Irpin and 250 villages completed, large-scale implementation on the whole territory of Ukraine started; ▪ As of the end of 2019, ~6.8 k subscribers were using the alternative telephony service based on convergence technology.
Management and automation of business processes	▪ Functionality of the system for remote control of tasks of field technical personnel expanded; ▪ Introduction of the new inventory system is ongoing; ▪ End-to-end automation of key client processes is ongoing (trouble-ticketing, sales, connection, service).

Human Resources

Ukrtelecom is the largest employer in the telecom industry of Ukraine

Structure of the Company's staff as of the end of 2019

Gender structure of managers as of the end of 2019



Payroll and deductions, UAH m

- Ukrtelecom PJSC has a trade union organization which is a part of the Trade Union of Communication Workers of Ukraine;
- The Administration of Ukrtelecom PJSC and the United Trade Union Organization report semiannually on the implementation of terms of the collective agreement, which was fully executed in 2019.

*The average number of the Company's employees in 2019 is 19 090 persons
** excl. TryMob LLC

Human Resources

Training and development projects

Group of employees	Program	Essence	Employees trained in 2019
Management	"Academy of Management"	Development of managerial skills of senior management	356
	"School of Management"	Development of managerial skills of middle management	
Sales specialists	B2C	Development of sales skills	535
	B2B	Development of sales skills	100
Technical and IT specialists	Technical training	Professional skills training	243
All employees	Corporate training	Development of corporate competencies	472
	Organization of external trainings	Training of professional skills by external providers upon business requests	112
Total classroom training			1 818
Remote classroom training in all areas of study			3 093

Labor protection

In 2019, Ukrtelecom PJSC fully complied with the requirements of the Ukrainian labor protection and fire safety legislation

Labor protection

- 207 comprehensive measures to improve working conditions implemented
- 40 permits for operation of machines, mechanisms, high-risk equipment/ performance of high-risk works obtained

Fire safety

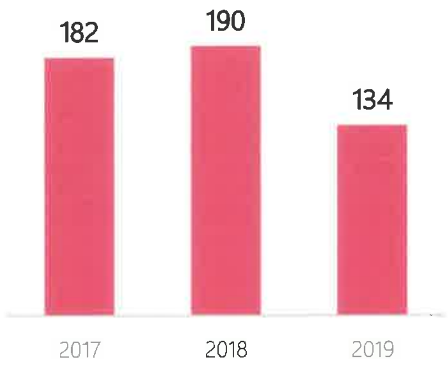
- 41 objects equipped with new fire protection systems

Social contribution

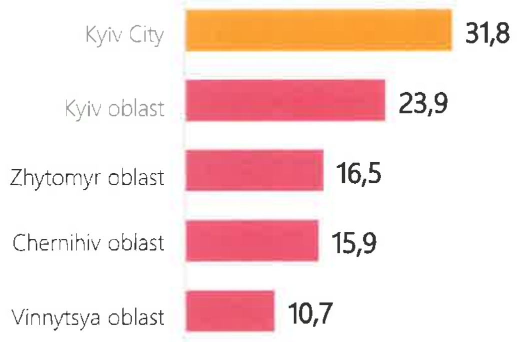
As part of its obligations to the state, Ukrtelecom provides telecom services to the privileged categories of citizens

Receivables for the services rendered to the privileged categories of citizens as of 31.12.2019

Receivables as of year end, UAH m



Largest debtors among local budgets, UAH m



- In accordance with the legislation of Ukraine, Ukrtelecom provides communication services to more than 400 k citizens of the privileged categories
- Among them, there are:
  - Large families
  - Widows of the ChNPP* liquidators
  - ChNPP liquidators of the 1st and 2nd categories
  - Participants in hostilities
  - Persons with disabilities of groups I and II
  - Veterans of public services (firefighters, Ministry of Internal Affairs etc.)

As a socially responsible company, Ukrtelecom continues to provide telecom services to privileged categories of citizens despite significant debts of local budgets

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* Chornobyl Nuclear Power Plant

Social contribution

"The Best with Ukrtelecom: Games of Interns"

This is a social education project for students of the 3rd – 6th year of study at universities of Ukraine (Kyiv, Lviv, Odesa, Kharkiv, Dnipro), aimed at broadening the knowledge of participants about specifics of the telecommunication industry and general principles of management. Duration is 5 weeks: 4 weeks of workshops and 1 week to solve a business case. The most successful participants of the project are offered an internship with the Company with a future job prospect

Український пакт заради молоді

The educational project is a part of the UKRAINIAN PACT FOR YOUTH-2020 under the auspices of the UN, which promotes development and strengthening of cooperation between business community and education sector

Advantages

- Students of different majors receive experience in the largest telecommunication company of Ukraine;
- Students gain knowledge directly from practitioners who solve business tasks every day;
- Attraction of active, talented and motivated young professionals.

Achievements in 2019

5 full-time employees who successfully completed an internship and received their first job in Ukrtelecom

55 trainees who gained their first work experience in a large national company

70 participants who were learning from the Company's managers and business trainers and gained knowledge and skills to build their own career

Social contribution

- In 2019, Ukrtelecom PJSC was awarded a diploma by the Ministry of Youth and Sports of Ukraine for its significant contribution to the development of Ukrainian youth and active participation in the implementation of the Ukrainian Youth Pact - 2020;
- This award was given only to 9 companies among 123 signatories of the pact.

- Ukrtelecom was ranked TOP-25 Employers Open to Talent Under 25 for Support in Stud-Point Mission, Openness to Young Talents and Empowerment, Active Position and Work with Students, Creation of New Opportunities for Career Development;
- The winners were selected by the Stud-Point team and a student focus group.

Company management

Chief Executive Officer	Yuriy Kurmaz
Chief Financial Officer	Lyubomyr Kotsyumbas
Chief Marketing Officer of the Mass Segment	Denys Zakharenko
Chief Marketing Officer of the Corporate Segment	Mykola Davydenko
Chief Technical Officer	Dmytro Mykytyuk
Chief Information Officer	Kyrylo Honcharuk
Corporate Relations Officer	Ivan Kolomoiets
Human Resources Director	Tetyana Petruk
Business Support Director	Dmytro Omelchenko
Chief Security Officer	Mykola Potimko
Chief Strategy Officer	Ihor Yaremchuk
Head of Legal and Business Support	Oleksandr Bilonozhko
Head of Corporate Communications	Mykhailo Shuranov

Risk management

Risk management in the Company is based on an integrated system of internal analysis and control

To manage risks effectively, the following measures are implemented:

1	regular identification and assessment of risks that affect the achievement of strategic and operational objectives;
2	decisions are made with regard to the existing as well as potential risks and opportunities;
3	selection of the optimal risk management strategy accounting for the degree of impact and cost of management measures;
4	regular monitoring of the effectiveness of risk management measures.

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Independent auditor's report

To the Shareholders and Supervisory Board of PJSC "Ukrtelecom"

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the 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 are presented on pages 1 to 50 and comprise the consolidated balance sheet (statement of financial position) as at 31 December 2019, and the consolidated income statement (statement of comprehensive income), consolidated statement of changes in equity and consolidated cash flow statement 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 effects of the matters described 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 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for qualified opinion

(i) Valuation of copper cables intended for release

The Group applies a revaluation model for measuring its property, plant and equipment after initial recognition. This model requires, according to IAS 16, *Property, plant and equipment*, that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using a fair value at each reporting date.

As at 31 December 2019 the Group recorded, based on the independent appraiser's report, an upward revaluation of certain telecommunication assets intended for release (copper cables) to the fair value of UAH 234,593 thousand. Such fair value was determined based on the inputs from the Group's non-accounting registers that were not reconciled with the accounting records. The respective assets are part of the telecommunication assets intended for release (Note 6). Due to the limitations of the non-accounting registers, the fair value recorded by the Group was not determined reliably. As a result, property, plant and equipment was misstated, and the effect of that misstatement has not been determined.

Further, due to the nature of the accounting records, the Group has not made an accurate split of the entire revaluation effect for all groups of property, plant and equipment between impairment losses and revaluation surplus. The effect of this departure from IFRS has not been determined.

(ii) *Non-current assets held for sale – investment in subsidiary LLC Trimob*

As discussed in Note 9 to the consolidated financial statements, as at 31 December 2019 and 2018 the Group classified its investment in 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 2019 included the assets classified as held for sale in the amount of UAH 75,244 thousand (31 December 2018: 106,683 thousand), liabilities associated with those assets held for sale in the amount of UAH 32,556 thousand (31 December 2018: UAH 45,978 thousand) and loss from discontinued operations, net of tax, in the amount of UAH 297,891 thousand (2018: UAH 297,156 thousand).

IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, requires classification of an asset as held for sale provided that such asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets 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 2018 and 2019, LLC Trimob could not be classified as an asset held for sale at the respective dates in accordance with IFRS 5 requirements. Carrying amounts of assets and liabilities of LLC Trimob should have been included in the respective assets and liabilities lines of the consolidated statement of financial position, after adjusting 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 has not been 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 (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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* section 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 audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recognition and measurement of revenue from telecommunication services	
Recognition of revenue from contracts with customers was determined as a key audit matter because there is an inherent industry risk around the accuracy of revenue recorded in the IT billing systems and due to the significance of volumes of data processed by the systems. Revenue from contracts with customers is recognised when services are provided to customers. For certain revenue streams, the underlying data records are captured and the revenue transactions are recorded by the IT billing systems. Details of the accounting policies for revenue recognition and an analysis of revenues are disclosed in Notes 3 and 18, respectively, to the consolidated financial statements.	Among other, with the involvement of our IT specialists we performed the following procedures: - Testing of the key controls over recognition of revenue transactions. - Reconciliation of data from the billing systems to accounting registers. - Plausibility check for relationship between revenue, trade receivables and cash. - Analytical procedures over revenue reported for the period, including analysis of monthly fluctuations with regard to customer churn data to identify unusual sales trends. - Assessment of the expected customer relationship period by observing past customer behaviour and assessing internal customer churn data. On a sample basis we reviewed contracts with customers and tested that performance obligations identified by the Group were consistent with the terms and conditions in the underlying contracts. We have analysed the disclosure of information on revenue presented in the Note 18 to the Group's consolidated financial statements.
Adoption of IFRS 16 Leases effective 1 January 2019	
The Group has a significant portfolio of the lease contracts for land and premises. The Group opted to apply IFRS 16 using modified retrospective approach and applied the practical expedients available under the standard regarding short-term leases and low-value items. The application of the new standard gave rise to right of use assets of UAH 103,170 thousand and UAH 103,038 thousand of related lease liabilities as at 1 January 2019. The assessment of the impact of the new standard is significant to our audit, as balances recorded are material, the update of the accounting policy requires policy elections and the implementation process to identify and process all relevant data associated with the leases is complex. The measurement of the right-of-use assets and lease liability is based on the assumptions such as discount rates and the lease terms, including termination and renewal option. Hence, this was one of the matters of most significance to our audit. The Group disclosed the information on the initial application of IFRS 16 in Notes 3 and 4 to the consolidated financial statements.	Our procedures in relation to the adoption of IFRS 16 included the following: - We obtained an understanding and evaluated the Group's IFRS 16 implementation process, including the analysis of the updated accounting policy and policy elections in accordance with IFRS 16, as well as management judgements applied in identification of arrangements containing lease components. - We compared the list of agreements, included in the calculation of the effects of adoption of IFRS 16 to the data in the Group's accounting registers. - We evaluated management assumptions, in particular the assumptions used to determine the discount rates, lease terms and measurement principles. - We tested the factual inputs and calculation of the right-of-use asset and lease liability prepared by management for a sample of lease contracts. - We have considered the modified retrospective application and adequacy of the Group's disclosures of the impact of new standard in the consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Revaluation of non-specialized property, plant and equipment	
As at 31 December 2019, telecommunication assets intended for release in part of telephone exchanges with total carrying amount of UAH 147,520 thousand and buildings and constructions with total carrying amount of UAH 2,245,451 thousand together constitute 21% of the Group's total assets. The measurement of these categories of property, plant and equipment at fair value was one of the matters of most significance in our audit because of the significance of these balances of property, plant and equipment and respective revaluation surplus to the consolidated financial statements, and the complexity and judgmental nature of estimation processes and assumptions. The Group disclosed the information on the fair values, valuation techniques and related assumptions in the Note 6 to the consolidated financial statements.	Our procedures in relation to this matter included the following: - We have considered the competence, capabilities and objectivity of the external experts engaged by the Group's management for the valuation of property, plant and equipment. - On a sample basis, we analysed the classification of items included in the group of non-specialized property, plant and equipment. - We involved our valuation experts for assessment of the valuation methodology used and benchmark analysis of the assumptions, on which the fair value measurements are based, with the general economic environment, specific industry, and the Group's circumstances. - We analysed the disclosures in the consolidated financial statements in respect of the fair value of property, plant and equipment and agreed them to the results of the revaluation disclosed in the appraiser's report.

Other information included in the Group's Consolidated Management Report and Annual Information of the Issuer of Securities for 2019

Other information comprises the Consolidated Management Report for 2019 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Information of the Issuer of Securities (including the Corporate Governance Report), which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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. If, based on the work we have performed on the other information we obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for qualified opinion* section above:

i) Due to the limitations of the non-accounting registers, the fair value of copper cables intended for release recorded by the Group was not determined reliably. In addition, the Group has not made an accurate split of the entire revaluation effect for all groups of property, plant and equipment between impairment losses and revaluation surplus.

ii) As at 31 December 2018 and 2019, the Group classified its investment in subsidiary LLC Trimob as a disposal group held for sale. That constitutes a departure from IFRS 5.

We have concluded that the other information is materially misstated for the same reasons with respect to the amounts or other items in the Group's Consolidated Management Report affected by these departures from IFRS.

When we read the Annual Information of the Issuer of Securities (including the Corporate Governance Report), if we conclude that there is a material misstatement therein, we will communicate the matter to the Supervisory Board.

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.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Group's consolidated financial statements on 10 August 2017 by the Supervisory Board.

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Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Group is 3 years.

Consistency of the independent auditor's report with the additional report to the Supervisory Board

We confirm that our independent auditor's report is consistent with the additional report to the Supervisory Board of the Group, which we issued on 16 April 2020 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no non-audit services were provided by us to the Group.

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

Olesya Melnyk
Partner
for and on behalf of Ernst & Young Audit Services LLC

Kyiv, Ukraine

28 April 2020

Ernst & Young Audit Services LLC is included in
the Register of auditors and audit firms,
registration number: 3516.

