

Public Joint-Stock Company Ukrtelecom

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors' Report**

31 December 2020

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INDEPENDENT AUDITORS' REPORT

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Consolidated Company Report 2020

April 2021

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1 Ukrtelecom Today

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

Internet services in more than 3.3 k settlements

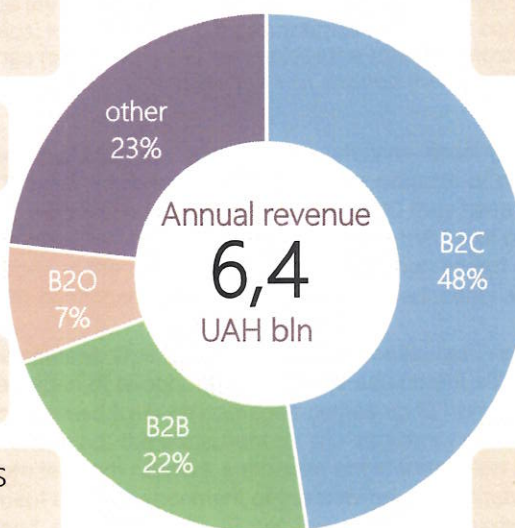
More than 60 k km of FOCL (+10 k km in 2020)

2 data centers with the total capacity of 5.8 k units

10 k real estate objects throughout the country

One of the largest payers of taxes and fees in Ukraine – UAH 1.9 bn

270 k of new households have been able to connect to an optical network in 2020



2.2 m fixed voice subscribers

More than 1 m Internet subscribers

66 k IPTV subscribers

More than 23 k cloud PBX lines

14.9 k employees

720 k households - general coverage of the optical internet network

Note: Revenue and taxes for 2020

2 CEO's Review



Dear Partners,

In 2020 PJSC Ukrtelecom continued to successfully implement its strategy of transformation and further development of the company by means of the increase of operational efficiency, improvement and modernization of technical infrastructure. Last year effective management of the company ensured a high level of profitability and stability of its financial indicators. According to the results of 2020 overall income of Ukrtelecom made up more than 6.2 billion UAH. EBITDA resulted in 1.7 billion UAH. EBITDA margin increased up to 27,3%.

The pandemic that unfortunately seized the world last year required quick actions and non-standard decisions. During the very first days of quarantine and enhanced anti-epidemic measures introduction in Ukraine Ukrtelecom formed local headquarters to prevent the spread of COVID-19 infection and minimize its influence on operational performance of the company and the health of its personnel. Ukrtelecom made it possible for thousands of its employees to work remotely in a safe virtual environment and increased priority of accident settlement in the networks that ensure constant provision of IP-services for key objects of social infrastructure: healthcare institutions, emergency services, drugstores, law-enforcement bodies etc. Due to the work of our colleagues from technical headquarters the promptness of internet connection recovery after the accidents on such objects has grown by 25%. Generally the year of 2020 has made the world reconsider the role of telecom services in everyday life which has enriched us, as a leading operator of fixed telecommunications, with new experience and created the conditions for new achievements and further development.

Overcoming the year's challenges and acting within necessary quarantine restrictions, Ukrtelecom, accompanied by its European partners, has finished the construction of a record number of fiber-optic communication lines – almost 10 thousand kilometers. Owing to the projects of new network development and the enhancement of the existing one, year by year the company raises profits from internet services provision. Thus, by the results of 2020 they have increased by 7% to more than 2 billion UAH.

As of the end of previous year new optic network by Ukrtelecom provides a way to connect to the services of high-speed internet, IP-telephony and modern Interactive TV for 720 thousands of households. At the same time, due to common efforts of the company, the access to high-speed optic internet in 2020 was given to a number of social infrastructure objects such as 135 joint territorial communities, more than 200 healthcare institutions, up to 500 educational and 250 business objects. The internet access and data transfer services cover 3322 localities.

However, there are still the factors that hinder company's development. Despite the systematic measures undertaken to reinforce and enhance physical and technical protection of our own cable networks, large-scale thefts and malicious damages of telephone cables and equipment still occur. 7.5 thousands cases of intentional assaults on Ukrtelecom's networks were recorded in the course of last year. Financial loss caused by such damages comes up to hundreds million UAH per year (including recovery costs and unpaid tariffs within damage time). One more problem issue is also worth mentioning: the state debt for the services provided to citizens entitled to benefits – it amounts to almost 120 million UAH at the start of the current year. These earnings could ensure telecom network enhancement in more than hundred localities.

Within four previous years we have been investing in development and enhancement of the network more than 4 billion UAH. Thus, in 2021 Ukrtelecom will continue development by investing resources to fight digital inequality in Ukraine and provide quality IP-services for mass market and business clients based on multiservice telecommunication technologies.

No matter what, last year has toughened us up, made stronger and more confident. We have gained new experience and expertise. In the current situation we are also going to need all this in 2021 that sees us moving forward. We plan to keep on developing optic infrastructure and carry it out even now. Also, we will expand the geography of optics to gradually decrease digital inequality between cities, towns and rural area and meet the demand of population and business clients in necessary services.

With best regards,
Yurii Kurmaz,
Director of PJSC Ukrtelecom

A blue ink handwritten signature, appearing to read 'Yurii Kurmaz', with a long horizontal line extending from the end of the signature.

Mission

Mission of the Company includes three key aspects:

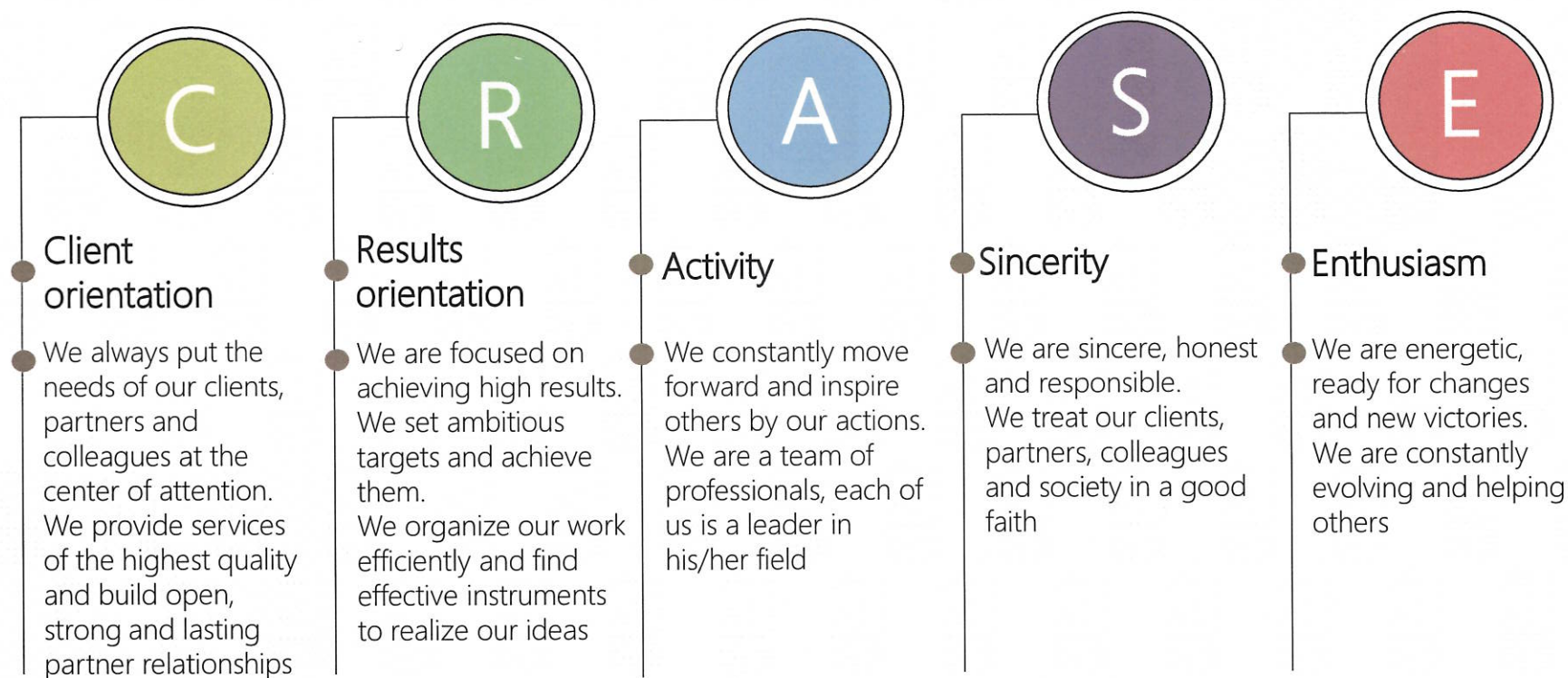
To meet the needs of
businesses and citizens of
Ukraine in high-quality
telecommunication services

To meet the interests of
shareholders by achieving
high financial performance

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

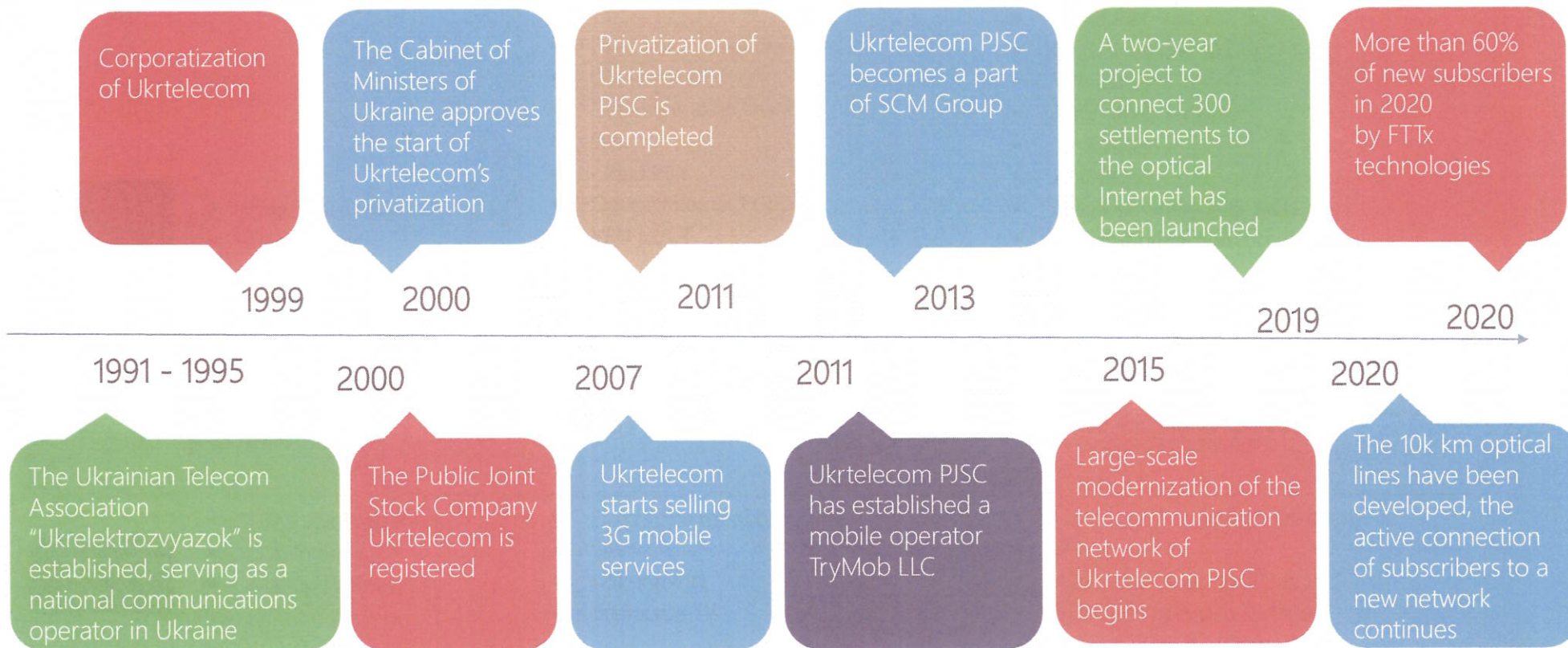
Values

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



History

From a national communications operator to the leading telecommunication company



3 About the Company

Modernization of the product portfolio

B2B

- Fixed voice telephony
- DSL-Internet
- Communication channels

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

- Fixed voice/ converged telephony
- DSL-Internet
- Communication channels
- SIP
- Cloud PBX
- Optical Internet 10 Gbps
- VPN L2/L3
- Data center services
- TV Business
- Anti-DDoS
- Cloud services - IaaS, BaaS
- Antivirus protection
- Software Office 365



2011



2015



2020

B2C

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

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

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

3 About the Company

Subsidiaries

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

TryMob LLC

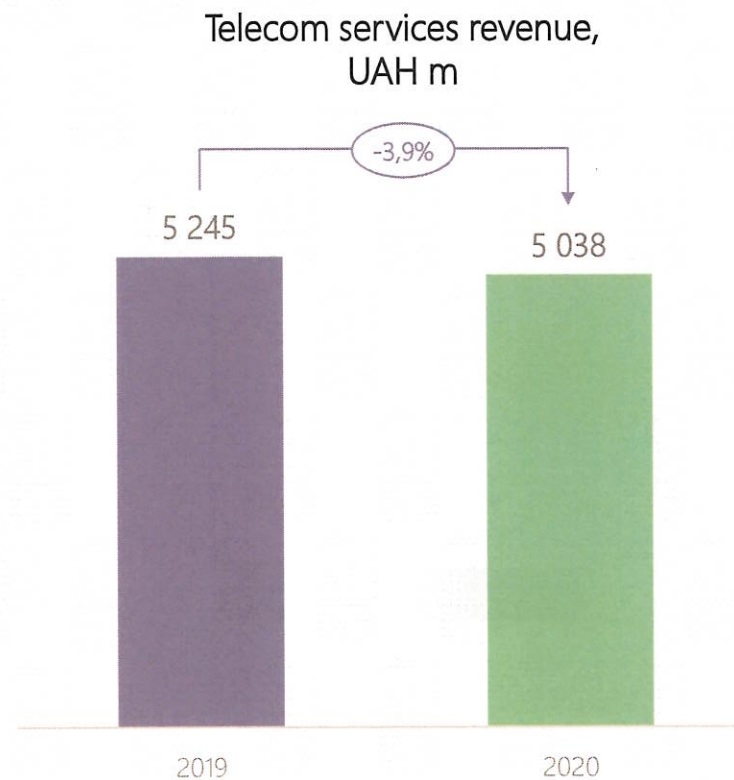
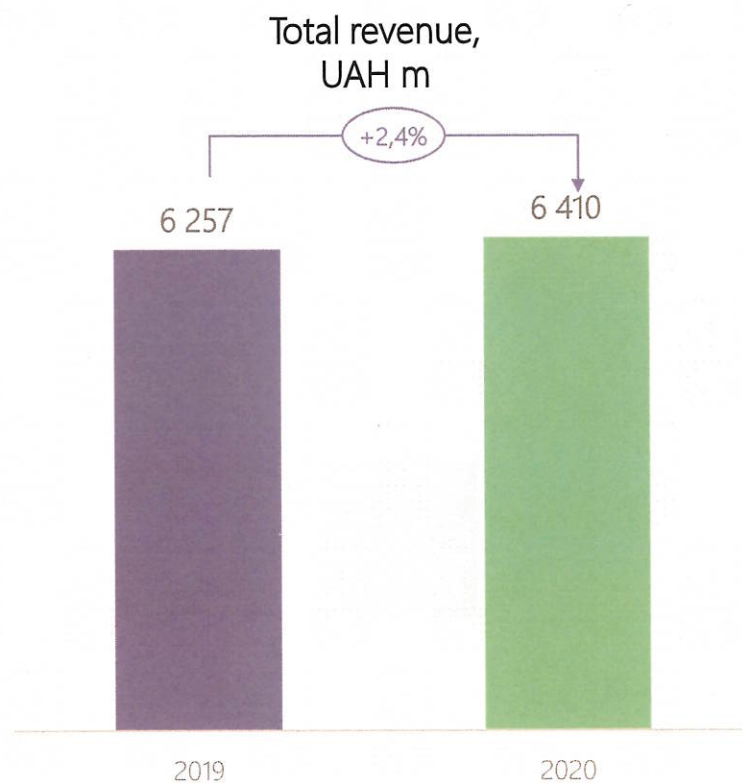
TryMob LLC is an operator providing mobile services of UMTS / WCDMA standard. The Company owns a 2*5 MHz license in the 2100 MHz band in Kyiv. Services outside the coverage area are provided in the network of Vodafone Ukraine PJSC, with which a national roaming agreement has been signed.

Ukrtel Global GmbH

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

4 Results for the Year 2020

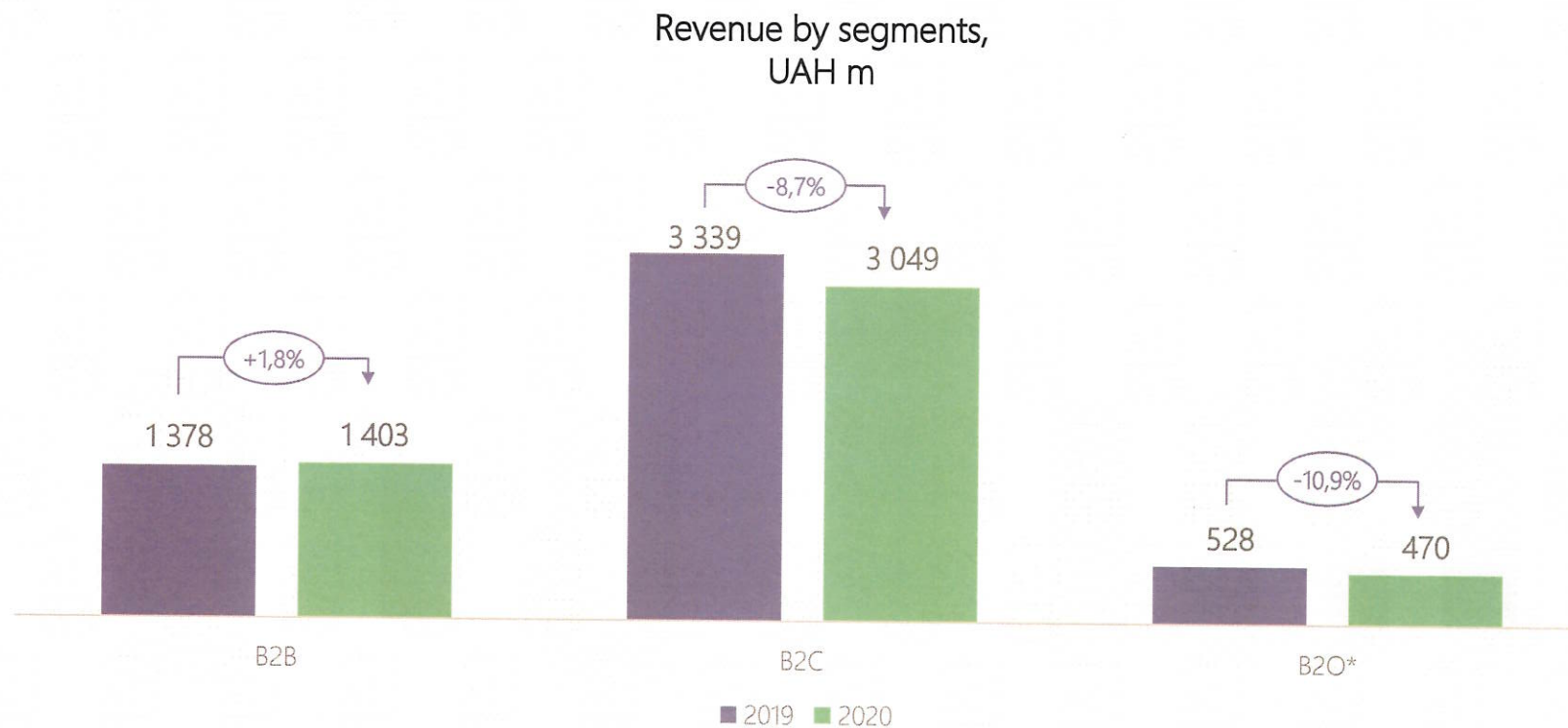
Revenue



* According to managerial accounting data. Income and other operating income in accordance with the consolidated financial statements 2020: 6 218 mln UAH, 2019: 6 234 mln UAH

Structure of telecom services revenue

Growth in B2B segment



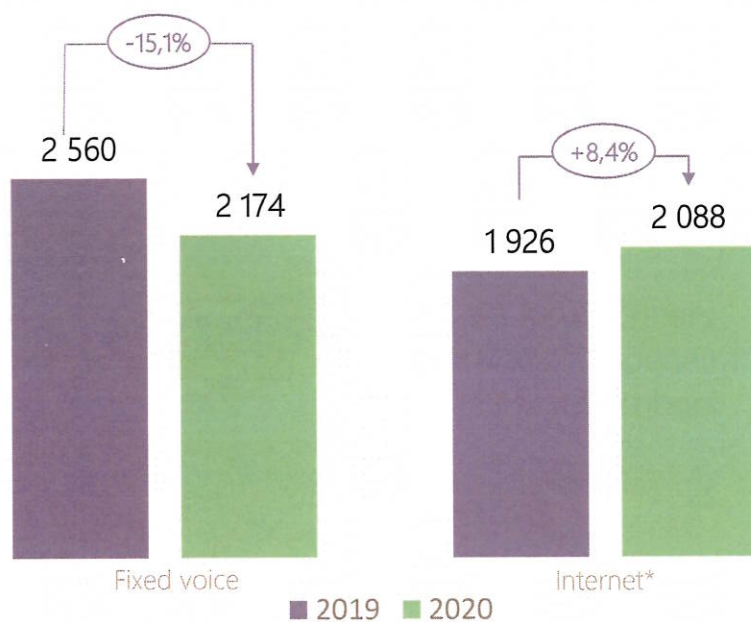
* Not including cable duct

4 Results for the Year 2020

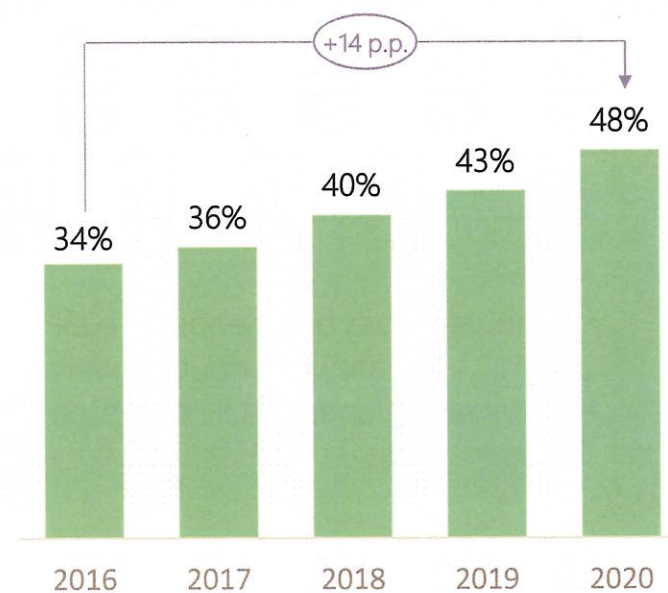
Structure of key telecom services revenue

