Public Joint-Stock Company
Ukrtelecom

Consolidated Financial Statements
31 December 2013

These consolidated financial statements contain 74 pages

Contents

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Independent Auditors' Report

To the Supervisory Board of
Public Joint-Stock Company Ukrtelecom

Report on the financial statements

We have audited the accompanying consolidated financial statements of Public Joint-Stock Company Ukrtelecom (the Company) (EDRPOU Code 21560766, located 18 Shevchenko Blvd, Kyiv, 01601, Ukraine, registered in Kyiv on 15 December 1993) and its subsidiaries (the "Group"), which comprise the consolidated balance sheet (statement of financial position) as at 31 December 2013, and the consolidated income statement (statement of comprehensive income), consolidated statements of cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, Ukrainian legislation and the effective regulations on submission of annual reports by issuers in the stock market to the National Commission on Securities and Stock Market 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No.229/7 dated 31 March 2011 and in accordance with the requirements adopted pursuant to the Resolution No. 1360 dated 29 September 2011 of the State Commission on Securities and Stock Market. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

As described in note 3(d) to the consolidated financial statements, in 2000 management attempted to estimate the accumulated effect of statutory indexations and the historical cost of items of property, plant and equipment. This estimated value was used as a basis for the restatement of property, plant and equipment to the equivalent of purchasing power of the hryvnia as at 31 December 2000, as required by International Financial Reporting Standard IAS 29 *Financial Reporting in Hyperinflationary Economies*. The Group has not maintained adequate accounting records regarding purchase or construction costs of these items of property, plant and equipment and supporting calculations for the restatements are not available. It was impracticable to satisfy ourselves as to the carrying amount of property, plant and equipment of UAH 1,146 million as at 31 December 2013 (2012: UAH 1,247 million), related depreciation expense, and any related effects on taxation.

There are indications that the recoverable amounts of property, plant and equipment and construction in progress as at 31 December 2013 might be lower than their carrying amounts stated at UAH 6,492,642 thousand and UAH 190,278 thousand, respectively. International Financial Reporting Standard IAS 36 *Impairment of Assets* requires that, where such indications exist, management makes a formal estimate of the recoverable amounts. No such estimate has been made. The effects of this departure from International Financial Reporting Standards, on the consolidated financial statements as at and for the year ended 31 December 2013 have not been determined.

In December 2011, the Group classified its mobile segment as a disposal group held for sale and a discontinued operation. As the Group's mobile segment was not sold as at 31 December 2012 and 2013, the Group extended the period required to complete the sale and continued to classify its mobile segment as a disposal group held for sale and a discontinued operation. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires that a component of the entity shall be classified as a disposal group held for sale if it is available for the immediate sale in its present condition and its sale is highly probable within one year from the date of classification. IFRS 5 also allows an extension of the period required to complete a sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). There were no such events or circumstances and no such sufficient evidence was available as at 31 December 2013. Accordingly, continuation of classification of the Group's mobile segment as at 31 December 2013 as a disposal group held for sale and a discontinued operation is not in accordance with IFRS 5. Had the Group ceased to classify its mobile segment as a disposal group held for sale and a discontinued operation, as at 31 December 2013 line 1200 "Non-current assets held for sale and disposal groups" would have been decreased by UAH 376,303 thousand (2012: UAH 354,654 thousand), line 1095 "Total non-current assets" and line 1195 "Total current assets" would have been increased by UAH 161,664 thousand (2012: UAH 178,431 thousand) and UAH 192,654 thousand (2012: UAH 167,828 thousand), respectively. Line 1700 "Obligations under non-current assets held-for-sale, and disposal groups" as at 31 December 2013 would have been decreased by UAH 238,979 thousand (2012: UAH 88,391 thousand), line 1595 "Total non-current liabilities and provisions" and line 1695 "Total current liabilities" would have been increased by nil (2012: UAH 5,765 thousand) and UAH 238,979 thousand (2012: UAH 82,626 thousand). Additionally, profit from continuing operations before tax for the year ended 31 December 2013 would have been decreased by UAH 151,445 thousand (2012: UAH 134,740 thousand) and loss from discontinued operations for the year ended 31 December 2013 would have been decreased by UAH 137,855 thousand (2012: UAH 126,345 thousand).

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Ukrainian legislation and the effective regulations on submission of annual reports by issuers in the stock market to the National Commission on Securities and Stock Market.

Emphasis of matter

We draw attention to Note 1(b) to the consolidated financial statements, which describe the political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 1(b) could adversely affect the Group's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Report on requirements of the National Commission on Securities and Stock Market

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. In conformity with the Resolution of the State Commission on Securities and Stock Market No. 1360 dated 29 September 2011, our audit procedures addressed the disclosure of information in the financial statements as is required by International Financial Reporting Standards, Ukrainian legislation and the effective regulations on submission of annual reports by issuers in the stock market to the National Commission on Securities and Stock Market. We conducted our audit in accordance with the engagement contract # 45-

SA/2012 dated 27 February 2012. Our audit was conducted from 18 March 2013 to 22 April 2014.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the disclosed information in the consolidated financial statements has been prepared, in all material respects, in accordance with International Financial Reporting Standards, Ukrainian legislation and the effective regulations on submission of annual reports by issuers in the stock market to the National Commission on Securities and Stock Market.

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1360 dated 29 September 2011, we inform you of the following:

- Because of the matters described in the Basis for Qualified Opinion paragraphs, we were unable to assess whether the Group complied with the clause 3 of article 155 of Civil Code of Ukraine in respect of the required amount of its net assets;
- There are no significant discrepancies between the consolidated financial statements and other information prepared by the Group for submission to the National Commission on Securities and Stock Market together with the consolidated financial statements;
- During the year ended 31 December 2013, the Group complied with the requirements on execution of any significant legal transactions in excess of 10 per cent of the total assets' value in accordance with Article 70 of the Law of Ukraine "On Joint-Stock Companies";
- The information disclosed in the consolidated financial statements properly presents the Group's corporate governance status. As described in Note 1(c), as at 31 December 2013 the Group had no internal audit function;
- In the course of our audit, we determined and performed assessment of risks of material misstatement due to fraud in accordance with ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.*

JSC KPMG Audit

«КПМГ Аудит»
Ідентифікаційний код 31032100

JSC "KPMG Audit"
Certificate No. 2397 of 26 January 2001
issued by the Audit Chamber of Ukraine
EDRPOU Code: 31032100

Dmitry Aleev
Deputy director JSC "KPMG Audit"
Certified Auditor
ACU Certificate: A006608
dated 2 July 2009

22 April 2014

		Date (year, month, day)	2014.01.01
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	56088		2643
Measurement unit:	thousand UAH		
Address	18 Taras Shevchenko Blvd, Kyiv		

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

National Accounting Standards	
International Financial Reporting Standards	V

Balance Sheet (Statement of Financial Position)
as at 31 December 2013

Form No.1 DKUD Code 1801001

Assets	Line Code	31 December 2012 (represented)	31 December 2013	Note
1	2	3	4	5
I. Non-current assets				
Intangible assets:	1000	42,276	26,092	
historical cost	1001	498,770	431,188	
accumulated amortization	1002	(456,494)	(405,096)	
Construction in progress	1005	359,040	190,278	6
Property, plant and equipment:	1010	7,080,832	6,492,642	
historical cost	1011	25,529,198	25,744,680	6
depreciation	1012	(18,448,366)	(19,252,038)	6
Investment property	1015	10,382	10,745	
historical cost of investment property	1016	15,510	16,546	
depreciation of investment property	1017	(5,128)	(5,801)	
Long-term biological assets	1020	-	-	
Long-term financial investments:				
accounted for on an equity basis	1030	802	708	
other financial investments	1035	22,925	-	9
Long-term receivables	1040	-	1,815	
Deferred tax assets	1045	-	-	
Other non-current assets	1090	21,269	15,065	10
Total non-current assets	1095	7,537,526	6,737,345	

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Assets	Line Code	31 December 2012 (represented)	31 December 2013	Note
1	2	3	4	5
II. Current assets				
Inventories:	1100	62,200	119,374	
production supplies	1101	24,246	89,856	
finished goods	1103	76	43	
merchandise	1104	37,878	29,475	
Current biological assets	1110	1	1	
Trade accounts receivable	1125	543,804	464,555	7
Taxes and other receivables:				
advances paid	1130	49,888	53,290	
budget	1135	1,185	6,827	
for income tax	1136	-	-	
accrued income	1140	2,216	11,742	
receivables from subsidiary	1146	-	-	
Other current receivables	1155	15,671	166,769	8
Current financial investments	1160	22,019	62,917	9
Cash and cash equivalents:	1165	256,770	566,697	
Deferred expenses	1170	69,822	73,044	
Other current assets	1190	20,198	19,958	
Total current assets	1195	1,043,774	1,545,174	
III. Non-current assets held for sale and disposal groups	1200	354,654	376,303	5
Total assets	**1300**	**8,935,954**	**8,658,822**	

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Equity and Liabilities	Line Code	31 December 2012 (represented)	31 December 2013	Note
1	2	3	4	5
I. Equity				
Registered share capital	1400	4,681,562	4,681,562	11
Share capital revaluation surplus	1405	3,011,892	3,011,892	11
Additional capital	1410	411,370	278,233	
Reserves	1415	222,812	222,812	
Retained earnings (accumulated deficit)	1420	(3,217,605)	(3,382,654)	
Unpaid capital	1425	-	-	
Capital withdrawals	1430	-	-	
Total equity	1495	5,110,031	4,811,845	
II. Non-current liabilities and provisions				
Deferred tax liabilities	1500	-	-	
Long-term bank loans	1510	-	39,323	13
Other long-term financial liabilities	1515	4,239	2,218	13
Long-term provisions	1520	223,115	310,009	12
Target financing	1525	-	-	
Total non-current liabilities and provisions	1595	227,354	351,550	
III. Current liabilities and provisions				
Short-term bank loans	1600	423,949	471,855	14
Promissory notes issued	1605	370	150	
Current portion of long-term liabilities	1610	2,388,778	2,132,516	13
Trade accounts payable	1615	275,200	155,342	
Taxes and other payables:				
budget	1620	75,174	87,639	
including income tax	1621	7,340	-	
social charges (salary related)	1625	34,596	36,579	
Salaries	1630	76,443	76,741	
advances received	1635	73,612	71,976	
payments to shareholders	1640	1,900	1,899	
payables to subsidiary	1645	-	-	
Current provisions	1660	103,390	159,227	
Deferred income	1665	1,940	3,268	
Other current liabilities	1690	54,826	59,256	
Total current liabilities	1695	3,510,178	3,256,448	
IV. Obligations under non-current assets held-for-sale, and disposal groups	1700	88,391	238,979	5
Total equity and liabilities	**1900**	**8,935,954**	**8,658,822**	

«Укртелеком» код 21560766

Director ______ (signature) Kurmaz name 18 April 2014

Chief Accountant ______ (signature) Nakalyuzhna name 18 April 2014

The Consolidated Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Line 1195 "Total current assets" should be calculated together with line 1200 "Non-current assets held for sale and disposal groups". Therefore total current assets as at 31 December 2013 amount to UAH 1,921,477 thousand (31 December 2012: UAH 1,398,428 thousand).