		Date (year, month, day)		2020.01.01
Entity	PJSC Ukrtelecom		EDRPOU	21560766
Location	Ukraine		KOATUU	8039100000
Form of ownership	Public Joint-Stock Company		KOPFG	230
State administration authority			SPODU	
Principal activity	Telecommunications		KVED	61.10
Average number of employees	19,327			2643
Measurement unit:	thousand UAH			
Address	18 Taras Shevchenko Blvd, Kyiv			
Prepared in accordance with (put "v" where appropriate):				
According to the Provisions (standards) of Accounting in Ukraine				
International Financial Reporting Standards				V

Consolidated Balance Sheet (Statement of Financial Position)

Form No. 1 DKUD Code 1801001

Assets	Line code	1 January 2018 (restated)	31 December 2018 (restated)	31 December 2019	Note
1	2	3	4	5	6
I. Non-current assets					
Intangible assets:	1000	181,331	168,407	161,099	
historical cost	*1001*	*637,481*	*655,414*	716,271	
accumulated amortization	*1002*	*(456,150)*	*(487,007)*	*(555,172)*	
Construction in progress	1005	516,418	267,134	319,368	6
Property, plant and equipment:	1010	8,627,127	8,862,054	5,447,690	6
cost or valuation	*1011*	*9,070,786*	*9,819,768*	5,584,076	
accumulated depreciation	*1012*	*(443,659)*	*(957,714)*	*(136,386)*	
Investment property:	1015	319,746	308,111	3,220,534	7
cost or valuation	*1016*	*319,746*	*308,111*	3,220,534	
accumulated depreciation	*1017*	–	–	–	
Long-term financial investments:					
accounted for on an equity basis	*1030*	*76*	*6*	*6*	
other financial investments	*1035*	–	*109*	–	
Long-term receivables	1040	85	24	24	
Deferred tax assets	1045	–	–	37,672	27
Other non-current assets	1090	–	103,800	111,155	8
Total non-current assets	**1095**	**9,644,783**	**9,709,645**	**9,297,548**	
II. Current assets					
Inventories:	1100	124,993	121,969	105,844	
production supplies	*1101*	*82,708*	*74,151*	*59,703*	
finished goods	*1103*	–	–	*4,936*	
merchandise	*1104*	*42,285*	*47,818*	*41,205*	
Trade accounts receivable	1125	531,696	367,159	320,834	10
Taxes and other receivables:					
prepayments made	1130	63,181	90,623	77,735	
settlements with budget	1135	6,865	9,288	18,058	
including income tax	*1136*	*493*	*3,113*	–	
accrued income	1140	4,216	1,053	1,293	
receivables from subsidiaries	1146	–	–	–	
Other current receivables	1155	445,870	438,244	394,273	4, 11
Current financial investments	1160	675,145	445,269	399,285	4, 11
Cash and cash equivalents	1165	284,505	340,793	393,184	28
Deferred expenses	1170	19,444	9,065	22,338	
Other current assets	1190	11,099	54,543	66,788	8
Total current assets	**1195**	**2,167,014**	**1,878,006**	**1,799,633**	
III. Assets held for sale and disposal group	**1200**	**271,908**	**106,683**	**75,244**	9
Total assets	**1300**	**12,083,705**	**11,694,334**	**11,172,424**	

The accompanying notes are an integral part of these Consolidated financial statements.

Equity and liabilities	Line code	1 January 2018 (restated)	31 December 2018 (restated)	31 December 2019	Note
1	2	3	4	5	6
I. Equity					
Registered share capital	1400	4,681,562	4,681,562	4,681,562	12
Revaluation surplus	1405	8,291,743	8,177,384	9,305,848	12
Additional capital	1410	421,133	420,438	418,590	12
Reserves	1415	222,812	222,812	222,812	12
Accumulated deficit	1420	(6,703,785)	(6,547,307)	(7,344,729)	4, 12
Unpaid capital	1425	–	–	–	
Capital withdrawals	1430	–	–	–	
Total equity	**1495**	**6,913,465**	**6,954,889**	**7,284,083**	
II. Non-current liabilities and provisions					
Deferred tax liabilities	1500	595,278	561,473	–	27
Long-term bank loans	1510	–	750,533	639,587	14
Other long-term liabilities	1515	–	174,985	799,511	14, 15
Long-term provisions	1520	329,848	237,848	273,017	13
Target financing	1525	–	–	–	
Total non-current liabilities and provisions	**1595**	**925,126**	**1,724,839**	**1,712,115**	
III. Current liabilities and provisions					
Short-term bank loans	1600	2,048,009	822,167	821,667	14
Promissory notes issued	1605	–	–	–	
Current portion of long-term borrowings	1610	2,550	113,915	190,188	14
Trade and other accounts payable	1615	490,688	406,939	360,287	16
Taxes and other payables:					
settlements with budget	1620	214,455	109,915	170,140	
including income tax	1621	–	–	*47,288*	
social charges (salary related)	1625	8,185	12,093	14,211	
settlements with employees	1630	44,980	50,826	53,433	
advances received	1635	87,617	89,552	99,072	
payables to shareholders	1640	1,898	1,897	1,897	
payables to subsidiaries	1645	–	–	19	
Current provisions	1660	249,249	262,313	285,549	17
Deferred income	1665	2,518	12,041	20,256	
Other current liabilities	1690	1,056,736	1,086,970	126,952	4, 15
Total current liabilities	**1695**	**4,206,885**	**2,968,628**	**2,143,670**	
IV. Liabilities associated with assets held for sale and disposal groups	**1700**	**38,229**	**45,978**	**32,556**	**9**
Total equity and liabilities	**1900**	**12,083,705**	**11,694,334**	**11,172,424**	

Approved for issue and signed

Director	(signature)	Y.P. Kurmaz name	28 / 04 / 2020
Finance Director	(signature)	L.Y. Kotsyumbas name	28 / 04 / 2020
Chief Accountant	(signature)	T.L. Shypina name	28 / 04 / 2020

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

The accompanying notes are an integral part of these Consolidated financial statements.

		Date (year, month, day)	2020.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
State administration authority		SPODU	
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v" where appropriate):			
According to the Provisions (standards) of Accounting in Ukraine			
International Financial Reporting Standards			V
Measurement unit:	thousand UAH		

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

Form No. 2 DKUD Code 1801003

I. CONSOLIDATED INCOME STATEMENT

Item	Line code	Reporting period – 2019	Prior period – 2018 (restated)	Note
1	2	3	4	5
Revenue	2000	5,675,542	5,856,632	18
Cost of sales	2050	(3,878,568)	(3,837,489)	19
Gross:				
Profit	2090	1,796,974	2,019,143	
Loss	2095	–	–	
Other operating income	2120	447,704	421,129	23
Administrative expenses	2130	(990,663)	(1,020,148)	20
Selling expenses	2150	(390,393)	(415,215)	21
Other operating expenses	2180	(116,920)	(177,337)	4, 22
Financial result from operations:				
Profit	2190	746,702	827,572	
Loss	2195	–	–	
Gain from share in associates	2200	–	–	
Finance income	2220	410,453	34,621	25
Other income	2240	–	18,132	
Finance costs	2250	(343,330)	(353,580)	24
Loss from share in associates	2255	–	(70)	
Other expenses	2270	(1,430,697)	(19,495)	4, 26
Financial result from continuing activities before tax:				
Profit	2290	–	507,180	
Loss	2295	(616,872)	–	
Income tax (expense)/benefit	2300	78,774	(82,439)	27
Loss from discontinued operations after tax	2305	(297,891)	(297,156)	
Net financial result of operations:				
Profit	2350	–	127,585	
Loss	2355	(835,989)	–	

II. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item	Line code	Reporting period – 2019	Prior period – 2018 (restated)	Note
1	2	3	4	5
Revaluation (impairment) of non-current assets	2400	829,345	36,243	6
Revaluation (impairment) of financial instruments	2405	–	–	
Accumulated translation differences	2410	(303)	(695)	
Share of other comprehensive income of associates and joint ventures	2415	–	–	
Other comprehensive income (loss)	2445	(43,281)	100,233	13
Other comprehensive income (loss) before tax	**2450**	**785,761**	**135,781**	
Income tax related to other comprehensive income	2455	380,350	(7,631)	27
Other comprehensive income after tax	**2460**	**1,166,111**	**128,150**	
Total comprehensive income	**2465**	**330,122**	**255,735**	

The accompanying notes are an integral part of these Consolidated financial statements.

Line 2400 "Revaluation (impairment) of non-current assets" includes UAH 1,600,348 thousand of gain on revaluation of buildings and constructions of real estate business segment; UAH 12,530 thousand of gain on revaluation of assets intended for release; UAH 217 thousand of gain on revaluation of other property, plant and equipment and loss of UAH 783,750 thousand from revaluation of specialised assets (2018: gain on revaluation in amount of UAH 36,243 thousand).

Line 2445 "Other comprehensive income (loss)" in amount of UAH 43,281 thousand is represented mainly by the actuarial loss on post-employment long-term benefit obligations in amount of UAH 43,189 thousand (2018: income of UAH 100,233 thousand) (Note 13).

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 – 2019	Prior period – 2018 (restated)	Note
1	2	3	4	5
Materials and supplies	2500	873,402	919,898	
Salaries and related charges	2505	1,949,672	1,933,305	
Social charges	2510	396,552	395,328	
Depreciation and amortization	2515	759,569	712,208	
Other operating expenses	2520	1,397,349	1,489,450	
Total	**2550**	**5,376,544**	**5,450,189**	

IV. EARNINGS PER SHARE

Item	Line code	Reporting period – 2019	Prior period – 2018 (restated)	Note
1	2	3	4	5
Average annual number of ordinary shares	2600	18,726,248,000	18,726,248,000	12
Adjusted average annual number of ordinary shares	2605	18,726,248,000	18,726,248,000	12
Basic earnings (loss) per ordinary share, UAH	2610	(0.0446)	0.0068	
Diluted earnings (loss) per ordinary share, UAH	2615	(0.0446)	0.0068	
Dividend per ordinary share, UAH	2650	–	–	
Basic and diluted earnings (loss) per ordinary share from continued operations, UAH		(0.0287)	0.0227	
Basic and diluted earnings (loss) per ordinary share from discontinued operations, UAH		(0.0159)	(0.0159)	

Approved for issue and signed

Director ________ (signature) Y.P. Kurmaz (name) 28 / 04 / 2020

Finance Director ________ (signature) L.Y. Kotsyumbas (name) 28 / 04 / 2020

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

Chief Accountant ________ (signature) T.L. Shypina (name) 28 / 04 / 2020

The accompanying notes are an integral part of these Consolidated financial statements.

	Date (year, month, day)		2020.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v" where appropriate):			
According to the Provisions (standards) of Accounting in Ukraine			
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 – 2019	Prior period – 2018
1	2	3	4
I. Cash flows from operating activities			
Proceeds from:			
Sale of goods and services	3000	6,989,554	7,063,024
Return of taxes and duties	3005	169	6,343
including VAT	*3006*	–	–
Target financing	3010	2,034	1,968
Prepayments from customers	3015	40,282	7,974
Return of advances	3020	78,108	11,988
Interests on current bank accounts	3025	–	–
Penalties, fines and forfeits	3035	–	–
Operating lease	3040	514,274	434,615
Other proceeds	3095	34,488	25,505
Expenditures for payment for:			
Settlements for goods and services	3100	(1,440,986)	(1,664,548)
Payments to employees	3105	(1,578,333)	(1,564,780)
Social charges	3110	(393,987)	(391,079)
Other taxes and duties payable	3115	(1,416,914)	(1,616,977)
Advances to suppliers	3135	(905,913)	(755,415)
Return of prepayments from customers	3140	(8,724)	(12,163)
Other expenditures	3190	(215,756)	(204,498)
Net cash flows from operating activities	**3195**	**1,698,296**	**1,341,957**
II. Cash flows from investing activities			
Proceeds from sale of:			
Financial investments	3200	164,965	1,043,636
Non-current assets	3205	6,207	29,107
Proceeds from receipts of:			
Interest	3215	15,833	28,436
Dividends	3220		–
Derivatives	3225		–
Other proceeds	3250	606,886	276,035
Expenditures for acquisition of:			
Financial investments	3255	(369,160)	(814,543)
Non-current assets	3260	(735,121)	(671,935)
Expenses on derivatives	3270	–	–
Other payments	3290	(963,925)	(471,351)
Net cash flows from investing activities	**3295**	**(1,274,315)**	**(580,615)**

Item	Line code	Reporting period – 2019	Prior period – 2018
1	2	3	4
III. Cash flows from financing activities			
Proceeds from issuance of equity	3300	–	–
Borrowings received	3305	136,016	161,546
Other proceeds	3340	–	390
Repurchase of treasury shares	3345	–	–
Repayment of borrowings	3350	(211,155)	(577,568)
Dividends paid	3355	–	–
Interest paid	3360	(216,912)	(286,428)
Finance lease	3365	–	–
Other payments	3390	(47,513)	–
Net cash flows from financing activities	**3395**	**(339,564)**	**(702,060)**
Net cash flows for the period	3400	84,417	59,282
Cash and cash equivalents at the beginning of the year	3405	341,512	284,505
Effect of change in exchange rates on cash and cash equivalents	3410	(32,190)	(2,275)
Cash and cash equivalents at the year-end	3415	393,739	341,512

Approved for issue and signed

Director	(signature)	Y.P. Kurmaz name	28 / 04 / 2020
Finance Director	(signature)	L.Y. Kotsyumbas name	28 / 04 / 2020
Chief Accountant	(signature)	T.L. Shypina name	28 / 04 / 2020

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

Cash and cash equivalents in Consolidated Cash Flow Statement (line 3415) exceeds the amount of Cash and cash equivalents in Consolidated Statement of Financial Position (line 1165) by UAH 555 thousand. The difference comprises the amount of allowance for expected credit losses recognized for Cash and cash equivalents in the Consolidated Statement of Financial Position.

Line 3095 “Other proceeds” in “Cash-flows from operating activities” includes UAH 24,023 thousand of cash proceeds from Social Insurance Fund for Temporary Disability (2018: UAH 20,638 thousand).

Line 3115 “Other taxes and duties payable” includes UAH 90,827 thousand of income tax paid (2018: UAH 164,314 thousand).

Line 3190 “Other expenditures” in amount of UAH 215,756 thousand (2018: UAH 204,498 thousand) includes cash outflows under agency agreements, foreign currency purchase transactions, payments under the collective agreement, insurance payments and other cash outflows.

Line 3200 “Proceeds from sale of financial investments” includes cash proceeds from the sale of debt securities, return of funds from deposit account with term more than 3 months in the amount of UAH 164,965 thousand (2018: UAH 1,043,636 thousand).