Increase in revenue from Internet services

Key telecom services revenue,
UAH m



Revenue share from Internet services



* Internet and data transfer services

4 Results for the Year 2020

B2C



- 1.54 m subscribers

ARPU

- 2019 – UAH 59 ex. VAT
- 2020 – UAH 65 ex. VAT



- 900 k subscribers
- 720 k FTTx home passes
- coverage in 3322 settlements

ARPU

- 2019 – UAH 100 ex. VAT
- 2020 – UAH 120 ex. VAT
- FTTx – UAH 139 ex. VAT



- 65 k subscribers
- 14% IPTV penetration among FTTx subscribers

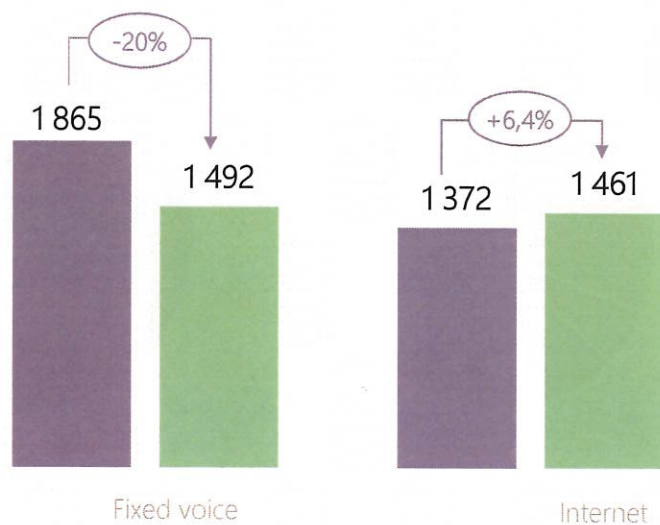
- 180+ channels and radio stations
- view through browser
- access to HD Channels Cine +

4 Results for the Year 2020

B2C

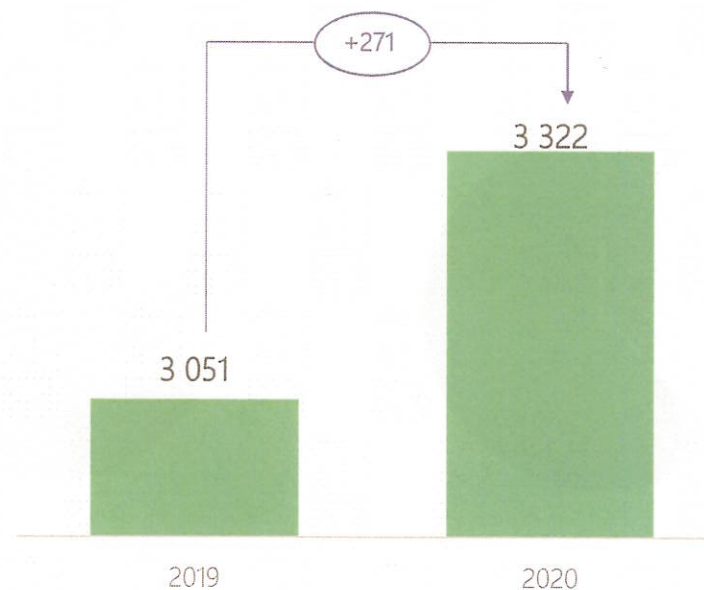
Increase in revenue from Internet services

Key telecom services revenue,
UAH m



■ 2019 ■ 2020

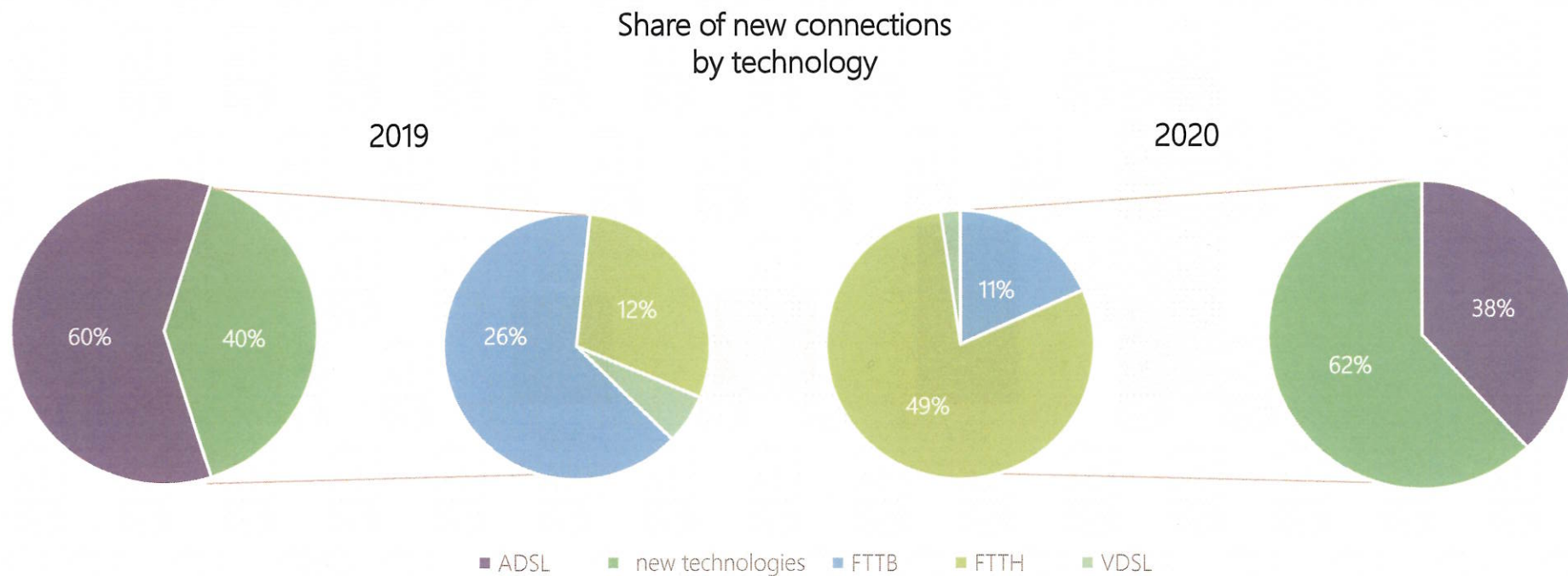
Internet network development,
settlements



4 Results for the Year 2020

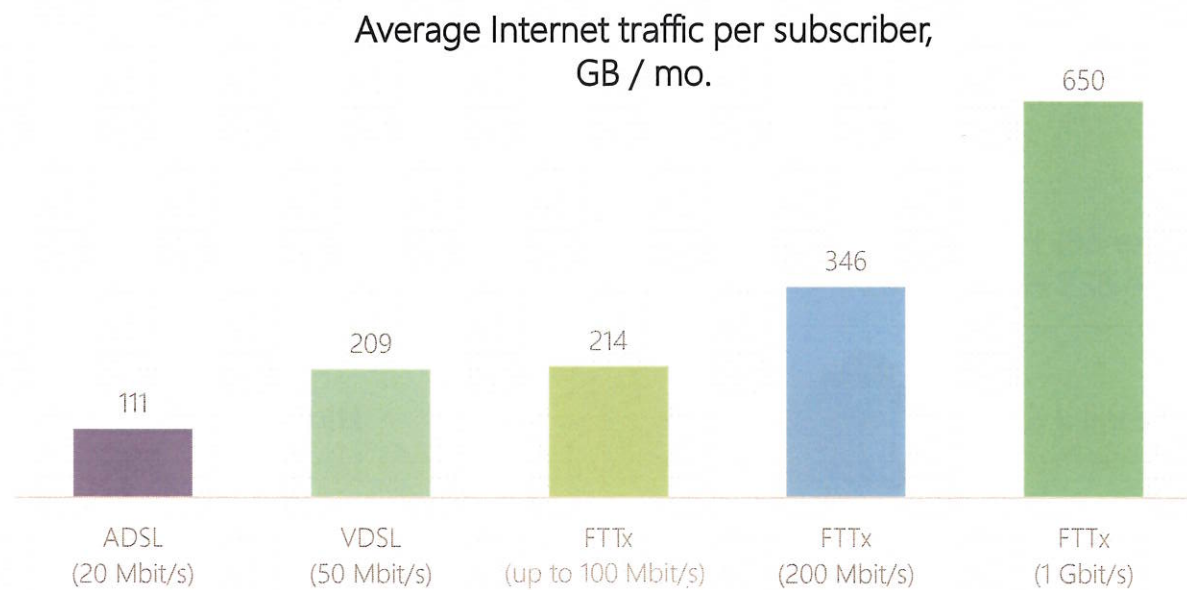
B2C

Increase in the share of optical connections



B2C

Internet traffic by technology



ukrtelecom
вражаючи швидкість нової мережі

4 Results for the Year 2020

B2B



- 700 k subscribers

ARPU

- 2019 – UAH 70 ex. VAT
- 2020 – UAH 76 ex. VAT



- 131 k subscribers

ARPU

- 2019 – UAH 195 ex. VAT
- 2020 – UAH 238 ex. VAT



- 5 800 Units



- 23 k lines (+14% YoY)



- 1.1 k screens
- Business TV

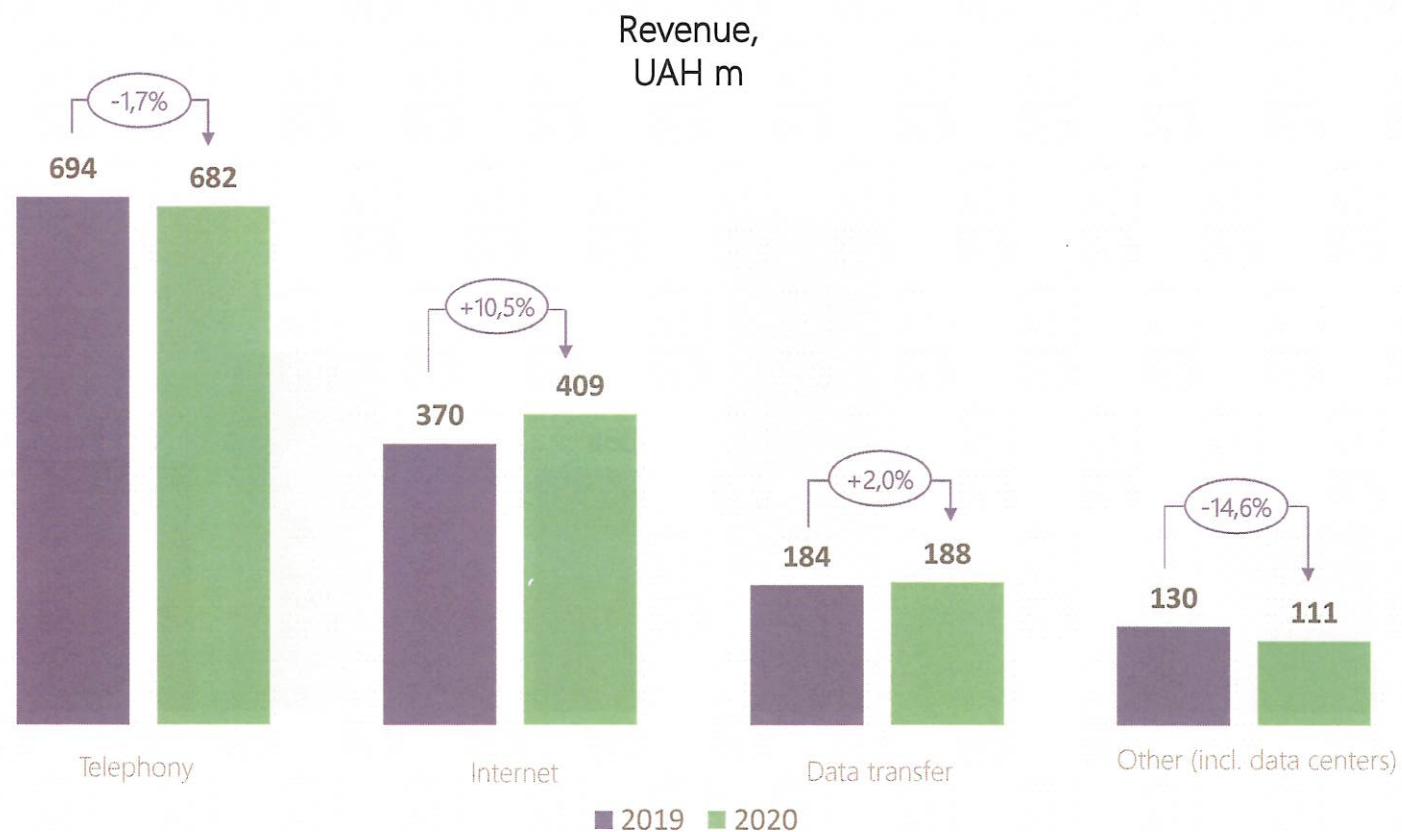


- Cybersecurity "Anti-DDoS"
- +22% revenue YoY

4 Results for the Year 2020

B2B

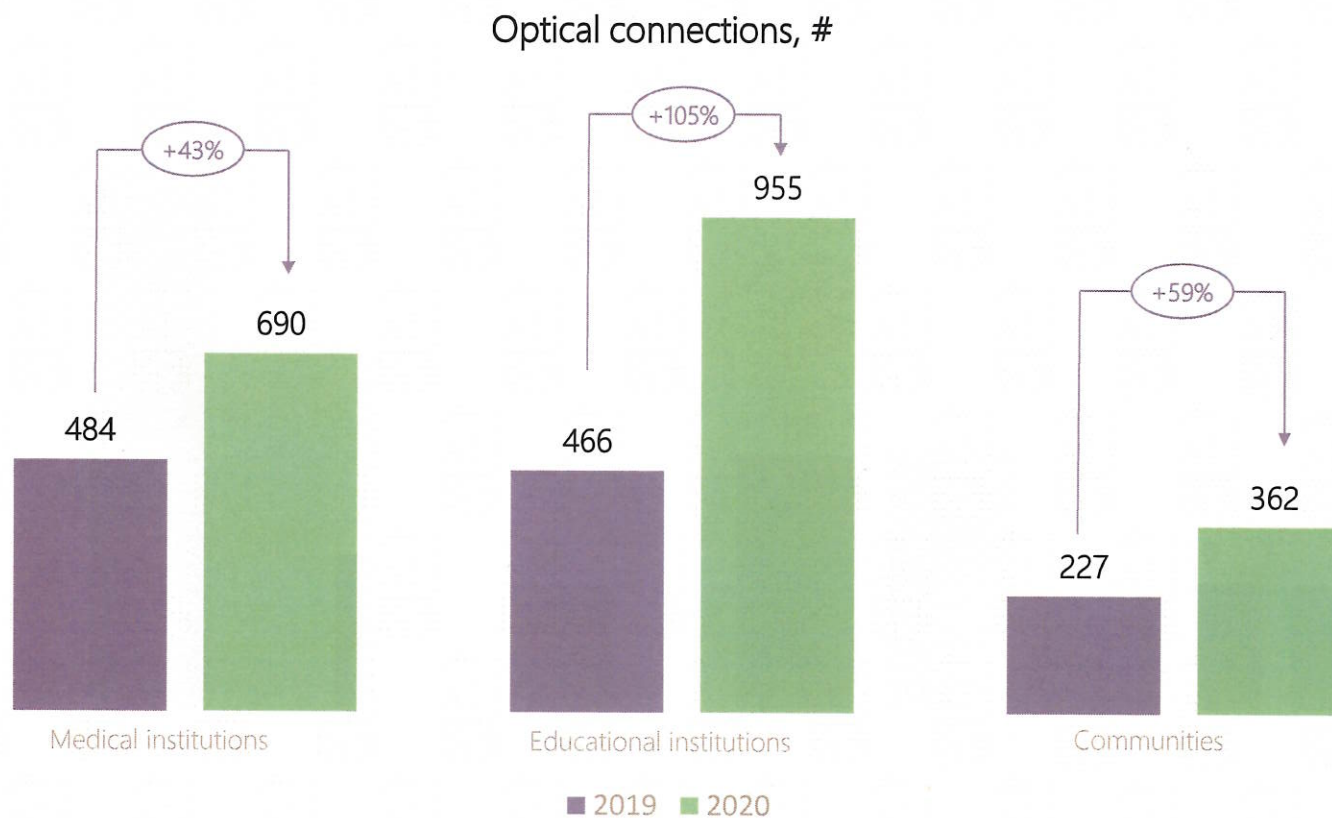
Revenue growth from ICT services



4 Results for the Year 2020

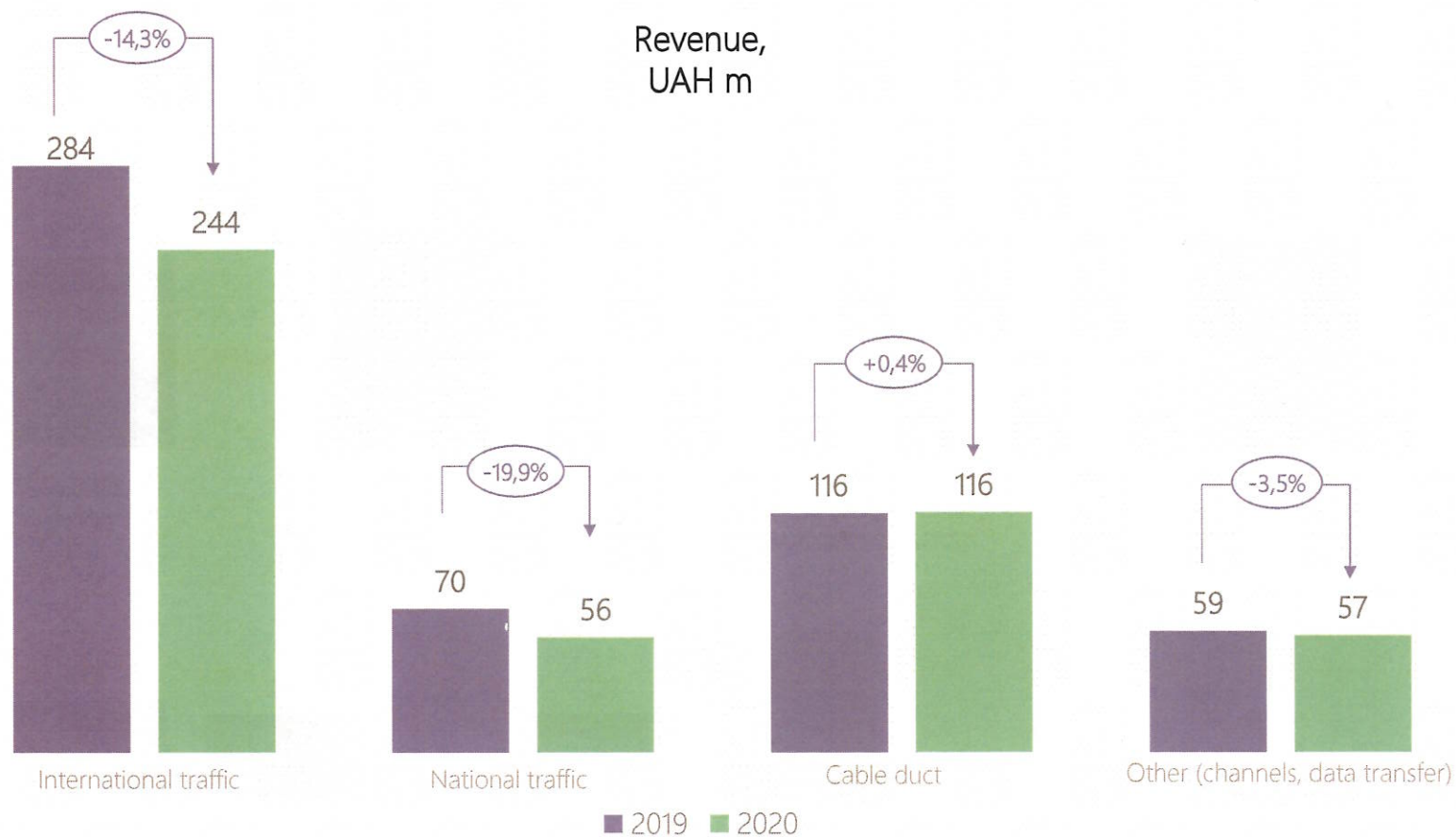
B2B

Increase in subscriber base of social infrastructure objects



4 Results for the Year 2020

B2O



4 Results for the Year 2020

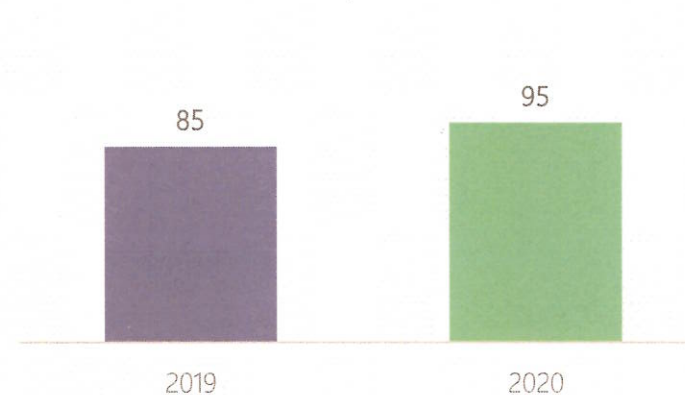
Revenue from asset management

Increase of revenue from lease of commercial real estate

Revenue from lease of commercial real estate, UAH m



Revenue from technological lease, UAH m



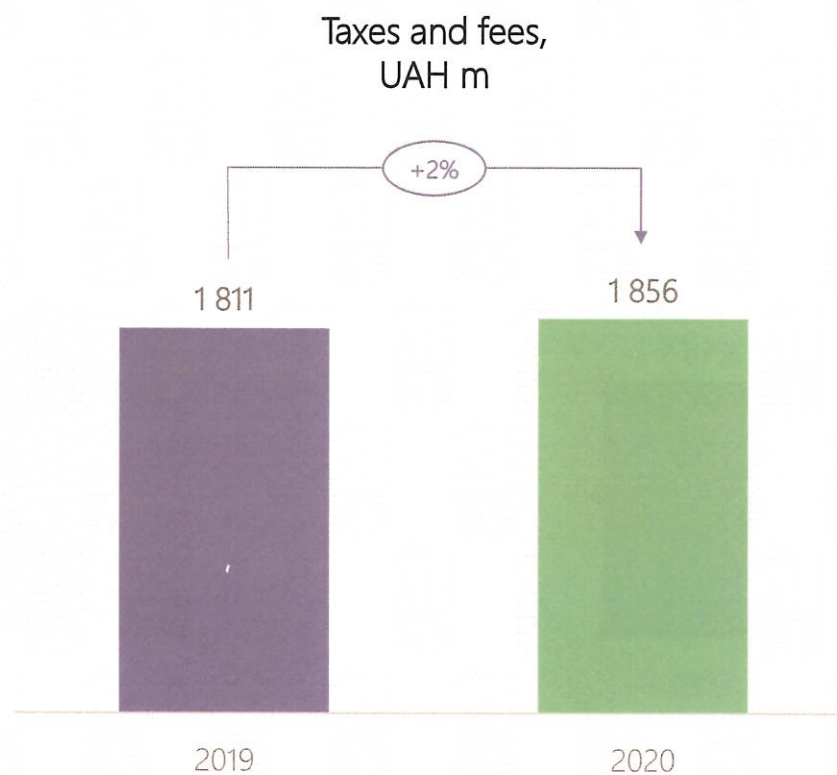
Revenue from sale of disposed assets, UAH m