Line 1695 "Total current liabilities" should be calculated together with line 1700 "Obligations under non-current assets held-for-sale, and disposal groups". Therefore, total current liabilities as at 31 December 2013 amount to UAH 3,495,427 thousand (31 December 2012: UAH 3,598,569 thousand).

Total liabilities as at 31 December 2013 should be calculated as total of lines 1595, 1695 and 1700 and amount to UAH 3,846,977 thousand (31 December 2012: UAH 3,825,923 thousand).

		Date (year, month, day)	2014.01.01
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		

Income Statement (Statement of Comprehensive Income)
for the year 2013

Form No.2 DKUD Code 1801003

I. FINANCIAL RESULTS

Item	Line Code	Reporting period	Prior period (represented)	Note
1	2	3	4	5
Net revenue	2000	6,334,483	6,784,987	15
Cost of revenue	2050	(4,437,161)	(4,639,663)	16
Gross:				
profit	2090	1,897,322	2,145,324	
loss	2095	(-)	(-)	
Other operating income	2120	45,933	62,626	
Administrative expenses	2130	(677,658)	(591,665)	17
Selling expenses	2150	(594,418)	(732,375)	18
Other operating expenses	2180	(215,405)	(168,393)	19
Financial result of operations:				
profit	2190	455,774	715,517	
loss	2195	(-)	(-)	
Equity earnings	2200	-	-	
Other financial income	2220	55,405	13,078	
Other income	2240	19,723	13,256	
Finance costs	2250	(418,180)	(342,996)	21
Losses on equity investments	2255	(107)	(78)	
Other expenses	2270	(57,604)	(55,380)	
Financial result from ordinary activities before tax:				
profit	2290	55,011	343,397	
loss	2295	(-)	(-)	
Income tax benefit (expense)	2300	(-)	(27,380)	22
Income (expense) from discontinuing operations after tax	2305	(137,855)	(126,345)	5
Net financial result of operations:				
profit	2350	(-)	189,672	
loss	2355	(82,844)	(-)	

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

II. COMPREHENSIVE INCOME

Item	Line Code	Reporting Period	Prior period (represented)	Note
1	2	3	4	5
Revaluation gain (loss) on non-current assets	2400	-	-	
Revaluation of financial instruments	2405	-	-	
Currency translation reserve	2410	-	-	
Share of comprehensive loss of equity accounted investees	2415	-	-	
Other comprehensive income (loss)	2445	(82,205)	(32,639)	
Other comprehensive income (loss) before tax	**2450**	(82,205)	(32,639)	
Income tax attributed to other comprehensive income	2455			
Other comprehensive income (loss) after tax	**2460**	(82,205)	(32,639)	
Total comprehensive income (loss)	**2465**	**(165,049)**	**157,033**	

III. NATURE OF OPERATING EXPENDITURES

Item	Line Code	Reporting period	Prior period (represented)	Note
1	2	3	4	5
Production expenditures	2500	801,966	834,059	20
Salaries and related charges	2505	2,116,082	2,090,559	20
Social charges	2510	765,969	759,293	20
Depreciation and amortization	2515	855,575	949,291	20
Other operating expenses	2520	1,261,078	1,523,615	20
Total	**2550**	**5,800,670**	**6,156,817**	

IV. EARNINGS PER SHARE

Item	Line Code	Reporting Period	Prior period (represented)	Note
1	2	3	4	5
Average annual number of ordinary shares	2600	18,726,248,000	18,726,248,000	11
Adjusted average annual number of ordinary shares	2605	18,726,248,000	18,726,248,000	11
Basic earnings (loss) per ordinary share, UAH	2610	(0.0044)	0.0101	
Diluted earnings (loss) per ordinary share, UAH	2615	(0.0044)	0.0101	
Dividend per ordinary share, UAH	2650	-	-	
Basic and diluted earnings (loss) per ordinary share from continued operations, UAH		0.0028	0.0169	
Basic and diluted earnings (loss) per ordinary share from discontinued operations, UAH		(0.0074)	(0.0067)	

Director (signature) Kurmaz name 18 April 2014

Chief Accountant (signature) Nakalyuzhna name 18 April 2014

«Укртелеком» Ідентифікаційний код 21560766

Line 2445 "Other comprehensive loss" in amount of UAH 82,205 thousand (2012: UAH 32,639 thousand) is represented by actuarial loss from post-employment long-term benefit obligations, that will never be reclassified to profit or loss (refer to note 12).

		Date (year, month, day)	2014.01.01
Entity	PJSC Ukrtelecom	EDRPOU	21560766
Location	Ukraine	KOATUU	8039100000
Form of ownership	Public Joint-Stock Company	KOPFG	230
Principal activity	Telecommunications	KVED	61.10
Prepared in accordance with (put "v" where appropriate):			
National Accounting Standards			
International Financial Reporting Standards			v
Measurement unit: thousand UAH			
		DKUD Code	1801004

Statement of Cash Flows (Direct method)
for the year 2013
Form No.3

Item	Code	Reporting period	Prior period (represented)
1	2	3	4
I. Cash flows from operating activities			
Proceeds:			
Sale of goods and services	3000	6,837,946	7,027,191
Return of taxes and duties:	3005	124	56
VAT	3006	-	-
Target financing	3010	4,174	5,949
Prepayments from customers	3015	63,415	67,275
Return of advances	3020	154	287
Interests on current bank accounts	3025	-	-
Penalties, fines and forfeits	3035	9,984	9,274
Operating lease	3040	213,004	246,464
Other proceeds	3095	67,662	53,447
Expenditures:			
Settlements for goods and services	3100	(1,491,005)	(1,825,377)
Payments to employees	3105	(1,808,474)	(1,778,843)
Social charges	3110	(843,382)	(825,074)
Other taxes and duties payable	3115	(1,263,134)	(1,349,432)
Advances to suppliers	3135	(123,775)	(117,727)
Reversal of advances from customers	3140	(1,408)	(160)
Other expenditures	3190	(244,871)	(183,923)
Net cash flows from operating activities	**3195**	**1,420,414**	**1,329,407**
II. Cash flows from investing activities			
Disposals:			
financial investments	3200	17,265	17,245
non-current assets	3205	1,282	563
Receipts:			
interest	3215	6,499	5,283
dividends	3220	-	322

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Item	Code	Reporting period	Prior period (represented)
1	2	3	4
Derivatives	3225	-	-
Other proceeds	3250	187,631	349
Acquisitions:			
financial investments	3255	(39,965)	(-)
non-current assets	3260	(338,679)	(659,032)
Expenses on derivatives	3270	(-)	(-)
Other payments	3290	(374,344)	(82,780)
Net cash flows from investing activities	**3295**	**(540,311)**	**(718,050)**
III. Cash flows from financing activities			
Proceeds from issuance of equity	3300	-	-
Loans received	3305	2,442,821	643,083
Other proceeds	3340	40,277	12,302
Repurchase of treasury shares	3345	-	-
Repayment of loans	3350	(2,515,294)	(651,835)
Dividends paid	3355	(1)	(10)
Interest paid	3360	(421,518)	(224,325)
Finance lease	3365	(37,701)	(197,443)
Other payments	3390	(78,768)	(96,785)
Net cash flows from financing activities	**3395**	**(570,184)**	**(515,013)**
Net cash flows for the period	3400	309,919	96,344
Cash and cash equivalents at the beginning of the year	3405	256,770	160,334
Effect of change in exchange rates on cash and cash equivalents	3410	8	92
Cash and cash equivalents at the year-end	3415	566,697	256,770

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

Director (signature) Kurmaz 18 April 2014
name

Chief Accountant (signature) Nakalyuzhna 18 April 2014
name

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Non-cash investing activities *(in thousands of Ukrainian hryvnias)*	**2013**	2012
Property, plant and equipment acquired using supplier credit agreements	**2,214**	18,035
Property, plant and equipment acquired by means of a finance lease	**21,595**	75,023

Line 3190 "Other expenditures" in amount of UAH 244,871 thousand (2012: UAH 183,923 thousand) in "Cash flows from operating activities" includes cash outflows from rent paid, foreign currency purchase transactions, payments under collective agreement, insurance payments and other cash outflows.

Line 3250 "Other proceeds" in "Cash flows from investing activities" includes UAH 187,000 thousand of proceeds from loan settled by direct shareholder LLC "ESU" (2012: UAH nil), and other cash inflows.

Line 3290 "Other payments" in "Cash flows from investing activities" includes UAH 374,100 thousand of cash outflows for loan granted to direct shareholder LLC "ESU" (2012: nil), and other cash outflows.

Line 3390 "Other payments" in "Cash flows from financing activities" includes UAH 69,376 thousand of repaid loans to suppliers (2012: UAH 35,606 thousand), and other cash outflows.

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Entity	PJSC Ukrtelecom	Date (year, month, day)	2014.01.01
Location	Ukraine	EDRPOU	21560766
State administration authority		KOATUU	8039100000
		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		

Statement of Changes in Equity for the year 2013

Form No.4

DKUD Code 1801005

Item	Line Code	Registered share capital	Share capital revaluation surplus	Additional capital	Other additional capital	Reserves	Retained earnings / (Accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Balance at the beginning of the year (represented)	4000	4,681,562	3,011,892	411,370	-	222,812	(3,217,605)	-	-	5,110,031
Adjustments: Change of accounting policy	4005	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-	-

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Item	Line Code	Registered share capital	Share capital revaluation surplus	Additional capital	Other additional capital	Reserves	Retained earnings / (Accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Adjusted balance at the beginning of the year	4095	4,681,562	3,011,892	411,370	-	222,812	(3,217,605)	-	-	5,110,031
Net profit (loss) for the period	4100	-	-	-	-	-	(82,844)	-	-	(82,844)
Other comprehensive income (loss)	4110	-	-	-	-	-	(82,205)	-	-	(82,205)
Retained earnings distributed: Distributions to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	-
Reinvestment in authorized capital	4205	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-
Shareholders/contributions: Equity contributions	4240	-	-	-	-	-	-	-	-	-
Capital repayment	4245	-	-	-	-	-	-	-	-	-
Capital withdrawals: Repurchase of treasury shares (participatory interest)	4260	-	-	-	-	-	-	-	-	-
Reverse repurchase of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-
Equity divestment	4275	-	-	-	-	-	-	-	-	-

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Item	Line Code	Registered share capital	Share capital revaluation surplus	Additional capital	Other additional capital	Reserves	Retained earnings / (Accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Other changes in equity	4290	-	-	(133,137)	-	-	-	-	-	(133,137)
Total changes in equity	**4295**	-	-	(133,137)	-	-	(165,049)	-	-	(298,186)
Balance at the year-end	**4300**	**4,681,562**	**3,011,892**	**278,233**	-	**222,812**	**(3,382,654)**	-	-	**4,811,845**

Director (signature) Kurmaz (name) 18 April 2014

Chief Accountant (signature) Nakalyuzhna (name) 18 April 2014

«Укртелеком» ідентифікаційний код 21560766

Line 4290 "Other changes in equity" in amount of UAH 133,137 thousand is represented by the difference between nominal and fair value on initial recognition of interest free loan provided to shareholder and initial recognition of provision to maintain special telecommunication equipment within the shareholder's obligation under the privatisation agreement (refer to note 11).