Line 3250 “Other proceeds” includes UAH 601,890 thousand of financial aid by Trimob LLC (2018: UAH 272,482 thousand), and other cash inflows.

Line 3255 “Expenditure for the acquisition of financial investments” includes payments for acquisition of debt securities.

Line 3290 “Other payments” includes UAH 963,925 thousand of cash outflows for loan granted to discontinuing operations of Trimob LLC (2018: UAH 471,351 thousand).

		Date (year, month, day)	2020.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
State administration authority		SPODU	
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v" where appropriate):			
National Accounting Standards			
International Financial Reporting Standards			v
Measurement unit:	thousand UAH		

Consolidated Statement of Changes in Equity

For the year 2019

Form No. 4 DKUD Code 1801005

Item	Line code	Registered share capital	Reva-luation surplus	Additional capital	Other additional capital	Reserves	Accumu-lated deficit	Unpaid capital	Capital with-drawals	Total
1	2	3	4	5	6	7	8	9	10	11
Balance as at 31 December 2018 (as previously reported)	4000	4,681,562	8,177,384	420,438	–	222,812	(5,408,414)	–	–	8,093,782
Restatements: change of accounting policy	4005	–	–	–	–	–	–	–	–	–
Correction of errors (Note 4)	4010	–	–	–	–	–	(1,138,893)	–	–	(1,138,893)
Other changes	4090	–	–	–	–	–	–	–	–	
Restated balance as at 31 December 2018	**4095**	**4,681,562**	**8,177,384**	**420,438**	**–**	**222,812**	**(6,547,307)**	**–**	**–**	**6,954,889**
Net profit (loss) for the period	4100	–	–	–	–	–	(835,989)	–	–	(835,989)
Other comprehensive income (loss)	4110	–	1,202,898	(1,848)	–	–	(34,939)	–	–	1,166,111
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	4290	–	(74,434)	–	–	–	73,506	–	–	(928)
Total changes in equity	**4295**	**–**	**1,128,464**	**(1,848)**	**–**	**–**	**(797,422)**	**–**	**–**	**329,194**
Balance as at 31 December 2019	**4300**	**4,681,562**	**9,305,848**	**418,590**	**–**	**222,812**	**(7,344,729)**	**–**	**–**	**7,284,083**

Approved for issue and signed

Director (signature) Y.P. Kurmaz name 28 / 04 / 2020

Finance Director (signature) L.Y. Kotsyumbas name 28 / 04 / 2020

Chief Accountant (signature) T.L. Shypina name 28 / 04 / 2020

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

The accompanying notes are an integral part of these Consolidated financial statements.

		Date (year, month, day)	2020.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
State administration authority		SPODU	
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v: where appropriate):			
National Accounting Standards			
International Financial Reporting Standards			v
Measurement unit:	thousand UAH		

Consolidated Statement of Changes in Equity

For the year 2018

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 2017 (as previously reported)	**4000**	**4,681,562**	**8,291,743**	**421,133**	**–**	**222,812**	**(5,578,127)**	**–**	**–**	**8,039,123**
Restatements: change of accounting policy	4005	–	–	–	–	–	(214,311)	–	–	(214,311)
Correction of errors (Note 4)	4010	–	–	–	–	–	(1,125,658)	–	–	(1,125,658)
Other changes	4090	–	–	–	–	–	–	–	–	–
Restated balance as at 31 December 2017	**4095**	**4,681,562**	**8,291,743**	**421,133**	**–**	**222,812**	**(6,918,096)**	**–**	**–**	**6,699,154**
Net profit (loss) for the period	4100	–	–	–	–	–	127,585	–	–	127,585
Other comprehensive income (loss)	4110	–	29,720	(695)	–	–	99,125	–	–	128,150
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	4290	–	(144,079)	–	–	–	144,079	–	–	–
Total changes in equity	**4295**	**–**	**(114,359)**	**(695)**	**–**	**–**	**370,789**	**–**	**–**	**255,735**
Balance as at 31 December 2018	**4300**	**4,681,562**	**8,177,384**	**420,438**	**–**	**222,812**	**(6,547,307)**	**–**	**–**	**6,954,889**

Approved for issue and signed

Director (signature) Y.P. Kurmaz name 28 / 04 / 2020

Finance Director (signature) L.Y. Kotsyumbas name 28 / 04 / 2020

Chief Accountant (signature) T.L. Shypina name 28 / 04 / 2020

The accompanying notes are an integral part of these Consolidated financial statements.

1. Organisation structure 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 2019 the Company's shares are owned by LLC "ESU" (92.791%), other legal entities (5.862%), individuals (1.324%) and held by national depository (0.023%).

The consolidated financial statements for the year ended 31 December 2019 comprise the Group 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 31.

The Group provides its customers with nearly all types of modern telecommunications services, in particular fixed-line voice services (international, long-distance and local telephony); data transmission services and VPN; Internet access services; hardware and virtual hosting; videoconferencing; 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.

The Group has an investment is subsidiary that deployed a mobile network using its IMT-2000 CDMA (UMTS/WCDMA) mobile license (commonly referred to as a 3G mobile license). During the year 2011 the Group's shareholders have declared their intention to dispose of the mobile segment. Since then, the Group has classified its investment is subsidiary as a discontinued operation.

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

Ukrainian regulatory and business operating environment

The Group operates on a regulated market. 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 voice communication services (Note 18). Such tariffs may not necessarily reflect the costs of providing telecommunication services and required capital expenditures for network maintenance. This fact, together with other political, economic, tax and legal uncertainties in Ukraine, has and may continue to have implications on the Group's profitability and its ability to recover the carrying value of its non-current assets.

NCRCI also regulates the fees for provision of telecommunication channels set by the operators that hold a monopolistic or dominant 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 dominant position on the telecommunication services market, and operators' fees for provision of cable ducts.

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation and a significant level of domestic and foreign state debt.

Following the significant decline in 2014-2016, the Ukrainian economy started to demonstrate certain signs of recovery and growth. The Ukrainian GDP continued to demonstrate a stable growth (2019: 3.3%; 2018: 3.4%). The inflation rate in Ukraine during 2019 decreased to 4.1% (as compared to 9.8% in 2018). Also, the exchange rate of Ukrainian hryvnia shown a considerable appreciation against US dollar from 27.69 as at 31 December 2018 to 23.69 as at 31 December 2019. The National Bank of Ukraine's refinancing rate was decreased from 18.0% to 13.5%, which caused a corresponding shift in the lending rates of commercial banks.

Main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labour emigration and low level of capital inflow.

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

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. Due to the impairment of telecom business segment, in 2019 the Group reported net loss of UAH 835,989 thousand (2018: net profit of UAH 127,585 thousand). Also, as at 31 December 2019 the Group had a working capital deficit of UAH 344,037 thousand (2018: UAH 1,090,622 thousand).

1. Organisation structure and operations (continued)

The management deploys various initiatives to improve the Group's financial results and cash flows, including network upgrades, cost optimisation programs, etc. However, the Group's liquidity position is still significantly dependent on continuing refinancing of the short-term credit line provided by one Ukrainian bank with a limit of UAH 809,295 thousand as at 31 December 2019 (Note 14). Based on the past history of negotiations and rollovers, the management has a reasonable expectation that the bank will agree to extend the credit line for another year in September 2020, when it becomes due.

According to the terms of the Group's loan agreements, the payments of principal (other than credit line referred to above) and interest scheduled for 2020 amount to UAH 241,518 thousand, which the Group will be able to service out of the forecasted net operating cash inflows.

The management also considered that any events of default under existing loan agreements, including but not limited to significant legal proceedings affecting the Group in adverse manner, may trigger a requirement for the early repayment of the long-term loans. Should this be the case, the Group may pursue an alternative plan of fund raising through sale of a portion of its investment properties. With that, no additional bank financing would be required in order for the Group to continue in operations in the foreseeable future.

Based on the above, the management concluded that going concern basis of accounting is appropriate for these consolidated financial statements.

Corporate governance

The Group's corporate governance bodies comprise the General Meeting of Shareholders, the Supervisory Board and 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 2019, the Group had an internal audit function responsible for internal control, risk management, and reporting directly to the Supervisory Board.

2. Basis of preparation of the consolidated financial statements

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, except as discussed in the significant accounting policies below (Note 3).

The principal accounting policies used in the preparation of these consolidated financial statements are set out below. These accounting policies were applied consistently for all periods presented in the consolidated financial statements. New and amended standards applied by the Group are disclosed in Note 3.

For the presentation of basic forms of the 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.

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.

2. Basis of preparation of the consolidated financial statements (continued)

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 to measure property, plant and equipment after initial recognition, and performs revaluations with sufficient regularity so that the carrying amount of property, plant and equipment at each reporting date does not differ materially from its fair value. The latest valuation was carried out as at 31 December 2019 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 specialised assets attributable to the telecommunication business segment, is determined using a depreciated replacement cost method (Level 3), since there is no information on their market values. The depreciated replacement cost is further tested for economic obsolescence using the discounted the 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 depreciated replacement cost (that is, under conditions of economic obsolescence).

The fair value of non-specialised property, plant and equipment, represented mostly by buildings and constructions, is determined by reference to market values at the valuation date (Level 2).

The key estimates and judgements applied in the course of fair value measurements are as follows:

- Selection of the appropriate valuation premise for each class of the property, plant and equipment;
- Determination of the valuation inputs for economic obsolescence test; and
- Selection of market analogues for buildings and construction valued by market approach.

As disclosed in Note 6, the Group determined that telecommunication assets intended for release and buildings and construction of real estate business segment constitute separate classes of property, plant and equipment that are measured at fair values using the market approach. The reclassification of individual assets to these classes of property, plant and equipment requires significant management judgment and is based on the approved network modernization programs and various other strategic plans and initiatives. A failure to execute on those programs, plans and initiatives would require a reclassification of assets from these classes to the pool of specialized assets that may trigger a downward revision of their fair values in the future periods.

More details on the revaluation of property, plant and equipment, including a disclosure of key valuation inputs, are presented in Note 6. Changes in such inputs 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).

Allowance for expected credit losses

The Group makes allowances for expected credit losses on financial assets (Notes 10, 11). Management judgment is used to estimate the expected credit losses on trade accounts receivable, which is based on the consideration of the current overall and industry-specific economic conditions, historical and anticipated customer performance, expectation about future changes. The expected credit losses for financial assets other than trade accounts receivables are associated with significant uncertainties, especially where the credit ratings of the counterparties are not readily available (Note 11).

Expectation about future changes in the economy, industry, or specific customer/counterparty's conditions may require material adjustments to the allowance for expected credit losses recorded in these consolidated financial statements.

Fair value measurement of financial investments

When the fair value of financial investments (Note 11) cannot be measured based on the quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) models. The inputs to these models are taken from observable markets, where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgment include consideration of inputs, such as discount rates, credit ratings, maturities, income growth, debt levels, and more. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 11 for further disclosures.

2. Basis of preparation of the consolidated financial statements (continued)

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 be the case, management should assess whether the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. In addition, the sale should be expected to be completed 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 and there is sufficient evidence that the Group remains committed to its plan to sell the asset (or disposal group) provided that the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for such sales and its sale within one year period is highly probable. Significant judgment is used to conclude that all these criteria are met as at reporting date. Management believes that the assets classified as held for sale and disposal groups comply with all these criteria (Note 9). 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 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 (mortality, both during and after employment, employees turnover rates, disability and early retirement, etc.) as well as financial assumptions (discount rate and future projected salary). More details are provided in Note 13.

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 the recorded tax benefits and expenses. 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 income taxes are disclosed in Note 27.

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 claimed against the future VAT liabilities related to sales.

3. Significant accounting policies, new standards and interpretations

New and amended standards

In the current year, the Group has applied, for the first time, the following new and amendments to IFRSs and interpretation issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the current year:

- IFRS 16 *Leases*;
- IFRIC 23 *Uncertainty over Income Tax Treatments*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*;
- Amendments to IFRSs *Annual Improvements to IFRS Standards 2015-2017 Cycle*.

Except for IFRS 16 *Leases* ("IFRS 16"), the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's financial statements.

IFRS 16 changed the Group's approach to accounting for leases previously classified as operating lease under IAS 17, which were off-balance-sheet. Prior to the adoption of IFRS 16, operating lease payments were expensed on a straight-line basis over the lease term. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of future lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. Future lease payments consist of:

- Fixed payments (including in-substance fixed payments);
- Variable lease payment that are based on a market index or a rate, initially measured using the index or rate as at the commencement date.

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

The Group applied the practical expedient to retain the classification of existing contracts as leases under IAS 17 instead of reassessing whether existing contracts contain a lease at the date of initial application of IFRS 16.

The Group has elected to apply the following other transitional reliefs permitted by IFRS 16:

- The application of a single discount rate for portfolio of leases with reasonably similar characteristic;
- The exclusion of initial direct costs of obtaining a lease from the measurement of right-of-use assets at the date of initial application.

The Group also elected to use the recognition exemptions for contracts that, at the commencement of the lease, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The nature and effect of these changes are disclosed in Note 4.2 below.

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidated 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.

Subsidiaries included in these consolidated financial statements are as follows:

Name consolidated	Country of incorporation	Activity	Actual % of ownership 2019	2018
Ukrtel GmbH	Germany	Telecommunications	100.0	100.0

As at 31 December 2019 and 2018, the Group's mobile segment is represented by investment in subsidiary LLC "TriMob" (Note 9), which is classified by the Group as a disposal group held for sale. The Company owns 100% of equity in LLC "TriMob".

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

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group's financial assets and financial liabilities are represented by cash and cash equivalents, trade and other accounts receivable, net, current financial investments, bank loans, bonds issued, trade accounts payable and other financial liabilities. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

Financial assets and financial liabilities are initially recognised at fair value, except for accounts receivable arising from contracts with customers which are initially measured at nominal value, in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following criteria are measured subsequently at amortised cost (this category is the most relevant to the Group):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit and loss (FVTPL).

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment review.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade accounts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Default definition

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For credit-impaired financial instruments, lifetime ECLs are included in the effective interest rate at origination. Any changes to the lifetime ECLs originally contained with the credit-adjusted effective interest rate are adjusted through profit and loss.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs earlier. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures. Any recoveries made are recognised in profit or loss.

Financial liabilities

Initial recognition and measurement

The Group's financial liabilities include trade and other payables, loans and borrowings and other liabilities, including lease liabilities.

All financial liabilities are recognised initially at fair value and are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

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

Derecognition of financial liabilities

The financial liabilities are derecognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss.

Trade and other accounts receivable, net

Trade and other accounts receivable, net are measured at initial recognition at transaction price, and are subsequently measured at amortised cost using the effective interest rate method. Trade accounts receivable, net which are non-interest bearing, are stated at their nominal value.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and time deposits with an original maturity of less than three months from the date of acquisition.

