

Private Joint Stock Company Kyivstar

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

31 December 2017

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Independent Auditor's Report

To the Shareholders and Management Board of Private Joint Stock Company Kyivstar

Report on the audit of the financial statements

Our opinion

In our opinion, financial statements present fairly, in all material respects, the financial position of PrJSC Kyivstar (the “Company”) as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (the “IFRS”).

What we have audited

The Company’s financial statements comprise:

- the balance sheet (the statement of financial position, form #1) as at 31 December 2017;
 - the statement of financial results (the statement of comprehensive income, form #2) for the year then ended;
 - the statement of cash flows (form #3) for the year then ended;
 - the statement of shareholders' equity (form #4) for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.
-

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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.

1 March 2018

Originally has been signed by Yulia Victorivna Paranich
General Director

Yulia Victorivna Paranich
Audit certificate № 007266
Issued on 28 May 2015

LLC Audit Firm
“PricewaterhouseCoopers (Audit)”

Certificate of Registration
as an Auditing Entity No 0152
Issued on 26 January 2001
Extended to 30 July 2020

Certificate of Registration as an Auditing Entity or Auditor
Eligible to Conduct Audits of Financial Institutions No 0132
Issued on 27 March 2014 and extended to 30 July 2020

Certificate of Registration as an Auditing Entity
Eligible to Conduct Audits of Professional Participants
of Securities Exchange Market No 0152
Issued on 20 August 2014 and extended to 30 July 2020

Private Joint Stock Company Kyivstar
Statement of Financial Position
(in thousands of Hryvnia)

Appendix 1
to National Regulation (Standard) of Accounting 1,
General Requirements for Financial Reporting

Company Private Joint Stock Company "Kyivstar"

Territory Kyiv, Shevchenkivskiyi district

Organisational and legal form of economic activity Joint Stock Company

Type of economic activity Activities in the field of wireless telecommunications

Average number of employees¹ 2486

Address, telephone 03113, Kyiv, Degtyarivska street, 53, tel.: 247-39-49

Measurement unit: thousands of Hryvnia, no decimal point (except for Section IV of the Statement of Financial Results (Statement of Comprehensive Income) (Form 2) where amounts are stated in Ukrainian hryvnias with kopecs)

Prepared (tick the necessary box):

according to National Regulations (Standards) of Accounting in Ukraine

according to International Financial Reporting Standards

Date (year, month, date)

EDRPOU

KOATUU

KOPFG

KVED

Codes		
2018	01	01
21673832		
8038900000		
230		
61.20		

X

Balance Sheet (Statement of Financial Position)

as at 31 December 2017

Form 1

DKUD code

1801001

ASSETS	Line code	Notes	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4	5
I. Non-current assets				
Intangible assets	1000	9	4,039,746	4,090,031
historical cost	1001		8,077,619	8,767,064
amortisation	1002		(4,037,873)	(4,677,033)
Construction-in-progress	1005	10	1,015,330	725,705
Property, plant and equipment	1010	8	6,128,482	7,148,400
historical cost	1011		19,436,451	19,738,899
depreciation	1012		(13,307,969)	(12,590,499)
Investment property	1015		-	-
Long-term biological assets	1020		-	-
Long-term financial investments:				
accounted for according to the equity method	1030		-	-
other financial investments	1035	11	122,167	156,167
Long-term accounts receivable	1040		-	-
Deferred tax assets	1045	29	302,310	286,183
Other non-current assets	1090	12	684,930	413,248
Total Section I	1095		12,292,965	12,819,734

Private Joint Stock Company Kyivstar
Statement of Financial Position
(in thousands of Hryvnia)

ASSETS	Line code	Notes	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4	5
II. Current assets				
Inventories	1100		50,666	49,778
production stock	1101		41,490	37,423
goods for resale	1104		9,176	12,355
Current biological assets	1110		-	-
Accounts receivable for goods, works and services	1125	13	1,357,765	1,183,076
Accounts receivable on settlements:				
on advances issued	1130	13	90,451	81,707
with the budget	1135	13	363,799	1,898
including corporate profit tax prepaid	1136	13, 29	361,466	-
Accounts receivable for settlements on accrued income	1140	13	25,217	89,244
Other current accounts receivable	1155		-	-
Current financial investments	1160		-	-
Cash and cash equivalents	1165	14	3,319,783	5,348,387
Deferred expenses	1170	15	93,676	85,172
Other current assets	1190	16	13,835	2,089,594
Total Section II	1195		5,315,192	8,928,856
III. Non-current assets held for sale and disposal groups				
	1200		10,461	3,223
BALANCE	1300		17,618,618	21,751,813