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Entity	PJSC Ukrtelecom	Date (year, month, day)	2014.01.01
Location	Ukraine	EDRPOU	21560766
State administration authority		KOATUU	8039100000
		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		

Statement of Changes in Equity
for the year 2012
Form No.4

DKUD Code 1801005

Item	Line Code	Registered share capital	Share capital revaluation surplus	Additional capital	Other additional capital	Reserves	Retained earnings / (Accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Balance at the beginning of the year (represented)	4000	4,681,562	3,011,892	411,370	-	222,812	(3,374,638)	-	-	4,952,998
Adjustments: Change of accounting policy	4005	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-	-

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Item	Line Code	Registered share capital	Share capital revaluation surplus	Additional capital	Other additional capital	Reserves	Retained earnings / (Accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Adjusted balance at the beginning of the year	4095	4,681,562	3,011,892	411,370	-	222,812	(3,374,638)	-	-	4,952,998
Net profit (loss) for the period	**4100**	-	-	-	-	-	189,672	-	-	189,672
Other comprehensive income (loss)	**4110**	-	-	-	-	-	(32,639)	-	-	(32,639)
Retained earnings distributed: Distributions to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	-
Reinvestment in authorized capital	4205	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-
Shareholders/contributions: Equity contributions	4240	-	-	-	-	-	-	-	-	-
Capital repayment	4245	-	-	-	-	-	-	-	-	-
Capital withdrawals: Repurchase of treasury shares (participatory interest)	4260	-	-	-	-	-	-	-	-	-
Reverse repurchase of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Item	Line Code	Registered share capital	Share capital revaluation surplus	Additional capital	Other additional capital	Reserves	Retained earnings / (Accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Equity divestment	4275	-	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	-	-	-	-	-
Total changes in equity	4295	-	-	-	-	-	157,033	-	-	157,033
Balance at the year-end (represented)	4300	4,681,562	3,011,892	411,370	-	222,812	(3,217,605)	-	-	5,110,031

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

Director (signature) Kurmaz (name) 18 April 2014

Chief Accountant (signature) Nakalyuzhna (name) 18 April 2014

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 23 to 74.

Note | Page

Contents

1 Reporting entity

(a) Organisation and operations

Public Joint-Stock Company Ukrtelecom (the Company) is Ukraine's largest provider of fixed line telephony and internet services that operates telecommunication assets previously owned by the State. On 11 May 2011 as a part of the Ukrainian privatisation program LLC "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 LLC "ESU".

As at 31 December 2013 the Company's shares are owned by LLC "ESU" (92.791%), other legal entities (5.911%) and individuals (1.298%).

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries LLC "TriMob" and Ukrtel GmbH (together referred to as the Group).

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

In 2007 the Group started to deploy a mobile network using its IMT-2000 CDMA (UMTS/WCDMA) mobile license (commonly referred to as 3G mobile license). During the year 2011 shareholders of the Group have declared their intention to dispose the mobile segment. As at 31 December 2011, the Group classified its mobile segment as a discontinued operation. As at 31 December 2012 mobile segment is represented by the Utel branch and subsidiary LLC "TriMob", that are classified as a disposal group held for sale and presented as discontinued operations. As at 31 December 2013 mobile segment is represented solely by subsidiary LLC "TriMob" (refer to note 5).

The Group has 33 branches, including 27 regional branches, the head office, the Utel branch, a primary network branch, an infrastructure development branch, a special communication branch, a centralised sales of services branch and a central training centre. The Group's structure includes departments, outlets and other structural divisions.

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

(b) Ukrainian regulatory and business environment

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

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

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

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. These consolidated financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date.

(c) Corporate governance

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

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 and Chairman of the Group 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 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 this Charter.

The Chairman of the Group is a controlling body that reports to the Supervisory Board and carries out general supervision over management of the Group's day-to-day activities, except for the matters related to state secrets and confidential information classified under "restricted for public use" label, and agrees upon, coordinates and exercises control over the Director's activities on the matters stipulated by the Charter and ensures coordination between the Director and the Supervisory Board.

As at 31 December 2012 and 2013, the Group had no internal audit function responsible for the internal control and reporting directly to the General Meeting of Shareholders or the Supervisory Board.

Subsequently to the reporting date, the Group has established internal audit function responsible for the internal control and reporting directly to the Supervisory Board (refer to note 27).

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Ukrainian legislation.

(b) Basis of measurement

These consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about critical judgments and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements and could lead to significant adjustments in the next financial year is included in the following notes:

Note 7 – impairment provision for trade and other receivables

Note 12 – post-employment and other long-term employee benefit obligations

Note 22 – recognition of deferred tax assets.

(e) Changes in presentation

(i) Changes in reporting format prescribed by effective legislation

In accordance with Ukrainian legislation, effective from 7 February 2013, the Group is obliged to report its annual consolidated financial statements, prepared in accordance with International Financial Reporting Standards, using standard format prescribed by the Ministry of finance of Ukraine (Order No. 73 dated 7 February 2013).

Following the requirements of Ukrainian legislation on 7 February 2013 the Group changed its presentation of consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and related disclosures. Comparative information as at and for the year ended 31 December 2012 used in these consolidated financial statements was represented accordingly.

Impact of changes in reporting format on consolidated statement of financial position

Share capital in amount of UAH 7,693,454 thousand as at 31 December 2012 is presented in these consolidated financial statements as Registered share capital (row 1400) in amount of UAH 4,681,562 thousand and Share capital revaluation surplus (row 1405) in amount of UAH 3,011,892 thousand.

Extra-budgetary payments in amount of UAH 19,633 thousand as at 31 December 2012 and other current liabilities in amount of UAH 35,193 thousand as at 31 December 2012 are presented in these consolidated financial statements as Other current liabilities (row 1690).

The Group has made also a number of other changes in presentation of consolidated statement of financial position.

Impact of changes in reporting format on consolidated statement of comprehensive income

In prior year the Group presented a consolidated statement of comprehensive income in the form of two statements, being a consolidated income statement followed by a consolidated statement of other comprehensive income.

In 2013 the Group presented a consolidated statement of comprehensive income in a single statement which includes all components of profit or loss and other comprehensive income.

The Group has made also a number of other changes in presentation of consolidated statement of comprehensive income.

Other changes

A number of other changes in presentation of consolidated statement of cash flows and consolidated statement of changes in equity were applied by the Group.

(ii) Changes in corresponding figures

Cash flows from interest paid and other cash inflows in amount of UAH 213,145 thousand, presented as cash flows from operating activities in prior year, are presented in these consolidated financial statements in cash flows from financial activities to conform to the current year presentation.

Cash flows from interest received on deposit in amount of UAH 5,283 thousand, presented as cash flows from operating activities in prior year, are presented in these consolidated financial statements in cash flows from investing activities to conform to the current year presentation.

Cash flows from loans received (row 3305) in amount of UAH 1,542,908 thousand and cash flows from repayment of loans (row 3350) in amount of UAH 1,542,908 thousand for the year ended 31 December 2012 that were presented on the gross basis in prior year, are presented in these financial statements on a net basis as these cash flows have maturity of less than 3 month.

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

3 Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Consolidated subsidiaries include the following:

Name	Country of incorporation	Activity	Actual % of ownership	
Consolidated:			**2013**	2012
Ukrtel GmbH	Germany	Telecommunications	**100.0**	100.0
LLC "TriMob"	Ukraine	Mobile Telecommunications	**100.0**	100.0

As at 31 December 2012, mobile segment assets were represented by Utel branch and subsidiary LLC "TriMob", that were classified as a disposal group held for sale and presented as discontinued operations. As at 31 December 2013 mobile segment is represented solely by subsidiary LLC "TriMob" (refer to note 5).

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.

(b) Foreign currency

Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated 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 retranslated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments

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

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 7, other long term and current financial investments as presented in note 9.

Cash and cash equivalents

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

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial liabilities - measurement

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

Other financial liabilities comprise long-term bank loans, other long-term financial liabilities and current portion of long-term liabilities as presented in note 13, short-term bank loans, including bank overdrafts, as presented in note 14, and trade accounts payable.

Share capital

Ordinary shares

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.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

As a part of the restructuring of the telecommunication sector initiated by the Ukrainian Government, on 1 July 1998 property, plant and equipment of the separate legal entities known as the regional enterprises of telecommunication were transferred to the Group. These items of property, plant and equipment were transferred to the Group at their book values as stated in the accounts of the regional enterprises, measured in accordance with Ukrainian statutory regulations. The acquisition cost together with the accumulated depreciation of these items had been subject to indexation as required by the Ukrainian Government to account for hyperinflation. The last indexation was as at 1 April 1996 and was performed on the basis of indices provided by the Ministry of Statistics of Ukraine.

In 2000, management attempted to estimate the accumulated effect of statutory indexations and the historical cost of the transferred assets. This estimated value was used as a basis for the restatement of property, plant and equipment to their equivalent in Ukrainian hryvnias of constant purchasing power as at 31 December 2000, as required by International Financial Reporting Standard IAS 29 *Financial Reporting in Hyperinflationary Economies* (IAS 29).

Original documentation that supports purchase or construction costs of these items of property, plant and equipment and supporting calculations for the restatements are not available, as Ukrainian statutory regulations require keeping supporting documentations for three years only.

Subsequent expenditure

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.