Current financial investments

Current financial investments are measured at fair value through profit and loss. Changes in the fair value after initial recognition are included in other income or other expenses.

Bank loans, corporate bonds issued and other long-term liabilities

Interest-bearing bank loans, bonds issued and other long-term liabilities are initially measured at fair value net of directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognised over the term of the borrowings and recorded as finance costs.

Trade and other accounts payable

Accounts payable are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Lease liabilities

The Group assesses whether a contract is or contains a lease, at inception of the contract.

Upon adoption of IFRS 16 from 1 January 2019, the Group recognises lease liabilities, initially measured at the present value of future lease payments, in the consolidated statement of financial position, except for the short-term leases and leases of low-value items.

The Group measures the lease liability at the present value of the fixed or in substance fixed lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

The lease liability is presented as part of Other long-term liabilities or Other current liabilities based on maturity. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group recognises interest on lease liabilities based on incremental borrowing rate, presented within interest expenses in the consolidated income statement.

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

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or market rate, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- In the consolidated statement of cash flows the Group separates the total amount of cash paid into a principal portion and interest (both presented within financing activities).

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

Property, plant and equipment and construction in progress are measured at fair value, as described below, less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

Increases in the carrying amount arising from revaluation are credited to other comprehensive income and increase the revaluation surplus 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 consolidated 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.

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 that 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 the 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.

Right-of-use assets

Right-of-use assets mainly represent the rent of premises for technological purposes. The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. Right-of-use assets are depreciated over the period of lease term. The depreciation starts at the commencement date of the lease. The Group recognises depreciation of right-of-use assets based on the lease term, presented within cost of sales in the consolidated statement of profit or loss.

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

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 on 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.

Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or both.

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 insignificant portion of this property is held for Group's own use.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value to reflect market conditions at the reporting date. 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:

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

Fair value of the Group's investment property is determined based on the valuations performed by 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. 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 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.

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

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 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 of 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 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 value in use, 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:

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

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

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

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.

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.

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 from the end of the reporting period, then they are discounted.

Provisions

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

Value added tax (VAT)

Liability for 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 consolidated 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 contracts with customers is recognised when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

As such, revenues from contracts with customers of telecommunications services, including voice services, access to Internet, transit of traffic, interconnect, access to network are generally recognised over time during which the services are provided to customers.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenues from sales of goods are recognised at a point in time when the goods are delivered to the customers and when the control over the goods have been transferred to the customers.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer, but the right is conditioned on the Group's future performance. A contract asset is transferred to accounts receivable when the right becomes unconditional. A contract asset is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to a contract liability, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

Certain fees and commissions incurred by the Group paid or payable to third parties (agent fees for connection of fixed telephony or internet services, as well as the fees of technical contractors for connection of customers), whose activities resulted in customers entering into sale agreements for the Group's telecommunications service, are qualified as incremental costs. The Group recognises such costs as an asset, included in other assets, if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis over the estimated customer's relationships period.

Expenses

Social expenditure

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

Finance income and costs

Finance income comprises gain on extinguishment of debt, unwinding of discount on initial recognition of financial assets, interest income and foreign exchange gain. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on loans and borrowings, interest on employment benefits, foreign exchange loss and other finance costs.

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 finance income or finance costs, depending on the dynamics of exchange rates, which leads to profit or loss.

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 at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

Deferred tax

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

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

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

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 is provided internally 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 contribution from shareholders, in accordance with their substance. During 2019, there were no such transactions.

Contingent assets and liabilities

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

Contingent liabilities are not recognised in the consolidated 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.

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

Standards and Interpretations in issue but not effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not determined
Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*	1 January 2022
IFRS 17 *Insurance Contracts*	1 January 2021
Amendments to IAS 1 and IAS 8 *Definition of Material*	1 January 2020
Amendments to IFRS 3 *Business Combinations*	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS17 *Interest Rate Benchmark Reform*	1 January 2020
Amendments to *References to the Conceptual Framework in IFRS Standards*	1 January 2020

For these Standards and Interpretations management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

4. Changes in accounting policies, restatement or reclassification

4.1. Correction of errors

When preparing these consolidated financial statements for the year ended 31 December 2019, the Group corrected some errors related to the previous periods. Certain amounts in the Consolidated statement of financial position, the Consolidated statement of comprehensive income, the consolidated statement of changes in equity for the year ended 31 December 2018 were adjusted to correct the following errors:

(i) Recognition of the obligations for the purchase of bonds issued by parent company

In 2015, the Company entered into the agreement whereby it undertook to purchase, for a fixed price, the bonds issued by its parent and held by one state-owned bank. Pursuant to this agreement, in March 2017 the bank deposited such bonds with a notary in the name of the Company, which, according to Ukrainian laws, constitutes a transfer of title for securities, but the Company was attempting to terminate this agreement in court. In 2018, the first instance court ruled in favor of the Company, but this ruling was appealed by the bank and, accordingly, the agreement was not legally terminated as at 31 December 2018. On 23 July 2019, the Supreme Court adopted a final ruling in the case affirming the enforceability of the agreement for the parties.

The respective bonds as well as related payables to the bank have not been, by error, recognised in the Group's consolidated financial statements as at 31 December 2017 and 2018, which represents a departure from IFRS.

In the 2019 consolidated financial statements, management corrected the above error and adjusted corresponding figures as follows:

(in thousands of Ukrainian hryvnias)	Line code	Nature of adjustment	1 January 2018	31 December 2018
Financial statements line items affected				
Current financial investments (increase)	1160	Fair value of the bonds	455,329	445,269
Other current liabilities (increase)	1690	Accounts payable to the bank at nominal amount	1,036,820	1,036,820
Accumulated deficit (increase)	1420	Cumulative effect of correction at each reporting date	581,491	591,551

The correction of error also resulted in an increase of other expenses by UAH 10,060 thousand, being the change in fair value of the bonds during the year ended 31 December 2018.

4. Changes in accounting policies, restatement or reclassification (continued)

(ii) Allowance for expected credit losses on accounts receivable due from the parent company

As at 31 December 2017, 1 January 2018 (the date of the first application of IFRS 9) and 31 December 2018 the Group did not undertake a recoverability analysis for the accounts receivable due from its parent. Therefore, no allowance for doubtful accounts/expected credit losses was recognised in the 2017 and 2018 Consolidated financial statements.

In the 2019 Consolidated financial statements, management corrected the above error and adjusted corresponding figures as follows:

(in thousands of Ukrainian hryvnias)	Line code	Nature of adjustment	1 January 2018	31 December 2018
Financial statements line items affected				
Other current receivables (decrease)	1155	Allowance for expected credit losses	547,297	556,732
Accumulated deficit (increase)	1420	Cumulative effect of correction at each reporting date	547,297	556,732

The correction of error also resulted in an increase of other expenses for the effect of the additional allowance for expected credit losses during the year ended 31 December 2018 in the amount of UAH 9,435 thousand.

(iii) Other corrections or errors

In 2018 and 2017, the Group amortised certain intangible assets which were not available for use, specifically not capable of operating in the manner intended by management. This resulted in the overstatement of the cost of sales by UAH 6,260 thousand in 2018 and by UAH 3,130 thousand in 2017; accumulated amortisation was overstated, and net book value of intangible assets was understated by UAH 9,390 thousand as at 31 December 2018 and UAH 3,130 thousand as at 31 December 2017.

Given that corresponding information presented in the 2019 financial statements is being corrected for the effect of material misstatements discussed in notes (i) and (ii) above, the Group decided to make an additional adjustment to simultaneously correct this error as well.

The cumulative effect on the consolidated statement of financial position of errors corrected by the Group in 2019 is as follows:

(in thousands of Ukrainian hryvnias)	Line code	Adjustment note	31 December 2017 (as previously reported)	Corrections of errors	1 January 2018 (restated)	31 December 2018 (as previously reported)	Corrections of errors	31 December 2018 (restated)
Financial statements line items affected								
Intangible assets:	1000	(iii)	178,201	3,130	181,331	159,017	9,390	168,407
accumulated amortization	*1002*	*(iii)*	*(459,280)*	*3,130*	*(456,150)*	*(496,397)*	*9,390*	*(487,007)*
Total non-current assets	**1095**	**(iii)**	**9,641,653**	**3,130**	**9,644,783**	**9,700,255**	**9,390**	**9,709,645**
Other current receivables	1155	(ii)	993,167	(547,297)	445,870	994,976	(556,732)	438,244
Current financial investments	1160	(i)	219,816	455,329	675,145	–	445,269	445,269
Total current assets	**1195**	(i), (ii)	**2,258,982**	**(91,968)**	**2,167,014**	**1,989,469**	**(111,463)**	**1,878,006**
Accumulated deficit	1420	(i), (ii), (iii)	(5,578,127)	(1,125,658)	(6,703,785)	(5,408,414)	(1,138,893)	(6,547,307)
Total equity	**1495**	**(i), (ii), (iii)**	**8,039,123**	**(1,125,658)**	**6,913,465**	**8,093,782**	**(1,138,893)**	**6,954,889**
Other current liabilities	1690	(i)	19,916	1,036,820	1,056,736	50,150	1,036,820	1,086,970
Total current liabilities	**1695**	**(i)**	**3,170,065**	**1,036,820**	**4,206,885**	**1,931,808**	**1,036,820**	**2,968,628**

The cumulative effect of corrections on the consolidated statement of comprehensive income for the year ended 31 December 2018 was as follows:

(in thousands of Ukrainian hryvnias)	Line code	Adjustment note	31 December 2018 (as previously reported)	Corrections of errors	31 December 2018 (restated)
Financial statements line items affected					
Cost of sales	2050	(iii)	3,843,749	(6,260)	3,837,489
Gross profit	**2090**	**(iii)**	**2,012,883**	**6,260**	**2,019,143**
Other expenses	2270	(i), (ii)	–	19,495	19,495
Financial result from continuing activities before tax					
Profit	**2290**	**(i), (ii), (iii)**	**520,415**	**(13,235)**	**507,180**
Net financial result of operations					
Profit	**2350**	**(i), (ii), (iii)**	**140,820**	**(13,235)**	**127,585**

The changes did not have an impact on OCI for the period or the Group's operating, investing and financing cash flows. All the disclosure amounts within the comparative information were changed respectively.

4. Changes in accounting policies, restatement or reclassification (continued)

4.2. Changes in accounting policies

As discussed in Note 3 above, the Group applied IFRS 16, *Leases*, for the first time while preparing these consolidated financial statements.

Below is an explanation of the difference between operating lease commitments disclosed applying IAS 17 as at 31 December 2018, discounted using incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position at the date of initial application, and lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019:

Operating lease commitments under IAS 17 disclosed as at 31 December 2018	**121,333**
Incremental borrowing rate of the Group as a lessee	19.58%
Discounted operating lease commitments as at 31 December 2018	**84,958**
Effect of exemption for recognition of low-value assets	(25,283)
Effect of exemption for short-term leases	(1,792)
Revised lease terms at IFRS 16 adoption (reasonably certain lease extension / termination options)	45,155
Lease liabilities as at 1 January 2019	**103,038**

Accordingly, the Group recognised (i) right-of-use assets for the leases of technical premises and infrastructure facilities (included in property, plant and equipment) and (ii) corresponding lease liabilities (presented in other long-term liabilities and other current liabilities depending on the payment terms). At the same time, the Group derecognised prepayments related to previous operating leases.

For the contracts that include an option to extend the lease beyond non-cancellable term, the Group considered whether it is reasonably certain to exercise that option and, where the conclusion was positive, measured the respective right-of-use assets and lease liabilities on the basis of fixed lease payments to be made over that extended period. The maximum lease term is determined to be 9 years, which is the Group's business plan horizon.

The effect of the changes as a result of adopting IFRS 16 is as follows:

(in thousands of Ukrainian hryvnias)	**Line code**	**Notes**	**31 December 2018 (restated)**	**IFRS 16 impact**	**1 January 2019 (after adoption of IFRS 16)**
Financial statements line items affected					
Property, plant and equipment	1010	8	8,862,054	103,170	8,965,224
Total non-current assets	**1095**		**9,709,645**	**103,170**	**9,812,815**
Prepayments made	1130		90,623	(132)	90,491
Total current assets	**1195**		**1,878,006**	**(132)**	**1,877,874**
Other long-term liabilities	1515	15	174,985	63,174	238,159
Total non-current liabilities and provisions	**1595**		**1,724,839**	**63,174**	**1,788,013**
Other current liabilities	1690	15	1,086,970	39,864	1,126,834
Total current liabilities	**1695**		**2,968,628**	**39,864**	**3,008,492**

4.3. Changes in presentation and reclassification

The Group has modified the presentation of some items of the consolidated income statement and corresponding disclosures for the year ended 31 December 2018, to ensure comparability of relevant indicators (refer to Note 22 and Note 23).

5. Segment information

The Group identified three reporting segments based on its products and services, as described below. The main business segments offer different services, and are managed separately as they apply to different clients' needs, different technology and marketing strategies:

- 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 (Note 9).
- Real estate management segment, which earns revenues from lease of properties owned by the Group, including investment property and marketable buildings, valued by market approach (Note 6).

The chief operating decision makers (CODM) presented by Director of the Group and senior management team analyze and review monthly and quarterly results of the Group's business segments separately based on nature of services. The CODM evaluate the segment's performance based on revenue and adjusted EBITDA (financial result from operations before depreciation and amortisation). The CODM do not analyze assets and liabilities by reporting segments on a monthly basis, and such review is performed annually.

Segment results, assets and liabilities include items directly attributable to a segment and measured using the same principles as used for financial statements of the Group.

The performance of real estate segment is monitored mainly based on revenue indicators. The Group's financial result from other continuing activities, including Finance costs and income, Other expenses, and Income tax, are managed on a Group level and are not allocated to individual operating segments.

The Group's revenue streams are disclosed in Note 18.

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 308,864 thousand for the year ended 31 December 2019 (31 December 2018: UAH 393,501 thousand) (Note 18). Management considers all revenue, including revenue from services to operators located in foreign countries, as revenue generated in Ukraine.

Major customers

During 2019 and 2018, no individual customer represented more than 10% of the Group's total revenue.