LIABILITIES	Line code	Notes	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4	5
I. Equity				
Registered (share) capital	1400	17	887,119	887,119
Revaluation reserve	1405		-	-
Additional capital	1410		258,294	258,294
Share premium	1411		102,338	102,338
Reserve capital	1415		132,933	132,933
Retained earnings (accumulated deficit)	1420		11,561,223	16,217,083
Unpaid capital	1425		-	-
Withdrawn capital	1430		(370,398)	(370,398)
Total Section I	1495		12,469,171	17,125,031
II. Long-term liabilities and provisions				
Deferred tax liabilities	1500		-	-
Retirement benefit liabilities	1505		6,060	9,907
Long-term bank borrowings	1510		-	-
Other long-term liabilities	1515	23	152,159	173,298
Long-term provisions	1520	21	57,089	127,650
including employee benefits	1521		23,190	73,149
Special-purpose financing	1525		-	-
Total Section II	1595		215,308	310,855

Private Joint Stock Company Kyivstar
Statement of Financial Position
(in thousands of Hryvnia)

LIABILITIES	Line code	Notes	At the beginning of the reporting period	At the end of the reporting period
1	2	3	4	5
III. Current liabilities and provisions				
Short-term bank borrowings	1600		-	-
Current accounts payable on settlements: for long-term liabilities	1610		-	-
for goods, works, services	1615	18	1,630,107	1,718,027
with the budget	1620	19	159,015	526,604
including liability on corporate profit tax	1621	29	-	300,312
for insurance	1625		-	-
on payroll	1630		370	3,203
on advances received	1635	20	544,440	600,319
with shareholders	1640	17	1,531,735	459,389
Current provisions	1660	21	352,355	155,501
Deferred income	1665	23	417,648	445,215
Other current liabilities	1690	18, 22	298,469	407,669
Total Section III	1695		4,934,139	4,315,927
IV. Liabilities associated with non-current assets held for sale and disposal groups	1700		-	-
BALANCE	1900		17,618,618	21,751,813

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 1 March 2018:

Originally signed by President, Peter Chernyshov

Originally signed by Chief Accountant, Olena Ksenich

The Company's management does not have the power to amend and reissue the financial statements after they are authorised for release.

Private Joint Stock Company Kyivstar
Statement of Comprehensive Income
(in thousands of Hryvnia)

Company Private Joint Stock Company "Kyivstar"
(name)

Date (year, month, date)
EDRPOU

Codes		
2018	01	01
21673832		

Statement of Financial Results (Statement of Comprehensive Income)
for the year ended 31 December 2017

Form 2

DKUD code

1801003

I. Financial results

Item	Line code	Notes	For the reporting period	For the similar period of the prior year
1	2	3	4	5
Net revenue from sales of goods, works and services	2000	24	17,078,988	15,753,027
Cost of sales of goods, works and services	2050	26	(7,372,418)	(8,699,457)
Gross:				
Profit	2090		9,706,570	7,053,570
Loss	2095		-	-
Other operating income	2120	25	458,107	98,584
Administrative expenses	2130	26	(1,922,854)	(1,269,207)
Selling expenses	2150	26	(1,514,947)	(1,316,755)
Other operating expenses	2180	26	(91,627)	(376,785)
Financial results from operating activities:				
Profit	2190		6,635,249	4,189,407
Loss	2195		-	-
Income from participation in equity	2200		-	-
Other financial income	2220	27	718,944	322,404
Other income	2240	28	139,823	26,302
Financial expenses	2250		(4,010)	(18,429)
Losses from participation in equity	2255		-	-
Other expenses	2270	28	(48,552)	(324,708)
Financial results before taxation:				
Profit	2290		7,441,454	4,194,976
Loss	2295		-	-
Income tax expense	2300	29	(1,272,516)	(807,909)
Profit (loss) from discontinued operations after tax	2305		-	-
Net financial result:				
Profit	2350		6,168,938	3,387,067
Loss	2355		-	-

Private Joint Stock Company Kyivstar
Statement of Comprehensive Income
(in thousands of Hryvnia)

II. Comprehensive income

Item	Line code	Notes	For the reporting period	For the similar period of the prior year
1	2	3	4	5
Upward (downward) revaluation of non-current assets	2400		-	-
Upward (downward) revaluation of financial instruments	2405		-	-
Accumulated exchange differences	2410		-	-
Share of other comprehensive income of associates and joint ventures	2415		-	-
Other comprehensive income	2445		-	-
Other comprehensive income before tax	2450		-	-
Income tax arising on other comprehensive income	2455		-	-
Other comprehensive income after tax	2460		-	-
Comprehensive income (total of lines 2350, 2355 and 2460)	2465		6,168,938	3,387,067

III. Elements of operating expenses

Item	Line code	Notes	For the reporting period	For the similar period of the prior year
1	2	3	4	5
Material expenses	2500	26	2,139,190	2,275,894
Payroll	2505	26	990,737	841,395
Social payments	2510	26	152,485	126,932
Depreciation/amortisation	2515	26	2,255,480	3,671,345
Other operating expenses	2520	26	5,363,954	4,746,638
Total	2550		10,901,846	11,662,204

IV. Calculation of shares profitability

Item	Line code	Notes	For the reporting period	For the similar period of the prior year
1	2	3	4	5
Average annual number of ordinary shares	2600		-	-
Average annual number of ordinary shares, adjusted	2605		-	-
Net profit (loss) per share	2610		-	-
Net profit (loss) per share, adjusted	2615		-	-
Dividends per share	2650		-	-

Note: Section IV. Calculation of shares profitability is not completed, as shares of the Company are not sold or purchased on stock exchanges. Detailed information is presented in notes 17 and 33.