Construction in progress

Construction in progress is stated at cost less impairment losses. Prepayments for property, plant and equipment and spare parts balances relating to capital construction are presented as part of construction in progress.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Buildings and leasehold improvements	8 – 50 years
Switching equipment and other network equipment	3 – 20 years
Ducts and cables	20 – 25 years
Radio and fixed link transmission equipment	15 years
Computer, office and other equipment	3 – 5 years

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

(e) 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, excluding development costs, are recognised in profit or loss as an expense as incurred.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, 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 for the current and comparative periods 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.

(f) Leased assets

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

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

(g) Inventories

Inventories are measured at the lower of cost and 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.

(h) Impairment

Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

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

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

Equity-accounted investees

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

Non-financial assets

The carrying amounts of non-financial assets, other than inventories 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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.

(i) 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.

Such assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) Discontinued operation

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

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

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

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

(k) 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. These obligations are paid using cash generated from operations.

Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group makes one-time payments on retirement to long-term employees amounting up to ten monthly salaries, which depend on the service period with the Group. The Group is also obliged to compensate to the Ukrainian state pension payments that are paid by the state to employees who worked a certain period of time under hazardous conditions, as defined by Ukrainian regulations, and are thus eligible for early retirement. The Group is obliged to reimburse early retirement pension payment made by the state until the employee reaches normal retirement age as defined by statutory regulations.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Ukrainian government bonds and high quality corporate long-term bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Ukrainian government bonds and high quality corporate long-term bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group makes one-time payments to employees who reach a certain age. These jubilee benefits represent long-term employee benefit obligations and are paid using cash generated from operations.

Termination benefits

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

(l) Provisions

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

(m) Revenue

The Group's main sources of revenue include the following:

- local traffic and recurring charges are determined based on authorised tariffs for telecommunication services approved by NCRCI
- domestic long-distance traffic includes charges for outgoing traffic within Ukraine based on tariffs authorised by the Group
- international traffic comprises charges for outgoing traffic of international calls made by the Group's customers
- fees for the use of channels and fixed access line fees 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
- services to international operators includes regular (monthly, quarterly, annual) fees for use of the lines and charges for traffic of international operators' customers located abroad and is based on individual agreements with international operators
- internet services include fixed internet fees, Voice-IP services, revenue from sale of internet cards, data transmission services, internet connection fees and other fees
- installation and connection fees comprise charges for phones installation and charges to other telecommunication operators for connection to the Group's network based on individually agreed terms. Additionally, installation and connection fees include fees from sales of rights to customers for accelerated connection of telephone lines

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

Installation fees are recognised upon provision of the installation service.

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission earned by the Group.

(n) Expenses

Lease payments

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

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

Social expenditure

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

(o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions.

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

Foreign currency gains and losses are reported as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(p) Income tax

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

Current tax

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

Deferred tax

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

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

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

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

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

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. 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.

(q) Segment information

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Director 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 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 other than goodwill.

(r) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations which will become effective after 31 December 2013, have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2014. Management has not yet analysed the likely impact of these new statements and amendments on the financial position and performance of the Group.

4 Segment information

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

- *Fixed line telecommunications.*
- *Mobile telecommunications.* This segment is presented as discontinued operations in these consolidated financial statements pursuant to the decision of the shareholders of the Group regarding its disposal (refer to note 5).

Changes in the composition of segments can arise from either changes in management responsibility, or from acquisitions and divestitures. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Director. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

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 417,763 thousand for the year ended 31 December 2013 (31 December 2012: UAH 501,323 thousand) (note 15).

Major customers

During 2013, no individual customer represented more than 10% of the Group's total revenue.

Information about reportable segments

(in thousands of Ukrainian hryvnias)	**Fixed line telecommunications**		**Mobile telecommunications (discontinued)**		**Total**	
	2013	2012	**2013**	2012	**2013**	2012
External revenues	**6,334,483**	6,784,987	**239,572**	230,693	**6,574,055**	7,015,680
Inter-segment revenue	**113,073**	167,816	**13,878**	20,773	**126,951**	188,589
Interest expense	**(418,180)**	(342,996)	**(4,515)**	(11,271)	**(422,695)**	(354,267)
Depreciation and amortisation	**(855,575)**	(949,291)	**-**	-	**(855,575)**	(949,291)
Impairment losses	**(43,835)**	(7,868)	**-**	-	**(43,835)**	(7,868)
Profit (loss) before income tax	**55,011**	343,397	**(137,855)**	(126,345)	**(82,844)**	217,052
Reportable segment assets	**8,282,519**	8,581,300	**376,303**	354,654	**8,658,822**	8,935,954
Reportable segment liabilities	**(3,607,998)**	(3,737,532)	**(238,979)**	(88,391)	**(3,846,977)**	(3,825,923)
Capital expenditure	**132,104**	494,363	**66,316**	107,152	**198,420**	601,515

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

(in thousands of Ukrainian hryvnias)	**2013**	2012
Revenues		
Total revenue for reportable segments	**6,701,006**	7,204,269
Elimination of inter-segment revenue	**(126,951)**	(188,589)
Elimination of discontinued operations	**(239,572)**	(230,693)
Consolidated revenue	**6,334,483**	6,784,987
Profit or loss		
Total profit (loss) for reportable segments	**(82,844)**	217,052
Elimination of discontinued operations	**137,855**	126,345
Consolidated profit before income tax	**55,011**	343,397

5 Discontinued operations

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 2012 mobile segment is represented by the Utel branch and subsidiary LLC "TriMob" both classified as a disposal group held for sale and presented as discontinued operations. As at 31 December 2013 mobile segment is represented solely by the subsidiary LLC "TriMob".

Assets and liabilities attributable to discontinued operations are as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Disposal groups' assets		
Intangible assets	**12,098**	11,405
Construction in progress	**28,361**	17,936
Property, plant and equipment	**143,190**	157,485
Inventories	**3,628**	-
Trade accounts receivable	**16,473**	21,489
Receivables from budget (VAT receivable)	**146,509**	131,853
Advances paid	**2,934**	4,201
Other current accounts receivable	**1,962**	5,420
Cash and cash equivalents	**18,968**	2,523
Other assets	**2,124**	2,043
Deferred expenses	**56**	299
	376,303	354,654

	31 December 2013	31 December 2012
Liabilities on settlements for disposal groups		
Provision for employee benefits	**1,223**	1,572
Other non-current financial liabilities	**-**	5,765
Short-term loans	**199,825**	48,040
Trade accounts payable	**21,792**	15,481
Current payables on advances received	**2,869**	4,209
Current payables to budget	**8,533**	7,911
Current payables on salary related charges	**788**	750
Current payables on salaries	**1,635**	1,322
Other current liabilities	**2,314**	3,341
	238,979	88,391

Financial result attributable to discontinued operations is as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Discontinued operation results		
Net revenue	**239,572**	230,693
Cost of revenue	**(294,053)**	(274,231)
Administrative expenses	**(32,046)**	(41,412)
Selling expenses	**(17,798)**	(18,018)
Other operating expenses	**(12,201)**	(11,550)
Other expenses	**(16,814)**	(628)
Other financial income	**-**	72
Finance costs	**(4,515)**	(11,271)
	(137,855)	(126,345)

Cash flows from discontinued operations are as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Cash flows from discontinued operations		
Cash flows from operating activities:		
Cash inflows from operating activities	**312,766**	446,149
Cash outflows from operating activities	**(468,393)**	(445,655)
Net cash from (used in) operating activities	**(155,627)**	494
Cash flows from investing activities:		
Cash inflows from investing activities	**-**	80,133
Cash outflows from investing activities	**(22,622)**	(46,483)
Net cash from (used in) investing activities	**(22,622)**	33,650
Net cash from (used in) financing activities	**195,310**	(32,952)
Net cash flows for the year	**17,061**	1,192

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 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 2013 represent capital expenditures incurred during the years ended 31 December 2011, 2012 and 2013.

6 Property, plant and equipment and construction in progress

Movements in property, plant and equipment and construction in progress for the year ended 31 December 2013 are as follows:

(in thousands of Ukrainian hryvnias)	Buildings and leasehold improvements	Switching and other network equipment	Ducts and cables	Radio and fixed link transmission equipment	Computers, office and other equipment	Construction in progress	Total
Cost							
At 1 January 2013	3,174,587	9,489,858	5,781,945	1,483,384	5,599,424	359,040	25,888,238
Additions	361	1,704	297	390	42,587	57,649	102,988
Disposals	(6,017)	(25,851)	(4,495)	(1,661)	(46,515)	-	(84,539)
Transfers	19,872	180,199	15,808	10,532	-	(226,411)	-
Transfers from discontinued operations	-	-	-	28,271	-	-	28,271
At 31 December 2013	3,188,803	9,645,910	5,793,555	1,520,916	5,595,496	190,278	25,934,958
Accumulated depreciation and impairment losses							
At 1 January 2013	1,174,967	7,311,626	3,823,009	1,104,702	5,034,062	-	18,448,366
Depreciation charge	63,235	331,305	144,634	44,648	232,033	-	815,855
Disposals	(4,759)	(22,292)	(2,335)	(1,432)	(44,224)	-	(75,042)
Impairment losses	12,379	13,485	12,127	2,344	3,500	-	43,835
Transfers from discontinued operations	-	-	-	19,024	-	-	19,024
At 31 December 2013	1,245,822	7,634,124	3,977,435	1,169,286	5,225,371	-	19,252,038
Net book value							
At 1 January 2013	1,999,620	2,178,232	1,958,936	378,682	565,362	359,040	7,439,872
At 31 December 2013	1,942,981	2,011,786	1,816,120	351,630	370,125	190,278	6,682,920

Movements in property, plant and equipment and construction in progress for the year ended 31 December 2012 are as follows:

(in thousands of Ukrainian hryvnias)	Buildings and leasehold improvements	Switching and other network equipment	Ducts and cables	Radio and fixed link transmission equipment	Computers, office and other equipment	Construction in progress	Total
Cost							
At 1 January 2012	3,170,171	8,851,242	5,778,851	1,509,290	5,440,865	755,955	25,506,374
Additions	399	25,807	152	7	201,455	229,209	457,029
Disposals	(803)	(2,079)	(56)	(29,331)	(42,896)	-	(75,165)
Transfers	4,820	614,888	2,998	3,418	-	(626,124)	-
At 31 December 2012	3,174,587	9,489,858	5,781,945	1,483,384	5,599,424	359,040	25,888,238
Accumulated depreciation and impairment losses							
At 1 January 2012	1,110,618	6,982,172	3,674,936	1,065,134	4,776,536	-	17,609,396
Depreciation charge	64,122	331,289	148,129	51,125	294,466	-	889,131
Disposals	(673)	(1,835)	(56)	(14,355)	(41,110)	-	(58,029)
Impairment losses	900	-	-	2,798	4,170	-	7,868
At 31 December 2012	1,174,967	7,311,626	3,823,009	1,104,702	5,034,062	-	18,448,366
Net book value							
At 1 January 2012	2,059,553	1,869,070	2,103,915	444,156	664,329	755,955	7,896,978
At 31 December 2012	1,999,620	2,178,232	1,958,936	378,682	565,362	359,040	7,439,872

(a) Depreciation charge

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

(in thousands of Ukrainian hryvnias) **Charged to:**	*Note*	**2013**	2012
Cost of revenue	*16*	**779,293**	862,459
Administrative expenses	*17*	**24,776**	10,763
Selling expenses	*18*	**8,618**	12,013
Other operating expenses	*19*	**3,168**	3,896
Total depreciation charge		**815,855**	889,131

As at 31 December 2013 historical cost of property, plant and equipment that are 100% depreciated and still in use amount to UAH 10,861,500 thousand (31 December 2012: UAH 10,239,084 thousand).