4 Results for the Year 2020

Taxes and fees

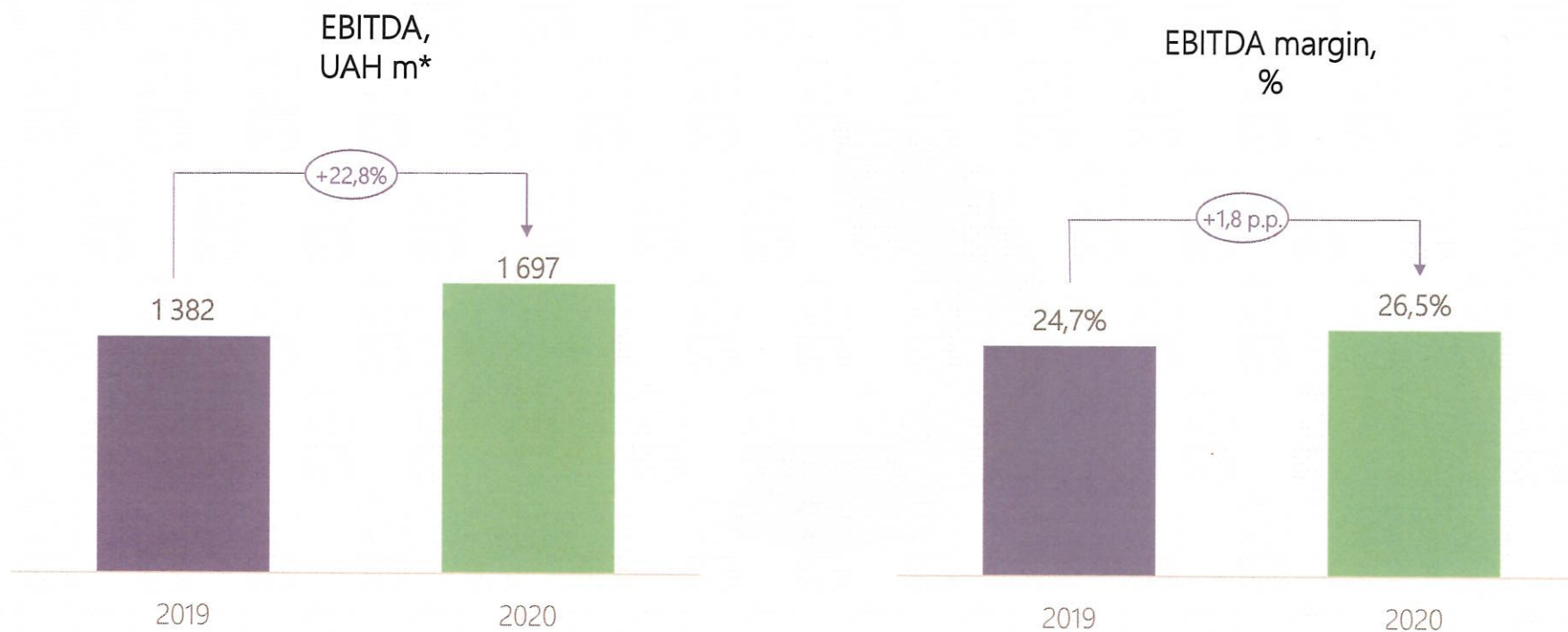
Ukrtelecom is one of the largest payers of taxes and fees in telecom industry



*excl. TryMob LLC

4 Results for the Year 2020

EBITDA



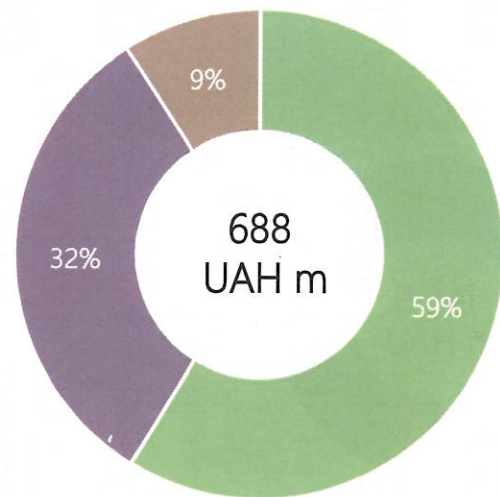
* According to the management accounting.

4 Results for the Year 2020

Capital expenditures

Capital expenditures were mainly directed at network modernization and development

Capital expenditures structure in 2020*



- Access, new connections and products (B2C, B2B, B2O)
- Infrastructure and IT
- Other (optimization of expenses, legislative requirements, force majeure)

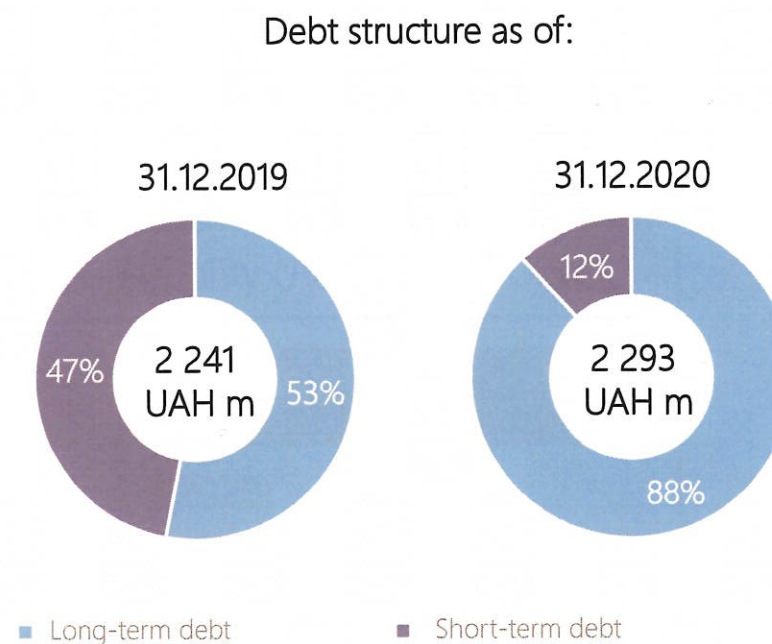
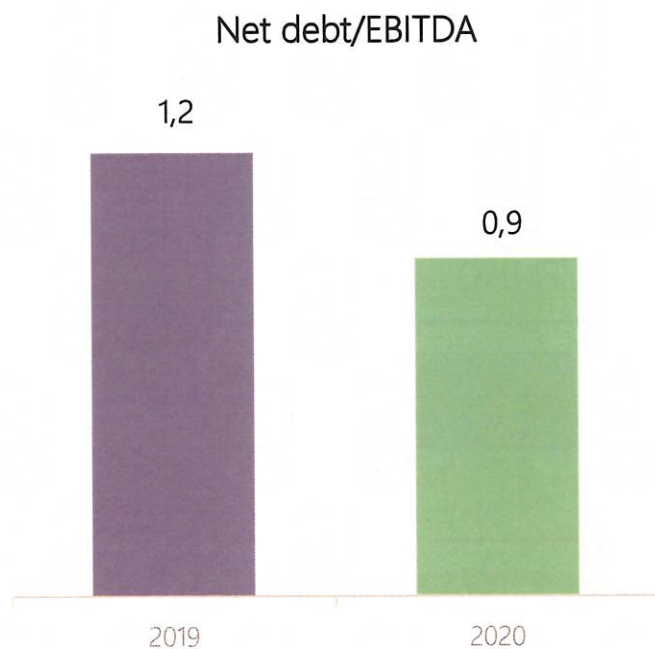
*According to the management accounting

** excl. TryMob LLC

4 Results for the Year 2020

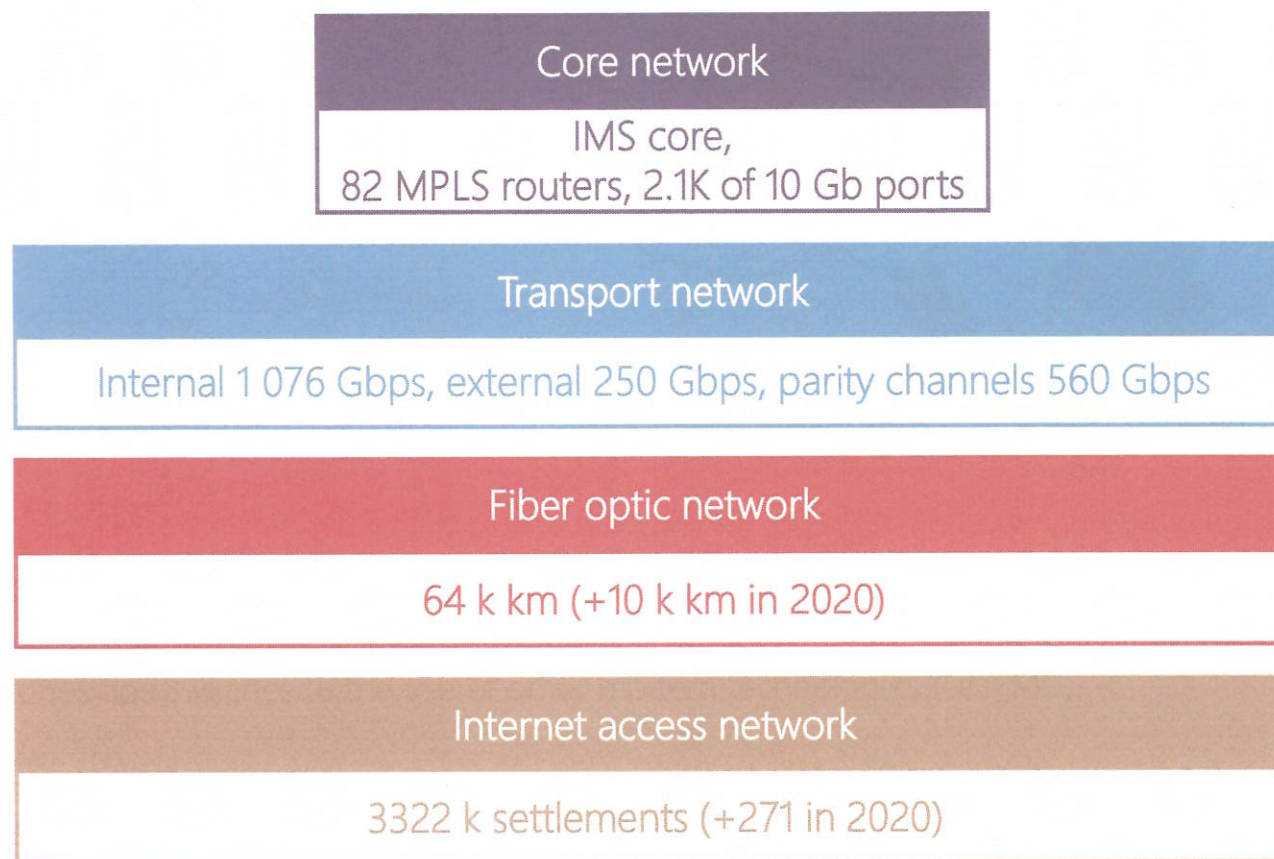
Liquidity and debt

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



* EBITDA according to the management accounting. ** Liabilities include the amount of loans and liabilities from bonds issued by the parent company

Infrastructure development



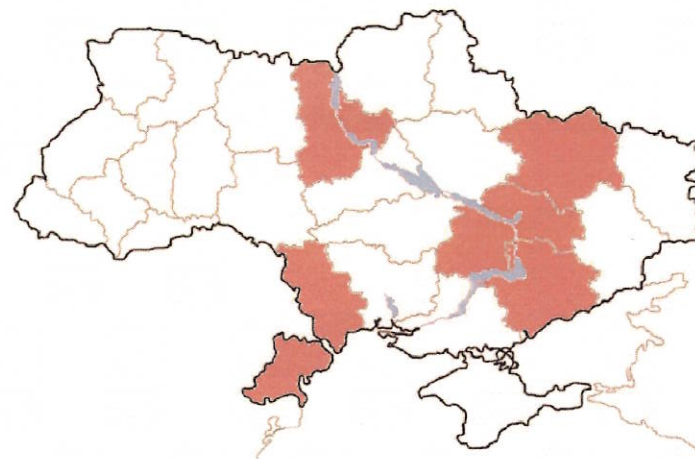
Thefts and malicious damages of telecom infrastructure

In 2020, Ukrtelecom recorded:

- 7.5 k cases of theft and damage;
- 1.3 k km of cable stolen or damaged.

TOP 5 oblasts by number of cases:

▪ Dnipropetrovsk	2 422
▪ Kyiv	1 075
▪ Odesa	1 049
▪ Zaporizhzhya	720
▪ Kharkiv	679



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

4 Results for the Year 2020

Research and innovation

In 2020, Ukrtelecom implemented modern technologies:

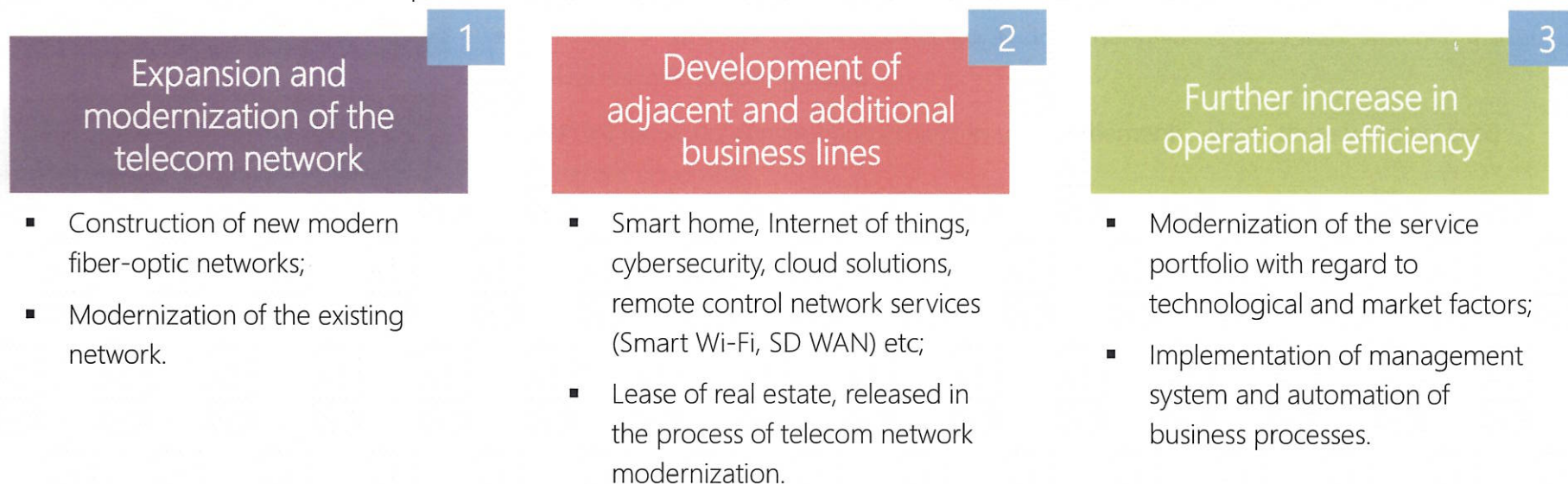
- started a large-scale use of convergent communication technology (FMC) to restore voice telephony services after theft and damage to the infrastructure telecom;
- continued investment in the development of fiber optic network access with GPON and Ethernet technologies, installed 401 optical linear terminal (OLT), built about 10 thousand km of fiber optic lines on access networks;
- expanded the capacity of the DWDM transport network by constructing two 100 Gbps and thirty three 10 Gbps of new optical channels;
- continued to use the most up-to-date types of structures of fiber optic cable and fiber optics.

In 2020, Ukrtelecom's representatives took an active part in scientific and technical work:

- participated in the development of international and national regulatory documents, in particular:
 - two State Technical Standards Committees: TC 155 "Radiotechnology" and TC 157 "Telecommunications";
 - the Technical Commission of the State Security Service of Ukraine on determining the list of technical equipment that can be used in public telecommunication networks of Ukraine;
 - 15th International Telecommunication Union (ITU) Study Group.
- participated in six specialized international scientific and technical conferences where they presented scientific reports;
- The representative of Ukrtelecom takes part in the work of the International Telecommunication Union (United Nations unit) and is a coordinator of the direction of standardization of fiber optic infrastructure;
- Developments of PJSC "Ukrtelecom" regarding the requirements for optical couplings entered as an application "Experience of Ukraine" to the Project of the International Standard L.201 ICE

5 Strategic Directions of Development

- Strategic priorities of Ukrtelecom's development remain unchanged, i.e. to maintain a leading position in the telecom market of Ukraine in the long term by modernizing telecom network and developing it in the most promising locations;
- Implementation of this task in 2020 was facilitated by realization of projects in three strategic directions of Ukrtelecom's business development:



Expansion and modernization of the telecom network

Brownfield

- Project on GPON network development in settlements with strong positions in fixed internet access market. Switching existing ADSL subscribers to GPON and new sales;
- In 2020 was completed the construction of GPON access networks, where 2 stages of implementation was envisaged (stage 1 - 2019, stage 2 - 2020);
- 11.7 k new subscribers were connected, 17.3 k existing subscribers were switched from ADSL to GPON during 2020.

Greenfield

- GPON networks construction project in rural settlements, where there were no fixed Internet coverage;
- Within project, GPON networks were built in 271 villages. In the coverage area - 77 k households, 200 k people.
- 20 k new Internet subscribers connected in 2020,

B2B Optics

- 206 medical institutions and 489 educational institutions connected to the optical Internet;
- 2.7 k optical Internet services in 135 united territorial communities connected.

Expansion and modernization of the telecom network

Local modernization of telecom networks (LMTN)

- Long-term program involves upgrading and releasing automatic telephone exchange sites due to changes in service provision technologies:
 - switching existing xDSL subscribers to GPON and new sales;
 - switching OTA subscribers to FMC technology.
- the LMTN program included 72 automatic telephone exchange sites in 2020;
- In 2020, within the framework of the program 1.3 k subscribers were switched to a new optical network.

Expected results of the implementation of the program

- Maintaining income from existing internet subscribers and generating additional income from new connections;
- Revenue from sale of released assets;
- Expansion of the list of real estate for lease;
- OPEX savings on running and repairing of the copper network and the equipment of traditional telephony.

Development of adjacent and additional business lines

Development of adjacent business lines

- The number of lines of cloud PBX (VPBX) increased by 14% to 23 k in 2020;
- Revenue from the cyber defense service (anti-DDOS) increased by 22% in 2020;
- New TV packages for HoReca are introduced;
- The sale of antivirus protection services and software Office 365 has started

Lease of real estate, released in the process of modernization

- Ukrtelecom's real estate portfolio comprises 2.8 m m²;
- As of the end of 2020, 427.4 k m² were leased and 428.3 k m² not involved in operating activities were offered for rent;
- All objects offered to lease posted on Ukrtelecom Real Estate website <https://property.ukrtelecom.ua>.

Further increase in operational efficiency

Modernization of the service portfolio

- Wired broadcasting service discontinued in Dnipropetrovsk, Kirovograd, Zaporizhzhya, Volyn, Zhytomyr, Chernihiv, Poltava, Chernivtsi regions since January 1, 2021;

Alternative telephony

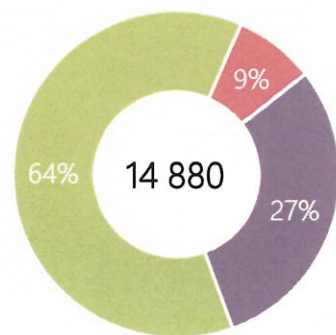
- The Project combines capabilities of both mobile and fixed voice communication;
- According to the resolution of the Cabinet of Ministers of Ukraine, convergence technology is approved as a technology for providing fixed voice communication along with classic wired technology;
- As of January 1, 2021 18.3 k subscribers use the alternative telephony service based on convergence technology.

6 Responsibility

Human Resources

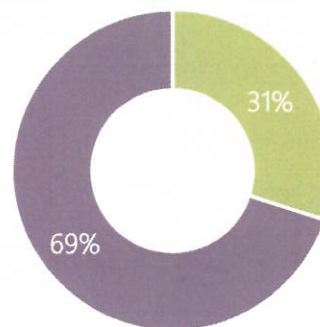
Ukrtelecom is the largest employer in the telecom industry of Ukraine

Structure of the Company's staff as of the end of 2020



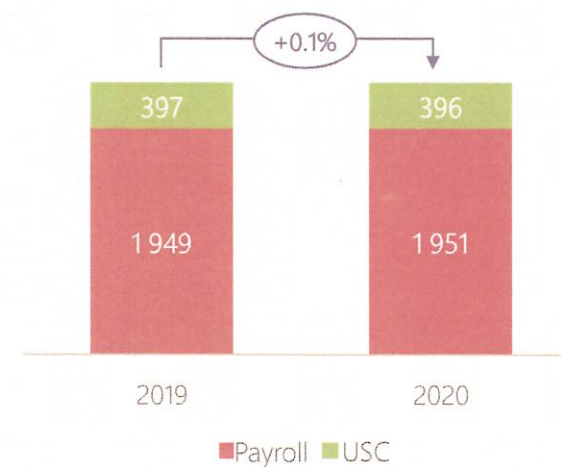
■ Workers ■ Specialists ■ Management

Gender structure of managers as of the end of 2020



■ Female ■ Male

Payroll and deductions, UAH m



- Ukrtelecom PJSC has a trade union organization which is a part of the Trade Union of Communication Workers of Ukraine;
- The Administration of Ukrtelecom PJSC and the United Trade Union Organization report on the implementation of terms of the collective agreement, which was fully executed in 2020.