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 1 March 2018:

Originally signed by President, Peter Chernyshov

Originally signed by Chief Accountant, Olena Ksenich

The Company's management does not have the power to amend and reissue the financial statements after they are authorised for release.

Private Joint Stock Company Kyivstar
Statement of Cash Flows
(in thousands of Hryvnia)

Company Private Joint Stock Company "Kyivstar"
(name)

Date (year, month, date)
EDRPOU

Codes		
2018	01	01
21673832		

Statement of Cash Flows (indirect method)

for the year ended 31 December 2017

Form 3

DKUD code 1801004

Item	Line code	Notes	For the reporting period	For the similar period of the prior year
1	2	3	4	5
I. Cash flows from operating activities				
Profit (loss) from ordinary activities before taxation	3000		7,441,454	4,194,976
Adjustments for:				
depreciation of non-current assets	3505	26	2,255,480	3,671,345
increase (decrease) in provisions	3510	21	(126,293)	307,319
non-realised foreign exchange differences	3515		(116,312)	(26,947)
loss (income) from other non-operating and non-cash transactions	3520		(95,674)	249,604
Profit (loss) from participation in equity	3521		-	-
Changes in assets measured at fair value and gain (loss) on initial recognition	3522		-	-
Gain (loss) from disposal of non-current assets held for sale and disposal groups	3523		-	-
Gain (loss) from disposal of financial investments	3524		-	-
Impairment (reversal of impairment) of non-current assets	3526		(20,839)	42,237
Financial expenses	3540		4,010	18,429
Decrease (increase) in current assets	3550		(196,860)	(43,752)
Decrease (increase) in inventories	3551		888	(2,315)
Decrease (increase) in accounts receivable for goods, works and services	3553		296,530	(125,638)
Decrease (increase) in other current accounts receivable	3554		(45,819)	127
Decrease (increase) in deferred expenses	3556		8,504	(23,629)
Decrease (increase) in other current assets	3557		(1,655,859)	(13,835)
Increase (decrease) in current liabilities	3560		55,579	357,546
Increase (decrease) in current accounts payable for goods, works and services	3561		(22,713)	(194,057)
Increase (decrease) in current accounts payable for settlements with the budget	3562		67,277	(99,941)
Increase (decrease) in current accounts payable for settlements on insurance	3563		-	-
Increase (decrease) in current accounts payable for settlements on payroll	3564		27,820	57
Increase (decrease) in deferred income	3566		27,567	(273,115)
Increase (decrease) in other current liabilities	3567		4,792	12,875
Cash flows from operating activities	3570		7,909,532	8,051,286
Income tax paid	3580		(593,187)	(296,880)
Interest paid	3585		(4,010)	-
Cash flows from operating activities, net	3195		7,312,335	7,754,406

Private Joint Stock Company Kyivstar
Statement of Cash Flows
(in thousands of Hryvnia)

Item	Line code	Notes	For the reporting period	For the similar period of the prior year
1	2	3	4	5
II. Cash flows from investing activities				
Receipts from sale of: financial investments	3200		-	-
non-current assets	3205		115,254	21,772
Receipts from: interest received	3215		141,576	-
dividends received	3220		-	-
Receipts from derivatives	3225		-	-
Other receipts	3250		390	-
Purchases of: financial investments	3255		-	(54,000)
non-current assets	3260		(2,866,273)	(2,779,858)
Payments on derivatives	3270		-	-
Expenditure for loan issue	3275		(102,400)	(317,500)
Other payments	3290		-	-
Cash flows from investing activities, net	3295		(2,711,453)	(3,129,586)
III. Cash flows from financing activities				
Receipts from: Equity	3300		-	-
Loans received	3305		-	-
Other receipts	3340		-	-
Expenditure for: Repurchase of own shares	3345		-	-
Loans repayment	3350		-	(2,449,156)
Payment of dividends	3355		(2,572,278)	(518,162)
Interest paid			-	-
Other payments	3390		-	-
Cash flows from financing activities, net	3395		(2,572,278)	(2,967,318)
Cash flows for the reporting period, net	3400		2,028,604	1,657,502
Cash at the beginning of the year	3405		3,319,783	1,662,281
Effect of exchange rates on cash balances	3410			-
Cash at the end of the year	3415		5,348,387	3,319,783

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 1 March 2018:

Originally signed by President, Peter Chernyshov

Originally signed by Chief Accountant, Olena Ksenich

The Company's management does not have the power to amend and reissue the financial statements after they are authorised for release.