Below is information about reporting segments:

	Fixed line telecommunications		Real estate management		Other		Total	
(in thousands of Ukrainian hryvnias)	2019	2018	2019	2018	2019	2018	2019	2018
External revenues	5,304,015	5,555,210	371,526	301,422	–	–	**5,675,542**	**5,856,632**
Adjusted EBITDA	1,004,589	1,049,428	204,117	194,632	343,443	307,292	**1,637,705**	**1,551,353**
Depreciation and amortisation	(724,866)	(663,476)	(30,179)	(44,126)	(4,524)	(4,606)	**(759,569)**	**(712,208)**
Revaluation recognised in profit and loss	(1,367,719)	–	27,068	17,900	(813)	–	**(1,341,464)**	**17,663**
Revaluation recognised in other comprehensive income	(783,750)	–	1,600,348	68,616	12,747	32,373	**829,345**	**36,243**
Reportable segment assets	5,556,615	8,936,341	5,465,986	2,706,319	149,823	52,674	**11,172,424**	**11,694,334**
Capital expenditure	(625,971)	(654,117)	–	–	–	–	**(625,971)**	**(654,117)**

6. Property, plant and equipment

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

(in thousands of Ukrainian hryvnias)	Buildings and leasehold improve-ments	Buildings and construc-tions of real estate business segment	Switching and other network equipment	Ducts and cables	Telecom-munication assets intended for release	Radio and fixed link transmission equipment	Computers, office and other equipment	Construc-tion in progress	Right-of-use assets	Total
Revalued amount at 1 January 2018	**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 1 January 2018	**2,561,294**	**2,137,022**	**931,584**	**2,133,371**	**345,533**	**88,896**	**429,427**	**516,418**	**–**	**9,143,545**
Additions	–	–	–	–	–	–	–	654,117	–	**654,117**
Transfers(*)	(182,573)	195,884	362,796	238,086	15,010	4,349	264,702	(898,254)	–	**–**
Transfers from/to investment property	(11,248)	41,045	–	–	–	–	–	(122)	–	**29,675**
Disposals	(1,558)	–	(3,640)	(18,616)	(60,608)	(70)	(4,683)	(5,025)	–	**(94,200)**
Depreciation charge	(63,011)	(44,126)	(136,118)	(209,282)	(4,606)	(16,926)	(165,654)	–	–	**(639,723)**
Revaluation	9,745	68,383	–	–	(42,355)	–	–	–	–	**35,773**
Carrying value at 31 December 2018	**2,312,649**	**2,398,208**	**1,154,622**	**2,143,559**	**252,974**	**76,249**	**523,792**	**267,134**	**–**	**9,129,187**
Revalued amount at 31 December 2018	**2,421,715**	**2,400,508**	**1,352,747**	**2,535,318**	**253,388**	**109,445**	**746,647**	**267,134**	**–**	**10,086,902**
Accumulated depreciation	(109,066)	(2,300)	(198,125)	(391,759)	(414)	(33,196)	(222,855)	–	–	**(957,715)**
Carrying value at 31 December 2018	**2,312,649**	**2,398,208**	**1,154,622**	**2,143,559**	**252,974**	**76,249**	**523,792**	**267,134**	**–**	**9,129,187**
Carrying value at 31 December 2018	**2,312,649**	**2,398,208**	**1,154,622**	**2,143,559**	**252,974**	**76,249**	**523,792**	**267,134**	**–**	**9,129,187**
Adoption of IFRS 16 (Notes 4)	–	–	–	–	–	–	–	–	103,170	103,170
Carrying value at 1 January 2019	**2,312,649**	**2,398,208**	**1,154,622**	**2,143,559**	**252,974**	**76,249**	**523,792**	**267,134**	**103,170**	**9,232,356**
Additions	–	–	2,509	2,280	–	–	67,562	625,971	15,544	**713,866**
Transfers (*)	(1,128,153)	1,162,451	192,224	72,316	189,932	2,443	78,311	(569,524)	–	**–**
Transfers from/to investment property	–	(2,919,229)	–	–	–	–	–	–	–	**(2,919,229)**
Disposals	(498)	(52)	(7,051)	(21,322)	(67,986)	(122)	(7,233)	(4,430)		**(108,694)**
Depreciation charge	(55,569)	(30,179)	(172,574)	(166,692)	(4,524)	(14,344)	(166,335)	–	(35,741)	**(645,958)**
Revaluation	(495,904)	1,634,252	(514,114)	(892,688)	11,717	(28,498)	(183,789)	217	(36,476)	**(505,283)**
Carrying value at 31 December 2019	**632,525**	**2,245,451**	**655,616**	**1,137,453**	**382,113**	**35,727**	**312,308**	**319,368**	**46,497**	**5,767,058**
Revalued amount at 31 December 2019	**632,525**	**2,245,451**	**655,616**	**1,137,453**	**382,113**	**35,727**	**448,694**	**319,368**	**46,497**	**5,903,444**
Accumulated depreciation	–	–	–	–	–	–	(136,386)	–	–	**(136,386)**
Carrying value at 31 December 2019	**632,525**	**2,245,451**	**655,616**	**1,137,453**	**382,113**	**35,727**	**312,308**	**319,368**	**46,497**	**5,767,058**

(*) *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.*

6. Property, plant and equipment (continued)

The Group recognised the right-of-use assets for all its leases, except for leases, for which the payments are variable, short-term leases and leases of low-value items. The following are the amounts recogised in profit and loss on all leases:

(in thousands of Ukrainian hryvnias)	**2019**
Depreciation expense of right-of-use assets	35,741
Interest expense on lease liabilities	17,794
Expense relating to short-term leases	47,356
Expense relating to leases of low-value assets	22,011
Variable lease payments	105,081
Total	**227,983**

In 2019, the Group had total cash outflow for leases of UAH 207,586 thousand (2018: UAH 203,622 thousand). The future cash outflows related to leases, for which the Group recognised the right-of-use assets, are disclosed in Note 28 (Liquidity risk).

Revaluation of telecommunication assets intended for release and buildings and construction of real estate business segment

The management determined that telecommunication assets intended for release and buildings and constructions of real estate business segment constitute separate classes of property, plant and equipment, based on the nature, characteristics and risks of the related assets. The telecommunication assets intended for release include copper cables and telephone exchanges that the Group identified as suitable for decommissioning according to the network modernization programs approved by the management. The buildings and constructions of real estate business segment represent a pool of properties that are identified for a transfer to investment properties.

The fair value of telecommunication assets intended for release and buildings and construction of real estate business segment was determined using the combination of techniques utilising market prices of analogues and discounted cash flow. The valuations have been performed by independent appraisers as at 31 December 2019 and are based on the following:

- Copper cable: market prices for the copper, estimated dismantling cost;
- Telephone exchanges: the number of ports in each model of exchanges; the weight of precious metals in ports and selling prices of such precious metals;
- Buildings and constructions: market prices of analogues after adjustment for locations and conditions of individual properties; rental value, discount rate (see Note 7 for unobservable valuation inputs utilised) .

Significant valuation inputs for telephone exchanges and copper cable were as follows:

Category	**Significant valuation inputs**	**Range**
Telephone exchanges	Selling prices (minimal) per port in each model of Telephone exchanges	38,91 – 324,15 UAH per port
Copper cable	Average Copper price (LME index)	December 2019 – 6 062 USD per ton
	Exchange rate UAH/USD	December 2019 – 23.60940 UAH/USD
	Estimated dismantling cost	9.12 - 27.05 UAH per kg

As at 31 December 2019, the management recorded, based on the independent appraisers' report, a revaluation of copper cable, telephone exchanges and buildings and constructions of real estate business segment to the fair of UAH 234,593 thousand, UAH 147,520 thousand and 2,245,451 thousand, respectively (31 December 2018: UAH 97,322 thousand, UAH 155,652 thousand and UAH 2,398,208 thousand, respectively). The fair value adjustment was recorded as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2019**	**31 December 2018**
Telecommunication assets intended for release		
(Charged)/credited to the profit and loss	(813)	-
(Charged)/credited to other comprehensive income	12,530	(42,355)
	11,717	**(42,355)**
Buildings and construction of the real estate business segment		
(Charged)/credited to the profit and loss	33,904	(233)
(Charged)/credited to other comprehensive income	1,600,348	68,616
	1,634,252	**68,383**
Total gain/(loss) on revaluation	**1,645,969**	**26,028**
of which:		
(Charged)/credited to the profit and loss	33,091	(233)
(Charged)/credited to other comprehensive income	1,612,878	26,261

6. Property, plant and equipment (continued)

Revaluation of specialised assets

Specialised assets include those that the Group uses for a provision of telecommunication services. They are specialised in nature and rarely sold in the open market. 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.

Consistent with the prior year, all specialised assets, excluding those located in Donetsk and Luhansk branches, are considered to be a single cash generating unit as they are integrated and it is not possible to identify specific assets or groups of assets that generate largely independent cash inflows.

As at 31 December 2018, the Group determined, by present-valuing its cash flow forecasts for the period of nine years, as approved by senior management, that the fair values of specialised assets were not materially different from their carrying amounts.

The same analysis as at 31 December 2019 indicated an impairment of specialised assets in the amount of UAH 2,151,469 thousand. Of this amounts, UAH 1,367,719 thousand was charged to profit and loss (Note 26) and UAH 783,750 thousand was recorded as other comprehensive loss for the year ended 31 December 2019.

For the purpose of fair value measurement, management used the projected cash flows based on the past performance and its expectations on the future market developments. The applied assumptions and growth rates were based on market data and internal reports and are consistent with the forecasts included in industry 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 table summarises significant unobservable valuation inputs used to determine the fair value of specialised property, plant and equipment (Level 3) as at 31 December 2019 and 2018:

Inputs	2019	2018
Post-tax discount rate	14.1%	16.8%
Terminal period growth rate	4.7%	5.1%
ARPU growth rate fixed line telephony	B2C: from 13.6% in 2020 to 9.3% in 2028, peak growth in 2020 B2B: from 7.6% in 2020 to 5.2% in 2028, peak growth in 2020	B2C: from 10.9% in 2019 to 7.9% in 2027, peak growth in 2019. B2B: from 2.3% in 2019-2027.
ARPU growth rate internet services	B2C: from 14.5% in 2020 to 7.8% in 2028, peak growth in 2020 B2B: from 15.1% in 2020 to 11.2% in 2028, peak growth in 2020	B2C: from 16.7% in 2019 to 3.7% in 2027, peak growth in 2019. B2B: from 17.8% in 2019 to 7.1% in 2027, peak growth in 2020.
Churn rate fixed line telephony	Long-term subscribers base decrease rate of 12.9% starting from 2028 for B2C segments and 8.8% from 2028 for B2B segments. Up to these years it is normalized from current level of 25.8% (B2C) and 13.0% (B2B) to long-term level.	Long-term subscribers base decrease rate of 1.0% starting from 2027 for B2C segments and 0.6% from 2027 for B2B segments. Up to these years it is normalized from current level of 17.9% (B2C) and 6.3% (B2B) to long-term level.
Churn rate internet services	B2C: Outflow of 19.1% in 2020 with subsequent rate reduction to 13.1% growth in subscriber base in 2028. B2B: Outflow of 20.2% in 2020 with subsequent churn rate reduction to 12.3% growth in subscribers base in 2028.	B2C: Outflow of 10.1% in 2019 with subsequent rate reduction to 0.7% growth in subscribers base in 2026. B2B: Outflow of 4.3% in 2019 with subsequent churn rate reduction to 1.2% growth in subscribers base in 2024.

The following table illustrates sensitivity of fair value estimates for specialised assets to changes in the key assumptions as at 31 December 2019:

(in thousands of Ukrainian hryvnias)	% change	Change in fair value estimates
Input		
Post-tax discount rate	+0.5%/-0.5%	(172,607)/192,646
Terminal period growth rate	+0.5%/-0.5%	105,061/(94,449)
ARPU growth rate fixed line telephony	+1%/-1%	548,301/(529,731)
ARPU growth rate internet services	+1%/-1%	784,892/(756,329)
Churn rate fixed line telephony	+1%/-1%	(613,204)/640,142
Churn rate internet services	+1%/-1%	(205,309)/216,173

6. Property, plant and equipment (continued)

Depreciation charge

Total depreciation charge for the years ended 31 December 2019 and 31 December 2018 is as follows:

(in thousands of Ukrainian hryvnias)	Note	2019	2018
Charged to:			
Cost of sales	19	624,949	610,897
Administrative expenses	20	14,439	19,879
Selling expenses	21	3,524	5,330
Other operating expenses	22	3,052	3,618
Total depreciation charge		**645,958**	**639,723**

Pledged assets

As at 31 December 2019 some of the Group's assets are pledged to secure bank loans and other borrowings (Note 14).

7. Investment property

As at 31 December 2019, the Group's investment properties consist of 225 units of real estate with a total space of 536,239 square meters (31 December 2018: 88 units with total space of 60,420 square meters). Revaluation of investment property has been performed by independent appraisers as at 31 December 2019 and is based on combination of techniques utilising market prices of analogues and discounted cash flow.

Key unobservable inputs to valuation of investment properties are summarised below:

Category	Valuation techniques	Significant inputs	2019
Commercial	DCF	Estimated rental value per sqm per month	UAH 79.5
		Average selling price per sqm	USD 400-600 (Kyiv - about USD 1,400)
		Long-term vacancy rate	2-8%
		Discount rate	8.8%
Office property and recreational real estate	DCF	Estimated rental value per sqm per month	UAH 79.5
		Average selling price per sqm	USD 400-600 (Kyiv - about USD 1,200)
		Long-term vacancy rate	about 0%
		Discount rate	14.3%

Reconciliation of the fair of investment property:

(in thousands of Ukrainian hryvnias)	2019	2018
As at 1 January	**308,111**	**319,746**
Re-measurement recognised in profit and loss	(6,836)	18,133
Transfers from/(to) owner-occupied property (Note 6)	2,919,229	(29,675)
Other transactions/transfers	30	(93)
Total at 31 December	**3,220,534**	**308,111**

The profit arising from investment properties carried at fair value is estimated based on key input used during revaluation and is as follows:

(in thousands of Ukrainian hryvnias)	2019
Rental income derived from investment properties	168,747
Direct operating expenses generating rental income	(79,867)
Direct operating expenses that did not generate rental income	(35,281)
Total	**53,599**

As at 31 December 2019, some of the Group's investment properties are pledged to secure bank loans and other borrowings (Note 14).

8. Other assets

Other assets include the assets recognised as capitalised costs to obtain and fulfil a contract as follows:

(in thousands of Ukrainian hryvnias)	2019	2018
As at 1 January, including:	**127,419**	**84,655**
- short-term portion (line 1190)	23,619	14,424
- long-term portion (line 1090)	103,800	70,231
Cost for the period	100,759	84,673
Expenses on terminated subscribers (Note 19)	(39,219)	(22,447)
Amortisation (Note 19)	(36,979)	(19,462)
As at 31 December, including:	**151,980**	**127,419**
- short-term portion (line 1190)	40,825	23,619
- long-term portion (line 1090)	111,155	103,800

Besides capitalised costs to obtain and fulfil a contract, line 1190 includes VAT tax credit in amount of UAH 28,070 thousand and other current assets.