6 Responsibility

Human Resources

Training and development projects

Group of employees	Program	Essence	Employees trained in 2020
Management	"Academy of Management"	Development of managerial skills of senior management	979
	"School of Management"	Development of managerial skills of middle management	
Sales specialists	B2C	Development of sales skills	617
	B2B	Development of sales skills	138
Technical and IT specialists	Technical training	Professional skills training	320
All employees	Corporate training	Development of corporate competencies	671
	Organization of external trainings	Training of professional skills by external providers upon business requests	136
Total classroom training			2 861
Remote classroom training in all areas of study			8 172

Labor protection

In 2020, Ukrtelecom PJSC fully complied with the requirements of the Ukrainian labor protection and fire safety legislation

Labor protection

- Received 7 permits for operation of machines, mechanisms, equipment of increased danger / performance of increased danger works and registered 22 declarations of compliance of the material and technical base with the requirements of labor protection legislation
- Implemented 85 comprehensive measures aimed at improving working conditions
- Employees are provided with personal protective equipment (masks, antiseptic, etc.) from the spread of the COVID-19 virus totaling UAH 7 million.

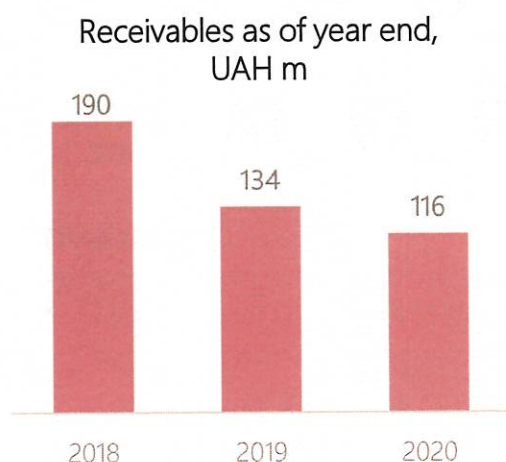
Fire safety

- 39 objects equipped with new fire protection systems

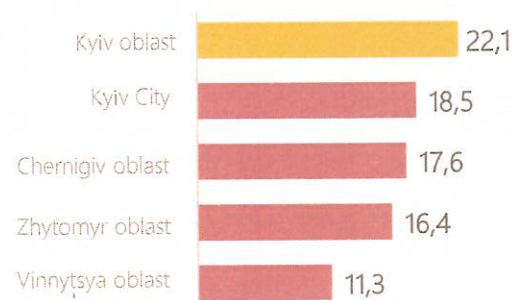
Social contribution

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

Receivables for the services rendered to the privileged categories of citizens as of 31.12.2020



Largest debtors among local budgets, UAH m



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

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

Social contribution

"The Best with Ukrtelecom"

This is a social education project for students of the 3rd – 6th year of study at universities of Ukraine aimed at broadening the knowledge of participants about specifics of the telecommunication industry and general principles of management. Duration 7 weeks: 6 weeks of training on webinars and acquaintances with business directions, 1 week for the development of team projects in various areas of Ukrtelecom. The most successful project participants are offered internship in the company with the prospect of employment.



The educational project is a part of the UKRAINIAN PACT FOR YOUTH-2025 under the auspices of the UN, which promotes development and strengthening of cooperation between business community and education sector

Advantages

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

Achievements in 2020

1 team of participants on the results of the project was invited to the company's internship and is currently working on the development and promotion of the social network page on behalf of Ukrtelecom

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

69 participants were gained knowledge and skills to build their own career

Social contribution



- In 2020, Ukrtelecom PJSC was awarded by the Ministry of Youth and Sports of Ukraine for its significant contribution to the development of Ukrainian youth and active participation in the implementation of the Ukrainian Youth Pact - 2020;



- Ukrtelecom was ranked in TOP-25 Employers Open to Talent Under 25 for Support in Stud-Point Mission, Openness to Young Talents and Empowerment, Active Position and Work with Students, Creation of New Opportunities for Career Development;

7 Corporate Governance

Company management

Chief Executive Officer

Chief Financial Officer

Chief Marketing Officer of the Mass Segment

Chief Marketing Officer of the Corporate Segment

Chief Technical Officer

Chief Information Officer

Corporate Relations Officer

Human Resources Director

Business Support Director

Chief Security Officer

Chief Strategy Officer

Head of Legal and Business Support

Head of Corporate Communications

Yuriy Kurmaz

Lyubomyr Kotsyumbas

Denys Zakharenko

Mykola Davydenko

Dmytro Mykytyuk

Kyrylo Honcharuk

Ivan Kolomoiets

Tetyana Petruk

Dmytro Omelchenko

Mykola Potimko

Ihor Yaremchuk

Oleksandr Bilonozhko

Mykhailo Shuranov

Risk management

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

To manage risks effectively, the following measures are implemented:

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



Independent Auditors' Report

To the Shareholders of Public Joint-Stock Company Ukrtelecom Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company Ukrtelecom (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet (consolidated statement of financial position) as at 31 December 2020, the consolidated income statement (consolidated statement of comprehensive income), the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of Ukrainian legislation on financial reporting.

Basis for Qualified Opinion

The Group applies a revaluation model for property, plant and equipment accounting after initial recognition. Under this model, according to IAS 16 *Property, Plant and Equipment*, such revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using a fair value at each reporting date. The Group has accounting records in respect of the total fair value of property, plant and equipment, however, due to the specifics of accounting records for copper cables carried within "Ducts and Cables" category, which is included in specialised assets as specified in Note 6 to these consolidated financial statements, the Group has not made an accurate allocation of the entire specialised assets' revaluation results between profit or loss and other comprehensive income for the years ended 31 December 2020 and 2019, and has not made an accurate allocation of revaluations results between property, plant and equipment groups included in specialised assets as at 31 December 2020, 2019 and 2018. The effect of this matter on the consolidated financial statements has not been determined.

The consolidated financial statements of the Group as at and for the year ended 31 December 2019 were audited by other auditors whose report dated 28 April 2020

Entity: Public Joint-Stock Company Ukrtelecom

Registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine 21560766

Independent auditor: JSC KPMG Audit, a company incorporated under the Laws of Ukraine, a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine 31032100

Registration No. in the Register of Auditors and Audit Organisations 2397
Address:

32/2 Moskovska Str. 32/2 Moskovska street
Kyiv, Ukraine 01010



expressed a qualified opinion on those consolidated financial statements because of the matter described above.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

We draw attention to Note 4 to the consolidated financial statements which describes that the comparative information presented as at and for the year ended 31 December 2019 has been restated. Our opinion is not further modified in respect of this matter.

Other Matter Related to Comparative Information

The presented comparative information, except for the adjustments described in Note 4 to these consolidated financial statements, is based on the consolidated financial statements of the Group as at and for the year ended 31 December 2019 that were audited by other auditors. Their report dated 28 April 2020 expressed a qualified opinion on those consolidated financial statements because the Group had inappropriately classified its investment in subsidiary LLC "TriMob" as a disposal group held for sale, had not reliably determined fair value of certain telecommunication assets intended for release (copper cables) and had not made accurate split of the entire revaluation effect of all groups of property, plant and equipment between impairment losses and revaluation surplus. As part of our audit of the consolidated financial statements as at and for the year ended 31 December 2020, we audited the adjustments described in Note 4 to the consolidated financial statements that were applied to restate the comparative information presented as at and for the year ended 31 December 2019 and the balance sheet (statement of financial position) as at 1 January 2019. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2019 consolidated financial statements of the Group other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year 2019 taken as a whole.

Key Audit Matters Incorporating the Most Significant Risks of Material Misstatements, Including Assessed Risk of Material Misstatements Due to Fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue Recognition	
Please refer to Notes 3 and 17 in the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>Revenue from contracts with customers is recognised on provision of services to the customers. For certain revenue streams, primary data is registered and transactions related to revenue recognition are recorded in IT billing systems.</p> <p>The key audit matter relevant to the Group's revenue recognition is primarily focused on inherent risk related to accuracy of revenue records in IT billing systems and to large volumes of data processed by the systems.</p>	<p>Our audit procedures in respect of revenue recognition included the following:</p> <ul style="list-style-type: none"> — Analysis, with the involvement of our IT specialists, of the internal control system in respect of revenue recognition, including controls over the functioning of billing systems; — Monthly reconciliation of revenue recognised based on the billing system data with accounting data; — Analytical procedures in respect of revenue, including revenue structure analysis and monthly analysis of the correlation between fluctuations of revenue and fluctuations of the number of customers; — Reconciliation of accounting system data on cash proceeds on accrued revenue with the data received from the Group's banks; — Assessment of the appropriateness of the transaction price allocation, including variable consideration, to performance obligations, and check of the effectiveness of respective controls; — Inspection, on a sample basis, of sales contracts to analyse the terms and conditions of services provision to assess whether the revenue was recognised in accordance with IFRS 15 <i>Revenue from Contracts with Customers</i>; — Obtaining, on a sample basis, confirmations from Group's customers on turnovers during the year and balances as at 31 December 2020, including contractual terms and conditions; — Reconciliation, on a sample basis, of individual sale transactions recognised close to the year-end with the underlying source documents to determine whether the revenue was recognised in the proper period.

Revaluation of property, plant and equipment and investment property

Please refer to Notes 3, 6 and 7 in the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
<p>Management of the Group engaged an independent appraiser to assess the fair value of the property, plant and equipment items that are accounted for at revalued amounts and the Group's investment property as at 31 December 2020.</p> <p>Given that the revaluation of the Group's assets has significant impact on the consolidated financial statements and the complexity of the valuation process and assumptions that involves management judgments, we identified this matter to be the key audit matter.</p>	<p>We analysed the basis for revaluation accounting as at 31 December 2020.</p> <p>We involved our own valuation specialists to assist us in assessing the assumptions and methodologies used for valuation of the Group's property, plant and equipment and investment property.</p> <p>We analysed the appropriateness of the key assumptions and inputs used in the fair value assessment, namely:</p> <ul style="list-style-type: none"> — Regarding specialised assets, we compared the discount rate, projections of sales volumes and tariffs, estimated operating costs and capital investments to the Group's actual data for 2020 and to external data, as well as our own estimate based on our knowledge of the Group's business and its industry; — Regarding telecommunication assets intended for release, we compared the prices on precious metals applied in the valuation to market prices and checked, on a sample basis, the accuracy of such data as the number of ports in each model of exchanges and the weight of precious metals in ports; — Regarding buildings and constructions of real estate business segment and investment property, we checked, on a sample basis, correctness of assumptions on market prices of analogues after adjustment for locations and conditions of individual properties, as well as rental rates and capitalisation rate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report (but does not include the consolidated financial statements and our auditors' report thereon) obtained prior to the date of this independent auditors' report, and Annual Information of securities issuer, which we expect to obtain after that date.



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

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

If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, due to the specifics of accounting records for copper cables carried within "Ducts and Cables" category, which is included in specialised assets as specified in Note 6 to these consolidated financial statements, the Group has not made an accurate allocation of the entire specialised assets' revaluations results between profit or loss and other comprehensive income. Accordingly, we are unable to conclude whether the other information is materially misstated with respect to this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats and safeguards applied.

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



Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 14(4) of the Law of Ukraine on "Audit of the Financial Statements and the Audit Activity" we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Appointment of the Auditor and Period of Engagement

We were appointed by the Group's Supervisory Board on 10 August 2020 to audit the consolidated financial statements of the Group as at and for the year ended 31 December 2020. Our total uninterrupted period of audit engagements is one year, covering the year ended 31 December 2020.

Provision of Non-Audit Services

We declare that no prohibited non-audit services referred to in Article 6(4) of the Law of Ukraine on "Audit of the Financial Statements and the Audit Activity" were provided.

Additional Report to the Supervisory Board

We confirm that our auditors' report is consistent with the additional report to the Supervisory Board of the Group.

The engagement partner on the audit resulting in this independent auditors' report is:



Dmitry Aleev

Registration No. 101462 in the Register of Auditors and Audit Organisations

Deputy Director

JSC KPMG Audit

20 April 2021

Kyiv, Ukraine

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020

Consolidated Balance Sheet (Statement of Financial Position)

Entity	PJSC Ukrtelecom	EDRPOU
Location	Ukraine	KOATUU
Form of ownership	Public Joint-Stock Company	KOPFG
State administration authority		SPODU
Principal activity	Telecommunications	KVED
Average number of employees	16,113	
Measurement unit:	thousand UAH	
Address	18 Taras Shevchenko Blvd, Kyiv	
Prepared in accordance with (put "v" where appropriate):		
According to the Provisions (standards) of Accounting in Ukraine		
International Financial Reporting Standards		

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Consolidated Balance Sheet (Consolidated Statement of Financial Position)

Form No. 1

DKUD Code

1801001

Assets	Line code	31 December 2018 (restated)	31 December 2019 (restated)	31 December 2020	Notes
1	2	3	4	5	6
I. Non-current assets					
Intangible assets:	1000	173,065	162,651	182,880	
cost or valuation	1001	530,826	584,539	590,144	
accumulated amortization	1002	(357,761)	(421,888)	(407,264)	
Construction in progress	1005	274,745	327,164	281,328	6
Property, plant and equipment:	1010	8,551,670	5,216,103	8,632,460	6
cost or valuation	1011	9,775,621	5,352,489	9,088,138	
accumulated depreciation	1012	(1,223,951)	(136,386)	(455,678)	
Investment property:	1015	308,111	3,245,684	2,857,811	7
cost or valuation	1016	308,111	3,245,684	2,857,811	
accumulated depreciation	1017	-	-	-	
Long-term financial investments:					
accounted for on an equity basis	1030	6	6	6	
other financial investments	1035	109	-	27,528	
Long-term receivables	1040	24	24	24	
Deferred tax assets	1045	-	52,618	-	27
Other non-current assets	1090	103,800	116,280	126,584	8
Total non-current assets	1095	9,411,530	9,120,530	12,108,621	
II. Current assets					
Inventories:	1100	152,426	131,079	132,959	
production supplies	1101	104,593	84,926	93,417	
finished goods	1103	-	4,936	3,451	
merchandise	1104	47,833	41,217	36,091	
Trade accounts receivable	1125	369,794	331,889	334,471	9
Taxes and other receivables:					
prepayments made	1130	93,981	81,629	50,930	
settlements with budget	1135	10,385	19,151	8,265	
including income tax	1136	3,113	-	875	
accrued income	1140	1,094	1,293	1,092	
receivables from subsidiaries	1146	-	-	-	
Other current receivables	1155	885,738	796,524	1,213,739	10
Current financial investments	1160	-	-	-	
Cash and cash equivalents	1165	349,075	395,788	739,565	28
Deferred expenses	1170	9,375	22,651	39,019	
Other current assets	1190	55,968	69,761	84,876	8
Total current assets	1195	1,927,836	1,849,765	2,604,916	
III. Assets held for sale and disposal group	1200	104	110	474	
Total assets	1300	11,339,470	10,970,405	14,714,011	

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

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020

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

Equity and liabilities	code	31 December 2018 (restated)	31 December 2019 (restated)	31 December 2020	Notes
1	2	3	4	5	6
I. Share capital					
Registered share capital	1400	4,681,562	4,681,562	4,681,562	11
Revaluation surplus	1405	8,141,183	9,321,080	10,254,530	11
Additional capital	1410	420,438	418,590	420,186	11
Reserves	1415	222,812	222,812	222,812	11
Accumulated deficit	1420	(6,841,509)	(7,689,762)	(5,434,951)	11
Unpaid capital	1425	-	-	-	
Capital with-drawals	1430	-	-	-	
Total equity	1495	6,624,486	6,954,282	10,144,139	
II. Non-current liabilities and provisions					
Deferred tax liabilities	1500	537,031	-	395,500	27
Long-term bank loans	1510	750,533	639,587	1,411,488	13
Other long-term liabilities	1515	174,985	946,404	1,023,868	14, 15
Long-term provisions	1520	237,848	273,017	281,714	12
Target financing	1525	-	-	-	
Total non-current liabilities and provisions	1595	1,700,397	1,859,008	3,112,570	
III. Current liabilities and provisions					
Short-term bank loans	1600	822,167	821,667	-	13
Current portion of long-term borrowings	1610	113,915	190,188	234,841	13
Trade and other accounts payable	1615	414,706	364,843	420,817	15
Taxes and other payables:					
settlements with budget	1620	123,394	149,465	153,193	
including income tax	1621	-	14,801	64,796	
social charges (salary related)	1625	12,609	14,541	12,473	
settlements with employees	1630	52,565	55,026	50,671	
advances received	1635	91,129	101,053	115,328	
payables to shareholders	1640	1,897	1,897	1,897	
receivables from subsidiaries	1645	-	19	-	
Current provisions	1660	264,127	287,483	290,574	16
Deferred income	1665	12,041	20,256	23,574	
Other current liabilities	1690	1,106,037	150,677	153,934	14
Total current liabilities	1695	3,014,587	2,157,115	1,457,302	
IV. Liabilities associated with assets held for sale and disposal groups	1700	-	-	-	
Total assets	1900	11,339,470	10,970,405	14,714,011	

Approved for issue and signed

Director



(Signature)

Y.P. Kurmaz
name

20 / 04 / 2021

Financial Director

(Signature)

L.Y. Kotsumbas
name

20 / 04 / 2021

Chief Accountant

(Signature)

D.I. Skliarevska
name

20 / 04 / 2021

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

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020

Consolidated Income Statement and Statement of Comprehensive Income for the year ended 31 December 2020

Entity	PJSC Ukrtelecom	Date (year, month, day)	2021.01.01
Location	Ukraine	EDRPOU	21560766
State administration authority		KOATUU	8039100000
Form of ownership	Public Joint-Stock Company	SPODU	
Principal activity	Telecommunications	KOPFG	230
Prepared in accordance with (put "v" where appropriate):		KVED	61.10
According to the Provisions (standards) of Accounting in Ukraine			
International Financial Reporting Standards			V
Measurement unit:	thousand UAH		

Consolidated Income Statement and Consolidated Statement of Comprehensive Income)

DKUD Code

1801003

Form No. 2

I. CONSOLIDATED INCOME STATEMENT

Item	code	Reporting period – 2020	Prior period – 2019 (restated)	Notes
1	2	3	4	5
Net revenue	2000	5,531,405	5,761,583	17
Cost of sales	2050	(3,734,364)	(4,287,007)	18
Gross:				
Profit	2090	1,797,041	1,474,576	
Loss	2095	-	-	
Other operating income	2120	688,350	472,213	22
Administrative expenses	2130	(933,342)	(934,944)	19
Selling expenses	2150	(374,340)	(396,004)	20
Other operating expenses	2180	(112,712)	(152,032)	21
Financial result from operations:				
Profit	2190	1,064,997	463,809	
Loss	2195	-	-	
Gain from share in associates	2200	-	-	
Finance income	2220	12,752	416,910	24
Other revenue	2240	2,120,843	18,016	25
Finance costs	2250	(576,923)	(368,025)	23
Loss from share in associates	2255	-	-	
Other expenses	2270	-	(1,518,776)	26
Financial result from continuing activities before tax:				
Profit	2290	2,621,669	-	
Loss	2295	-	(988,066)	
Income tax (expense)/benefit	2300	(417,862)	113,055	27
Loss from discontinued operations after tax	2305	-	-	
Net financial result of operations:				
Profit	2350	2,203,807	-	
Loss	2355	-	(875,011)	

II. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item	code	Reporting period – 2020	Prior period – 2019 (restated)	Notes
1	2	3	4	5
Revaluation (impairment) of non-current assets	2400	1,219,738	880,257	6
Revaluation (impairment) of financial instruments	2405	-	-	
Accumulated translation differences	2410	1,596	(303)	
Share of other comprehensive income of associates and joint ventures	2415	-	-	
Other comprehensive income (loss)	2445	(38,336)	(43,281)	
Other comprehensive income (loss) before tax	2450	1,182,998	836,673	
Income tax related to other comprehensive income	2455	(196,948)	369,060	27
Other comprehensive income after tax	2460	986,050	1,205,733	
Total comprehensive income	2465	3,189,857	330,722	

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

Line 2400 "Revaluation (impairment) of non-current assets" includes UAH 544,001 thousand of gain on revaluation of property, plant and equipment that have been appraised by market approach, loss on revaluation of such property, plant and equipment of UAH 21,191 thousand, and gain from specialised assets impairment loss reversal of UAH 696,928 thousand (in 2019 - includes revaluation of buildings and structures of the real estate business segment for UAH 1,628,503 thousand; assets subject to release in the amount of UAH 35,286 thousand; revaluation of other fixed assets for UAH 218 thousand and loss of UAH 783,750 thousand from revaluation of specialized assets).

Line 2445 "Other comprehensive income (loss)" in amount of UAH 38,336 thousand as the loss (2019: loss of UAH 43,189 thousand) is represented by the actuarial loss/gain on post-employment long-term benefit obligations (Note 12).

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

III. NATURE OF OPERATING EXPENDITURES

Item	code	Reporting period – 2020	Prior period – 2019 (restated)	Notes
1	2	3	4	5
Materials and supplies	2500	756,531	908,648	
Salaries and related charges	2505	1,976,013	2,008,368	
Social charges	2510	406,613	409,245	
Depreciation	2515	664,792	775,465	
Other operating expenses	2520	1,350,809	1,668,261	
Total	2550	5,154,758	5,769,987	

IV. EARNINGS PER SHARE

Item	code	Reporting period – 2020	Prior period – 2019 (restated)	Notes
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	0.1177	-0.0467	
Diluted earnings (loss) per ordinary share, UAH	2615	0.1177	-0.0467	
Dividend per ordinary share, UAH	2650	–	–	
Basic and diluted earnings (loss) per ordinary share from continued operations, UAH		0.1177	-0.0467	
Basic and diluted earnings (loss) per ordinary share from discontinued operations, UAH		–	–	

Approved for issue and signed

Director



(Signature)

Y.P. Kurmaz
name

20 / 04 / 2021

Financial Director

(Signature)

L.Y. Kotsumbas
name

20 / 04 / 2021

Chief Accountant

(Signature)

D.I. Skliarevska
name

20 / 04 / 2021

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020

Consolidated Statement of Cash Flows for the year ended 31 December 2020

Entity	PJSC Ukrtelecom	Date (year, month, day)	2021.01.01
Location	Ukraine	EDRPOU	21560766
Form of ownership	Public Joint-Stock Company	KOATUU	8039100000
Principal activity	Telecommunications	KOPFG	230
Prepared in accordance with (put "v" where appropriate):		KVED	61.10
According to the Provisions (standards) of Accounting in Ukraine			
International Financial Reporting Standards			v
Measurement unit:	thousand UAH	DKUD Code	1801004

Consolidated Cash Flow Statement (Direct Method)

Form No. 3

Item	Line code	Reporting period – 2020	Prior period – 2019 (restated)
1	2	3	4
I. Cash flows from operating activities			
Proceeds from:			
Sale of goods and services	3000	5,966,507	6,425,051
Return of taxes and duties	3005	4,493	169
including VAT	3006	54	40
Target financing	3010	1,891	2,586
Prepayments from customers	3015	28,807	42,247
Return of advances	3020	14,578	78,257
Interests on current bank accounts	3025	-	6,278
Penalties, fines and forfeits	3035	-	501
Operating lease	3040	583,821	521,369
Other proceeds	3095	876,322	635,348
Expenditures for payment for:		-	-
Settlements for goods and services	3100	(1,454,876)	(1,624,967)
Payments to employees	3105	(1,644,185)	(1,625,674)
Social charges	3110	(406,692)	(406,308)
Other taxes and duties payable	3115	(1,477,162)	(1,587,524)
Advances to suppliers	3135	(704,417)	(909,046)
Return of advances	3140	(12,852)	(8,724)
Other expenditures	3190	(218,954)	(225,958)
Net cash from operating activities	3195	1,557,281	1,323,605
II. Cash flows from investing activities			
Proceeds from sale of:			
Financial investments	3200	452	286,029
Non-current assets	3205	10,585	6,207
Proceeds from receipts of:			
Interest	3215	13,645	15,833
Dividends	3220	-	-
Derivatives	3225	-	-
Other proceeds	3250	19,956	4,996
Expenditures for acquisition of:			
Financial investments	3255	(21,282)	(292,983)
Non-current assets	3260	(674,907)	(735,121)
Expenses on derivatives	3270	-	-
Other payments	3290	-	(1,016)
Net cash from investing activities	3295	(651,551)	(716,055)

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

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020

Consolidated Statement of Cash Flows for the year ended 31 December 2020 (continued)

Item	code	Reporting period – 2020	Prior period – 2019 (restated)
1	2	3	4
III. Cash flows from financing activities			
Proceeds from issuance of equity	3300	-	-
Borrowings received	3305	100,964	136,016
Other proceeds	3340	-	-
Repurchase of treasury shares	3345	-	-
Repayment of borrowings	3350	(417,179)	(393,361)
Dividends paid	3355	-	-
Interest paid	3360	(268,974)	(259,394)
Finance lease	3365	(19,749)	(12,066)
Other payments	3390	-	-
Net cash from financing activities	3395	(604,938)	(528,805)
Net cash flows for the year	3400	300,792	78,745
Cash and cash equivalents at the beginning of the year	3405	396,343	349,794
Effect of change in exchange rates on cash and cash equivalents	3410	43,307	(32,196)
Cash and cash equivalents at the year-end	3415	740,442	396,343

Approved for issue and signed

Director



(Signature)

Y.P. Kurmaz
name

20 / 04 / 2021

Financial Director

(Signature)

L.Y. Kotsumbas
name

20 / 04 / 2021

Chief Accountant

(Signature)

D.I. Skliarevska
name

20 / 04 / 2021

Cash and cash equivalents in Cash Flow Statement (line 3415) exceeds the amount of Cash and cash equivalents in Statement of Financial Position (line 1165) by UAH 877 thousand. The difference comprises the amount of allowance for expected credit losses recognized for Cash and cash equivalents in the Statement of Financial Position.