Private Joint Stock Company Kyivstar
Statement of Shareholders' Equity
(in thousands of Hryvnia)

Company Private Joint Stock Company "Kyivstar"
(name)

Date (year, month, date)
EDRPOU

Codes		
2018	01	01
21673832		

Statement of Shareholders' Equity
for the year ended 31 December 2017
Form 4

DKUD code

1801005

Item	Line code	Registered (share) capital	Revaluation reserve	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Withdrawn capital	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	887,119	-	258,294	132,933	11,561,223	-	(370,398)	12,469,171
Adjustments:									
Change in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-
Balance at the beginning of the year, adjusted	4095	887,119	-	258,294	132,933	11,561,223	-	(370,398)	12,469,171
Net profit (loss) for the reporting period	4100	-	-	-	-	6,168,938	-	-	6,168,938
Other comprehensive income for the reporting period	4110	-	-	-	-	-	-	-	-
Profit distribution:									
Payments to the owners (dividends)	4200	-	-	-	-	(1,499,931)	-	-	(1,499,931)
Allocation to the registered capital	4205	-	-	-	-	-	-	-	-

Private Joint Stock Company Kyivstar
Statement of Shareholders' Equity
(in thousands of Hryvnia)

Item	Line code	Registered (share) capital	Revaluation reserve	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Withdrawn capital	Total
1	2	3	4	5	6	7	8	9	10
Allocation to the reserve capital	4210	-	-	-	-	-	-	-	-
Contributions by owners:									
Capital contributions	4240	-	-	-	-	-	-	-	-
Repayment of unpaid capital	4245	-	-	-	-	-	-	-	-
Withdrawal of capital:									
Repurchase of shares	4260	-	-	-	-	-	-	-	-
Sale of treasury shares	4265	-	-	-	-	-	-	-	-
Cancellation of treasury shares	4270	-	-	-	-	-	-	-	-
Withdrawal of the share in equity	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	(13,147)	-	-	(13,147)
Changes in equity, total	4295	-	-	-	-	4,655,860	-	-	4,655,860
Balance at the end of the year	4300	887,119	-	258,294	132,933	16,217,083	-	(370,398)	17,125,031

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 1 March 2018:

Originally signed by President, Peter Chernyshov
Originally signed by Chief Accountant, Olena Ksenich

The Company's management does not have the power to amend and reissue the financial statements after they are authorised for release.

Private Joint Stock Company Kyivstar
Statement of Shareholders' Equity
(in thousands of Hryvnia)

Statement of Shareholders' Equity
for the year ended 31 December 2016

Item	Line code	Registered (share) capital	Revaluation reserve	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Withdrawn capital	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	887,119	-	258,294	132,933	9,756,254	-	(370,398)	10,664,202
Adjustments:									
Change in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-
Balance at the beginning of the year, adjusted	4095	887,119	-	258,294	132,933	9,756,254	-	(370,398)	10,664,202
Net profit (loss) for the reporting period	4100	-	-	-	-	3,387,067	-	-	3,387,067
Other comprehensive income for the reporting period	4110	-	-	-	-	-	-	-	-
Profit distribution:									
Payments to the owners (dividends)	4200	-	-	-	-	(1,499,931)	-	-	(1,499,931)
Allocation to the registered capital	4205	-	-	-	-	-	-	-	-
Allocation to the reserve capital	4210	-	-	-	-	-	-	-	-
Contributions by owners:									
Capital contributions	4240	-	-	-	-	-	-	-	-
Repayment of unpaid capital	4245	-	-	-	-	-	-	-	-
Withdrawal of capital:									
Repurchase of shares	4260	-	-	-	-	-	-	-	-
Sale of treasury shares	4265	-	-	-	-	-	-	-	-
Cancellation of treasury shares	4270	-	-	-	-	-	-	-	-
Withdrawal of the share in equity	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	(82,167)	-	-	(82,167)
Changes in equity, total	4295	-	-	-	-	1,804,969	-	-	1,804,969
Balance at the end of the year	4300	887,119	-	258,294	132,933	11,561,223	-	(370,398)	12,469,171

1. Corporate information

Private Joint Stock Company Kyivstar (hereinafter referred to as “Kyivstar” or the “Company”) was established and registered on 3 September 1997 under the laws of Ukraine. The Company is involved in the design, construction and operating of a dedicated cellular telecommunication network and provides a wide range of mobile communication and home internet services in Ukraine.

The Company’s registered legal address is at 53, Degtyarivska St., Kyiv, 03113, Ukraine. The Company’s head office is located at the registered legal address and the principal place of the Company’s business is its registered legal address.

The Company has Main office in Kiev and office in Lviv.

As at 31 December 2017 and 2016 the Company’s direct shareholders and their respective declared interests were as follows:

	Interest	Number of shares
VEON Holdings B.V. (Netherlands)	73.804%	13,094,562
VEON Ltd. (Bermuda)	0.004%	700
Treasury shares	26.192%	4,647,127
	100.000%	17,742,389

As at 31 December 2017 and 31 December 2016, the Company had two wholly owned subsidiaries – Subsidiary Company “Staravto” and Limited Liability Company “StarMoney”.