(b) Finance lease

The Group leases certain equipment under finance lease. At the end of lease term the Group obtains the ownership rights on the equipment leased. As at 31 December 2013, the net book value of equipment under existing finance lease amounts to UAH 6,010 thousand (31 December 2012: UAH 182,617 thousand).

(c) Pledged assets

As at 31 December 2013, equipment with a carrying amount of UAH 1,222,290 thousand (31 December 2012: UAH 1,392,699 thousand) is pledged to secure bank loans.

(d) Borrowing costs

Due to absence of qualifying assets, the Group did not capitalise interest expenses on borrowings during the years ended 31 December 2013 and 2012.

7 Trade accounts receivable

Trade accounts receivable are as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Trade receivables from:		
Individuals	**271,406**	278,066
Commercial entities	**245,098**	314,739
Government agencies	**174,095**	154,913
	690,599	747,718
Impairment provision for doubtful receivables from:		
Individuals	**(66,383)**	(50,508)
Commercial entities	**(86,306)**	(86,165)
Government agencies	**(73,355)**	(67,241)
Total impairment provision for doubtful receivables	**(226,044)**	(203,914)
	464,555	543,804

Impairment of trade accounts receivable as at 31 December 2013 is as follows:

(in thousands of Ukrainian hryvnias)	**Gross receivable**	**Impairment**	**Net receivable**	**Impairment to gross receivable**
Trade receivables from individuals				
Receivables with individual impairment	-	-	-	-
Receivables without individually identified impairment	**271,406**	**(66,383)**	**205,023**	**24%**
Total trade receivables from individuals	**271,406**	**(66,383)**	**205,023**	**24%**
Trade receivables from commercial entities				
Receivables with individual impairment	**3,811**	**(3,811)**	-	**100%**
Receivables without individually identified impairment	**241,287**	**(82,495)**	**158,792**	**34%**
Total trade receivables from commercial entities	**245,098**	**(86,306)**	**158,792**	**35%**
Trade receivables from government agencies				
Receivables with individual impairment	**512**	**(512)**	-	**100%**
Receivables without individually identified impairment	**173,583**	**(72,843)**	**100,740**	**42%**
Total trade receivables from government agencies	**174,095**	**(73,355)**	**100,740**	**42%**
Total	**690,599**	**(226,044)**	**464,555**	**33%**

Impairment of trade accounts receivable as at 31 December 2012 is as follows:

(in thousands of Ukrainian hryvnias)	Gross receivable	Impairment	Net receivable	Impairment to gross receivable
Trade receivables from individuals				
Receivables with individual impairment	-	-	-	-
Receivables without individually identified impairment	278,066	(50,508)	227,558	18%
Total trade receivables from individuals	278,066	(50,508)	227,558	18%
Trade receivables from commercial entities				
Receivables with individual impairment	42,101	(42,101)	-	100%
Receivables without individually identified impairment	272,638	(44,064)	228,574	16%
Total trade receivables from commercial entities	314,739	(86,165)	228,574	27%
Trade receivables from government agencies				
Receivables with individual impairment	5,669	(5,669)	-	100%
Receivables without individually identified impairment	149,244	(61,572)	87,672	41%
Total trade receivables from government agencies	154,913	(67,241)	87,672	43%
Total	747,718	(203,914)	543,804	27%

Ageing analysis of trade accounts receivable is as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**		31 December 2012	
	Gross	**Impairment**	Gross	Impairment
Individuals				
- less than 90 days	**200,152**	**(4,192)**	220,914	(4,558)
- 90 to 180 days	**8,081**	**(3,300)**	10,611	(4,161)
- 180 to 360 days	**13,371**	**(9,089)**	14,766	(10,014)
- over 360 days	**49,802**	**(49,802)**	31,775	(31,775)
Total individuals	**271,406**	**(66,383)**	278,066	(50,508)
Commercial entities				
- less than 90 days	**158,762**	**(4,690)**	220,035	(3,346)
- 90 to 180 days	**5,474**	**(2,285)**	6,208	(1,926)
- 180 to 360 days	**4,473**	**(2,942)**	13,440	(5,837)
- over 360 days	**76,389**	**(76,389)**	75,056	(75,056)
Total commercial entities	**245,098**	**(86,306)**	314,739	(86,165)
Government agencies				
- less than 90 days	**85,548**	**(7,862)**	77,651	(7,899)
- 90 to 180 days	**22,547**	**(7,597)**	16,697	(5,746)
- 180 to 360 days	**18,859**	**(10,755)**	16,008	(9,040)
- over 360 days	**47,141**	**(47,141)**	44,557	(44,556)
Total government agencies	**174,095**	**(73,355)**	154,913	(67,241)
Total	**690,599**	**(226,044)**	747,718	(203,914)

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

(in thousands of Ukrainian hryvnias)	**2013**	2012
Balance at beginning of the year	**203,914**	232,442
Provision for impairment	**51,515**	54,077
Write-offs	**(29,385)**	(82,605)
Balance at year end	**226,044**	203,914

The effective interest rate on trade receivables is nil.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the carrying amount of trade receivables as at 31 December 2013 would be UAH 4,646 thousand higher/lower (31 December 2012: UAH 5,438 thousand). The Group requires no collateral for its trade receivables.

Refer to note 23 for information on credit, concentration, currency and interest rate risks.

8 Other current receivables

Other current receivables as at 31 December 2013 include interest free loan provided to the parent company LLC "ESU" in amount of UAH 153,422 thousand (the nominal value: UAH 187,100 thousand). In accordance with the contractual arrangement, interest free loan provided to the parent company is to be settled till 31 December 2014. On initial recognition at fair value it was discounted using the effective interest rate of 18% and the resulting effect from initial recognition in amount of UAH 33,678 thousand was included in other changes in equity decreasing additional capital (refer to note 11).

Refer to note 23 for information on credit, concentration, currency and interest rate risks.

9 Other long-term and current financial investments

The Group's other long-term and current financial investments are represented by US dollar deposits placed in Ukrainian banks and accrued interest thereon.

Refer to note 23 for information on credit, concentration, currency and interest rate risks.

10 Other non-current assets

Other non-current assets are as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Non-current portion of deferred expenses	**15,065**	18,567
Other	-	2,702
	15,065	21,269

11 Equity

As at 31 December 2013, the authorised share capital comprises 18,726,248 thousand of issued and registered ordinary shares (31 December 2012: 18,726,248 thousand) with a par value of UAH 0.25. As at 31 December 2013 and 2012, all shares are outstanding.

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

During the year 2013 the Group recognised decrease in Additional capital in amount of UAH 133,137 thousand that includes UAH 33,678 thousand of difference between nominal and fair value on initial recognition of interest free loan provided to shareholder (note 8) and UAH 99,459 thousand from initial recognition of provision to maintain special telecommunication equipment within the shareholder's obligation under the privatisation agreement (note 25(e)).

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

12 Long-term provisions

Provisions for employee benefits are as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Post-employment long-term benefit obligations	**298,214**	210,641
Other long-term employee benefit obligations	**11,795**	12,474
	310,009	223,115

Post-employment long-term benefit obligations

Movement of post-employment long-term benefit obligations in the statement of financial position for the year ended 31 December 2013 is as follows:

(in thousands of Ukrainian hryvnias)	**One-time payment on retirement**	**Hazardous pensions**	**Total post-employment benefit obligations**
Present value of obligations as at 1 January 2013	**76,319**	**134,322**	**210,641**
Current service cost	**2,461**	**597**	**3,058**
Interest cost on post-employment obligations	**9,158**	**16,119**	**25,277**
Past service costs	**-**	**7,747**	**7,747**
Actuarial loss (gain) in the statement of comprehensive income	**(10,520)**	**92,725**	**82,205**
Benefits paid	**(6,144)**	**(24,570)**	**(30,714)**
Present value of obligations as at 31 December 2013	**71,274**	**226,940**	**298,214**

Movement of post-employment long-term benefit obligations in the statement of financial position for the year ended 31 December 2012 is as follows:

(in thousands of Ukrainian hryvnias)	One-time payment on retirement	Hazardous pensions	Total post-employment benefit obligations
Present value of obligations as at 1 January 2012	70,985	108,385	179,370
Current service cost	2,333	1,464	3,797
Interest cost on post-employment obligations	8,518	13,006	21,524
Actuarial loss (gain) in the statement of comprehensive income	(844)	33,483	32,639
Benefits paid	(4,673)	(22,016)	(26,689)
Present value of obligations as at 31 December 2012	76,319	134,322	210,641

Amounts recognised in profit or loss for the year ended 31 December 2013 are as follows:

(in thousands of Ukrainian hryvnias)	**Statement of income line**	**One-time payment on retirement**	**Hazardous pensions**
Interest cost on post-employment obligations	Finance costs	**9,158**	**16,119**
Current service cost	Personnel costs	**2,461**	**597**
Past service costs	Personnel costs	-	**7,747**
		11,619	**24,463**

Amounts recognised in profit or loss for the year ended 31 December 2012 are as follows:

(in thousands of Ukrainian hryvnias)	Statement of income line	One-time payment on retirement	Hazardous pensions
Interest cost on post-employment obligations	Finance costs	8,518	13,006
Current service cost	Personnel costs	2,333	1,464
		10,851	14,470

Key assumptions used in determining these obligations are as follows:

	31 December 2013	31 December 2012
Discount rate	**12%**	12%
Future increase in monthly salary	**10.5%**	11%

The retirement age in Ukraine is currently 60 years.

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.

Sensitivity of post-employment benefit obligations to key assumptions is as follows:

- a decrease of 5 percentage points in the discount rate would increase the obligation by approximately UAH 111,200 thousand
- an increase of 5 percentage points in the estimated salary increase rate would increase the obligation by approximately UAH 59,800 thousand.