9. 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 2019 and 2018 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 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. 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. However, in 2016 State Property Fund refused to approve the sale of LLC "TriMob" to one interested potential buyer in response to corresponding request of the parent company in compliance to privatization agreement. The Group was not able to complete the sale transaction as at the reporting date due to these developments out of the Group's control.

As at 31 December 2019 LLC "TriMob" is classified as asset held for sale.

Assets held for sale and disposal groups are as follows:

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Assets held for sale and disposal groups – mobile segment		
Intangible assets	12,181	14,700
Construction in progress	28,270	28,076
Property, plant and equipment	–	41,720
Inventories	2,556	2,815
Trade accounts receivable	20,750	3,972
Receivables from budget (VAT receivable)	1,093	1,097
Advances paid	3,881	3,358
Other current accounts receivable	2,966	2,266
Cash and cash equivalents	2,604	8,282
Other assets	1,720	1,425
Deferred expenses	313	310
Total assets held for sale and disposal groups	**76,334**	**108,020**
Less intercompany balances	1,090	1,337
Total assets held for sale and disposal groups net of intercompany balances	**75,244**	**106,683**
Total non-current assets held for sale and disposal groups	**75,244**	**106,683**

9. Assets held for sale (continued)

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

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Liabilities associated with assets held for sale and disposal groups		
Trade accounts payable	14,261	15,273
Current payables on advances received	1,981	1,577
Current payables to budget	11,812	13,479
Current payables on salary related charges	1,934	1,814
Current payables on salaries	1,593	1,739
Other current liabilities	2,106,368	1,753,250
Total liabilities associated with assets held for sale and disposal groups	**2,137,949**	**1,787,132**
Less intercompany balances	2,105,393	1,741,154
Total liabilities on settlements for disposal groups net of intercompany balances	**32,556**	**45,978**

Financial result attributable to discontinued operations is as follows:

(in thousands of Ukrainian hryvnias)	2019	2018
Discontinued operation results		
Net revenue	89,582	61,055
Cost of revenue	(381,748)	(372,199)
Administrative expenses	(64,831)	(64,783)
Selling expenses	(5,705)	(5,502)
Other operating income/expenses, net	(20,047)	(22,693)
Finance income/(costs), net	331	39,263
Total discontinued operation results	**(382,419)**	**(364,859)**
Less result of intercompany transactions	84,527	67,703
Total discontinued operation results net of intercompany transactions	**(297,891)**	**(297,156)**

Cash flows from discontinued operations are as follows:

(in thousands of Ukrainian hryvnias)	2019	2018
Cash flows from discontinued operations		
Net cash from operating activities	(367,823)	(330,842)
Net cash from investing activities	(3,775)	27,787
Net cash from financing activities	365,926	198,869
Net cash flows for the year	**(5,672)**	**(104,186)**

In 2019 net cash flows from discontinued operations include net cash inflows from operations with PJSC "Ukrtelecom" in amount of UAH 266,947 thousand (2018: net cash inflow UAH 119,982 thousand).

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 2019 represent capital expenditures incurred during the years ended 31 December 2011- 2019.

10. Trade accounts receivable

Trade accounts receivable as at 31 December 2019 and 2018 are as follows:

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Trade receivables from:		
Individuals	149,065	204,329
Commercial entities	302,898	301,163
Government agencies	170,771	234,636
	622,734	**740,128**
Allowance for expected credit losses on receivables from:		
Individuals	(45,158)	(53,660)
Commercial entities	(124,717)	(119,708)
Government agencies	(132,025)	(199,601)
	(301,900)	**(372,969)**
Total trade accounts receivable	**320,834**	**367,159**

10. Trade accounts receivable (continued)

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

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Individuals		
- current and overdue less than 90 days	86,336	132,463
- 90 to 180 days overdue	17,703	20,761
- 180 to 360 days overdue	26,025	23,756
- over 360 days overdue	19,001	27,349
Total individuals, gross	**149,065**	**204,329**
Commercial entities		
- current and overdue less than 90 days	171,409	174,747
- 90 to 180 days overdue	8,645	8,160
- 180 to 360 days overdue	7,818	7,222
- over 360 days overdue	115,026	111,034
Total commercial entities, gross	**302,898**	**301,163**
Government agencies		
- current and overdue less than 90 days	36,635	37,791
- 90 to 180 days overdue	15,144	16,786
- 180 to 360 days overdue	28,570	33,599
- over 360 days overdue	90,422	146,460
Total government agencies, gross	**170,771**	**234,636**
Total trade receivables, gross	**622,734**	**740,128**
Allowance for expected credit losses	(301,900)	(372,969)
Total trade receivables, net	**320,834**	**367,159**

The current and overdue less than 90 days category for Individuals in the table above consists mainly of the December revenues (approximately 99%) to be billed in early January next year. The contractual due date for payment of these bills is 20 January.

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 Company's services for a long period of time and consists mainly of the December revenues (approximately 67%) to be billed in early January next year. The contractual due date for payment of these bills is 20 January.

In 2019, the Group wrote off overdue receivables for telecom services of individuals in amount of UAH 34,839 thousand and of legal entities and government agencies in amount of UAH 8,414 thousand.

In 2019, the allowance for expected credit losses on receivables from government agencies decreased mainly as a result of court decisions in favour to the Group on compulsory collection of overdue amounts in total for over UAH 64 million. Specified receivables were accumulated as result of providing fixed-line phone services at reduced fare to subsidised categories of customers, who can be partially financed from local budgets in accordance to legislation.

Impairment of trade accounts receivable as at 31 December 2019 is as follows:

(in thousands of Ukrainian hryvnias)	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
Trade receivables from individuals	149,065	(45,158)	103,907	30%
Trade receivables from commercial entities	302,898	(124,717)	178,181	41%
Trade receivables from government agencies	170,771	(132,025)	38,746	77%
Total trade receivables	**622,734**	**(301,900)**	**320,834**	**48%**

Impairment of trade accounts receivable as at 31 December 2018 is as follows:

(in thousands of Ukrainian hryvnias)	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
Trade receivables from individuals	204,329	(53,660)	150,669	26%
Trade receivables from commercial entities	301,163	(119,708)	181,455	40%
Trade receivables from government agencies	234,636	(199,601)	35,035	85%
Total trade receivables	**740,128**	**(372,969)**	**367,159**	**50%**

10. Trade accounts receivable (continued)

Changes in allowance for expected credit losses is as follows:

(in thousands of Ukrainian hryvnias)	2019	2018
Balance at beginning of the year	**372,969**	**324,054**
Allowance for expected credit losses (due to adoption of IFRS 9)	-	85,920
Charge for the year	95,581	166,833
Reversed for the year	(123,397)	(111,539)
Release of allowance	(43,253)	(92,299)
Balance at year end	**301,900**	**372,969**

Refer to Note 28 for information on credit, concentration, currency and interest rate risks.

11. Current financial investments and other current receivables

Bonds issued by the parent company

As described in Note 4.1 (i), in March 2017 the Group received, for a consideration of UAH 1,036,820 thousand payable in cash, a title to the bonds with par value of UAH 1,000,000 thousand issued by its parent, ESU LLC. The redemption period for these bonds lapsed in 2017.

As at 31 December 2018 and 2019 the bonds are carried at fair values and included in the current financial investments.

(in thousands of Ukrainian hryvnias)	1 January 2018 (restated)	31 December 2018 (restated)	31 December 2019
Current financial investments			
Interest-bearing bonds of the Parent – purchase consideration	1,036,820	1,036,820	1,036,820
Interest-bearing bonds of the Parent – fair value	455,329	445,269	399,285
Accumulated losses from change in fair value	581,491	591,551	637,535
Accumulated losses to purchase consideration	56%	57%	61%

The fair value of the bonds was determined by the Group's internal experts based on the assumption that ESU LLC will undergo a liquidation process whereby it will sell its investment in the Company (92,791% of ordinary shares) and distribute the proceeds among all its creditors. The fair value of the bonds is, therefore, derived from the estimated Company's market value determined using the discounted cash flow model (Level 3).

The key valuation inputs used in the fair value measurements, in addition to those already disclosed in Note 6 and Note 7, were as follows:

Input	**Range**
Estimated duration for disposal and cash proceeds	795 days
Average market discount rate, %	13.8% (2019); 15.53% (2018); 13.25% (2017)

Other current receivables

As at 31 December 2019 and 2018, other current receivables mostly included overdue interest-free loans granted to the parent company ESU LLC with a nominal amount of UAH 737,983 thousand, and other receivables due from the parent:

(in thousands of Ukrainian hryvnias)	1 January 2018 (restated)	31 December 2018 (restated)	31 December 2019
Due from parent company			
Interest-free loans, at amortised cost	737,983	737,983	737,983
Other receivables, at amortised cost	234,394	234,394	234,394
	972,377	**972,377**	**972,377**
Lifetime expected credit losses	(545,349)	(554,784)	(597,908)
Accounts receivable due from parent, net	**427,028**	**417,593**	**374,469**
Impairment to gross receivables	56%	57%	61%
Other receivables	18,842	20,651	19,804
Total other current receivables	**445,870**	**438,244**	**394,273**

The measurement of lifetime expected credit losses on amounts due from the parent company was based on the same principles, assumptions and inputs as valuation of the bonds issued by the parent, as discussed above in this Note.

12. Equity

As at 31 December 2019, the authorised share capital comprises 18,726,248 thousand of issued and registered ordinary shares (31 December 2018: 18,726,248 thousand) with a par value of UAH 0.25. As at 31 December 2018 and 2017, all shares are outstanding. As at 31 December 2019 and 2018, 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 2019 the Group transferred to the accumulated loss revaluation reserve of these assets, net of income tax in the amount of UAH 74,467 thousand (2018: UAH 144,079 thousand).

As at 31 December 2019, additional capital in the amount of UAH 411,370 thousand is represented mainly by share premium (31 December 2018: UAH 411,370 thousand).

As at 31 December 2019, reserves in the amount of UAH 222,812 thousand represent transfers of a portion of the annual profits and share capital as was required by the Ukrainian legislation prior to the Company's privatisation (31 December 2018: 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.

13. Long-term provisions

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

(in thousands of Ukrainian hryvnias)	**31 December 2019**	**31 December 2018**
Post-employment long-term benefit obligations	270,217	234,701
Other long-term employee benefit obligations	2,800	3,147
Total long-term provisions	**273,017**	**237,848**

Post-employment long-term benefit obligations

The movement in post-employment long-term benefit obligations during 2019 is as follows:

(in thousands of Ukrainian hryvnias)	**One-time payment on retirement**	**State retirement benefit plan**	**Total post-employment benefit obligations**
Present value of obligations as at 1 January 2019	**22,411**	**212,290**	**234,701**
Current service cost	995	406	1,401
Interest cost on post-employment obligations	2,915	26,915	29,830
Recognised past service gain/curtailment	–	–	–
Actuarial loss (gain) in the consolidated statement of comprehensive income	5,427	37,762	43,189
Benefits paid	(5,164)	(33,740)	(38,904)
Present value of obligations as at 31 December 2019	**26,584**	**243,633**	**270,217**

Actuarial loss recognised in the consolidated statement of comprehensive income in 2019 is mainly represented by change in financial actuarial assumptions, driven by change in discount rate, and comprised UAH 33,461 thousand. Effect of changes in adjustments to plan obligation based on experience and demographic actuarial assumptions amounted to UAH 11,298 thousand and UAH 1,570 thousand, respectively.

13. Long-term provisions (continued)

The movement of post-employment long-term benefit obligations during 2018 is as follows:

(in thousands of Ukrainian hryvnias)	One-time payment on retirement	State retirement benefit plan	Total post-employment benefit obligations
Present value of obligations as at 1 January 2018	**101,651**	**220,764**	**322,415**
Current service cost	4,819	494	5,313
Interest cost on post-employment obligations	15,188	29,790	44,978
Recognised past service gain/curtailment	(1,704)	–	(1,704)
Actuarial loss (gain) in the consolidated statement of comprehensive income	(94,079)	(6,154)	(100,233)
Benefits paid	(3,464)	(32,604)	(36,068)
Present value of obligations as at 31 December 2018	**22,411**	**212,290**	**234,701**

The amounts recognised in the profit or loss for the year ended 31 December 2019 are as follows:

(in thousands of Ukrainian hryvnias)	One-time payment on retirement	State retirement benefit plan	Total post-employment benefit obligations
Interest cost on post-employment obligations (Note 24)	2,915	26,915	29,830
Current service cost	995	406	1,401
Actuarial loss/profit	–	–	–
	3,910	**27,321**	**31,231**

Current service cost is included in employee expenses under collective agreement within other operating expenses (Note 22).

The amounts recognised in profit or loss for the year ended 31 December 2018 are as follows:

(in thousands of Ukrainian hryvnias)	One-time payment on retirement	State retirement benefit plan	Total post-employment benefit obligations
Interest cost on post-employment obligations (Note 24)	15,188	29,790	44,978
Current service cost	4,819	494	5,313
Past service gain/curtailment	(1,704)	–	(1,704)
	18,303	**30,284**	**48,587**

As at 31 December 2019 and 2018 the principal actuarial assumptions used in determining these obligations are as follows:

	31 December 2018	31 December 2018
Nominal discount rate	12.4%	14.7%
Staff turnover	9.0%	8.0%

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 analyses below are based on a change in a significant assumption, keeping all other assumptions constant:

(in thousands of Ukrainian hryvnias)	31 December 2019
Nominal discount rate increase/decrease by 1%	(12,750)/14,006
Nominal salary increase/decrease by 1%	7,153/(6,634)

As at 31 December 2019, the weighted average maturity of the Group 's long-term employee benefit obligations is 6 years (31 December 2018: 6 years). Payments in respect of these obligations expected to be made during the year 2020 are UAH 59,358 thousand (2019: UAH 43,036 thousand).

14. Loans and borrowings

Loans and borrowings are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Non-current borrowings		
Bank loans (Line 1510)	639,587	750,533
Bonds issued (Line 1515)	–	150
Total non-current borrowings	**639,587**	**750,683**
Current borrowings		
Bank loans	989,733	914,100
Bonds issued	150	–
Interest payable	21,972	21,982
Total current borrowings (Line 1600 and 1610)	**1,011,855**	**936,082**
Total borrowings	**1,651,442**	**1,686,765**

Information on credit risk, concentration risk, currency and interest rate risks, including those related to the Group's loan portfolio is disclosed in Note 28.