The Company’s ultimate parent is VEON Ltd., a company headquartered in Amsterdam, the Netherlands.

2. Operating environment, risks, political and economic conditions in Ukraine

The ongoing political and economic instability in Ukraine which commenced at the end of 2013 and led to a deterioration of State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and depreciation of the national currency against major foreign currencies has continued in both 2016 and 2017, though to a much lesser extent as compared to 2014 and 2015.

The banking system remains fragile due to its weak level of capital, low asset quality caused by the economic situation, currency depreciation, changing regulations and other factors. Currency control restrictions were introduced in 2014-15 and remain in force, though less severe as compared to 2014-2015.

The relationships between Ukraine and the Russian Federation have remained strained. On 1 January 2016, the agreement on the free trade area between Ukraine and the EU came into force. Just after that, the Russian government implemented a trading embargo on many key Ukrainian export products. In response, the Ukrainian government implemented similar measures against Russian products.

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

Despite certain improvements in 2016 and 2017, the final resolution and the ongoing effects of the political and economic situation are difficult to predict, but they may have further severe effects on the Ukrainian economy and the Company’s business.

3. Basis of preparation

The financial statements of the Company have been prepared on a historical cost basis, except for certain financial instruments measured in accordance with the requirements of IAS 39 Financial Instruments: Recognition and Measurement and assets held for sale measured at fair value less costs of disposal.

These financial statements are presented in UAH and all values are rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

4. New or revised standards and interpretations

(i) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- ▶ *Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).*
- ▶ *Recognition of Deferred Tax Assets for Unrealised Losses – Amendment to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).*
- ▶ *Amendments to IFRS 12 included in Annual Improvements to IFRSs 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017).*

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(ii) New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Company has not early adopted.

IFRS 9 “Financial Instruments” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

4. New or revised standards and interpretations (continued)

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 and on the basis of the facts and circumstances that exist at that date, the management of the Company is expecting a non-significant impact on its financial statements from the adoption of the new standard on 1 January 2018.

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Effect				Carrying value per IFRS 9 (opening balance at 1 January 2018)
	IAS 39	IFRS 9		Remeasurement ECL	Other	Reclassification Mandatory	Reclassification Voluntary	
<i>In thousands of Hryvnia</i>								
Cash and cash equivalents	L&R	AC	5,348,387	-	-	-	-	5,348,387
Accounts receivable and other current assets	L&R	AC	1,593,267	(4,823)	-	-	-	1,588,444
Other financial assets	L&R	AC	1,768,646	-	-	-	-	1,768,646
Total financial assets			8,710,300	(4,823)	-	-	-	8,705,477

No significant changes are expected for financial liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

In accordance with the transition provisions in IFRS 15 the Company has elected simplified transition method with the effect of transition to be recognised as at 1 January 2018 in the financial statements for the year-ending 31 December 2018 which will be the first year when the Company will apply IFRS 15.

The adoption of IFRS 15 will result in changes in accounting policies and adjustments to be recognised in the financial statements. Based on the analysis of the Company's revenue streams for the year ended 31 December 2017, individual contracts' terms and on the basis of the facts and circumstances that exist at that date, in view of simplified transition method application, the management of the Company is expecting a significant impact on its financial statements from the adoption of the new standard on 1 January 2018.

The main changes expected from adoption of IFRS 15 are explained below:

- Accounting for costs to obtain a contract,
- Presentation of contract assets and contract liabilities

4. New or revised standards and interpretations (continued)

In summary, management expects the following adjustments to be made to the amounts that will be recognised in the statement of financial position as at 1 January 2018 which is the date of initial application of IFRS 15 by the Company in the financial statements for the year ending 31 December 2018.

<i>In thousands of Hryvnia</i>	Notes	IAS 18 carrying amount at 31 December 2017	Reclassification	Remeasurements	IFRS 15 carrying amount at 1 January 2018	Retained earnings effect at 1 January 2018
Contract assets		-	190,666	709,940	900,606	709,940
Contract liabilities		-	(618,513)	-	(618,513)	-
Deferred revenue	23	(618,513)	618,513	-	-	-
Deferred expenses	15	190,666	(190,666)	-	-	-
Deferred tax assets	29	286,183	-	(127,789)	158,394	(127,789)

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company is currently assessing the impact of the new standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

This interpretation considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or received consideration in advance for foreign currency-denominated contracts. The interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Company is currently assessing the impact of the interpretation on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

4. New or revised standards and interpretations (continued)

An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Company is currently assessing the impact of the interpretation on its financial statements.

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

- ▶ *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).*
- ▶ *Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).*
- ▶ *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).*
- ▶ *Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).*
- ▶ *Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).*
- ▶ *Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).*
- ▶ *Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).*

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

5. Summary of significant accounting policies

Functional and presentation currencies

The functional and presentation currency of the Company is Ukrainian Hryvnia, the currency of the primary economic environment in which the Company operates.