Line 3095 "Other proceeds" of the section "Cash flow from operating activities" includes cash proceeds from the sale of dismantled copper cable and automatic telephone exchanges including VAT.

Line 3115 "Other taxes and duties payable" of the section "Cash flow from operating activities" includes UAH 117,574 thousand of income tax paid (2019: UAH 90,827 thousand).

Line 3190 "Other expenditures" of the section "Cash flow from operating activities" in amount of UAH 218,954 thousand (2019: UAH 225,958 thousand) includes cash outflows under agency agreements, foreign currency purchase transactions, payments under the collective agreement, insurance payments and other cash outflows.

Line 3200 "Proceeds from sale of financial investments" of the section "Cash flow from investment activities" for the year ended 31 December 2019 includes cash proceeds from the sale of debt securities, return of funds from deposit account with term more than 3 months for UAH 286,029 thousand.

Line 3255 "Expenditure for the acquisition of financial investments" includes payments for acquisition of investment certificates, repayment of the total value of securities.

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020
Consolidated Statement of Changes in Equity for the year ended 31 December 2020

Entity PJSC Ukrtelecom
Location Ukraine
State administration authority
Form of ownership Public Joint-Stock Company
Principal activity Telecommunications
Prepared in accordance with (put "v" where appropriate):
According to the Provisions (standards) of Accounting in Ukraine
International Financial Reporting Standards
Measurement unit: thousand UAH

Date (year, month, day)
EDRPOU
KOATUU
SPODU
KOPFG
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Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

Form No. 4

DKUD Code

1801005

Item	Line code	Registered share capital	Revaluation surplus	Additional capital	Other additional capital	Reserves	Accumulated deficit	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Balance as at 31 December 2019 (as previously reported)	4000	4,681,562	9,305,848	418,590	-	222,812	(7,344,729)	-	-	7,284,083
Restatements: change of accounting policy	4005	-	-	-	-	-	-	-	-	-
Correction of errors (Note 4)	4010	-	15,232	-	-	-	(345,033)	-	-	(329,801)
Other changes	4090	-	-	-	-	-	-	-	-	-
Restated balance as at 31 December 2019	4095	4,681,562	9,321,080	418,590	-	222,812	(7,689,762)	-	-	6,954,282
Net profit for the period	4100	-	-	-	-	-	2,203,807	-	-	2,203,807
Other comprehensive income (loss)	4110	-	1,017,710	1,596	-	-	(33,256)	-	-	986,050
Retained earnings distributed: distributions to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	-
Reinvestment in share capital	4205	-	-	-	-	-	-	-	-	-
Allocations to reserves	4210	-	-	-	-	-	-	-	-	-
Shareholders/contributions: equity contributions	4240	-	-	-	-	-	-	-	-	-
Capital repayment	4245	-	-	-	-	-	-	-	-	-
Capital withdrawals: repurchase of treasury shares (participatory interest)	4260	-	-	-	-	-	-	-	-	-
Reverse acquisition of treasury shares (participatory interest)	4265	-	-	-	-	-	-	-	-	-
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-
Equity divestment	4275	-	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(84,260)	-	-	-	84,260	-	-	-
Total changes in equity	4295	-	933,450	1,596	-	-	2,254,811	-	-	3,189,857
Balance as at 31 December 2020	4300	4,681,562	10,254,530	420,186	-	222,812	(5,434,951)	-	-	10,144,139

Approved for issue and signed

Director

(Signature)

Y.P. Kurmaz
name

20 / 04 / 2021

Financial Director

(Signature)

L.Y. Kotumbas
name

20 / 04 / 2021

Chief Accountant

(Signature)

D.I. Skliarevska
name

20 / 04 / 2021

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

Public Joint-Stock Company Ukrtelecom

Consolidated Financial Statements as at and for the year ended 31 December 2020

Consolidated Statement of Changes in Equity for the year ended 31 December 2020 (continued)

Entity PJSC Ukrtelecom
Location Ukraine
State administration authority
Form of ownership Public Joint-Stock Company
Principal activity Telecommunications
Prepared in accordance with (put "v" where appropriate):
According to the Provisions (standards) of Accounting in Ukraine
International Financial Reporting Standards
Measurement unit: thousand UAH

Date (year, month, day)
EDRPOU
KOATUU
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Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

Form No. 4

DKUD Code

1801005

Item	Line code	Registered share capital	Revaluation surplus	Additional capital	Other additional capital	Reserves	Accumulated deficit	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10	11
Balance as at 31 December 2018 (as previously reported)	4000	4,681,562	8,177,384	420,438	-	222,812	(6,547,307)	-	-	6,954,889
Restatements: change of accounting policy	4005	-	-	-	-	-	-	-	-	-
Correction of errors (Note 4)	4010	-	(36,201)	-	-	-	(294,202)	-	-	(330,403)
Other changes	4090	-	-	-	-	-	-	-	-	-
Restated balance as at 31 December 2018	4095	4,681,562	8,141,183	420,438	-	222,812	(6,841,509)	-	-	6,624,486
Net profit (loss) for the period	4100	-	-	-	-	-	(875,011)	-	-	(875,011)
Other comprehensive income (loss)	4110	-	1,242,520	(1,848)	-	-	(34,939)	-	-	1,205,733
Retained earnings distributed: distributions to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	-
Reinvestment in authorized capital	4205	-	-	-	-	-	-	-	-	-
Annulment of treasury shares (participatory interest)	4270	-	-	-	-	-	-	-	-	-
Equity divestment	4275	-	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(62,623)	-	-	-	61,697	-	-	(926)
Total changes in equity	4295	-	1,179,897	(1,848)	-	-	(848,253)	-	-	329,796
Balance as at 31 December 2019	4300	4,681,562	9,321,080	418,590	-	222,812	(7,689,762)	-	-	6,954,282

Approved for issue and signed

Director

(Signature) name

Y.P. Kurmaz

20 / 04 / 2021

Financial Director

(Signature) name

L.Y. Kotsumbas

20 / 04 / 2021

Chief Accountant

(Signature) name

D.I. Skliarevska

20 / 04 / 2021

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

1. Organisation structure and operations

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

As at 31 December 2020 the Company's shares are owned by LLC "ESU" (92.791%), other legal entities (5.862%), individuals (1.324%) and held by national depository (0.023%).

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and its subsidiaries LLC "TriMob" and Ukrtel GmbH (together referred to as the "Group"). The Group is controlled by its ultimate beneficiary Mr. Rinat Akhmetov, through various entities commonly referred to as "SCM". Related party transactions are detailed in Note 31.

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

Since 2016, the Group has been providing ICT services, including cloud PBX services, lease of cloud IT infrastructure, DDoS attack protection services.

The Group has an investment subsidiary that deployed a mobile network using its IMT-2000 CDMA (UMTS/WCDMA) mobile license (commonly referred to as a 3G mobile license).

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

Ukrainian regulatory and business operating environment

The Group operates on a regulated market. Tariffs are set by the National Commission on Regulation of Communications and Information ("NCRCI"), the Ukrainian telecommunications market regulator, in particular, for publicly accessible fixed line voice communication services (Note 17). Such tariffs may not necessarily reflect the costs of providing telecommunication services and required capital expenditures for network maintenance. This fact, together with other political, economic, tax and legal uncertainties in Ukraine, has and may continue to have implications on the Group's profitability and its ability to recover the carrying value of its non-current assets.

NCRCI also regulates the fees for provision of telecommunication channels set by the operators that hold a monopolistic or dominant position on the market, charges for traffic transfer to telecommunication networks of operators that have a significant advantage on a certain traffic transfer services market or hold a monopolistic or dominant position on the telecommunication services market, and operators' fees for provision of cable ducts.

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

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

In response to a recent rapidly developing coronavirus (COVID-19) pandemic many countries, including Ukraine, have implemented quarantine measures, which had a significant effect on the overall business scale.

Since March 2020, significant volatility has been observed in the stock, currency and commodity markets, including devaluation of UAH against USD and EUR. The large-scale quarantines, travel restrictions, and social distancing drive the drop-off in consumer spending and subsequently business investment in 2020, however such events has not material adverse impact on the Group's activities.

The inflation rate in Ukraine during 2020 demonstrate insignificant increased to 5.0% (as compared to 4.1% in 2019). Also, the exchange rate of Ukrainian hryvnia has shown devaluation against US dollar from 23.68 as at 31 December 2019 to 28.27 as at 31 December 2020. The National Bank of Ukraine's refinancing rate was decreased from 13.5% to 6.0%, which caused a corresponding shift in the lending rates of commercial banks.

1. Organisation structure and operations (continued)

Main risks affecting the sustainability of the emerging economic trends in addition to the effects of the coronavirus epidemic (COVID-19) are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labour emigration and low level of capital inflow.

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

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. In 2020, the Group reports net profit of UAH 2,203,807 thousand (2019: net loss of UAH 875,011 thousand primarily due to impairment of property, plant and equipment related to the operating segment of specialized telecommunications assets). Also, as at 31 December 2020, current assets exceeded the Group's current liabilities by UAH 1,147,614 thousand (2019: current liabilities exceeded the Group's current assets by UAH 307,350 thousand).

Management deploys various initiatives to improve the Group's financial results and cash flows, including network upgrades, cost optimisation programs, etc.

According to the terms of the Group's loan agreements, the payments of principal and interest scheduled for 2021 amount to UAH 241,518 thousand, which the Group will be able to service out of the forecasted net operating cash inflows.

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

Management is now analysing possible effect of the changing in micro- and macroeconomic conditions on its financial position and performance, but as at the date when these consolidated financial statements were authorized for issue, management has assessed that there is no impact of the ongoing coronavirus wave and related governments' restrictions on going concern principle. However, coronavirus quarantine restrictions temporary change business model of providing services to customers particularly related to lease of the Group's real estate buildings. Supply chains of goods and materials are also affected due to difficulties in international logistics, and consumer spendings are reduced due to a series of lockdowns.

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

Corporate governance

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

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

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

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

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

As at 31 December 2020, the Group had an internal audit function responsible for internal control, risk management, and reporting directly to the Supervisory Board.

2. Basis of preparation of the consolidated financial statements

Basis of preparation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), based on the historical cost approach, except as discussed in the significant accounting policies below, and the requirements of the Ukrainian legislation on financial reporting (Note 3).

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

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

Functional and presentation currency

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

Use of estimates and judgments

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

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

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

Valuation of property, plant and equipment and construction in progress

The Group applies the revaluation model for measurement of property, plant and equipment after initial recognition, and performs revaluations with sufficient regularity so that the carrying amount of property, plant and equipment at each reporting date does not differ materially from its fair value. The latest valuation was carried out as at 31 December 2020 by an independent firm of appraisers, who hold a recognised and relevant professional qualification and who have relevant experience in the valuation of assets of similar categories, as well by internal experts with the relevant qualification and experience.

The fair value of specialised assets attributable to the telecommunication business segment, is determined using a depreciated replacement cost method (Level 3), since there is no information on their market values. The depreciated replacement cost is further tested for economic obsolescence using the discounted cash flow models (income approach, Level 3) and adjusted if the results obtained from the income approach are less than the figures calculated on the basis of depreciated replacement cost (that is, under conditions of economic obsolescence).

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

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

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

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

More details on the revaluation of property, plant and equipment, including a disclosure of key valuation inputs, are presented in Note 6. Changes in such inputs could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued (Note 6).

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

Valuation of other current receivables fair value

When the fair value of other current receivables (Note 10) cannot be measured based on the quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) models. The inputs to these models are taken from observable markets, where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgment include consideration of inputs, such as discount rates, credit ratings, maturities, income growth, debt levels, and more. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments in these consolidated financial statements.

3. Significant accounting policies, new standards and interpretations

Now and amended standards

In the current year, new and amendments to IFRSs and interpretation have been issued by the International Accounting Standards Board ("IASB") that are obligatorily effective for the year 2020.

The application of the above amendments to IFRSs and interpretation has had no material effect on the Group's financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Consolidated subsidiaries include the following:

Name of the consolidated subsidiary	Country of incorporation	Activity	Actual % of ownership	
			2020	2019
Ukrtel GmbH	Germany	Telecommunications	100.0	100.0
LLC "TriMob"	Ukraine	Mobile telecommunications	100.0	100.0

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.

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

Foreign currency transactions and balances

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

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

Foreign currency differences arising in re-measurement are recognised in consolidated income statement.

Financial Instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group's financial assets and financial liabilities are represented by cash and cash equivalents, trade and other accounts receivable, net, current financial investments, bank loans, bonds issued, trade accounts payable and other financial liabilities. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

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

Financial assets

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

Classification of financial assets

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

Default definition

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs earlier. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures. Any recoveries made are recognised in profit or loss.

Credit impaired financial assets

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

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

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

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

Derecognition of financial assets

The Group will derecognise a financial asset when it loses its contractual rights to the cash flows from the financial asset or when it transfers its rights to receive the cash flows from the contract as a result of an agreement that transfers substantially all the risks and benefits associated with the title to this financial asset to the other party, or when the Group neither transfers nor retains substantially all the risks and rewards associated with the title to the financial asset but has not retained control of the financial asset.

Financial liabilities

Initial recognition and measurement

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

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

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

Derecognition of financial liabilities

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

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

Trade and other accounts receivable

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

Cash and cash equivalents

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

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

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

Trade and other accounts payable

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

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

Lease liabilities

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

The Group recognises lease liabilities, initially measured at the present value of future lease payments, in the consolidated statement of financial position, except for the short-term leases and leases of low-value items.

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

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

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

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

Share capital

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

Property, plant and equipment

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

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

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

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

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

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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

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

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

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

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

Right-of-use assets

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

Intangible assets

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

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

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

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

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

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

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

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

Investment property

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

The Group's investment property is formed by existing property as a result of a change in its use and transfer from owner occupied property to investment property. If the property comprises a portion that is held to earn rentals or for capital appreciation and another portion is held for use in the supply of telecommunication services or for administrative purposes, then the portions are accounted separately if they could be sold or leased out under a finance lease separately. Otherwise, the property is investment property only if insignificant portion of this property is held for Group's own use.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value to reflect market conditions at the reporting date. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

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

- Current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- Discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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

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

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

Inventories

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

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

Prepayments

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

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

Impairment of non-financial assets

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

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

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

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

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.

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

Defined benefit plan

The Group participates in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date.

The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs and current service costs are recognised immediately in profit or loss. Defined benefit plan is not financed.

Termination benefits

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

Provisions

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

Revenue

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

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

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

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

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

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

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

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

Incremental costs of obtaining a contract

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

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

Expenses

Social expenditure

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

Finance income and costs

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

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

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

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

Income tax

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

Current tax

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

Deferred tax

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

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

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.

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

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

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

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

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

Earnings per share

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

Segment Information

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

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

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

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

Non-reciprocal transactions

Transactions between unrelated parties are presumed to be exchanges of equal fair values. The Group from time to time is engaged in particular transactions with the owner in its capacity as owner, at prices that may differ from fair value. This includes, but not limited to loans issued at non-market interest rates and other. The Group accounts for the effect of such transactions directly in equity as distribution to or contribution from shareholders, in accordance with their substance. During 2020, there were no such transactions.

Contingent assets and liabilities

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

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

3. Significant accounting policies, new standards and interpretations (continued)**Standards and Interpretations in issue but not effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective: The Group has no plans to apply these standards early.

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Not determined
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform	1 January 2021
Amendments to IFRSs Annual Improvements to IFRS Standards 2018-2020.	1 January 2022
Amendment to IFRS 37 <i>Onerous Contracts - Cost of Fulfillment of Contract</i>	1 January 2022
Amendments to IAS 16 <i>Accounting for Proceeds before Intended Use</i>	1 January 2022
Amendments to IFRS 3 <i>References to Conceptual Framework</i>	1 January 2022
IFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023

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

4. Correction of errors and reclassification

When preparing these consolidated financial statements for the year ended 31 December 2020, the Group corrected some errors related to the previous periods. Certain amounts in the Consolidated statement of financial position, the Consolidated statement of comprehensive income, the consolidated statement of changes in equity were adjusted to correct the following errors:

(i) Valuation of the copper cable intended for release

As at 31 December 2019 and 1 January 2019, the Group recorded an upward revaluation of certain telecommunications assets intended for release (copper cable) to the fair value of UAH 234,593 thousand. Such fair value was determined based on inputs from the Group's non-accounting registers that were not reconciled with the accounting records. Due to the limitations of these registers, the fair value recorded by the Group was not determined reliably.

Furthermore, due to the nature of accounting records, the Group has not made an accurate split of the entire revaluation effect for all groups of property, plant and equipment between impairment losses and revaluation surplus.

Management decided to reclassify such assets to specialized telecommunications assets - "Ducts and cables" with the simultaneous revision of the residual value of such assets and recalculation of the accrued depreciation for three balance sheet dates.

In the consolidated financial statements for the year ended 31 December 2020, management corrected the above error and adjusted corresponding figures as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Line code	Nature of adjustment	1 January 2019	31 December 2019
Financial statements line items affected				
Property, plant and equipment (decrease)	1011	Adjustment of the copper cable intended for release cost	(44,147)	(234,592)
Property, plant and equipment (depreciation)	1012	Adjustment of the accumulated depreciation	(266,237)	-
Deferred tax assets (increase)	1045	Deferred tax assets	-	20,014
Production inventories (increase)	1101	Adjustment of the production supplies	27,642	22,678
Revaluation surplus (decrease)	1405	Revaluation surplus adjustment	36,201	7,854
Accumulated deficit (decrease)	1420	Cumulative effect of correction at each reporting date	222,099	184,046
Deferred tax liabilities (decrease)	1500	Deferred tax liabilities	24,442	-

Correction of the error resulted in an increase in other operating income by UAH 11,811 thousand, other operating expenses by UAH 4,964 thousand, cost of sales (depreciation) by UAH 23,639 thousand, decrease in other expenses by UAH 64,862 thousand, which reflects the change in the copper cable cost for the year ended 31 December 2019.

4. Correction of errors and reclassification (continued)**(ii) Investment in subsidiary LLC "TriMob"**

As at 31 December 2019 the Group classified its investment in subsidiary LLC "TriMob" as a disposal group held for sale.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an asset to be classified as held for sale if the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale is highly probable. Whereas the disposal of LLC "Trimob" was conditional upon approval of the State Property Fund of Ukraine and such approval was not received as at 31 December 2018 and 2019, the investment in LLC "Trimob" could not be classified as an assets held for sale at the respective dates in accordance with IFRS 5 requirements. The investment in LLC "Trimob" should have been included in the relevant items of assets and liabilities in the consolidated statement of financial position.

In the consolidated financial statements for the year ended 31 December 2020, management corrected the above error and adjusted corresponding figures as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Line code	1 January 2019	31 December 2019
Financial statements line items affected			
Intangible assets (initial cost)	1001	14,700	12,181
Intangible assets (amortization) (increase)	1002	(10,042)	(10,629)
Construction in progress (increase)	1005	7,611	7,796
Production supplies (increase)	1101	2,800	2,544
Merchandise (increase)	1104	15	12
Trade accounts receivable (increase)	1125	2,635	19,678
Advances paid (increase)	1130	3,358	3,863
Receivables from budget (increase)	1135	1,097	1,093
Receivables on income accrued (increase)	1140	41	-
Other current receivables (increase)	1155	2,225	2,966
Cash and cash equivalents (increase)	1165	8,282	2,604
Deferred expenses (increase)	1170	310	313
Other current assets (increase)	1190	1,425	1,720
Assets held for sale and disposal group (decrease)	1200	(106,579)	(75,134)
Accumulated deficit (decrease)	1420	72,104	29,523
Trade accounts payable (increase)	1615	(7,767)	(4,556)
Payables to budget (increase)	1620	(13,479)	(11,812)
Insurance payable (increase)	1625	(516)	(330)
Salary payables	1630	(1,739)	(1,593)
Payables on advances received (increase)	1635	(1,577)	(1,981)
Current provisions (increase)	1660	(1,814)	(1,934)
Other current liabilities (increase)	1690	(19,068)	(8,880)
Liabilities under non-current assets held-for-sale, and disposal groups (decrease)	1700	45,978	32,556

4. Correction of errors, changes in accounting policies and reclassification (continued)

The effect of the correction of the error, which reflects the effect of the inclusion of the relevant items of income and expenses for the year ended 31 December 2019, is presented below.