13 Long-term bank loans, other long-term financial liabilities and current portion of long-term liabilities

Long-term bank loans, other long-term financial liabilities, and current portion of long-term liabilities are presented as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Non-current liabilities		
Long-term bank loans		
Loan from a supplier of equipment	**39,323**	-
Other long-term financial liabilities		
Supplier credits	**2,218**	4,213
Financial lease payable	**-**	26
	41,541	4,239
Current liabilities		
Current portion of long-term liabilities		
Bonds issued	**1,961,500**	193,098
Loan from a supplier of equipment	**120,104**	279,300
Interest payable	**34,231**	36,132
Supplier credits	**13,837**	19,234
Financial lease payable	**439**	36,686
Bank loan from OJSC "Sberbank of Russia"	**-**	1,820,627
Other	**2,405**	3,701
	2,132,516	2,388,778
	2,174,057	2,393,017

For more information about exposure to interest rate and foreign currency risks, refer to note 23.

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

		31 December 2013		31 December 2012	
(in thousands of Ukrainian hryvnias)	**Currency**	**Face value**	**Carrying amount**	Face value	Carrying amount
Non-current liabilities					
Long-term bank loans					
Supplier of equipment	USD	**39,323**	**39,323**	-	-
Other long-term financial liabilities					
Supplier credits	EUR	**2,218**	**2,218**	4,213	4,213
Financial lease payable	UAH	-	-	26	26
		41,541	**41,541**	4,239	4,239
Current portion of long-term liabilities					
Bonds issued	UAH	**1,961,500**	**1,961,500**	193,098	193,098
Lender (supplier of equipment)	USD	**120,104**	**120,104**	279,300	279,300
Interest payable	USD, UAH	**34,231**	**34,231**	36,132	36,132
Supplier credits	UAH, EUR	**13,837**	**13,837**	19,234	19,234
OJSC "Sberbank of Russia"	USD	-	-	1,820,627	1,820,627
Financial lease payable	UAH	**439**	**439**	36,686	36,686
Other		**2,405**	**2,405**	3,701	3,701
		2,132,516	**2,132,516**	2,388,778	2,388,778
		2,174,057	**2,174,057**	2,393,017	2,393,017

Liabilities denominated in Ukrainian hryvnya have an interest rate within the range of approximately 16% - 18% per annum. Liabilities denominated in USD and EUR have an interest rate within the range of approximately 6% - 9% per annum.

UAH-denominated bonds placed

In April 2013 the Group placed bonds (series R) with a nominal amount of UAH 1,711,500 thousand bearing an annual nominal interest rate of 18% (effective interest rate of 18%). In November 2013 the Group repurchased bonds (series R) in amount of UAH 300,000 thousand.

In September 2013 the Group placed bonds (series N, O, P, Q) with a nominal amount of UAH 500,000 thousand bearing an annual nominal interest rate of 18% (effective interest rate of 18%).

During the year ended 31 December 2013 the Group repurchased bonds (series D, E, F, placed in 2009) in amount of UAH 143,098 thousand.

The liabilities on the bonds as at 31 December 2012 and 2013 were presented as current, since, according to the terms of placement, the bondholders have a right to demand early repayment of the nominal amount of all or part of the bonds annually within a certain time period as indicated in the prospectus of bond issue.

Loans from a supplier of equipment

The Group has outstanding loans from a supplier of equipment in the amount of UAH 159,427 thousand as at 31 December 2013 (31 December 2012: UAH 279,300 thousand). As at 31 December 2012, these loans were stated as current liability, as the Group had no unconditional right to prolongation of repayment of the loan for at least twelve months from the reporting date (due to a cross-default provision that may be exercised by the supplier of equipment if OJSC "Sberbank of Russia" issues a notice on immediate repayment of its loan).

Due to voluntary full early repayment of the loan from OJSC "Sberbank of Russia" in April 2013 there were no events giving rise to cross default as at 31 December 2013. Therefore, loans from the supplier of equipment were presented as non-current liability as at 31 December 2013.

Loan from OJSC "Sberbank of Russia" (Russian Federation)

On 28 September 2011, the Group signed a loan agreement with OJSC "Sberbank of Russia" (Russian Federation) with the purpose of the repayment of principle amounts under existing credit facilities, including the outstanding loan from Credit Suisse First Boston International and Deutsche Bank, and other general corporate and working capital replenishment purposes. Under the above loan agreement with OJSC "Sberbank of Russia", in October 2011 the Group was granted with two separate loan facilities (Facility A and Facility B) amounting to USD 200,000 thousand and USD 50,000 thousand with contractual maturities on 6 October 2014 and 13 October 2016, respectively.

In accordance with the requirements of this loan agreement, the Group shall, within 12 months from the date of the agreement, procure that: (a) its assets related to the provision of mobile telecommunication services are assigned or transferred to a new subsidiary; and (b) all of its shares and other interests in the new subsidiary are disposed to a party that is not a member of the group on arms' length commercial terms for a purchase price of at least USD 200,000 thousand or its equivalent in any other currency or currencies. Furthermore, the Group shall apply at least USD 150,000 thousand of proceeds from disposal of the new subsidiary (or its equivalent in any other currency or currencies) to repay the principal amounts within its existing credit portfolio and/or to make capital expenditures and/or to finance the Group's operating activities. In accordance with the terms of the loan agreement, in case of failure to comply with abovementioned requirements, OJSC "Sberbank of Russia" has the right to require partial or full early redemption of the loan.

During 2011, the shareholders of the Group approved the plan of selling its mobile communication segment. However, the transaction on sale of the mobile communication segment was not closed as 31 December 2012 (see note 5).

The Group applied to OJSC "Sberbank of Russia" for extension of the term of disposal of shares in the new mobile segment subsidiary specified in the above loan agreement. However, as at 31 December 2012, OJSC "Sberbank of Russia" did not waive immediate repayment of a portion or the whole amount of the loan.

As at 31 December 2012, the loan was presented as a current liability, since the Group had no unconditional right to defer payments under the loan for at least twelve months after the reporting date.

In April 2013 the Group voluntary settled the outstanding loan balance with OJSC "Sberbank of Russia" using funds raised from placement of bonds.

Finance leases

Finance lease liabilities are as follows:

	31 December 2013			31 December 2012		
(in thousands of Ukrainian hryvnias)	**Future minimum lease payments**	**Interest**	**Principal**	Future minimum lease payments	Interest	Principal
Less than one year	**450**	**11**	**439**	38,401	1,715	36,686
From one to five years	**-**	**-**	**-**	26	-	26
	450	**11**	**439**	38,427	1,715	36,712

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

Security

As at 31 December 2013, inventories with the carrying amount of nil (31 December 2012: UAH 23,655 thousand) are pledged to secure bank loans. For information about property, plant and equipment pledged to secure the loans, refer to note 6.

14 Short-term bank loans

In 2011, the Group signed a multi-currency revolving loan facility agreement with a Ukrainian bank with a limit of USD 48,000 thousand. In 2012, the Group signed an agreement on an additional loan facility with a limit of USD 22,000 thousand. The total outstanding amount under these loan facilities is UAH 360,713 thousand as at 31 December 2013 (31 December 2012: UAH 423,949 thousand).

In April 2013, the Group signed an additional agreement extending the maturity of overdraft loan facility for one year with a Ukrainian bank with a limit of UAH 150,000 thousand (31 December 2012: UAH 150,000 thousand). The outstanding amount under the overdraft facility as at 31 December 2013 is UAH 111,142 thousand (31 December 2012: nil).

In October 2013 the Group signed a revolving loan facility agreement with a Ukrainian bank with a limit of UAH 50,000 thousand. As at 31 December 2013 total outstanding amount under this loan facility is nil.

For more information about exposure to interest rate and foreign currency risks, refer to note 23.

15 Net revenue

Net revenue for the years ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Local traffic and subscription fees	**2,882,678**	2,705,856
Internet services	**1,326,348**	1,275,929
Domestic long-distance traffic	**535,304**	692,294
Services to foreign operators	**417,763**	501,323
Leased circuit and fixed line access fees	**332,264**	416,834
International traffic	**223,667**	272,475
Income from operating leases of assets	**208,103**	157,383
Revenue from fixed line radio points	**179,769**	189,554
Revenue from sale of goods	**21,738**	41,369
Revenue from other telecommunication projects	**-**	243,949
Other revenue	**206,849**	288,021
	6,334,483	6,784,987

Revenue from other telecommunication projects for the year ended 31 December 2012 includes revenue from services provided during UEFA EURO 2012 event and parliament elections.

16 Cost of revenue

Cost of revenue for the years ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Salaries and related charges	**2,053,063**	2,049,063
Depreciation of property, plant and equipment	**779,293**	862,459
Utilities	**413,440**	423,111
Materials	**379,538**	377,318
Leased circuit costs and fixed line access fees	**247,247**	311,218
Services provided by foreign operators	**178,650**	219,686
Maintenance and repairs	**145,794**	165,829
Rent expenses	**80,048**	89,178
Amortisation of intangible assets	**30,419**	40,854
Other	**129,669**	100,947
	4,437,161	4,639,663

17 Administrative expenses

Administrative expenses for the years ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Salaries and related charges	**437,898**	401,301
Rent expenses	**42,022**	33,180
Depreciation of property, plant and equipment	**24,776**	10,763
Materials	**21,279**	18,338
Maintenance and repairs	**21,140**	18,289
Utilities	**10,527**	11,159
Amortisation of intangible assets	**6,631**	11,695
Other	**113,385**	86,940
	677,658	591,665

18 Selling expenses

Selling expenses for the years ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Salaries and related charges	**391,090**	399,488
Advertising and printing services	**116,996**	143,598
Utilities	**24,073**	26,257
Maintenance and repairs	**18,034**	37,854
Materials	**11,727**	13,238
Depreciation of property, plant and equipment	**8,618**	12,013
Amortisation of intangible assets	**2,670**	7,611
Other	**21,210**	92,316
	594,418	732,375

19 Other operating expenses

Other operating expenses for the years ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Provision for impairment of doubtful trade and other receivables	**51,515**	54,077
Operating forex losses	**44,912**	3,580
Impairment of property, plant and equipment	**43,835**	7,868
Employee expenses under collective agreement	**43,530**	63,230
Utilities	**26,365**	26,758
Depreciation of property, plant and equipment	**3,168**	3,896
Other	**2,080**	8,984
	215,405	168,393

20 Nature of operating expenses

Section III "Nature of Operating Expenses" of the consolidated statement of comprehensive income presents the Group's expenses incurred in the normal course of its operations.