Foreign currency translation

Monetary assets and liabilities are translated into the functional currency of the Company at the official exchange rate of the National Bank of Ukraine ("NBU") at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Company's functional currency at the end of the reporting period at the official exchange rates of the NBU are recognised in profit or loss for the year as foreign currency translation gains less losses. Translation at period-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2017, the principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2017, UAH	31 December 2016, UAH
1 US dollar (USD)	28.067	27.191
1 Euro (EUR)	33.495	28.423

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary items at exchange rates different from those used to translate monetary items upon initial recognition during the current or prior reporting periods are recognised in profit or loss as originated, except for foreign exchange differences recognised in comprehensive income.

Foreign exchange gains and losses resulting from the translation of monetary items (other than cash and cash equivalents) in a foreign currency at the end of the reporting period are shown in unrealised foreign exchange differences. Upon settlement of the monetary items (cash payments or receipts), all previously accumulated unrealised foreign exchange differences arising during the period from initial recognition to the settlement of the monetary item are recorded as realised foreign exchange differences. Foreign exchange gains and losses resulting from the translation of cash and cash equivalents in a foreign currency are always shown in realised foreign exchange differences.

Foreign exchange gains and losses resulting from the translation of monetary items related to investing and financing activities are shown in non-operating foreign exchange differences. These include amounts payable on loan agreements, deposits with the contractual maturity in excess of three months, accounts payable (receivable) on property, plant and equipment and intangible assets, loans issued to employees etc.

Foreign exchange gains and losses resulting from the translation of monetary items other than those related to investing and financing activities are included in operating foreign exchange differences.

Revenue recognition and measurement

The Company recognises revenue when the amount of revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Company. Revenues are measured at the fair value of the consideration received or receivable.

Revenues primarily comprise provision (sales) of:

- ▶ *services*: revenue from air time charges, interconnection fees, periodic fees, connection and one-time subscription fees, FTTB internet, fixed lines revenues, roaming and value added services;
- ▶ *customer equipment*: telephone handsets, modems, etc.

Air time charges

The Company earns air time revenue by providing its pre-paid and post-paid subscribers with access to the cellular network and routing their calls through its network and networks of its roaming partners.

Interconnection

Revenue from interconnection represents the revenue earned for the termination of calls from other telecommunication services providers' networks on the Company's network.

Air time and interconnection revenue is recognised in the period when the respective service is rendered.

Periodic fees

Periodic fees include fees for subscription to new tariff plans and fees for supplementary subscriptions used by subscribers in particular period, such as periodic fees for subscription to voicemail, itemised invoice etc. Periodic fees also include fees for transfer of money between subscribers' balances, extra money services and write-offs of unused advances of disconnected subscribers etc. Periodic fees are recognised in the period when the respective service is rendered.

5. Summary of significant accounting policies (continued)

Revenue recognition and measurement (continued)

Connection and one-time subscription fees

Connection fees are paid by pre-paid subscribers for the first time activation of network service. Revenues from connection are deferred and recognised over the period when the fees are earned, which is the expected period of customer relationship and approximates 59 months for pre-paid subscribers (2016: 51 months). The expected period of customer relationship is based on the past history of churn and expected development of the Company.

One-time subscription fees mainly consist of one-time fees for various supplementary subscriptions and also include fees for change of subscription type and transfer of subscriptions from one location to another. One-time subscription fees are deferred and recognised over the period when the fees are earned, which is the subscription validity period or, in case of unlimited validity period, the expected period of customer relationship, which approximates 108 months for contract subscribers, 59 months for pre-paid subscribers and 40 months for fixed line subscribers (2016: 87 months, 51 months and 109 months, respectively).

FTTB internet

Revenue from FTTB services represents fixed monthly charges for the internet access provided to the Company's subscribers. Such revenue is recognised in the period when the respective service is rendered to subscribers.

Fixed lines

Revenue from fixed lines services represents monthly charges to the Company's subscribers for access to the fixed telephone lines network and for routing the subscribers' calls through this network. Such revenue is recognised in the period when the respective service is rendered to subscribers.

Roaming and access to network

Roaming revenues and revenues from access to network include (i) charges for services provided to the Company's subscribers in the networks of its roaming partners, (ii) charges for services provided by the Company in its network to subscribers of the Company's roaming partners and (iii) charges for access to the Company's network by the foreign operators without termination of calls. Such revenues are recognised in the period when the respective services are rendered.

Value added services

Revenues from value added services include charges for outgoing SMS and MMS, circuit of switched data, packet switched data (WAP, GPRS, EDGE etc.) and content. Revenues from charges for data transmission services are recognised in the period when the respective services are rendered.

Customer equipment sales

Revenues from sales of customer equipment are recognised when the related significant risks and rewards are transferred to the buyer.

Discounts to roaming partners

Discounts are often provided in the form of cash payments calculated based on the terms of the agreement with roaming partner and billing data on the roaming traffic for the period. Discounts are recognized in the period when the discount is earned as a reduction of revenue of corresponding period.