<i>(in thousands of Ukrainian hryvnias)</i>	Line code	Impact of correction of error
Financial statements line items affected		
Financial result		
Net sales	2000	86,041
Cost of revenue	2050	(300,483)
Other operating income	2120	12,698
Administrative expenses	2130	(50,896)
Selling expenses	2150	(5,611)
Other operating expenses	2180	(21,649)
Other finance income	2220	6,457
Other revenue	2240	18,016
Finance costs	2250	(7)
Loss from discontinued operations after tax	2305	(297,891)

(iii) Valuation of buildings and constructions of the real estate business segment

As at 31 December 2019, the Group involved independent appraiser to valuation of buildings and constructions of the real estate management business segment. A similar approach as at 31 December 2020 revealed some inaccuracies in measuring the value of individual items of the group of property, plant and equipment.

<i>(in thousands of Ukrainian hryvnias)</i>	Line code	Nature of adjustment	1 January 2019	31 December 2019
Financial statements line items affected				
Fixed assets: initial cost (increase)	1011	Initial cost increase	-	3,005
Investment property (increase)	1016	Initial cost increase	-	25,150
Deferred tax assets (decrease)	1045	Cumulative effect of correction at each date	-	(5,068)
Revaluation surplus (increase)	1405	Cumulative effect of correction at each date	-	(23,087)

The correction of error also resulted in an increase fair value of property by UAH 28,155 thousand, which was recognised in other comprehensive income for the year ended 31 December 2019.

(iv) Adoption of IFRS 16 Leases as at 1 January 2019

Upon adoption of IFRS 16 from 1 January 2019, the Group changed its approach to accounting for leases previously classified as operating lease under IAS 17, which were not recognized in the financial position statement. The Group recognised right-of-use assets for the leases of technical premises and infrastructure facilities (included in property, plant and equipment) and corresponding lease liabilities (presented in other long-term liabilities and other current liabilities depending on the payment terms). The Group identified some inaccuracies in the list of lease contracts that fell under IFRS 16 Leases: some contracts were not identified in due time, some contracts recognized as at 1 January 2019 were revision of lease terms was conducted. The effect of these review resulted an increase in the rights-of-use assets and lease liabilities as at 1 January 2019 in the amount of UAH 110,262 thousand.

<i>(in thousands of Ukrainian hryvnias)</i>	Line code	Nature of adjustment	31 December 2019
Financial statements line items affected			
Advances paid (increase)	1130	Total adjustments to the carrying amount	32
Accumulated deficit (increase)	1420	Cumulative effect of correction at each date	129,219
Other long-term liabilities (increase)	1515	Total adjustments to the carrying amount	(146,893)
Current taxes payable to budget	1620	Total adjustments to the carrying amount	32,487
including income tax	1621	Total adjustments to the carrying amount	32,487
Other current liabilities (increase)	1690	Total adjustments to the carrying amount	(14,845)

The correction of these inaccuracies resulted in an increase in the financial expenses in the amount of UAH 24,688 thousand, other expenses in the amount of UAH 152,941 thousand, which is represented by impairment losses of these asset as at 31 December 2019, a decrease in cost by UAH 15,923 thousand, including depreciation in the amount of UAH 8,888 thousand and decrease in income tax expenses by UAH 32,487 thousand for the year ended 31 December 2019.

4. Correction of errors and reclassification (continued)

Accordingly, the adjustments were made to the Statement of Cash Flows: expenses for payment of goods (works, services) were increased by UAH 10,760 thousand, interest expenses were increased by UAH 24,688 thousand, financial lease arrears increased by UAH 12,066 thousand, other payments from financial activities for UAH 47,513 thousand were decreased.

(v) Other corrections or errors

As at 31 December 2019, the Group did not take into account the movement of debts of some counterparties when recognizing the provision for doubtful debts/expected credit losses, and as a result, such debts were incorrectly classified by their credit quality. That resulted in an understatement of other operating expenses for 2019 by UAH 8,623 thousand, an overstatement of the book value of other current receivables by UAH 8,623 thousand.

As at 31 December 2019, the Group did not take into account the costs of some contracts when capitalizing the costs to obtain and fulfil contracts. This resulted in overstatement of the cost of sales by UAH 6,377 thousand in 2019; the carrying amount of other non-current assets was understated by UAH 5,124 thousand, the carrying amount of other current assets was understated by UAH 1,253 thousand.

As at 31 December 2018 and 31 December 2019, the Group failed to write off some intangible assets with zero book value.

In addition, management changed the presentation of debt for bonds issued by the parent company, which matured in 2017, from "Current financial investments" to "Other current receivables", the allocation of land tax costs to cost of sales and administrative costs and it decided to report the movement of liabilities related to bonds issued by the parent company as part of financial activities, and to clarify their presentation in terms of reporting the proceeds from the sale of dismantled copper cable and automatic telephone exchanges, by reclassification of the amounts from sales of products (goods, works, services) to other income as part of cash flows from operating activities in the statement of cash flows.

Given that corresponding information presented in the 2020 consolidated financial statements is being corrected for the effect of material misstatements discussed in notes (i), (ii), (iii), (iv) above, the Group decided to make an additional adjustment to simultaneously correct these errors as well.

4. Correction of errors and reclassification (continued)

The cumulative effect on the consolidated statement of financial position of errors corrected by the Group in 2020 is as follows:

(in thousands of Ukrainian hryvnias)	Line code	Note	31 December 2018 (as previously reported)	Corrections of errors	31 December 2018 (restated)	31 December 2019 (as previously reported)	Corrections of errors	31 December 2019 (restated)
Financial statements line items affected								
Intangible assets (initial cost)	1001	(ii), (v)	655,414	(124,588)	530,826	716,271	(131,732)	584,539
Intangible assets (amortization)	1002	(ii), (v)	(487,007)	129,246	(357,761)	(555,172)	133,284	(421,888)
Construction in progress	1005	(ii)	267,134	7,611	274,745	319,368	7,796	327,164
Fixed assets (initial cost)	1011	(i), (iii)	9,819,768	(44,147)	9,775,621	5,584,076	(231,587)	5,352,489
Property, plant and equipment (depreciation)	1012	(i), (iii)	(957,714)	(266,237)	(1,223,951)	(136,386)	-	(136,386)
Investment property	1016	(iii)	308,111	-	308,111	3,220,534	25,150	3,245,684
Deferred tax assets	1045	(i), (v)	-	-	-	37,672	14,946	52,618
Other non-current assets	1090	(iii)	103,800	-	103,800	111,155	5,125	116,280
Total non-current assets	1095	(i), (ii), (iii), (v)	9,709,645	(298,115)	9,411,530	9,297,548	(177,018)	9,120,530
Production supplies	1101	(i) (ii)	74,151	30,442	104,593	59,703	25,223	84,926
merchandise	1104	(ii)	47,818	15	47,833	41,205	12	41,217
Trade accounts receivable	1125	(ii), (iii)	367,159	2,635	369,794	320,834	11,055	331,889
Receivables on the advances paid	1130	(ii), (iv)	90,623	3,358	93,981	77,735	3,894	81,629
Receivables from budget	1135	(ii), (ii)	9,288	1,097	10,385	18,058	1,093	19,151
Receivables on income accrued	1140	(ii)	1,053	41	1,094	1,293	-	1,293
Other current receivables	1155	(ii), (v)	438,244	447,494	885,738	394,273	402,251	796,524
Current financial investments	1160	(v)	445,269	(445,269)	-	399,285	(399,285)	-
Cash and cash equivalents	1165	(ii)	340,793	8,282	349,075	393,184	2,604	395,788
Deferred expenses	1170	(ii)	9,065	310	9,375	22,338	313	22,651
Other current assets	1190	(i) (ii)	54,543	1,425	55,968	66,788	2,973	69,761
Total current assets	1195	(i), (ii) (iii), (iv), (v)	1,878,006	49,830	1,927,836	1,799,633	50,133	1,849,765
Assets held for sale and disposal group	1200	(ii)	106,683	(106,579)	104	75,244	(75,134)	110

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<i>(in thousands of Ukrainian hryvnias)</i>	Line code	Note	31 December 2018 (as previously reported)	Corrections of errors	31 December 2018 (restated)	31 December 2019 (as previously reported)	Corrections of errors	31 December 2019 (restated)
Revaluation surplus	1405	(i)	(8,177,384)	36,201	(8,141,183)	(9,305,848)	(15,232)	(9,321,080)
Accumulated deficit	1420	(i), (ii), (iii)	6,547,307	294,202	6,841,509	7,344,729	345,033	7,689,762
Total equity	1495	(i), (ii), (iii)	(6,954,889)	330,403	(6,624,486)	(7,284,083)	329,801	(6,954,282)
			-	-	-	-	-	-
Deferred tax liabilities	1500	(i)	(561,473)	24,442	(537,031)	-	-	-
Other long-term liabilities	1515	(iv)	(174,985)	-	(174,985)	(799,511)	(146,893)	(946,404)
Total long-term liabilities	1595	(i), (iv)	(1,724,839)	24,442	(1,700,397)	(1,712,115)	(146,893)	(1,859,008)
Trade accounts payable	1615	(ii)	(406,939)	(7,767)	(414,706)	(360,287)	(4,556)	(364,843)
Taxes payable	1620	(ii), (iv)	(109,915)	(13,479)	(123,394)	(170,140)	20,675	(149,465)
including income tax	1621	(ii), (iv)	-	-	-	(47,288)	32,487	(14,801)
Insurance payable	1625	(ii)	(12,093)	(516)	(12,609)	(14,211)	(330)	(14,541)
Salary payables	1630	(ii)	(50,826)	(1,739)	(52,565)	(53,433)	(1,593)	(55,026)
Payables on advances received	1635	(ii)	(89,552)	(1,577)	(91,129)	(99,072)	(1,981)	(101,053)
Current provisions	1660	(ii)	(262,313)	(1,814)	(264,127)	(285,549)	(1,934)	(287,483)
Other current liabilities	1690	(ii), (iv)	(1,086,970)	(19,067)	(1,106,037)	(126,952)	(23,725)	(150,677)
Total long-term liabilities	1695	(ii), (iv)	(2,968,628)	(45,959)	(3,014,587)	(2,143,670)	(13,444)	(2,157,115)
Liabilities associated with assets held for sale and disposal groups	1700	(ii)	(45,978)	45,978	-	(32,556)	32,556	-

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Notes to the Consolidated Financial Statements for the year ended 31 December 2020 (continued)

4. Correction of errors and reclassification (continued)

The cumulative effect of corrections on the statement of comprehensive income for the year ended 31 December 2019 was as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Line code	Note	31 December 2019 (as previously reported)	Corrections of errors	31 December 2019 (restated)
Financial statements line items affected					
Financial result:					
Total revenue from contracts with customers	2000	(ii)	5,675,542	86,041	5,761,583
Cost of revenue	2050	(iii)	(3,878,568)	(408,439)	(4,287,007)
Gross profit	2090	(iii)	1,796,974	(322,398)	1,474,576
Other operating income	2120	(ii)	447,704	24,509	472,213
Administrative expenses	2130	(ii)	(990,663)	55,719	(934,944)
Selling expenses	2150	(ii)	(390,393)	(5,611)	(396,004)
Other operating expenses	2180	(i), (ii), (iii)	(116,920)	(35,112)	(152,032)
Financial result from operations:					
Profit	2190	(i), (ii), (iii)	746,702	(282,893)	463,809
Other finance income	2220	(ii)	410,453	6,457	416,910
Other income	2240	(ii)	-	18,016	18,016
Finance costs	2250	(ii)	(343,330)	(24,695)	(368,025)
Other expenses	2270	(i), (ii)	(1,430,697)	(88,079)	(1,518,776)
Financial result from continuing activities before tax					
Loss	2295	(i), (ii), (iii)	(616,872)	(371,194)	(988,066)
Income tax expense	2300	(i)	78,774	34,281	113,055
Profit (loss) from discontinued operations after tax	2305		(297,891)	297,891	-
Net financial result of operations					
Loss	2355	(i), (ii), (iii)	(835,989)	(39,022)	(875,011)
Revaluation (impairment) of non-current assets	2400	(i)	829,345	50,912	880,257
Other comprehensive income (loss) before tax	2450	(i)	785,761	50,912	836,673
Income tax related to other comprehensive income	2455	(i)	380,350	(11,290)	369,060
Other comprehensive income after tax	2460	(i)	1,166,111	39,622	1,205,733
Total comprehensive income	2465	(i)	330,122	600	330,722
III. ITEMS OF OPERATING EXPENSES					
Materials and supplies	2500	(ii)	873,402	35,246	908,648
Salaries and related charges	2505	(ii)	1,949,672	58,696	2,008,368
Social charges	2510	(ii)	396,552	12,693	409,245
Depreciation	2515	(ii), (iii)	759,569	15,896	775,465
Other operating expenses	2520	(ii), (iii)	1,397,349	270,912	1,668,261
Total	2550	(ii), (iii)	5,376,544	393,443	5,769,987

4. Correction of errors and reclassification (continued)

The cumulative effect on the Group cash flows from operating, investing or financing activities is presented below

I. Cash flows from operating activities	Line code	Note	31 December 2019 (as previously reported)	Corrections of errors	31 December 2019 (restated)
Proceeds from:					
Sale of goods and services	3000	(ii), (v)	6,989,554	(564,503)	6,425,051
Target financing	3010	(ii)	2,034	552	2,586
Prepayments from customers	3015	(ii)	40,282	1,965	42,247
Return of advances	3020	(ii)	78,108	149	78,257
Interests on current bank accounts	3025	(ii)	-	6,278	6,278
Penalties, fines and forfeits	3035	(ii)	-	501	501
Operating lease	3040	(ii)	514,274	7,095	521,369
Other proceeds	3095	(ii), (v)	34,488	600,860	635,348
Expenditures for payment for:		(ii)			
Settlements for goods and services	3100	(ii), (iv)	(1,440,986)	(183,981)	(1,624,967)
Payments to employees	3105	(ii)	(1,578,333)	(47,341)	(1,625,674)
Social charges	3110	(ii)	(393,987)	(12,321)	(406,308)
Other taxes and duties payable	3115	(ii)	(1,416,914)	(170,610)	(1,587,524)
Advances to suppliers	3135	(ii)	(905,913)	(3,133)	(909,046)
Other expenditures	3190	(ii)	(215,756)	(10,202)	(225,958)
Net cash from operating activities	3195	(ii)	1,698,296	(374,691)	1,323,605
II. Cash flows from investing activities		(ii)			
Proceeds from sale of:		(ii)			
Financial investments	3200	(ii)	164,965	121,064	286,029
Proceeds from receipts of:		(ii)			
Other proceeds	3250	(ii)	606,886	(601,890)	4,996
Expenditures for acquisition of:		(ii)			
Financial investments	3255	(ii)	(369,160)	76,177	(292,983)
Other payments	3290	(ii)	(963,925)	962,909	(1,016)
Net cash from investing activities	3295	(ii)	(1,274,315)	558,260	(716,055)
III. Cash flows from financing activities		(ii)			
Repayment of borrowings	3350	(ii)	(211,155)	(182,206)	(393,361)
Interest paid	3360	(ii), (iv)	(216,912)	(42,482)	(259,394)
Finance lease	3365	(ii), (iv)	-	(12,066)	(12,066)
Other payments	3390	(ii), (iv)	(47,513)	47,513	-
Net cash from financing activities	3395	(ii)	(339,564)	(189,241)	(528,805)
Net cash flows for the year	3400	(ii)	84,417	(5,672)	78,745
Cash and cash equivalents at the beginning of the year	3405	(ii)	341,512	8,282	349,794
Effect of change in exchange rates on cash and cash equivalents	3410	(ii)	(32,190)	(6)	(32,196)
Cash and cash equivalents at the year-end	3415	(ii)	393,739	2,604	396,343

All the disclosure amounts within the comparative information were changed respectively.

5. Segment information

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

- Fixed line telecommunications.
- Mobile telecommunications. This segment is presented as the investment in subsidiary LLC "TriMob"
- Real estate management segment, which earns revenues from lease of properties owned by the Group, including investment property and marketable buildings, valued by market approach (Note 6).

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

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

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

The Group's revenue streams are disclosed in Note 17.

Geographical information

Substantially all of the Group's non-current assets are located in Ukraine. The Group receives revenues from the services to foreign operators of various countries, which for the year ended 31 December 2020 amount to UAH 243,250 thousand (31 December 2019: UAH 282,551 thousand) (Note 17). Management considers all revenue, including revenue from services to operators located in foreign countries, as revenue generated in Ukraine.

Major customers

During 2020 and 2019, no individual customer represented more than 10% of the Group's total revenue.

Below is information about reporting segments:

<i>(in thousands of Ukrainian hryvnias)</i>	Fixed line telecommunications.		Real estate management		Mobile telecommunications		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
External revenues	4,951,458	5,251,018	435,365	424,525	144,582	86,040	5,531,405	5,761,583
Adjusted EBITDA	1,402,298	1,393,335	302,267	257,118	(7,838)	(268,820)	1,696,727	1,381,633
Depreciation	(527,065)	(744,699)	(136,376)	(30,179)	(1,351)	(587)	(664,792)	(775,465)
Revaluation recognised in profit and loss	1,233,348	(1,456,263)	420,029	27,069	-	-	1,653,377	(1,429,194)
Revaluation recognised in other comprehensive income	852,509	(748,464)	367,229	1,628,721	-	-	1,219,738	880,257
Reportable segment assets	8,588,564	5,432,123	6,041,945	5,494,140	83,502	44,142	14,714,011	10,970,405
Capital expenditure	(693,546)	(625,971)	-	-	(2,520)	(185)	(696,066)	(626,156)

6. Property, plant and equipment

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

<i>(in thousands of Ukrainian hryvnias)</i>	Buildings and leasehold improvements	Buildings and constructions of real estate business segment	Switching and other network equipment	Ducts and cables	Telecom-munication assets intended for release	Radio and fixed link transmission equipment	Computer, office and other equipment	Construction in progress	Right-of-use assets	Total
Revalued amount at 31 December 2018	2,421,715	2,400,508	1,352,747	2,588,493	156,066	109,445	746,647	274,745	–	10,050,366
Accumulated depreciation	(109,066)	(2,300)	(198,125)	(657,995)	(414)	(33,196)	(222,855)	–	–	(1,223,951)
Carrying value at 31 December 2018	2,312,649	2,398,208	1,154,622	1,930,498	155,652	76,249	523,792	274,745	–	8,826,415
Carrying value at 31 December 2018	2,312,649	2,398,208	1,154,622	1,930,498	155,652	76,249	523,792	274,745	–	8,826,415
Adoption of IFRS 16 (Notes 4)	–	–	–	–	–	–	–	–	213,400	213,400
Revalued amount at 1 January 2019	2,312,649	2,398,208	1,154,622	1,930,498	155,652	76,249	523,792	274,745	213,400	9,039,815
Additions	–	–	2,509	2,280	–	–	67,562	626,156	49,367	747,874
Transfers (*)	(1,128,153)	1,162,451	192,224	258,624	3,624	2,443	78,311	(569,524)	–	–
Transfers from/to investment property	–	(2,944,379)	–	–	–	–	–	–	–	(2,944,379)
Disposals	(498)	(52)	(7,051)	(31,663)	(46,177)	(122)	(7,233)	(4,430)	–	(97,226)
Depreciation charge	(55,569)	(30,179)	(172,574)	(194,808)	(53)	(14,344)	(166,335)	–	(26,853)	(660,715)
Revaluation	(495,904)	1,662,407	(514,114)	(827,478)	34,474	(28,498)	(183,789)	217	(189,417)	(542,102)
Carrying value at 31 December 2019	632,525	2,248,456	655,616	1,137,453	147,520	35,728	312,308	327,164	46,497	5,543,267
Revalued amount at 31 December 2019	632,525	2,248,456	655,616	1,137,453	147,520	35,728	448,694	327,164	46,497	5,679,653
Accumulated depreciation	–	–	–	–	–	–	(136,386)	–	–	(136,386)
Carrying value at 31 December 2019	632,525	2,248,456	655,616	1,137,453	147,520	35,728	312,308	327,164	46,497	5,543,267
Additions	484	–	–	206	–	–	74,629	588,219	34,669	698,207
Transfers (*)	5,602	2,375	137,626	350,015	3,077	13,507	114,047	(626,249)	–	–
Transfers from/to investment property	3,190	808,163	–	–	–	–	–	(4,283)	–	807,070
Disposals	–	(187)	(4,007)	(5,468)	(75,084)	(54)	(3,326)	(3,497)	–	(91,623)
Depreciation charge	(9,049)	(136,376)	(113,526)	(100,409)	(876)	(5,173)	(121,900)	–	(9,742)	(497,051)
Revaluation	472,129	368,061	445,672	744,741	154,782	14,293	94,025	(26)	160,241	2,453,918
Carrying value at 31 December 2020	1,104,881	3,290,492	1,121,381	2,126,538	229,419	58,301	469,783	281,328	231,665	8,913,788
Revalued amount at 31 December 2020	1,113,930	3,290,492	1,240,164	2,233,696	229,419	64,071	674,959	281,328	241,407	9,369,466
Accumulated depreciation	(9,049)	–	(118,783)	(107,158)	–	(5,770)	(205,176)	–	(9,742)	(455,678)
Carrying value at 31 December 2020	1,104,881	3,290,492	1,121,381	2,126,538	229,419	58,301	469,783	281,328	231,665	8,913,788

(*) Acquired or constructed assets are initially recorded as "Construction in progress" category and are transferred to particular categories when ready for use and put into operation. Transfers also comprise reclassifications of certain items primarily between "Switching and other network equipment", "Ducts and Cables" and "Telecommunication assets intended for release" categories.

6. Property, plant and equipment (continued)

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

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Depreciation expense of right-of-use assets	9,742	26,853
Interest expense on lease liabilities	49,419	42,482
Expense relating to leases of low-value assets	31,893	100,511
Variable lease payments	97,891	105,115
	188,945	274,961

The future cash outflows related to leases, for which the Group recognised the right-of-use assets, are disclosed in Note 28 (Liquidity).

The total cash flow from the lease of low-value assets and leases under contracts with floating payments for the year ended 31 December 2020 were UAH 140,427 thousand (2019: UAH 199,302 thousand). The cash outflows related to leases, for which the Group recognised the right-of-use assets, are disclosed in Note 14.