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

		31 December 2019		31 December 2018	
(in thousands of Ukrainian hryvnias)	Currency	Carrying amount	Nominal value	Carrying amount	Nominal value
Non-current borrowings					
Bank loans	USD, EUR	639,587	656,411	750,533	767,658
Bonds issued	UAH	–	–	150	150
Total non-current borrowings		**639,587**	**656,411**	**750,683**	**767,808**
Current borrowings					
Bank loans	USD, UAH	989,733	989,733	914,100	914,100
Bonds issued	UAH	150	150	–	–
Interest payable	USD, UAH, EUR	21,972	21,972	21,982	21,982
Total current borrowings		**1,011,855**	**1,011,855**	**936,082**	**936,082**
Total borrowings		**1,651,442**	**1,668,266**	**1,686,765**	**1,703,890**

Currency and liquidity risks are disclosed in Note 28.

Bonds

In 2018, the Group placed bonds (series U) with a nominal value of UAH 150 thousand bearing an annual nominal interest rate of 19.5% (effective interest rate of 19.5%) and maturing in September 2020. As at 31 December 2019, the carrying amount of bonds was UAH 150 thousand.

Bank loans and borrowings

Long-term financing

In December 2015, the Group signed an agreement on a long-term credit line with a Chinese bank with a limit of USD 50,000 thousand and maturity until December 2022. Withdrawal financing period under this facility was until May 2019 with first principle repayment scheduled for November 2019. As at 31 December 2019, effective interest rate of this facility was 9.34%. Carrying amount of long-term portion of outstanding liabilities on this credit line as at 31 December 2019 amounted to the equivalent of UAH 526,427 thousand (31 December 2018: UAH 750,533 thousand). Short-term portion outstanding liabilities on this credit line as at 31 December 2019 comprised UAH 180,438 thousand (31 December 2018: UAH 104,805 thousand).

In March 2019, the Group signed an ECA-based loan agreement with a Slovenian bank for EUR 4,854 thousand to finance an investment project. The outstanding principal amount as at 31 December 2019 amounted to the equivalent of UAH 109,947 thousand. As at 31 December 2019 effective interest rate of this facility was 3.19%. This loan matures in July 2028.

In April 2019, the Group signed a loan agreement with a Slovenian non-financial company for EUR 634 thousand to finance the investment project. The outstanding principal amount as at 31 December 2019 amounted to the equivalent of UAH 3,213 thousand. As at 31 December 2019 effective interest rate of this facility was 3.18%. This loan matures in August 2028.

At the end of December 2019, the Group signed new ECA-based loan agreement with the same Slovenian bank for EUR 3,332 thousand to finance expansion of the investment project starting from 2020 with maturity until April 2029. The outstanding amount as at 31 December 2019 is null.

14. Loans and borrowings (continued)

Short-term financing

In 2011, the Group signed a multi-currency revolving credit line with a Ukrainian bank with a limit of USD 48,000 thousand. Since the conclusion of the agreement, the credit line limit was revised several times and in September 2019 the non-revolving limit was fixed in UAH currency in amount of UAH 809,295 thousand. The total outstanding amount under this loan facility as at 31 December 2019 was UAH 809,295 thousand (31 December 2018: UAH 809,295 thousand). The loan facility was obtained by the Group to finance its working capital as well as to refinance its current debt.

The effective interest rates and currencies of loans and borrowings as at the reporting date are provided in the table below:

	2019					2018		
In % per annum	**UAH**	**UAH**	**EUR**	**EUR**	**USD**	**UAH**	**UAH**	**USD**
	19.5%	18%	3.19%	3.18%	9.34%	19.5%	UIRD (3M) + 4%	9.34%
Total borrowings	**150**	**809,295**	**109,947**	**3,213**	**706,865**	**150**	**809,295**	**855,338**

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

Compliance with covenants under loan agreements

Under the terms of loan agreements, the Group should comply with certain financial covenants and fulfill other (non-financial) obligations. Agreements provide for a list of cases of non-fulfilment giving creditors the right to claim early repayment of loans.

During 2017 and 2018, the following cases of non-fulfilment of obligation under an agreement with the Chinese bank were recorded:

1) Failure to fulfil the obligation to pay interest due to limitation of the maximum interest rate established by the National Bank of Ukraine;

2) Existence of substantial litigation proceedings initiated by: a) a Ukrainian state-owned bank for collection of arrears on the redemption of bonds issued by the parent company; b) the State Property Fund in respect of the failure to fulfil certain privatization obligations by the parent company;

3) Qualification in the auditor's report on the Group's financial statements.

In February 2018 the Group received from the Chinese bank a letter on waiver of the rights to claim early repayment of the loan that arose as a result of substantial litigations. This waiver remains in force provided that (a) the respective court authorities do not take an adverse decisions in the future as a result of the above mentioned substantial litigations; and (b) in the event of termination of such litigations as a result of an alternative settlement, an amicable settlement, in the creditor's opinion, will not have a significant negative impact on the Group.

Taking into account that all court decisions in substantial litigations that causes the failure to fulfil obligations under the agreement with the Chinese bank were made in favour of the Group, the bank's waiver of the rights to claim early repayment of the loan granted in February 2018 remained valid as at 31 December 2019.

During 2019, the Group was fulfilling its obligations to the creditors and complying with financial and non-financial covenants, except the case of non-compliance under the agreement with Chinese bank occurred by the existence of qualified auditor`s opinion to consolidated financial statements for the year ended 31 December 2018.

In 2019 the Group received a separate letter by which the bank confirmed its waiver of the right to claim early repayment due to the modification of the audit opinion. During 2019, the Group undertook actions to eliminate and mitigate the auditor's qualification in future financial statements.

As a 31 December 2019, the Group was not in breach of covenants and classified the liabilities on loan from the Chinese bank in accordance with contractual maturities.

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 channeled through those pledged accounts. In case of the event of default, proceeds on these accounts can be used to fulfill the obligations under the loan agreement.

Assets and ownership rights that are pledged to secure bank loans and other borrowings are presented as follows:

Pledge	Currency	31 December 2019	31 December 2018
Ownership rights for future equipment supplies	USD	28,779	28,779
Property and equipment	UAH	1,226,837	2,559,386
Investment property	UAH	816,571	8,257

15. Other liabilities

Other liabilities are presented as follows:

	31 December 2019		**31 December 2018 (restated)**	
(in thousands of Ukrainian hryvnias)	**Short-term**	**Long-term**	**Short-term**	**Long-term**
Obligation for bonds of the parent (i)	25,000	564,098	1,036,820	–
Performance obligations (ii)	45,265	185,502	30,505	174,835
Lease liabilities (iii)	38,952	49,911	–	–
Bonds issued (Note14)	–	–	–	150
Others	17,735	–	19,645	–
Total other liabilities	**126,952**	**799,511**	**1,086,970**	**174,985**

(i) Obligations for bonds issued by the parent company

As discussed in Notes 4.1 (i) and 11, in March 2017 the Group received legal title to the bonds issued by its parent for a consideration of UAH 1,036,820 thousand payable immediately in cash. No payments were made by the Group to settle these obligations up until December 2019, when the parties signed an additional agreement, which reduced the amount payable, established an extended payment schedule with instalment settlements till 2028, and introduced an interest payable estimated at effective interest rate of 9.75%. Also, in accordance with additional agreement the Group undertook to provide the creditor with an additional mortgage in the amount not less than UAH 1 billion till 20 February 2020.

The revisions to the original agreement discussed above gave rise to the effect from restructuring of debt in the amount of UAH 253,800 thousand recorded in finance income (Note 25). Outstanding undiscounted liability under the revised agreement as at 31 December 2019 amounted to UAH 836,820 thousand. The respective carrying amount is UAH 589,098 thousand, of which UAH 25,000 thousand were accounted for as current liability and UAH 564,098 thousand – as a long-term obligation.

(ii) Performance obligations

Deferred connection fee recognized as liabilities is as follows:

(in thousands of Ukrainian hryvnias)	**2019**	**2018**
As at 1 January, including:	**205,340**	**197,137**
- short-term portion (line 1690)	30,505	28,157
- long-term portion (line 1515)	174,835	168,980
Connection fee for the year	92,148	55,077
Revenue recognised (Note 18)	(66,721)	(46,874)
As at 31 December, including:	**230,767**	**205,340**
- short-term portion (line 1690)	45,265	30,505
- long-term portion (line 1515)	185,502	174,835

(iii) Lease liabilities

The carrying amount of lease liabilities and its movement from 1 January 2019 (the adoption date of IFRS 16) is as follows:

(in thousands of Ukrainian hryvnias)	**2019**
As at 1 January	**103,038**
- short-term portion (line 1690)	39,864
- long-term portion (line 1515)	63,174
Additions (Note 6)	15,544
Accretion of interest (Note 24)	17,794
Payments	(47,513)
As at 31 December	**88,863**
- short-term portion (line 1690)	38,952
- long-term portion (line 1515)	49,911

16. Trade and other accounts payables

Trade and other accounts payable are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Accounts payable for services	151,445	152,446
Accounts payable for non-current assets	128,528	175,571
Accounts payable for inventories	37,033	49,658
Accounts payable to operators	35,001	22,577
Other accounts payable	8,280	6,687
Total trade and other accounts payable	**360,287**	**406,939**

17. Current provisions

Current provisions are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Accrued bonuses	152,475	133,696
Accrual for unused vacations	129,662	128,268
Other provisions	3,412	349
Total current provisions	**285,549**	**262,313**

18. Revenue

Revenue analysis by principle revenue streams:

(in thousands of Ukrainian hryvnias)	2019	2018
Revenue from contracts with customers		
Local calls and subscription-based fees	2,000,423	2,138,555
Internet services	1,930,727	1,835,966
Traffic-based fees for local calls to mobile and domestic long-distance calls	510,952	579,191
Services to foreign operators	282,551	386,263
Fees for use of lines and channels, incoming calls and transit of telephone traffic	140,266	159,239
Revenue from fixed line radio points	119,927	126,250
Fees for use of cable ducts	89,899	115,489
Connection fee (Note 15)	66,721	46,874
International traffic	64,862	96,062
Revenue from sale of goods	2,398	2,993
Other revenue	50,501	31,067
Total revenue from contracts with customers	**5,259,227**	**5,517,949**
Other revenue		
Revenue from operating leases of assets	416,315	338,683
Total other revenue	**416,315**	**338,683**
Total net revenue	**5,675,542**	**5,856,632**

Local traffic and subscription-based fees and fees for use of cable ducts are determined based on regulated 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 established by the Group. Traffic is measured in seconds.

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

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

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

Connection fee is represented by revenue from connection services, which is deferred for the period of estimated customer's lifetime.

19. Cost of sales

(in thousands of Ukrainian hryvnias)	**2019**	**2018 (restated)**
Salaries and related charges	1,467,387	1,478,155
Depreciation of property, plant and equipment (Note 6)	589,208	610,897
Utilities	584,078	597,970
Maintenance and repairs	314,092	270,353
Materials	227,109	249,213
Services provided by foreign operators	165,357	168,692
Use of lines and channels, outcoming costs and transit of telephone traffic	107,003	110,179
Amortisation of intangible assets	75,624	46,878
Rent expenses	62,528	107,768
Contract assets disposed on customers termination (Note 8)	39,219	22,447
Amortisation of contract assets (Note 8)	36,979	19,462
Depreciation of right-of-use assets (Note 6)	35,741	–
Other	174,243	155,475
Total cost of sales	**3,878,568**	**3,837,489**

20. Administrative expenses

(in thousands of Ukrainian hryvnias)	**2019**	**2018**
Salaries and related charges	580,608	563,224
Land and other taxes	144,651	139,071
Rent expenses	104,960	102,863
Materials	23,532	22,291
Utilities	19,178	17,235
Professional fees	18,674	35,331
Maintenance and repairs	17,998	10,016
Cleaning services	15,503	11,456
Depreciation of property, plant and equipment (Note 6)	14,439	19,879
Property tax	6,186	53,360
Insurance	6,158	6,270
Telecommunication services	2,400	1,808
Bank commissions and charges	1,573	4,653
Other	34,803	32,691
Total administrative expenses	**990,663**	**1,020,148**

21. Selling expenses

(in thousands of Ukrainian hryvnias)	**2019**	**2018**
Salaries and related charges	266,957	268,627
Advertising and printing services	56,577	59,388
Bank commissions and charges	19,620	21,962
Delivery of bills	14,799	18,677
Utilities	9,180	15,987
Materials	5,228	8,987
Commission fee	4,389	5,432
Depreciation of property, plant and equipment (Note 6)	3,524	5,330
Maintenance and repairs	687	630
Amortisation of intangible assets	664	3,602
Other	8,768	6,593
Total selling expenses	**390,393**	**415,215**

22. Other operating expenses

(in thousands of Ukrainian hryvnias)	2019	2018
Allowance for expected credit losses	(18,481)	67,092
Foreign exchange loss	32,691	513
Employee expenses under collective agreement	31,273	18,625
Cost of stolen copper cable	13,187	11,060
Penalties	3,261	10,265
Depreciation of property, plant and equipment (Note 6)	3,052	3,618
Utilities	1,416	1,876
Other	50,521	64,288
Total other operating expenses	**116,920**	**177,337**

Employee expenses under collective agreement contain UAH 14,212 thousand under the termination of employment contracts during the year ended 31 December 2019 (31 December 2018: UAH 4,010 thousand).

23. Other operating income

(in thousands of Ukrainian hryvnias)	2019	2018
Gain on disposal of non-current assets	394,115	355,470
Fines and penalties	10,989	9,806
Gain on inventory surpluses	6,087	7,973
Gain on payables write-off	4,126	7,977
Other	32,387	39,903
Total other operating income	**447,704**	**421,129**

In 2019 and 2018, gain on disposal of non-current assets was mainly represented by the sale of dismantled copper cables and telephone exchanges. Copper cables sold in 2019 and 2018 were dismantled in the course of the ongoing process of network optimisation and subscribers reconnection to another cables with spare capacity. Prior to release, these copper cables were considered to be of specialised 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.