Presentation

Where the Company's role in a transaction is a principal, revenue is recognised on a gross basis. In this case revenue comprises the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost. Where the Company's role in a transaction is that of an agent, revenue is recognised on a net basis and represents the margin earned. The evaluation of whether the Company is acting as principal or an agent is based on the analysis of the substance of transaction, the responsibility for providing the goods or services and setting prices, as well as the underlying financial risks and rewards.

Interest income

Interest income is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash flows through the expected life of financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Interest income on current bank accounts and on demand deposits or term deposits with the maturity less than three months classified as cash and cash equivalents is recognised in the operating cash flows. Interest income on term deposits other than those classified as cash and cash equivalents is recognised in the investing cash flows.

Deferred revenue

Service revenue is recognised on the basis of actual services usage by the end customer. Revenue is recognised as deferred revenue until the related services have been provided to the subscribers, sold pre-paid card or start packages has expired.

5. Summary of significant accounting policies (continued)

Loyalty programs

Customer loyalty credits are accounted for as a separate component of the sales transaction, in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred, based on estimated number of award credits that will actually be redeemed by the customer. This is then recognised as revenue over the period that the award credits are redeemed.

Expense recognition and measurement

The Company recognises expenses upon outflow of future economic benefits from decrease in an asset or increase in a liability that can be measured reliably.

The Company classifies its expenses by functional group: cost of materials and services, administrative expenses, selling expenses, other operating expenses, financial expenses and other expenses.

The Company applies the classification of expenses by element according to their economic substance (such as depreciation/amortisation, payroll, roaming, dealership fees, repairs, advertising etc.).

The cost of materials and services comprises the cost of materials and services to be realised during the reporting period, and unallocated fixed general productions costs. The cost includes: direct material, direct labour and other direct expenses, and general production costs. The cost includes the following (the list is not exhaustive): costs of interconnection, traffic transit, international roaming services, inter-operator line leases, content, subscriber product purchases, leases and electricity supplies of telecommunication network facilities, technical maintenance of the network, technical function staff, and other direct expenses.

Administrative expenses are general business expenses associated with management and maintenance of the Company's operations. Administrative expenses include the following (the list is not exhaustive): management services, professional services, banking charges, provisions and other expenses related to maintenance of the Company's operations.

Selling expenses are expenses related to sales (distribution) of the Company's goods and services. Selling expenses include the following (the list is not exhaustive): dealers fees, advertising, marketing, sales market researches, payroll and other employee benefits of selling units etc.

Other operating expenses are the Company's expenses not included in the cost of sales, administrative expenses, selling expenses, financial expenses and corporate profit tax expenses but associated with the Company's operating activity. Other operating expenses include the following (the list is not exhaustive): provisions for bad and doubtful debts, other provisions, fines and penalties, operating foreign exchange differences, and membership fees to professional associations.

Financial expenses result from finance raising transactions including finance leases, and from accounting for financial assets or financial liabilities at discounted (amortised) cost.

Other expenses are the Company's expenses not related to its operating activities. These include expenses resulting from unusual events not inherent in the Company's operations: non-operating foreign exchange differences, charitable contributions, cost of disposal of property, plant and equipment, intangible assets, impairment of assets, decommissioning of unusable fixed assets, and other non-operating expenses.

Deferred connection costs

Initial direct costs incurred in earning connection fees are deferred over the same period as connection revenue, limited to the amount of the deferred connection fees. Costs incurred consist primarily of the costs of the start packages and dealers' bonuses. In some cases connection costs exceed the respective connection fees. Such excess is expensed as incurred.

Advertising costs, marketing and sales commissions

Advertising costs, marketing and sales commissions are expensed as incurred, unless they form a part of the costs that are deferred in relation to connection fees as described above. Expenditure on advertising and promotional activities is recognised as an expense when the Company has either the right to access the goods or has received the service.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs are capitalised. Depreciation is calculated to reduce the cost of assets, other than land, to their estimated residual value, if any, over their estimated useful lives. Depreciation commences when the assets are ready for their intended use.

Repair and maintenance are capitalised in case significant improvement of assets is in place, which brings new functionality and could result in increased useful life of an asset. Current repair and maintenance is expensed as incurred. If new parts are capitalised, replaced parts are derecognised and any remaining net book value is recorded as loss on disposal.

When the expected cost of decommissioning of an asset after its use is material to the financial statements, the present value of the expected cost of decommissioning of an asset after its use is included into the cost of the respective asset, if the recognition criteria for a provision are met. Subsequent increases in decommissioning liability as a result of change in assumptions (i.e. discount rate, period until dismantling, cost of dismantling etc.) are recognised in the additions to property, plant and equipment. Subsequent decreases in decommissioning liability as a result of change in assumptions are recognised in disposal of property, plant and equipment.

5. Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Category	Useful life (years)
Local, regional & trunk networks	20
Mobile telephone network and switches	5-20
Radio installations	8-15
Buildings	10-30
Corporate administrative assets	5-7
Vehicles	3-5

Local, regional & trunk networks, mobile telephone network and switches, radio installations are included to group "Machinery and equipment" of property, plant and equipment. Buildings and corporate administrative assets are included to group "Buildings, constructions and transmission equipment" of property, plant and equipment disclosed in Note 8.