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

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

The fair value of telecommunication assets intended for release and buildings and construction of real estate business segment was determined using the combination of techniques utilising market prices of analogues and discounted cash flow. The valuations have been performed by highly qualified and experienced experts and independent appraisers as at 31 December 2020 and are based on the following:

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

Significant valuation inputs for telephone exchanges were as follows:

Category	Significant valuation inputs	Range
Telephone exchanges	Selling prices (minimal) per port in each model of Telephone exchanges	56.41-409.52 UAH per port

As at 31 December 2020, management recorded, based on the internal expert analysis and independent appraisers' report, a revaluation of telephone exchanges and buildings and constructions to the fair value of UAH 229,419 thousand and UAH 3,210,066 thousand, respectively (31 December 2019: UAH 147,520 thousand UAH 2,248,456 thousand, respectively). The fair value adjustment was recorded as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Telecommunication assets intended for release		
Charged to the profit and loss (Note 26)	(799)	(813)
Revaluation surplus recognised in other comprehensive income	155,581	35,286
	154,782	34,473
Buildings and construction of the real estate business segment		
Credited to the profit and loss (Note 26)	832	33,904
Revaluation surplus recognised in other comprehensive income	367,229	1,628,503
	368,061	1,662,407
Total gain/(loss) on revaluation, including:	522,843	1,696,880
Revaluation surplus recognised in profit and loss (Note 26)	33	33,091
Revaluation surplus recognised in other comprehensive income	522,810	1,663,789

6. Property, plant and equipment (continued)

Revaluation of specialised assets

Specialised assets include those that the Group uses for a provision of telecommunication services, comprising the following categories of property, plant and equipment:

- Buildings and leasehold improvements
- Switching and other network equipment
- Ducts and cables
- Radio and fixed link transmission equipment
- Computer, office and other equipment
- Right-of-use assets

The total carrying amount of such assets as at 31 December 2020 was UAH 5,112,549 thousand (31 December 2019: UAH 2,820,127 thousand, 31 December 2018: UAH 5,997,810 thousand).

They are specialised in nature and rarely sold in the open market. The fair value of such items is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence.

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

As at 31 December 2019, the Group identified indicators of specialized assets impairment based on cash flow forecasts for the next nine years, approved by senior management in the amount of UAH 2,238,982 thousand as impairment losses, of which UAH 1,455,450 thousand was recognized in profit or loss (Note 26), and UAH 783,750 thousand in other comprehensive loss for the year ended 31 December 2019.

A similar approach as at 31 December 2020 confirmed that there were grounds for reversal of impairment loss in 2019. The reason for the revaluation as of 31 December 2020 are the following factors:

- Improving the efficiency of the existing assets use. The implementation and launch of the Greenfield and Pon Swap projects, the program of local modernization of the telecom network and the replacement of vehicles had a significant positive impact on the efficiency of the existing assets use and, accordingly, cash flow forecasts;
- Post-tax discount rate decrease by 2%;
- Including into the projected cash flows the incomes from the sale of precious metals obtained during the release of cable lines and transmission devices in the coming years. Such projected cash flow was recognised for the first time in the projected cash flows as at 31 December 2020. The Company did not recognise the future cash flow from the sale of precious metals as at 31 December 2019 due to insignificant share of such income in the Group's revenue structure, as well as due to irregular and unpredictable nature of such sales in previous years.

As a result, impairment loss in the amount of UAH 1,823,254 was reversed, of which UAH 1,126,300 thousand were recognised in profit and loss (Note 25), and UAH 696,928 thousand were recognised in other comprehensive income for the year ended 31 December 2020.

For the purpose of fair value measurement, management determined the projected cash flows based on the past performance and its expectations on the future market developments. The applied assumptions and growth rates were based on market data and internal reports and are consistent with the forecasts included in industry reports. The values assigned to the key assumptions represent management's best assessment of future trends in the business and are based on both external and internal sources.

6. Property, plant and equipment (continued)

The following table summarises significant unobservable valuation inputs used to determine the fair value of specialised property, plant and equipment (Level 3) as at 31 December 2020 and 2019:

Inputs	2020	2019
Post-tax discount rate	12.1%	14.1%
Terminal period growth rate	4.5%	4.7%
ARPU growth rate fixed line telephony	B2C: unevenly from 21.9% in 2022 to 12.0% in 2025, 18.0% in 2030. B2B: from 8.8% in 2021 to 6.6% in 2022, 8.1% in 2030.	B2C: from 13.6% in 2020 to 9.3% in 2028, the peak of growth in 2020. B2B: 7.6% in 2020 to 5.2% in 2028, the peak of growth in 2020.
ARPU growth rate internet services	B2C: from 27.0% in 2021 to 10.5% in 2030, the peak of growth in 2021. B2B: from 23.8% in 2021 to 4.1% in 2030, the peak of growth in 2021.	B2C: from 14.5% in 2020 to 7.8% in 2028, the peak of growth in 2020. B2B: 15.1% in 2020 to 11.2% in 2028, peak growth in 2020
Churn rate fixed line telephony	Long-term subscribers base decrease rate of 12.9% starting from 2030 for B2C segments and 6.0% from 2030 for B2B segments. Up to these years it is normalized from current level of 29.6% (B2C) and 13.4% (B2B) to long-term level.	Long-term subscribers base decrease rate of 12.9% starting from 2028 for B2C segments and 8.8% from 2028 for B2B segments. Up to these years it is normalized from current level of 25.8% (B2C) and 13.0% (B2B) to long-term level.
Churn rate Internet services	B2C: Outflow of 15.1% in 2021 with subsequent rate reduction to 3.7% growth in subscriber base in 2030. B2B: Outflow of 11.3% in 2021 with subsequent churn rate reduction to 8.1% growth in subscribers base in 2030.	B2C: Outflow of 19.1% in 2020 with subsequent rate reduction to 13.1% growth in subscriber base in 2028. B2B: Outflow of 20.2% in 2020 with subsequent churn rate reduction to 12.3% growth in subscribers base in 2028.

The following table illustrates sensitivity of fair value estimates for specialised assets to changes in the key assumptions as at 31 December 2020:

(in thousands of Ukrainian hryvnias)	% change	Change in fair value estimates	
Input			
Post-tax discount rate	+0.5%/-0.5%	(314,587)	/ 356,724
Terminal period growth rate	+0.5%/-0.5%	184,663	/ (161,852)
ARPU growth rate fixed line telephony	+1%/-1%	373,443	/ (377,525)
ARPU growth rate internet services	+1%/-1%	485,687	/ (500,968)
Churn rate fixed line telephony	+1%/-1%	(301,585)	/ 301,187
Churn rate internet services	+1%/-1%	(171,787)	/ 170,840
The effect of fair valuation through changes in cash flows from the sale of precious metals	+1%/-1%	8,496	/ (9,460)

Depreciation charge

Total depreciation charge for the years ended 31 December 2019 and 31 December 2020 is as follows:

(in thousands of Ukrainian hryvnias)	Note	2020	2019
Charged to:			
Cost of sales	18	472,148	639,700
Administrative expenses	19	13,050	14,439
Selling expenses	20	5,392	3,524
Other operating expenses	21	6,461	3,052
Total depreciation charge		497,051	660,715

Pledged assets

As at 31 December 2020 and 2019 some of the Group's assets are pledged to secure bank loans and other borrowings (Note 14).

7. Investment property

As at 31 December 2020, the Group's investment properties consist of 242 units of real estate with a total space of 424,605 square meters (31 December 2019: 225 units with total space of 536,239 square meters).

Revaluation of investment property was performed by independent appraisers as at 31 December 2020. Revaluation of investment property was been performed by independent appraisers as at 31 December 2020 and is based on combination of techniques using market prices for the similar items and direct capitalization, and discounted cash flow.

The fair value of real estate depends on location, technical condition, design features and other pricing factors.

The average cost of 1 sq. m of office real estate in regional centers ranges from USD 200.00 to 500.00 per sq.m. In Kyiv, the prices for real estate are: in the central and neighboring to the center of the city they range from USD 700.00 to 1,000.00 per sq.m and USD 250.00-450.00 per 1 sq. m in the outskirts.

The rental rates for office real estate in regional centers averages from UAH 50.00 to 180.00 per sq.m., in Kyiv - from UAH 100.00 to UAH 350.00 per sq.m.

Under the direct capitalization method, the value of the capitalization rate is calculated using the market extraction method. The size of the capitalization rate is calculated for such segments as, "office", "commercial" and "industrial-warehouse" real estate, in terms of its size and geographical location. The capitalization rate range for the nominal cash flow in hryvnia is from 8.6% to 14.7%.

Under the cash flow discounting method, the discount rate was equated to the Weighted Average Cost of Capital for the business involved in leasing out such real estate. The discount rate for the nominal cash flow in UAH is 16.5%.

Reconciliation of the fair of investment property:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
As at 1 January	3,245,684	308,111
Re-measurement recognised in profit and loss	419,197	(6,835)
Transfers from/(to) the owner-occupied property (Note 6)	(811,353)	2,944,379
Other transactions/transfers	4,283	29
Cost as at 31 December	2,857,811	3,245,684

As at 31 December 2020 and 2019 some part of the Group's investment properties was pledged to secure bank loans and other borrowings (Note 14).

8. Other non-current assets

Other assets include contracts assets under IFRS 15. Assets recognised as capitalised costs to obtain and fulfill a contract are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
As at 1 January, including:	158,357	127,419
short-term portion (line 1190)	42,078	23,619
long-term portion (line 1090)	116,279	103,800
Cost for the period	148,562	100,759
Expenses on terminated subscribers (Note 18)	(41,940)	(32,285)
Amortisation (Note 18)	(68,852)	(37,536)
As at 31 December, including:	196,127	158,357
short-term portion (line 1190)	69,544	42,078
long-term portion (line 1090)	126,583	116,279

Besides capitalised costs to obtain and fulfill a contract, line 1190 as at 31 December 2020 includes VAT tax credit in amount of UAH 17,410 thousand and other current assets.

9. Trade accounts receivable

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Trade accounts receivable		
Individuals	180,535	151,139
Commercial entities	353,320	322,921
Government agencies	152,833	170,771
	686,688	644,831
Allowance for expected credit losses on receivables from:		
Individuals	(92,566)	(55,103)
Commercial entities	(139,469)	(125,814)
Government agencies	(120,182)	(132,025)
	(352,217)	(312,942)
Total trade receivables	334,471	331,889

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Individuals		
- current and overdue less than 90 days	69,330	87,082
- 90 to 180 days overdue	19,022	17,765
- 180 to 360 days overdue	28,540	26,137
- over 360 days overdue	63,643	20,155
Total individuals, gross	180,535	151,139
Commercial entities		
- current and overdue less than 90 days	204,470	183,265
- 90 to 180 days overdue	11,456	13,882
- 180 to 360 days overdue	16,564	8,899
- over 360 days overdue	120,830	116,875
Total commercial entities, gross	353,320	322,921
Government agencies		
- current and overdue less than 90 days	30,956	36,635
- 90 to 180 days overdue	10,513	15,144
- 180 to 360 days overdue	20,173	28,570
- over 360 days overdue	91,191	90,422
Total government agencies, gross	152,833	170,771
Total trade receivables, gross	686,688	644,831
Allowance for expected credit losses on receivables from:	(352,217)	(312,942)
Total trade receivables	334,471	331,889

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

The current and overdue less than 90 days category for commercial entities includes receivables from the other telecom operators and Ukrainian legal entities that have been using the Company's services for a long period of time and consists mainly of the December revenues (approximately 67%) to be billed in early January next year. The contractual due date for payment of these bills is 20 January.

In 2020, the Group wrote off some overdue commercial receivables of legal entities for UAH 5,291 thousand (in 2019: UAH 34,077 thousand and retail receivables for UAH 9,175 thousand).

9. Trade accounts receivable (continued)

Impairment of trade accounts receivable as at 31 December 2020 is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Gross receivable	Impairment	Impairment to gross receivable	Share of impaired receivables
Trade receivables from individuals	180,207	(92,566)	87,641	51%
Trade receivables from commercial entities	353,648	(139,469)	214,179	39%
Trade receivables from government agencies	152,833	(120,182)	32,651	79%
Total trade receivables	686,688	(352,217)	334,471	51%

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

<i>(in thousands of Ukrainian hryvnias)</i>	Gross receivable	Impairment	Impairment to gross receivable	Share of impaired receivables
Trade receivables from individuals	151,139	(55,103)	96,036	36%
Trade receivables from commercial entities	322,921	(125,814)	197,107	39%
Trade receivables from government agencies	170,771	(132,025)	38,746	77%
Total trade receivables	644,831	(312,942)	331,889	49%

Changes in allowance for expected credit losses is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Balance at beginning of the year	312,942	380,396
Charge for the year	114,997	104,971
Reversed for the year	(70,364)	(129,172)
Release of allowance	(5,358)	(43,253)
Balance at year end	352,217	312,942

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

10. Other current receivables

Bonds issued by the parent company

The fair value of the bonds was determined by the Company's internal experts and presented as the other current receivables.

As at 31 December 2020 and 2019, other current receivables mostly included bonds issued by the parent company, ESU LLC, redemption period for which lapsed in 2017, overdue interest-free loans granted to the parent company ESU LLC with a nominal amount of UAH 737,983 thousand, and other receivables due from the parent company.

The estimate of expected credit losses for the entire term of the parent company's debt was made based on the assumption that ESU LLC will undergo a liquidation process whereby it will sell its investment in the Company (92.791% of ordinary shares) and distribute the proceeds among all its creditors. The fair value of the bonds is, therefore, derived from the estimated Company's market value determined using the discounted cash flow model (Level 3).

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

Input	Range	
Estimated duration for disposal and cash proceeds	795 days	
Average market discount rate, %	8.73% (2020); 13.8% (2019)	
	31 December 2020	31 December 2019
<i>(in thousands of Ukrainian hryvnias)</i>		
Due from parent company		
Due for the bonds	1,036,820	1,036,820
Interest-free loans, at amortised cost	737,983	737,983
Other receivables, at amortised cost	234,394	234,394
	2,009,197	2,009,197
Lifetime expected credit losses	(809,182)	(1,235,443)
Carrying amount	1,200,015	773,754
Impairment to gross receivables	40%	61%
Other receivables	13,724	22,770
Total other current receivables	1,213,739	796,524

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

11. Share capital

As at 31 December 2020, the authorised share capital comprises 18,726,248 thousand of issued and registered ordinary shares (31 December 2019: 18,726,248 thousand) with a par value of UAH 0.25. As at 31 December 2019 and 2017, all shares are outstanding. As at 31 December 2020 and 2019, total amount of the registered and fully paid share capital is UAH 4,681,562 thousand.

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

Revaluation surplus also includes the effect of revaluation of property, plant and equipment. As a result of disposal of certain property, plant and equipment revalued in prior periods, in 2020 the Group transferred to the accumulated loss revaluation reserve of these assets, in the amount of UAH 84,260 thousand (2019: UAH 62,623 thousand).

As at 31 December 2020, additional capital in the amount of UAH 420,186 thousand is represented mainly by share premium (31 December 2019: UAH 418,590 thousand).

As at 31 December 2020, reserves in the amount of UAH 222,812 thousand represent transfers of a portion of the annual profits and share capital as was required by the Ukrainian legislation prior to the Company's privatisation (31 December 2019: UAH 222,812 thousand).

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

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

12. Long-term provisions

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Post-employment long-term benefit obligations	281,714	270,217
Other long-term employee benefit obligations	–	2,800
Total long-term provisions	281,714	273,017

Post-employment long-term benefit obligations

The movement in post-employment long-term benefit obligations during 2020 is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	One-time payment on retirement	State retirement benefit plan	Total post- employment benefit obligations
Present value of obligations as at 1 January 2020	26,584	243,633	270,217
Gains from changes in the collective agreement	(16,686)	–	(16,686)
Current service cost	1,141	490	1,631
Interest cost on post-employment obligations	2,873	26,081	28,954
Recognised past service gain/curtailment	–	–	–
Actuarial loss (gain) in the statement of comprehensive income	10,114	28,222	38,336
Benefits paid	(6,837)	(33,901)	(40,738)
Present value of obligations as at 31 December 2020	17,189	264,525	281,714

12. Long-term provisions (continued)

Actuarial loss recognised in the statement of comprehensive income in 2020 is mainly represented by change in financial actuarial assumptions, driven by change in discount rate, and comprised UAH 23,864 thousand.

Effect of changes in adjustments to plan obligation based on experience and demographic actuarial assumptions amounted to UAH 6,862 thousand and UAH 7,580 thousand, respectively.

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

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

The amounts recognised in the profit or loss for the year ended 31 December 2020 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	One-time payment on retirement	State retirement benefit plan	Total post- employment benefit obligations
Interest cost on post-employment obligations (Note 23)	2,873	26,081	28,954
Current service cost	1,141	490	1,631
Gains from changes in the collective agreement	(16,686)	–	(16,686)
	(12,672)	26,571	13,899

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

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

<i>(in thousands of Ukrainian hryvnias)</i>	One-time payment on retirement	State retirement benefit plan	Total post- employment benefit obligations
Interest cost on post-employment obligations (Note 23)	2,915	26,915	29,830
Current service cost	995	406	1,401
	3,910	27,321	31,231

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

	31 December 2020	31 December 2019
Nominal discount rate	11.1%	12.4%
Staff turnover	7.6%	9.0%

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

12. Long-term provisions (continued)

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

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

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020
Nominal discount rate increase/decrease by 1%	(14,339)/15,860
Nominal salary increase/decrease by 1%	8,395/(7,803)

As at 31 December 2020, the weighted average maturity of the Company's long-term employee benefit obligations is 6 years (31 December 2019: 6 years). Payments in respect of these obligations expected to be made during the year 2021 are UAH 61,266 thousand (2020: UAH 59,358 thousand).

13. Loans and borrowings

Loans and borrowings are presented as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Non-current borrowings		
Bank loans (Line 1510)	1,346,925	636,374
Suppliers loans (line 1510)	64,563	3,213
Total non-current borrowings	1,411,488	639,587
Current borrowings		
Bank loans	215,391	989,733
Bonds issued	–	150
Interest payable	19,450	21,972
Total current borrowings (Line 1600 and 1610)	234,841	1,011,855
Total borrowings	1,646,329	1,651,442

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

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

<i>(in thousands of Ukrainian hryvnias)</i>	Currency	31 December 2020		31 December 2019	
		Carrying amount	Nominal value	Carrying amount	Nominal value
Non-current borrowings					
Bank loans	USD, EUR	1,346,925	1,359,044	636,374	653,098
Supplier credits	EUR	64,563	65,089	3,213	3,313
Total non-current borrowings		1,411,488	1,424,133	639,587	656,411
Current borrowings					
Bank loans	USD, UAH	215,391	215,391	989,733	989,733
Bonds issued	UAH	–	–	150	150
Interest payable	USD, UAH, EUR	19,450	19,450	21,972	21,972
Total current borrowings		234,841	234,841	1,011,855	1,011,855
Total borrowings		1,646,329	1,658,974	1,651,442	1,668,266

13. Loans and borrowings (continued)

Monetary and non-monetary changes in loans and borrowings are presented in the table below:

	2020	2019
Opening balance at 1 January	1,651,442	1,686,765
Cash flow movements		
Interest payment	(203,066)	(216,912)
Loans repayment/bonds redemption	(392,179)	(193,361)
Funds raising	100,964	136,016
Non-cash flow movements		
Interest accrued during the period	214,060	231,112
Foreign currency loss accrued over the period	181,780	(135,787)
Loan for equipment supply	90,424	86,591
Costs related to the bonds servicing	2,904	57,018
Closing balance as at 31 December	1,646,329	1,651,442

Bank loans and borrowings**Long-term financing**

In December 2015, the Group signed an agreement on a long-term credit line with a Chinese bank with a limit of USD 50,000 thousand and maturity until December 2022. Withdrawal financing period under this facility was until May 2019 with first principle repayment scheduled for November 2019. As at 31 December 2020, effective interest rate of this facility was 9.34%. Carrying amount of long-term portion of outstanding liabilities on this credit line as at 31 December 2020 amounted to the equivalent of UAH 431,753 thousand (31 December 2019: UAH 526,427 thousand). Short-term portion outstanding liabilities on this credit line as at 31 December 2020 comprised UAH 215,391 thousand.

In March 2019, the Group signed an ECA-based loan agreement with a Slovenian bank for EUR 4,854 thousand to finance an investment project. In September 2020, the Group signed an additional agreement to increase the lending limit to EUR 5,660 thousand. As at 31 December 2020, the total outstanding balance under the agreement was the equivalent of UAH 175,634 thousand (31 December 2019: UAH 109,947 thousand). As at 31 December 2020 effective interest rate of this facility was 3.2%. This loan matures in July 2028.

In April 2019, the Group signed a loan agreement with a Slovenian non-financial company for EUR 634 thousand to finance the investment project. The outstanding principal amount as at 31 December 2020 amounted to the equivalent of UAH 21,097 thousand (31 December 2019: UAH 3,213 thousand). As at 31 December 2020 effective interest rate of this facility was 3.15%. This loan matures in August 2028.

The Group continued its successful cooperation with the Slovenian bank and at the end of December 2019 signed a new loan agreement under the terms of export credit insurance (ECI) for EUR 3,332 thousand to finance the expansion of the investment project from 2020 to April 2029. The outstanding principal amount as at 31 December 2020 amounted to the equivalent of UAH 112,361 thousand (31 December 2019: zero). As at 31 December 2020 effective interest rate of this facility was 3.18%.

In January 2020, the Group also signed a loan agreement with a Slovenian non-financial company for EUR 1,774 thousand to finance the investment project. The outstanding principal amount as at 31 December 2020 amounted to the equivalent of UAH 43,991 thousand. As at 31 December 2020 effective interest rate of this facility was 3.68%. This loan matures in March 2025.

In 2011, the Group signed a multi-currency revolving credit line with a Ukrainian bank with a limit of USD 48,000 thousand. Since the conclusion of the agreement, the credit line limit was revised several times and in September 2019 the non-revolving limit was fixed in UAH currency in amount of UAH 809,295 thousand. In September 2020, the Group entered into an additional agreement on short-term debt restructuring, which provides for the extension of the line for 3 years with a schedule of the gradual debt reduction. The total outstanding amount under this loan facility as at 31 December 2020 was UAH 639,295 thousand (31 December 2019: UAH 809,295 thousand). As at 31 December 2020 effective interest rate of this facility was 18.09%.

13. Loans and borrowings (continued)

Short-term financing

In November 2020, the Group attracted short-term financing to replenish working capital by signing an agreement with a German non-financial company in the amount of EUR 350 thousand. The outstanding principal amount as at 31 December 2020 amounted to the equivalent of UAH 12,159 thousand.

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

In % per annum	2020						2019				
	UAH	EUR	EUR	EUR	EUR	US dollar	UAH	UAH	EUR	EUR	US dollar
Total borrowings	18.09%	3%	3.15%	3.18%	3.68%	9.34%	19.50%	18%	3.19%	3.18%	9.34%
	639,295	174,730	21,009	111,577	43,554	636,714	150	809,295	109,947	3,213	706,865

Compliance with covenants under loan agreements

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

During 2020, the Group was fulfilling its obligations to the creditors and complying with financial and non-financial covenants, except the case of non-compliance under the agreement with Chinese bank occurred by the existence of qualified auditor's opinion to financial statements for the year ended 31 December 2020.

In 2020 the Group received a separate letter by which the bank confirmed its waiver of the right to claim early repayment due to the modification of the audit opinion. During 2020, the Group undertook actions to eliminate and mitigate the auditor's qualification in future financial statements.

As a 31 December 2020, the Group was not in breach of covenants and classified the liabilities on loan from the Chinese bank in accordance with contractual maturities.

Pledges

The Group has pledged rights on certain bank accounts to fulfil collateral requirements of loan agreement with Chinese bank. The Group shall ensure that certain amount of proceeds from customers (subject to minimum level requirements) will be channeled through those pledged accounts. In case of the event of default, proceeds on these accounts can be used to fulfill the obligations under the loan agreement.