For the year ended 31 December 2013, production expenses amounting to UAH 801,966 thousand (31 December 2012: UAH 834,059 thousand) comprise utility expenses in the amount of UAH 413,440 thousand (31 December 2012: UAH 423,111 thousand) and materials in the amount of UAH 379,538 thousand (31 December 2012: UAH 377,318 thousand) reported within cost of revenue (note 16), and other expenses.

For the year ended 31 December 2013, salaries and social charges totalling UAH 2,882,051 thousand (31 December 2012: UAH 2,849,852 thousand) comprise salaries and contributions to state social funds reported in the amount of UAH 2,053,063 thousand (31 December 2012: UAH 2,049,063 thousand) within cost of revenue (note 16), UAH 437,898 thousand within administrative expenses (31 December 2012: UAH 401,301 thousand) (note 17) and UAH 391,090 thousand within selling expenses (31 December 2012: UAH 399,488 thousand) (note 18).

For the year ended 31 December 2013, depreciation and amortisation totalling UAH 855,575 thousand (31 December 2012: UAH 949,291 thousand) comprises depreciation charge on property, plant and equipment in the amount of UAH 815,855 thousand (31 December 2012: UAH 889,131 thousand) (note 6) and amortisation charges on intangible assets in the amount of UAH 39,720 thousand (31 December 2012: UAH 60,160 thousand) (notes 16-18).

For the year ended 31 December 2013, other operating expenses totalling UAH 1,261,078 thousand (31 December 2012: UAH 1,523,615 thousand) comprise leased circuit costs and fixed line access fees in the amount of UAH 247,247 thousand (31 December 2012: UAH 311,218 thousand), services provided by foreign operators in the amount of UAH 178,650 thousand (31 December 2012: UAH 219,686 thousand), and maintenance and repairs in the amount of 145,794 UAH (31 December 2012: UAH 165,829 thousand) reported within cost of revenue (note 16), advertising and printing services in the amount of UAH 116,996 thousand (31 December 2012: UAH 143,598 thousand) reported within selling expenses (note 18), impairment loss on property, plant and equipment in the amount of UAH 43,835 thousand (31 December 2012: UAH 7,868 thousand), salaries and related charges under the collective agreement in the amount of UAH 43,530 thousand (31 December 2012: UAH 63,230 thousand) reported within operating expenses (note 19), and other expenses.

21 Finance costs

Finance costs for the years ended 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Interest expense on loans and borrowings	**379,583**	320,081
Interest cost on post-employment long-term employee benefit obligations	**25,277**	21,524
Unwinding of discount on provisions for special telecommunication equipment	**11,823**	-
Interest cost on other long-term employee benefit obligations	**1,497**	1,391
	418,180	342,996

22 Income tax expense

Income tax expense for the years ended 31 December is as follows:

(in thousands of Ukrainian hryvnias)	**2013**	2012
Total current tax expense recognised in the income statement	**-**	27,380
Deferred tax expense:		
Change in unrecognised deferred tax assets	**(38,116)**	(74,166)
Origination and reversal of temporary differences	**38,116**	74,166
Income tax expense	**-**	27,380

Under the effective changes of the Ukrainian tax legislation during 2012-2013, the income tax rate applicable for Ukrainian companies in 2012 was 21%; in 2013 is 19%; in 2014 is 18%; in 2015 is 17%; after 31 December 2015 is 16%. Management performed an analysis of the timing of deferred tax realisation and settlement and applied the following effective tax rates: 16% for post-employment and other long-term employee benefits obligations, 16% for property, plant and equipment, 17% for tax loss carry-forward and 18% for all other items.

Reconciliation of effective tax rate:

(in thousands of Ukrainian hryvnias)	**2013**	**%**	2012	%
Net profit (loss) for the year	**(82,844)**	**100.0%**	189,672	87.4%
Income tax expense	-	-	27,380	12.6%
Profit (loss) before tax	**(82,844)**	**100.0%**	217,052	100.0%
Income tax at applicable tax rate	**(15,740)**	**19.0%**	45,581	21.0%
Effect on income tax of:				
Non-deductible expenses	**7,643**	**(9.2%)**	5,452	2.5%
Change in unrecognised deferred tax assets from continued operations:				
Unrecognised deferred tax assets utilised	**(23,942)**	**28.9%**	(70,371)	(32.4%)
Unrecognised deferred tax assets recognised	**(14,174)**	**17.1%**	(3,795)	(1.7%)
Change in unrecognised deferred tax assets from discontinued operations	**46,912**	**(56.6%)**	49,563	22.8%
Effect of change in tax rates	**(699)**	**0.8%**	950	0.4%
Income tax expense	-	-	27,380	12.6%

Unrecognised deferred tax assets

Deferred tax assets have not been recognised through profit and loss in respect of the following items:

(in thousands of Ukrainian hryvnias)	**31December 2013**	31December 2012
Tax loss carry-forwards	**60,122**	98,238

Deferred tax assets have not been recognised through other comprehensive income in respect of the following items:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Post-employment employee benefit obligations	**20,193**	5,357

The Group reported cumulative tax losses of UAH 879,282 thousand for the year ended 31 December 2013 (31 December 2012: UAH 1,005,294 thousand).

According to tax legislation effective as at 31 December 2011, there was uncertainty as to eligibility of utilisation of tax losses accumulated as at 31 December 2010 in tax returns for the year ended 31 December 2011. Subsequent to 31 December 2011, changes were made to the tax code according to which tax losses carry forwards as at 31 December 2011 can be utilised as follows: 25% of their amount may be utilised during each year ended 31 December 2012, 31 December 2013, 31 December 2014 and

31 December 2015. If the 25% of the tax losses amount is not utilised in a respective year it may be utilised in subsequent years. Management does not recognise deferred tax assets in respect of the tax losses incurred before 31 December 2011 because of significant uncertainties regarding their realisation.

Movements in recognised temporary differences during the year ended 31 December 2013 are as follows:

(in thousands of Ukrainian hryvnias)	**1 January 2013**	**Recognised in profit or loss (charge) benefit**	**31 December 2013**
Property equipment and intangible assets	**(142,005)**	**(9,851)**	**(151,856)**
Loans and borrowings	**949**	**(949)**	**-**
Inventories	**27,467**	**(3,965)**	**23,502**
Trade accounts receivable	**(7,300)**	**7,300**	**-**
Prepayments for property, plant and equipment, prepayments and other assets	**1,464**	**391**	**1,855**
Trade and other accounts payable	**8,618**	**(8,618)**	**-**
Provision for unused vacations	**19,636**	**(514)**	**19,122**
Post-employment and other long-term employee benefit obligations	**18,509**	**(488)**	**18,021**
Tax loss carry forwards	**72,662**	**16,694**	**89,356**
Net deferred tax liability	**-**	**-**	**-**

Movements in recognised temporary differences during the year ended 31 December 2012 are as follows:

(in thousands of Ukrainian hryvnias)	1 January 2012	Recognised in profit or loss (charge) benefit	31 December 2012
Property equipment and intangible assets	(134,654)	(7,351)	(142,005)
Loans and borrowings	(6,985)	7,934	949
Inventories	31,558	(4,091)	27,467
Trade accounts receivable	(8,219)	919	(7,300)
Prepayments for property, plant and equipment, prepayments and other assets	1,188	276	1,464
Trade and other accounts payable	19,433	(10,815)	8,618
Provision for unused vacations	19,662	(26)	19,636
Post-employment and other long-term employee benefit obligations	22,554	(4,045)	18,509
Tax loss carry forwards	55,463	17,199	72,662
Net deferred tax liability	-	-	-

23 Financial risk management

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

(a) Measurement of fair value

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

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

Trade and other receivables

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

Non-derivative financial liabilities

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

The carrying value of all financial assets and liabilities is estimated to not significantly vary from their fair value as at 31 December 2012 and 2013.

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 7 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. Key inputs and assumptions used in the fair value determinations are represented by market interest rates that approximate the Group's effective interest rates at the reporting date. Also, there has been no change in the valuation technique for fair value determination and no transfers between the fair value categories during the years ended 31 December 2013 and 2012.

(b) 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.

(c) 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.

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, according to their geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

Management established a credit policy under which each international operator is analysed individually for creditworthiness before standard payment and service rendering terms and conditions are offered. The review includes external ratings, where available, and in some cases bank references.

Exposure to credit risk

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

(d) Liquidity risk

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

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

As at 31 December 2012 and 2013, the Group has two lines of credit with availability of USD 48,000 thousand and USD 22,000 thousand, respectively. As at 31 December 2013, the total exposure on these credit lines is UAH 360,713 thousand (31 December 2012: UAH 423,949 thousand).

As at 31 December 2013, the Group has an overdraft facility with maximum availability of UAH 150,000 thousand (31 December 2012: UAH 150,000 thousand). As at 31 December 2013, the total exposure on the overdraft facility is UAH 111,142 thousand (31 December 2012: nil).

The contractual maturities of non-derivative financial liabilities including interest payments as at 31 December 2013 are as follows:

(in thousands of Ukrainian hryvnias)	**Carrying amount**	**Contractual cash flows**	**Due upon demand**	**Less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 2 years**	**More than 2 years**
Loans and borrowings:								
Bonds	1,961,500	2,042,309	-	-	1,467,284	575,025	-	-
Lender (supplier of equipment)	159,427	167,506	-	9,813	24,109	92,786	37,023	3,775
Short-term loans and borrowings	471,855	474,428	-	363,793	-	110,635	-	-
Finance lease payable	439	450	-	162	267	21	-	-
Interest payable	34,231	35,767	-	2,131	33,636	-	-	-
Supplier credits and other borrowings	18,460	18,948	-	3,399	5,196	8,096	2,257	-
Promissory notes	150	150	-	-	-	150	-	-
Total loans and borrowings	2,646,062	2,739,558	-	379,298	1,530,492	786,713	39,280	3,775
Trade accounts payable	155,342	155,342	-	155,342	-	-	-	-
Other current liabilities	59,261	59,261	-	59,261	-	-	-	-
	2,860,665	2,954,161	-	593,901	1,530,492	786,713	39,280	3,775

The contractual maturities of non-derivative financial liabilities including interest payments as at 31 December 2012 are as follows:

(in thousands of Ukrainian hryvnias)	Carrying amount	Contractual cash flows	Due upon demand	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years
Loans and borrowings:								
OJSC "Sberbank of Russia"	1,820,627	1,976,583	1,820,627	28,556	-	66,747	44,965	15,688
Bonds	193,098	208,111	-	-	52,313	155,798	-	-
Lender (supplier of equipment)	279,300	300,653	279,300	1,468	3,382	10,416	5,517	570
Short-term loans and borrowings	423,949	445,073	-	88,962	10,554	345,557	-	-
Finance lease payable	36,712	38,427	-	7,481	13,930	16,990	26	-
Interest payable	36,132	36,132	-	-	36,132	-	-	-
Supplier credits and other borrowings	27,148	27,917	-	3,534	7,006	13,091	4,286	-
Promissory notes	370	370	-	-	-	370	-	-
Total loans and borrowings	2,817,336	3,033,266	2,099,927	130,001	123,317	608,969	54,794	16,258
Trade accounts payable	275,200	275,200	-	275,200	-	-	-	-
Other current liabilities	54,826	54,826	-	54,826	-	-	-	-
	3,147,362	3,363,292	2,099,927	460,027	123,317	608,969	54,794	16,258

As at 31 December 2012, in respect of the loans from OJSC "Sberbank of Russia" (the Russian Federation) and the lender (supplier of equipment), the Group had no unconditional right to prolong repayment of the loans for at least twelve months from the reporting date (refer to note 13 for details). Therefore, these loans are shown in the above table as "due on demand", while the future interest payments related to these loans are presented in the above table as per original contractual maturity.