24. Finance costs

(in thousands of Ukrainian hryvnias)	2019	2018
Interest expense on loans and borrowings	294,319	303,798
Interest cost on post-employment long-term employee benefit-obligations (Note 13)	29,830	44,978
Accretion of interest on lease liabilities (Note 15)	17,794	–
Interest cost on other long-term employee benefit obligations	404	1,012
Other finance costs	983	3,792
Total finance costs	**343,330**	**353,580**

25. Finance income

(in thousands of Ukrainian hryvnias)	2019	2018
Effect from restructuring the obligation to the bank (Note 15)	253,800	
Other foreign exchange gain	135,787	4,088
Interest income	19,535	25,275
Unwinding of discount on current financial investments	1,331	5,258
Total finance income	**410,453**	**34,621**

26. Other expenses

(in thousands of Ukrainian hryvnias)	2019	2018 (restated)
Impairment of property, plant and equipment and investment properties	1,341,464	–
Loss from change in fair value of the bond issued by Parent	45,984	10,060
Lifetime expected credit losses on amounts due from Parent	43,124	9,435
Other	125	–
Total	**1,430,697**	**19,495**

27. Income tax expense

(in thousands of Ukrainian hryvnias)	2019	2018
Deferred tax benefit	218,795	25,211
Current income tax expense	(140,021)	(107,650)
Income tax benefit/(expense)	**78,774**	**(82,439)**

Reconciliation of effective tax rate:

(in thousands of Ukrainian hryvnias)	2019	2018 (restated)
Profit/(Loss) before tax	**(616,872)**	**507,180**
Income tax benefit/ (expense) at effective rate 18%	**111,037**	**(91,292)**
Effect on income tax of:		
Net impact of non-taxable income / (non-deductible expenses)	(15,339)	(410)
Elimination of discontinued operations	(15,080)	(12,187)
Reassessment of temporary tax differences	(1,844)	21,450
Income tax benefit/(expense)	**78,774**	**(82,439)**

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 2019 are as follows:

(in thousands of Ukrainian hryvnias)	1 January 2019	(Charged)/ credited to profit or loss	Recognised in other comprehen-sive income	31 December 2019
Property, plant and equipment and investment property	(690,663)	234,890	373,553	(82,220)
Intangible assets	(634)	423	–	(211)
Accounts receivable	91,482	(15,334)	–	76,148
Cash and financial assets	130	(29)	–	101
State retirement pension plan obligations	38,212	(1,155)	6,797	43,854
Deferred tax asset/(liability)	**(561,473)**	**218,795**	**380,350**	**37,672**
Unrecognised deferred tax asset/(liability)	–	–	–	–
Net deferred tax asset/(liability)	**(561,473)**	**218,795**	**380,350**	**37,672**

Movements in recognised temporary differences during the year ended 31 December 2018 are as follows:

(in thousands of Ukrainian hryvnias)	1 January 2018	(Charged)/ credited to profit or loss	Recognised in other comprehen-sive income	31 December 2018
Property, plant and equipment and investment property	(711,692)	27,552	(6,523)	(690,663)
Intangible assets	(3,170)	2,536	–	(634)
Accounts receivable	95,311	(3,829)	–	91,482
Cash and financial assets	760	(630)	–	130
State retirement pension plan obligations	39,738	(418)	(1,108)	38,212
Deferred tax asset/(liability)	**(579,053)**	**25,211**	**(7,631)**	**(561,473)**
Unrecognised deferred tax asset/(liability)	–	–	–	–
Net deferred tax asset/(liability)	**(579,053)**	**25,211**	**(7,631)**	**(561,473)**

28. 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.

28. Financial risk and capital management (continued)

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. The effect of discounting is considered insignificant and was not presented in consolidated financial statements.

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.

The carrying value of all financial assets and liabilities is estimated to not significantly vary from their fair value as at 31 December 2019 and 31 December 2018.

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 and some categories of investment properties, which was valued as at 31 December 2019 and 2018 at fair value (less costs of disposal) with the use of unobservable inputs and thus fall within Level 3 hierarchy.

Level 2: Key inputs and assumptions used in the fair value determinations for financial instruments are represented by market interest rates that approximate the Group's effective interest rates at the reporting date. 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 2019 and 2018 in respect of financial assets. Fair values of financial instruments in the Group's balance sheet as at 31 December 2019 and 2018 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, 7 and 11.

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.

28. Financial risk and capital management (continued)

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 consolidated 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.

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 performs credit quality analysis of accounts receivable before they are 90 days overdue and soft-collection of debts by customer care personnel using follow tools: IVR, Viber, indebtness reminder on bills, calls reminders. 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. After 90 days overdue of accounts receivable the Group contracts external collection services.

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 2019, 95.93% of Group's cash is held in 3 Ukrainian banks (31 December 2018: 99.5% in 4 Ukrainian banks) thus doesn't expose the Group to a concentration of credit risk.

As at 31 December 2019 and 2018, analysis by credit quality of bank balances by Fitch/Moody's credit rating system is as follows:

(in thousands of Ukrainian hryvnias)	31 December 2019	31 December 2018
Bank balances		
B2	186,556	–
B3	190,198	313,747
Caa1	–	4,301
Ca-C	–	22,067
Non-rated	16,554	1,397
Total Bank balances	**393,739**	**341,512**
Allowance for expected credit losses	(555)	(719)
Total Bank balances net of impairment	**393,184**	**340,793**

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 with cash or by delivering 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.

28. Financial risk and capital management (continued)

The contractual maturities of the Group's non-derivative financial liabilities including future interest payments as at 31 December 2019 are as follows:

(in thousands of Ukrainian hryvnias)	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years
Borrowings							
Bank loans	1,626,107	1,668,655	–	17,500	972,233	188,988	489,934
Bonds issued	150	150	–	–	150	–	–
Supplier credits	3,213	3,313	–	–	–	473	2,840
Interest payable	21,972	138,567	10,996	–	49,934	39,097	38,540
Total borrowings	**1,651,442**	**1,810,685**	**10,996**	**17,500**	**1,022,317**	**228,558**	**531,314**
Trade and other accounts payable	360,287	360,287	360,287	–	–	–	–
Other current liabilities*	42,734	59,224	21,194	6,905	31,125	–	–
Other long-term financial liabilities	564,098	1,381,282	–	–	–	107,472	1,273,810
Lease liabilities	88,863	97,104	3,246	9,738	25,968	25,211	32,941
Total	**2,707,424**	**3,708,582**	**395,723**	**34,143**	**1,079,410**	**361,241**	**1,838,065**

The contractual maturities of non-derivative financial liabilities including future interest payments as at 31 December 2018 are as follows:

(in thousands of Ukrainian hryvnias)	Carrying value	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years
Borrowings							
Bank loans	1,664,633	2,042,015	–	24,711	1,053,364	265,595	698,344
Bonds issued	150	150	–	–	150	–	–
Interest payable	21,982	21,982	12,872	106	9,004	–	–
Total borrowings	**1,686,765**	**2,064,147**	**12,872**	**28,818**	**1,062,518**	**265,595**	**698,344**
Trade and other accounts payable	406,939	406,939	406,939	–	–	–	–
Other current liabilities	1,056,465	1,056,465	1,056,465	–	–	–	–
Total	**3,150,168**	**3,527,551**	**1,476,276**	**28,818**	**1,062,518**	**265,595**	**698,344**

Currency risk

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

The exposure to foreign currency risk is as follows:

	USD-denominated		**Euro-denominated**	
(in thousands of Ukrainian hryvnias)	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Trade accounts receivable	25,159	32,225	13,243	16,348
Cash and cash equivalents	77,044	201,103	102,270	72,654
Current portion of long-term loans and borrowings	(188,243)	(113,808)	(307)	–
Long-term loans and borrowings	(526,427)	(750,533)	(114,285)	–
Short-term loans and borrowings	–	–	–	–
Trade accounts payable	(4,412)	(9,790)	(19,781)	(3,315)
Net long (short) position	**(616,879)**	**(640,803)**	**(18,860)**	**85,687**

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

(in thousands of Ukrainian hryvnias)	**31 December 2019**	**31 December 2018**
USD	(185,064)	(192,241)
EUR	(5,658)	25,706

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.

28. Financial risk and capital management (continued)

Market risk

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

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 favorable to the Group over the expected period until maturity.

As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-term borrowings. As at 31 December 2019, 6.94% of the total borrowings was provided to the Group at floating rates (31 December 2018: 48%).

Effective interest rates of financial instruments are disclosed in Note 14. 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 changed net loss and equity by UAH 1,132 thousand (31 December 2018: UAH 8,093 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 2019, net assets of the Group in amount of UAH 7,284,083 thousand (31 December 2018: UAH 6,954,889 thousand) exceed the Group's registered share capital of UAH 4,681,562 thousand (31 December 2018: UAH 4,681,562 thousand), as indicated in the Charter.

29. Commitments

Capital commitments

As at 31 December 2019, the Group has commitments in respect of contracts for purchase of property, plant and equipment in amount of UAH 156,004 thousand (31 December 2018: UAH 1,377,206 thousand) and in respect of software and other intangible assets in amount of UAH 20,968 thousand (31 December 2018: UAH 54,278 thousand).

Lease commitments

As at 31 December 2019, the Group has lease commitments in respect of technical premises and infrastructure facilities not recognised under IFRS 16 in total amount of UAH 46,874 thousand (31 December 2018: UAH 47,033 thousand) and in respect of land lease minimal payments in amount of UAH 87,830 thousand (31 December 2018: UAH 110,196 thousand).

30. 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, in particular for assets pledged to lenders of the Group. However, until more comprehensive insurance coverage is obtained by the Group, the potential loss or destruction of certain assets results in corresponding risks to the operations and financial position.

Land use

As at 31 December 2019, part of land plots, utilised by the Group y in operating activities under equipment and real estate, was used by the Group without updated full package of legally formalised documents including cadastral numbers, but at the same time the Group pays all legally required tax payments related to abovementioned land plots according to legislation.

The Group on regular and continuing basis aligns land relations in accordance with recent regulatory requirements and laws. According to the operational plan, during 2019 the Group partially performed and will continue to perform update of entitlement documents in order to align with requirements of current land legislation.

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 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 2019 and 2018 no provision attributable to taxation contingencies was created by the Group.

Transfer pricing

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 2017-2019 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.

Litigations

During 2019 the Group was a defendant in various legal proceedings, the most significant of which is the case involving claim filed by state-owned bank on a recovery of obligations under agreement for purchase of bonds issued by the Group's parent in total amount of UAH 1,036,820 thousand, excluding indemnity (penalty, inflation losses and interest of 3% per annum). The agreement was signed in 2015 and provided for the transfer of bonds and their payment in March 2017, and was collateralized by a pledge in the form of all ordinary shares of the Company that are owned by the Parent (92.791%).

In 2017, the Group challenged the obligations under the agreement in court. The agreement for the purchase of bonds concluded between this bank and the Group was terminated by the decision of the Commercial Court of Kyiv dated 27 September 2018. In response, the bank filed an appeal to the decision of the court of first instance. On 18 February 2019, the Northern Commercial Court of Appeal denied the appeal of state-owned bank. The decision has come into legal force immediately after its proclamation. On 23 July 2019, the Supreme Court canceled previous courts decisions and adopted a new decision on satisfaction of cassation of state-owned bank.

After that, the parties reached a mutual consent and signed the additional agreement dated 2 December 2019 to the agreement for purchase of bonds. As at the reporting date, the Group has fully recognised in its consolidated financial statements liabilities and assets related to above mentioned case.

As at 31 December 2019, a provision attributable to other legal proceedings was created by the Group in total amount of UAH 913 thousand.

31. 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 transactions with some related party transactions may differ from market terms.

Parent and ultimate controlling party

As at 31 December 2019 and 2018, the Group`s immediate parent company is LLC "ESU".

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

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

Transactions with management

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

(in thousands of Ukrainian hryvnias)	2019	2018
Short-term employee benefits	82,733	73,617
	82,733	**73,617**

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

For the terms of interest-free loans, please refer to Note 11.

(in thousands of Ukrainian hryvnias)	2019	2018
Balances		
Interest bearing bonds issued by the parent (Note 11)	399,285	445,269
Interest-free loans and other receivables from the parent (Note 11)	374,476	417,593

The amounts owed by parent are overdue and payable on demand. The allowance for expected credit losses on the receivables due from the parent was UAH 597,908 thousand as at 31 December 2019 (2018: UAH 554,784 thousand). Cumulative loss on change in fair value of the bonds issued by the parent was UAH 637,534 thousand as at 31 December 2019 (2018: UAH 591,551 thousand).

Transactions with subsidiaries/associates of the ultimate parent company

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

(in thousands of Ukrainian hryvnias)	2019	2018
Balances		
Trade accounts receivable	9,319	9,936
Advances paid	36,693	20,491
Trade accounts payable	(15,608)	(12,891)
Other current liabilities	(6,696)	(379)
Transactions		
Sales of equipment and services	97,820	176,323
Interest income	1,110	7,799
Purchases of equipment and services	(455,808)	(232,724)

As at 31 December 2019 and 2018 none of the balances with related parties are secured.

As at 31 December 2019, property with a carrying amount of UAH 266,343 thousand is pledged in favour of one of the companies under control of the ultimate parent company (31 December 2018: UAH 415,057 thousand).

32. Subsequent events

Loans and borrowings

During February-April 2020, the Group received additional tranches of financing under existing loan agreement for investment project in total amount of EUR 871thousand, repaid UAH 70,000 thousand to local bank under existing loan agreement and raised additional financing from previously issued own bonds in amount of UAH 6,722 thousand. The Group did not sign any new loan agreements with existing or new banks. Certain buildings with appraised value of UAH 1,000,758 thousand were pledged as security based on addendum to the agreement from 2015 for purchase of bonds issued by the parent company (disclosed in Note 15). The financial aid additionally provided to the subsidiary TriMob LLC amounted to UAH 50,000 thousand.

Coronavirus outbreak

On 30 January 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a "Public Health Emergency of International Concern" due to recent and rapid development of coronavirus (COVID-19).

In response to a recent rapidly developing coronavirus (COVID-19) pandemic many countries, including Ukraine, have implemented quarantine measures, which had a significant effect on the overall business scale. Both the pandemic and the mitigating measures are expected to possibly affect businesses in quite a few areas.

Since March 2020, significant volatility has been observed in the stock, currency and commodity markets, including devaluation of UAH against USD and EUR. The Group is now analysing possible effect of the changing micro- and macroeconomic conditions on its financial position and performance, but as at the date when these consolidated financial statements were authorized for issue, management has assessed the impact of the ongoing coronavirus wave and related governments' restrictions as not impacting going concern principle. However, coronavirus quarantine restrictions temporary changes business model of providing services to customers particularly related to lease of the Group's real estate. Supply chains remain impaired and consumer spending subdued. The large-scale quarantines, travel restrictions, and social distancing drive the drop-off in consumer spending and subsequently business investment in 2020.

As the outbreak continues to evolve, the Group deems the pandemic to be a non-adjusting event after the reporting period, which quantitative effect cannot be currently estimated with reasonable certainty.

Director
Kurmaz Y.P.

28 / 04 / 2020

Finance Director
Kotsyumbas L.Y.

Chief Accountant
Shypina T.L.

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