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

Pledge	Currency	31 December 2020	31 December 2019
Ownership rights for future equipment supplies	USD	28,779	28,779
Property, plant and equipment and investment property	UAH	3,674,392	2,043,408

14. Other liabilities

Other liabilities are presented as follows:

(in thousands of Ukrainian hryvnias)	31 December 2020		31 December 2019	
	Short-term	Long-term	Short-term	Long-term
Obligation for bonds of the parent (i)	25,000	621,829	25,000	564,098
Performance obligations (ii)	49,496	200,158	52,920	185,502
Lease liabilities (iii)	63,640	201,881	53,797	196,804
Others	15,798	–	18,960	–
Total other liabilities	153,934	1,023,868	150,677	946,404

(i) Obligations for bonds issued by the parent company

In March 2017 the Group received legal title to the bonds issued by its parent for a consideration of UAH 1,036,820 thousand payable immediately in cash. No payments were made by the Group in settlement of these obligations up until December 2019, when the parties signed an additional agreement, which reduced the amount payable, established an extended payment schedule with instalment settlements till 2028, and introduced an interest of 75% (net of VAT) per annum to be paid by the Group on the outstanding amount of liability. Also, in accordance with additional agreement the Group undertook to provide the creditor with an additional mortgage in the amount not less than UAH 1 billion till 20 February 2020.

Outstanding non-discounted liability under the revised agreement as at 31 December 2020 amounted to UAH 811,820 thousand. The respective carrying amount is UAH 646,829 thousand, of which UAH 25,000 thousand were accounted for as current liability and UAH 621,829 thousand – as a long-term obligation.

The monetary and non-monetary movements of liabilities are set out below.

(in thousands of Ukrainian hryvnias)	2020	2019
As at 1 January, including:	589,098	1,036,820
current portion (line 1690)	25,000	1,036,820
long-term portion (line 1515)	564,098	–
Non-cash flow		
Effect from restructuring the obligation to the bank	–	(253,800)
Accrual of interest (Note 24)	99,220	6,078
Cash flow		
Interest paid	(16,489)	–
Monthly payments paid	(25,000)	(200,000)
As at 31 December, including:	646,829	589,098
current portion (line 1690)	25,000	25,000
long-term portion (line 1515)	621,829	564,098

14. Other liabilities (continued)

(li) Performance obligations

Deferred connection fee recognized as liabilities is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
As at 1 January, including:	238,422	238,002
current portion (line 1690)	52,920	55,512
long-term portion (line 1515)	185,502	182,490
Connection fee for the year	91,118	92,148
Revenue recognized (Note 17)	(79,886)	(91,728)
As at 31 December, including:	249,654	238,422
current portion (line 1690)	49,496	52,920
long-term portion (line 1515)	200,158	185,502

Lease liabilities

The carrying amount of lease liabilities and its movement:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
As at 1 January, including:	250,601	213,300
current portion (line 1690)	53,797	43,651
long-term portion (line 1515)	196,804	169,649
Non-cash flow movements		
Additions (Note 6)	34,669	49,367
Accrued interest (Note 24)	49,419	42,482
Cash flow movements		
Interest paid	(49,419)	(42,482)
Monthly payments paid	(19,749)	(12,066)
As at 31 December, including:	265,521	250,601
current portion (line 1690)	63,640	53,797
long-term portion (line 1515)	201,881	196,804

15. Trade and other accounts payable

Trade and other accounts payable are presented as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Accounts payable for services	174,236	159,359
Accounts payable for non-current assets	165,867	129,203
Accounts payable to operators	39,364	30,936
Accounts payable for inventories	34,553	37,052
Other accounts payable	6,797	8,293
Total trade and other accounts payable	420,817	364,843

16. Current provisions

Current provisions are presented as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Unused vacations	148,872	131,596
Accrued bonuses	140,504	152,475
Other provisions	1,198	3,412
Total current provisions	290,574	287,483

17. Revenue

Revenue analysis by principle revenue streams:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Revenue from contracts with customers		
Internet services	2,052,851	1,930,727
Local calls and subscription-based fees	1,677,550	2,000,423
Traffic-based fees for local calls to mobile and domestic long-distance calls	456,856	510,952
Services to foreign operators	243,250	282,551
Income from mobile communications segments	132,874	54,809
Fees for use of lines and channels, incoming calls and transit of telephone traffic	131,032	140,266
Revenue from fixed line radio points	100,670	119,927
Fees for use of cable ducts	85,974	89,899
Connection fee (Note 14)	79,886	91,728
International traffic	43,852	64,862
Revenue from sale of goods	2,807	2,398
Other revenue	43,743	50,502
Total revenue from contracts with customers	5,051,345	5,339,044
Other revenue		
Revenue from operating leases of assets	480,060	422,539
Total other revenue	480,060	422,539
Total net revenue	5,531,405	5,761,583

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

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

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

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

17. Revenue (continued)

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

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

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

18. Cost of sales

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Salaries and related charges	1,479,676	1,510,296
Utilities	494,113	608,518
Depreciation of property, plant and equipment (Note 6)	462,406	612,847
Maintenance and repairs	275,451	320,584
Materials	189,150	227,757
Services provided by foreign operators	171,680	169,160
Fees for use of lines and channels, incoming calls and transit of telephone traffic	145,362	149,587
Amortisation of intangible assets	98,681	76,211
Land tax	83,360	106,615
Amortization of contract assets (Note 8)	68,852	37,536
Contract assets disposed on customers termination	41,940	32,285
Rent expenses	31,893	100,511
Amortization of right-of-use assets	9,742	26,853
Other	182,058	308,247
Total cost of sales	3,734,364	4,287,007

19. Administrative expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Salaries and related charges	599,854	601,680
Rent expenses	97,891	105,115
Property tax	36,541	6,186
Land and other taxes	38,837	64,955
Utilities	34,380	22,465
Materials	25,388	24,378
Maintenance and repairs	17,360	18,331
Professional fees	14,099	18,674
Cleaning services	13,296	15,503
Depreciation of property, plant and equipment (Note 6)	13,050	14,439
Telecommunication services	7,483	2,394
Insurance	6,270	6,158
Bank commissions and charges	3,845	1,666
Other	25,048	33,000
Total administrative expenses	933,342	934,944

20. Selling expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Salaries and related charges	274,852	271,900
Advertising and printing services	43,008	56,577
Bank commissions and charges	16,750	19,620
Delivery of bills	10,913	14,799
Utilities	6,349	9,180
Depreciation of property, plant and equipment (Note 6)	5,392	3,524
Commission fee	4,399	4,480
Materials	4,097	5,307
Maintenance and repairs	1,496	687
Amortisation of intangible assets	149	664
Other	6,935	9,266
Total selling expenses	374,340	396,004

21. Other operating expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Employee expenses under collective agreement	28,244	33,737
Allowance for expected credit losses	12,087	(9,041)
Depreciation of property, plant and equipment (Note 6)	6,461	3,052
Cost of stolen copper cable	3,314	13,187
Fines and penalties	1,739	3,284
Foreign exchange loss	-	32,698
Other	60,867	75,115
Total other operating expenses	112,712	152,032

Employee expenses under collective agreement contain UAH 26,918 thousand under the termination of employment contracts during the year ended 31 December 2020 (31 December 2019: UAH 14,212 thousand).

22. Other operating income

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Revenue from sale of assets	616,609	424,848
Foreign exchange gain	39,322	-
Fines and penalties	8,438	10,989
Gain on inventory surpluses	6,349	6,087
Gain on payables write-off	1,326	4,126
Other	16,306	26,163
Total other operating income	688,350	472,213

In 2020 and 2019, gain on assets disposal was mainly represented by the sale of dismantled copper cables and telephone exchanges. Copper cables sold in 2020 and 2019 were dismantled in the course of the ongoing process of network optimisation and subscribers reconnection to another cables with spare capacity. Prior to dismantling, these copper cables were considered to be of specialised nature and valued within a single CGU with other specialised assets of the Group using depreciated replacement cost approach subjected to economic obsolescence test using discounted cash flow technique.

23. Finance costs

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Interest expense on loans and borrowings	316,438	294,319
Net foreign exchange loss	181,780	-
Interest cost on post-employment long-term employee benefit-obligations (Note 12)	28,954	29,830
Accrual of interest on lease liabilities (Note 14)	49,419	42,482
Interest cost on other long-term employee benefit obligations	299	404
Other finance costs	33	990
Total finance costs	576,923	368,025

24. Finance income

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Interest income	12,430	25,655
Effect from restructuring the obligation to the bank	-	253,800
Other foreign exchange gain	-	135,787
Unwinding of discount on current financial investments	-	1,331
Other finance income	322	337
Total finance income	12,752	416,910

25. Other income

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Income from revaluation of property and equipment	1,234,331	-
Gain on the decrease in expected credit losses on accounts receivable due from the parent company	426,261	-
Revaluation of properties	419,197	-
Revaluation of investment certificates	6,247	-
Other revenue	34,807	18,016
Total other income	2,120,843	18,016

26. Other expenses

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Impairment of property, plant and equipment and investment properties	-	1,429,543
Loss from change in fair value of the bond issued by Parent	-	45,984
Lifetime expected credit losses on amounts due from Parent	-	43,124
Other	-	125
Total other expenses	-	1,518,776

27. Income tax

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019 (restated)
Deferred income tax (expense)/ benefit	(251,170)	220,589
Current income tax expense	(166,692)	(107,534)
Income tax (expense)/benefit	(417,862)	113,055

27. Income tax expense (continued)

Reconciliation of effective tax rate:

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019 (restated)
Profit before tax	2,621,669	(988,066)
Income tax (expense)/benefit at effective rate 18%	(471,900)	177,852
Effect on income tax of:		
Net impact of non-taxable income/ (non-deductible expenses)	(1,684)	(15,339)
Reassessment of temporary tax differences	55,722	(49,458)
Income tax (expense)/benefit	(417,862)	113,055

Differences between IFRS and Ukrainian taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences has been determined based on management's estimate of when these differences will be charged or credited in the Group's tax filings using 18% rate.

The movements in recognised temporary differences during the year ended 31 December 2020 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	1 January 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2020
Property, plant and equipment and investment property	(67,274)	(222,872)	(202,028)	(492,174)
Intangible assets	(211)	(4,861)	-	(5,072)
Accounts receivable	76,148	(22,166)	-	53,982
Cash and financial assets	101	48	-	149
State retirement pension plan obligations	43,854	(1,319)	5,080	47,615
Deferred tax asset/(liability)	52,618	(251,170)	(196,948)	(395,500)
Unrecognised deferred tax asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	52,618	(251,170)	(196,948)	(395,500)

The movements in recognised temporary differences during the year ended 31 December 2019 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	1 January 2019 (restated)	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019 (restated)
Property, plant and equipment and investment property	(666,221)	236,684	362,263	(67,274)
Intangible assets	(634)	423	-	(211)
Accounts receivable	91,482	(15,334)	-	76,148
Cash and financial assets	130	(29)	-	101
State retirement pension plan obligations	38,212	(1,155)	6,797	43,854
Deferred tax asset/(liability)	(537,031)	220,589	369,060	52,618
Unrecognised deferred tax asset/(liability)	-	-	-	-
Net deferred tax asset/(liability)	(537,031)	220,589	369,060	52,618

28. Financial risk and capital management

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

Measurement of fair value

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

28. Financial risk and capital management (continued)

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

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The effect of discounting is considered insignificant and was not presented in consolidated financial statements.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The carrying value of all financial assets and liabilities is estimated to not significantly vary from their fair value as at 31 December 2020 and 31 December 2019.

Fair value hierarchy

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

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

Fair value disclosures made for the Group's financial and non-financial assets and liabilities were determined under valuations that fall within Level 3 of the fair value hierarchy, except for specialised property, plant and equipment and some categories of investment properties, which was valued as at 31 December 2020 and 2019 at fair value (less costs of disposal) with the use of unobservable inputs and thus fall within Level 3 hierarchy.

Level 3: Key inputs and assumptions used in the fair value determinations for financial instruments are represented by market interest rates that approximate the Group's effective interest rates at the reporting date. There has been no change in the valuation technique for fair value determination and no transfers between the fair value categories during the years ended 31 December 2020 and 2019 in respect of financial assets. Fair values of financial instruments in the Group's balance sheet as at 31 December 2020 and 2019 approximate their carrying value.

Key inputs and assumptions used in the fair value determinations for non-financial assets are represented by market prices for similar assets and prices of recent sales with certain adjustments that are directly or indirectly observable.

Description of inputs used and the sensitivity of fair value measurement to changes in those inputs are disclosed in Note 6, 7 and 11.

28. Financial risk and capital management (continued)

Financial risk management

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

- Credit risk;
- Liquidity risk;
- Market risk.

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

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

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

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

Credit risk

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

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

Trade and other receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, national or international operators or government agencies and according to their aging profile. Management performs credit quality analysis of accounts receivable before they are 90 days overdue and soft-collection of debts by customer care personnel using follow tools: IVR, Viber, reminders about arrears in bills, making phone calls. If the individual customer is not paying for more than 3 months the service is temporary stopped by the Group until the payment is received. After 90 days overdue of accounts receivable the Group contracts external collection services.

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

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

Cash balances

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

As at 31 December 2020, 99.7% of Group's cash is held in 3 Ukrainian banks (31 December 2019: 95.93% in 3 Ukrainian banks) thus doesn't expose the Group to a concentration of credit risk.

28. Financial risk and capital management (continued)

As at 31 December 2020 and 2019, analysis by credit quality of bank balances by Fitch/Moody's credit rating system is as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	31 December 2020	31 December 2019
Bank balances		
B2	725,309	190,931
B3	15,053	190,198
Non-rated	80	15,214
Total Bank balances	740,442	396,343
Allowance for expected credit losses	(877)	(555)
Total Bank balances net of impairment	739,565	395,788

Liquidity risk

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

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

The contractual maturities of the Group's non-derivative financial liabilities including future interest payments as at 31 December 2020 are as follows:

<i>(in thousands of Ukrainian hryvnias)</i>	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years
Borrowings							
Bank loans	1,562,316	1,574,434	-	-	215,391	664,869	694,174
Supplier credits	64,563	65,089	-	-	-	3,014	62,075
Interest payable	19,450	1,053,748	10,722	21,614	156,081	163,451	701,880
Total borrowings	1,646,329	2,693,271	10,722	21,614	371,472	831,334	1,458,129
Trade and other accounts payable	420,817	420,817	420,817	-	-	-	-
Other current liabilities	40,798	43,961	21,044	4,167	18,750	-	-
Other long-term financial liabilities	621,829	786,820	-	-	-	40,000	746,820
Lease liabilities	265,521	440,003	5,542	11,034	48,379	64,290	310,758
Total	2,995,294	4,384,871	458,124	36,815	438,601	935,624	2,515,707

28. Financial risk and capital management (continued)

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

(in thousands of Ukrainian hryvnias)	Carrying amount	Contractual cash flows	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 2 years	More than 2 years
Borrowings							
Bank loans	1,626,107	1,668,655	-	17,500	972,233	188,988	489,934
Bonds issued	150	150	-	-	150	-	-
Supplier credits	3,213	3,313	-	-	-	473	2,840
Interest payable	21,972	138,567	10,996	-	49,934	39,097	38,540
Total borrowings	1,651,442	1,810,685	10,996	17,500	1,022,317	228,558	531,314
Trade and other accounts payable	364,843	364,843	364,843	-	-	-	-
Other current liabilities	43,960	59,224	21,194	6,905	31,125	-	-
Other long-term financial liabilities	564,098	1,381,282	-	-	-	107,472	1,273,810
Lease commitments	250,601	524,156	5,939	11,879	53,139	67,054	386,145
Total	2,874,944	4,140,190	402,972	36,284	1,106,581	403,084	2,191,269

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:

(in thousands of Ukrainian hryvnias)	USD-denominated		Euro-denominated	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Trade accounts receivable	23,117	25,176	10,861	13,493
Cash and cash equivalents	78,898	77,044	173,391	100,928
Current portion of long-term loans and borrowings	(222,661)	(188,243)	(1,159)	(307)
Long-term loans and borrowings	(421,323)	(542,126)	(350,871)	(114,285)
Short-term loans and borrowings	-	-	(12,209)	-
Trade accounts payable	(11,593)	(4,412)	9,589	(19,781)
Net long (short) position	(553,562)	(632,561)	(170,398)	(19,952)

A 10 percent weakening of the Ukrainian hryvnia against the following currencies at 31 December would have increase net losses and decreased equity by the amounts shown below. This analysis assumes that all other variables, in particular, interest rates, remain constant.

(in thousands of Ukrainian hryvnias)	31 December 2020	31 December 2019
USD	(45,392)	(51,870)
EUR	(13,973)	(1,636)

A 10 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.

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.

28. Financial risk and capital management (continued)

Interest rate risk

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

As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-term borrowings. As at 31 December 2020, 21.38% of the total borrowings was provided to the Group at floating interest rates (31 December 2019: 6.94%).

Effective interest rates of financial instruments are disclosed in Note 14. The revision of the interest rate both for instruments with a fixed interest rate and for instruments with a floating interest rate occurs at maturity.

As the Group normally has no significant interest bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk arises from long-term and short-term borrowings. As at 31 December 2020, 60.53% of the total borrowings was provided to the Group at floating rates (31 December 2019: 6.94%).

Effective interest rates of financial instruments are disclosed in Note 13. The revision of the interest rate both for instruments with a fixed interest rate and for instruments with a floating interest rate occurs at maturity.

A change of 100 basis points in interest rates would have changed net loss and equity by UAH 9,924 thousand (31 December 2019: UAH 1,143 thousand) as a result of higher/lower net interest expense on variable rate financial assets and liabilities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Other market price risk

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

Master netting or similar agreements

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

Capital management

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

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

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

As at 31 December 2020, net assets of the Group in amount of UAH 10,144,139 thousand (31 December 2019: UAH 6,954,282 thousand) exceed the Group's registered share capital of UAH 4,681,562 thousand (31 December 2019: UAH 4,681,562 thousand), as indicated in the Charter.

29. Commitments

Capital commitments

As at 31 December 2020, the Group has commitments in respect of contracts for purchase of property, plant and equipment in amount of UAH 22,005 thousand (31 December 2019: UAH 156,004 thousand) and in respect of software and other intangible assets in amount of UAH 22,015 thousand (31 December 2019: UAH 20,968 thousand).

Lease commitments

As at 31 December 2020, the Group liabilities related to the lease of technical premises and infrastructure facilities not recognized as the ROU asset following IFRS 16 amounted to UAH 31,893 thousand (31 December 2019: UAH 100,511 thousand), as well as liabilities for minimum payments for the lease of land in the amount of UAH 108,877 thousand (31 December 2019: 87,830 thousand).

30. Contingencies

Insurance

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

Land use

As at 31 December 2020, part of land plots, utilised by the Group in operating activities under equipment and real estate, was used by the Group without updated full package of legally formalised documents including cadastral numbers, but at the same time the Group pays all legally required tax payments related to abovementioned land plots according to legislation.

The Group on regular and continuing basis aligns land relations in accordance with recent regulatory requirements and laws. According to the operational plan, during 2020 the Group partially performed and will continue to perform update of entitlement documents in order to align with requirements of current land legislation.

Taxation contingencies

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

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

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant. As at 31 December 2020 and 2019 no provision attributable to taxation contingencies was created by the Group.

Transfer pricing

Given the complexity of the telecommunication business and that the practice of implementation of the new transfer pricing rules is still not developed in Ukraine, the impact of any challenge of Company's transfer prices cannot be measured reliably. Inconsistencies in the application and interpretation of transfer pricing rules may ultimately lead to litigation between the Company and the tax authorities, the results of which are unpredictable and, as a result, may have a material impact on the Company financial position and/or operations as a whole, depending on how authorities will like to apply the TP rules.

The Group executes certain transactions that are subject to control according to the transfer pricing legislation in Ukraine, in particular, during 2017-2020 the Group was involved in the controlled transactions in respect of international traffic termination and consulting services. Prices for such transactions are set according to market principles. The management takes all necessary steps to ensure continued compliance with transfer pricing legislation. Specific control procedures were implemented within the Group to identify, challenge and support controlled transactions, and as such ensure compliance with transfer pricing legislation.

31. Balances and related party transactions

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

Parent and ultimate controlling party

As at 31 December 2020 and 2019, the Group's immediate parent company is LLC "ESU".

Starting from 30 September 2013, the Group's ultimate parent company is JSC "SCM" and ultimate controlling party is Ukrainian individual Mr. Rinat Akhmetov, who has the power to govern the transactions of the Group at his own discretion and for his own benefit. Prior to that date the Group's ultimate parent company and ultimate controlling party was Austrian company Epic. Publicly available financial statements are not produced by JSC "SCM".

Transactions with management

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

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Short-term employee benefits	83,388	82,733
	83,388	82,733

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

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

Balances and transactions with the immediate shareholder

The terms of the interest-free loan are disclosed in Note 10.

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Balances		
Interest bearing bonds issued by the parent (Note 10)	619,252	399,285
Interest-free loans and other receivables from the parent (Note 10)	580,763	374,469

The amounts owed by parent are overdue and payable on demand. The allowance for expected credit losses on the receivables due from the parent was UAH 391,613 thousand as at 31 December 2020 (2019: UAH 597,908 thousand). Cumulative loss on change in fair value of the bonds issued by the parent was UAH 417,568 thousand as at 31 December 2020 (2019: UAH 637,534 thousand).

31. Balances and related party transactions (continued)

Transactions with subsidiaries/associates of the ultimate parent company

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

<i>(in thousands of Ukrainian hryvnias)</i>	2020	2019
Balances		
Trade accounts receivable	10,530	9,319
Advances paid	6,792	36,693
Trade accounts payable	(10,967)	(15,608)
Other current liabilities	(6,600)	(6,696)
Transactions		
Sales of equipment and services	90,594	97,820
Interest income	7,296	1,110
Purchases of equipment and services	(410,504)	(455,808)

As at 31 December 2020 and 2019 none of the balances with related parties are secured.

As at 31 December 2020, property with a carrying amount of UAH 292,669 thousand is pledged in favour of one of the companies under control of the ultimate parent company (31 December 2019: UAH 266,343 thousand).

32. Subsequent events

Loans and borrowings

During January-March 2021, the Group received additional tranches under existing loan agreements for an investment project totalling EUR 688 thousand; the Group made early repayment of the debt, including interest, and other contractual payments to Joint Stock Company "State Savings Bank of Ukraine" under the restructuring agreement dated 2 December 2019 (Note 14); the Group also paid UAH 120,000 thousand to a Ukrainian bank under the existing loan agreement.

The Group entered into a new credit line agreement with a limit of UAH 425,000 thousand with a Ukrainian bank and received full financing under the agreement.

Director
Kurmaz Y.P.

Finance Director
Kotsyumbas L.Y.

Chief Accountant
D.I. Skliarevska

20 / 04 / 2021