(e) Market risk

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

Currency risk

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

The exposure to foreign currency risk is as follows:

	USD-denominated		**Euro-denominated**	
(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012	**31 December 2013**	31 December 2012
Trade accounts receivable	**56,441**	91,168	**6,651**	22,066
Deposits	**62,917**	44,944	**-**	-
Cash and cash equivalents	**101,264**	5,342	**5,431**	7,960
Long-term loans and borrowings	**(39,323)**	-	**(2,218)**	(4,213)
Current portion of long-term loans and borrowings	**(121,323)**	(2,131,062)	**(4,436)**	(8,424)
Short-term loans and borrowings	**(20)**	(423,949)	**-**	-
Trade accounts payable	**(4,151)**	(8,552)	**(3,403)**	(20,070)
Net long/(short) position	**55,805**	(2,422,109)	**2,025**	(2,681)

A 30 percent weakening of the Ukrainian hryvnia against the following currencies at 31 December would have increase (decreased) post-tax profit and increase (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 2013**	31 December 2012
USD	**13,560**	(574,041)
EUR	**492**	(635)

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

Interest rate risk

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

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

	Carrying amount	
(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Fixed rate instruments		
Financial assets:		
Cash and cash equivalents less cash in hand	**565,280**	255,353
Deposits	**62,917**	44,944
Financial liabilities		
Long-term and current portion of long term liabilities		
Loan from a supplier of equipment	**159,427**	279,300
Bonds issued	**1,961,500**	193,098
Financial lease payable	**439**	36,712
Supplier credits and other borrowings	**16,055**	23,447
Short term liabilities		
Short-term loans and bonds issued	**471,855**	423,949
Variable rate instruments		
Financial liabilities:		
Bank loan from OJSC "Sberbank of Russia"	-	1,820,627

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased pre-tax profit and increased or decreased equity by nil (31 December 2012: UAH 18,206 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.

(f) Master netting or similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. As at 31 December 2013 amount of receivable and payable balances, that were offset in these consolidated financial statements because the Group had legal right and intention to settle balances on net basis, comprise UAH 20,680 thousand (31 December 2012: UAH 25,510 thousand).

(g) 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 2013 net assets of the Group in amount of UAH 4,811,845 thousand (31 December 2012: UAH 5,110,031 thousand) exceed the Group's registered share capital as per the Charter in amount of UAH 4,681,562 thousand (31 December 2012: UAH 4,681,562 thousand).

24 Commitments

(a) Capital commitments

As at 31 December 2013 the Group has commitments in respect of contracts for purchase of property, plant and equipment for UAH 66,199 thousand (31 December 2012: UAH 142,787 thousand).

(b) Operating lease

Non-cancellable operating lease rentals are payable as follows:

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Less than one year	**16,777**	16,725
Between one and five years	**11,170**	7,607
More than five years	**16,924**	15,704
	44,871	40,036

The Group leases a number of premises and telecommunication equipment under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2013, UAH 124,514 thousand was recognised as an expense in profit or loss in respect of operating leases (31 December 2012: UAH 122,358 thousand).

25 Contingencies

(a) Insurance

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

(b) Land use right

In accordance with current legislation, a right of usage is provided to the Group for land used in operations.

According to the Land Code of Ukraine, the Group was required under Ukrainian legislation to formally register land lease agreements by 1 January 2008. However, as at 22 September 2005 the Constitutional Court of Ukraine recognised this requirement of the Land Code unconstitutional. Based on the decision of the Constitutional Court of Ukraine, there are no deadlines or time limits for the Group in terms of the re-registration of the rights of permanent use into land lease agreements.

As at 31 December 2013, the Group has not formalised approximately 7,900 lease agreements on land plots, the majority of which are used for the Group's equipment along the telecommunication lines and covering relatively small areas (31 December 2012: 8,400). The total number of the land plots used by the Group is approximately 13,740 (31 December 2012: 15,200). The Group entered into contracts with third parties to register land lease agreements on the Group's behalf. As at 31 December 2013 the unfulfilled commitment under contracts for the registration of land lease agreements is UAH 53 thousand (31 December 2012: UAH 64 thousand).

(c) Taxation contingencies

The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by tax authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

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 2013 and 2012 no provision attributable to taxation contingencies was created by the Group.

(d) Litigation

The Group is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the Group's financial position or results of operations. As at 31 December 2012 and 2013 no provision attributable to litigations was created by the Group.

(e) Other contingencies

Special telecommunication equipment

On 11 May 2011 as a part of the Ukrainian privatisation program LLC "ESU" (ESU) acquired a 92.79% stake in the Group (refer to note 1(a)) from the Government of Ukraine.

The privatisation terms impose on the new shareholder the requirement to maintain and operate existing special communication equipment within the Group on behalf of the state that is necessary for the functioning of certain government agencies. Revenues from this activity are significantly less than maintenance costs for this equipment. In 2013, the Group incurred expenses that exceeded revenues by approximately UAH 60 million (2012: UAH 60 million). Management also estimates that the maintenance of the existing special communication equipment will be required till the end of the year 2014. During 2013 the provision attributable to this maintenance in amount UAH 99,459 thousand was created by the Group and accounted for as other changes in equity decreasing additional capital (refer to note 11). As at 31 December 2013, provision attributable to this maintenance amounts to UAH 51,282 thousand.

Additionally, the privatisation terms prescribe the requirement to deploy special telecommunication equipment network and to transfer its assets to certain government agencies in 2014. As at 31 December 2013 management could not reliably estimate the carrying value of special telecommunication equipment network. Management believes that the carrying value of such special telecommunication equipment network will not be significant for these consolidated financial statements.

26 Related parties

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

(a) Parent and ultimate controlling party

As at 31 December 2013 and 2012 the Group`s immediate parent company is LLC "ESU".

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

Publicly available financial statements are not produced by JSC "SCM" and Austrian company Epic.

(b) Transactions with management

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

(in thousands of Ukrainian hryvnias)	**31 December 2013**	31 December 2012
Short-term employee benefits	**30,439**	28,269
Post-employment employee benefits	-	11
Other long-term employee benefits	**1**	2
	30,440	28,282

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

Starting from 30 September 2013, after change of ultimate controlling party, key management of the Group are presented by Members of Supervisory Board, the Chairman of the Group and the Director of the Group. Prior to that date, in addition to employees indicated above, key management was presented by the Directors of branches and the Directors of departments.

The carrying value of loans to key management personnel as at 31 December 2013 amount to UAH 599 thousand (31 December 2012: UAH 827 thousand). These loans are non-interest bearing and in general are not secured.

(c) Balances and transactions with the direct shareholder

Credit terms on sales and purchase transactions with the direct shareholder are set within the range of 30-60 days.

(in thousands of Ukrainian hryvnias)	**2013**	2012
Balances:		
Other current receivables	**153,422**	
Transactions:		
Loan provided	**(374,100)**	-
Repayment of loan	**187,000**	-

Other current receivables as at 31 December 2013 include interest free loan provided to the parent company LLC "ESU" in amount of UAH 153,422 thousand (the nominal value: UAH 187,100 thousand) (refer to note 8).

(d) Balances and transactions with associates

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

(in thousands of Ukrainian hryvnias)	**2013**	2012
Balances:		
Trade accounts payable	-	(5,047)
Transactions:		
Purchase of equipment and services	-	(14,788)

(e) Transactions with entities under common control

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

(in thousands of Ukrainian hryvnias)	**2013**	2012
Balances:		
Trade accounts receivable	**11,264**	-
Trade accounts payables	**(5,323)**	-
Transactions:		
Sales of equipment and services	**26,773**	-
Purchases of equipment and services	**(18,602)**	-

As at 31 December 2013 and 31 December 2012 none of the balances with related parties are secured.

27 Subsequent events

a) Changes in the Ukrainian business environment

Subsequent to the reporting date, the regional parliament in the Autonomous Republic of Crimea declared its independence from Ukraine and signed an agreement with the Russian Federation outlining the Republic of Crimea's intention to join the Russian Federation. The Ukrainian state authorities and authorities of other leading countries do not recognize these declarations and agreements as they believe they are in violation of the Ukrainian constitution and international law.

As a result of these events the Crimean parliament is no longer recognising the authority of the Ukrainian national government and the Ukrainian authorities are not able to enforce Ukrainian laws on the territory of the Autonomous Republic of Crimea.

As at 31 December 2013, the Group has two branches, namely the Crimea and the Sevastopol branch, which are located in the Autonomous Republic of Crimea. The carrying value of non-current assets of these two branches amounts to UAH 182,176 thousand as at 31 December 2013. For the year ended 31 December 2013 these two branches generated revenues amounting to UAH 267,040 thousand and net profit amounting to UAH 33,726 thousand.

As at the date of these financial statements are authorised for issuance the Group's branches located in the Autonomous Republic of Crimea are operating at the normal course of business. However, the ultimate effect of these developments in the Autonomous Republic of Crimea on the Group's ability to continue operations in this region, to realise its related assets and to maintain and secure its ownership rights cannot be determined.

b) Establishment of internal audit function

In April 2014 the Group has established internal audit function responsible for the internal control and reporting directly to the Supervisory Board.

c) Bonds repayment

In February 2014 the Group decreased an interest rate on bonds series R from 18% to 12.5%. As at the date of these consolidated financial statements are authorised for issue, the Group repurchased bonds series R for the amount of UAH 611,500 thousands, and placed bonds series P for the amount of UAH 50,000 thousand.

d) Changes in corporate profit tax rates

Subsequent to 31 December 2013, some changes were adopted to the Tax Code of Ukraine according to which corporate tax rate for the years beyond 2013 was set at the level of 18%.

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Director

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Nakalyuzhna L.V.

18 April 2014