Depreciation method, estimated useful life and residual value are evaluated at least annually and adjusted prospectively, if appropriate. Residual value is estimated to be zero for most of the assets, as the Company expects to use these assets for their entire economic life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year when the item is derecognised.

Leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Land

Freehold land to which the Company has due legal title is included in the Company's statement of financial position at its historical cost less any accumulated impairment losses. Freehold land is not depreciated.

Construction in progress

The construction-in-progress items are capitalised as a separate element of non-current assets and are stated at cost less any accumulated impairment losses. On completion, the constructed asset at its cost less accumulated impairment loss is transferred to the appropriate category of property, plant and equipment. Construction in progress is not depreciated.

Uninstalled equipment

Uninstalled equipment is equipment purchased by the Company but not put into operation and is stated at cost less any accumulated impairment losses. Uninstalled equipment is not depreciated.

Leases

Leases are classified as finance leases whenever under the terms of the lease lessor transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction. However, there are situations that individually would normally lead the Company to classify a lease as a finance lease, such as if the lease term covers more than 75 percent of the estimated economic life or the present value of the minimum lease payments exceeds 90 percent of the fair value of the leased asset.

The Company may enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. Determining whether an arrangement contains a lease is based on the substance of the arrangement and requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset; and (b) the arrangement conveys a right to use the asset.

The Company as lessee

Property and equipment acquired by way of finance lease is capitalised and carried at the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses, if any. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are charged to profit and loss on a straight-line basis over the term of the relevant lease. Benefits received and incentives to enter into an operating lease are also amortised on a straight-line basis over the lease term. Advance lease payments made on entering into operating leases or acquiring leaseholds are amortised to profit and loss over the lease term.

5. Summary of significant accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur included to financial expenses. Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditures are charged to profit and loss as incurred.

Amortisation is provided using the straight-line basis over the estimated useful lives of the related assets as follows:

Asset category	Useful life (years)
Licences	5-15
Network and billing software	5-10

Intangible assets, all of which are determined as having finite useful lives, are amortised over their useful lives. The amortisation period and amortisation method for intangible assets is reviewed at least annually, and adjusted prospectively, if appropriate.

Individual useful lives can be applied to intangible assets according to contractual or licence terms.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as other expenses or other income in the statement of comprehensive income.

Investments in subsidiaries

Investments in subsidiaries are measured at cost less provision for impairment (where appropriate). Cost of the asset comprises its purchase price and/or other direct costs. The purchase price and/or other direct costs represents the amount paid (less value-added tax recoverable and other indirect taxes) and the fair value of other consideration paid to acquire the asset.

Inventories

Inventories are valued at the lower of cost and net realisable value for items that will be sold as separate products. Inventories that will be sold as part of a transaction with several components, which the Company expects to earn net income from, are valued at cost even if the selling price of the inventories is below cost. Cost of inventories used in multiple arrangements is determined using the weighted average method.

Fair value of assets and liabilities

Fair value is the price that would be received from sale of an asset or paid for transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the sale of the asset or transfer of the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from highest and best use of the asset or by selling it to another market participant that would use the asset in its highest and best use.

5. Summary of significant accounting policies (continued)

Fair value of assets and liabilities (continued)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Impairment of non-financial assets

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses of continuing operations are recognised in profit and loss.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Based on the specifics of the Company's operations, the management concluded that the Company has one cash generating unit, which is the Company's network as a whole.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased.

If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit and loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, trade and other receivables, all of which are classified as loans and receivables in accordance with IAS 39.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus directly attributable transaction costs, if any. In the case of transactions with entities under common control, any excess of nominal amount over the fair values at initial recognition is charged to retained earnings.

Subsequent measurement

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The amortisation is included in finance income in the statement of comprehensive income.

5. Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities mainly include trade and other payables.

Subsequent measurement

After initial recognition, trade and other payables with fixed maturity are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in profit and loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is computed using the effective interest method by taking into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists for each of the financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If an instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit and loss for all impaired financial assets.

Loans and receivables together with the associated allowance are written off when there are no realistic prospects of future recovery and/or when the statute of limitation has expired. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

5. Summary of significant accounting policies (continued)

Derecognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ the rights to receive cash flows from the asset have expired; or
- ▶ the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit and loss.

Employee benefits

The Company makes defined contributions to the State Pension Fund at the relevant statutory rates in force during the year, based on gross salary payments; such an expense is charged in the period when the related salaries are earned.

In addition to the above, employees of the Company are entitled to jubilee and post-employment benefits.

Post-employment benefits are paid out as a one-off benefit upon retirement. The amount of those benefits depends on the tenure with the Company and the average salary. The benefits payable under these arrangements are unfunded.

The expected cost of providing employee benefits is determined annually using the projected unit credit actuarial valuation method to calculate the net present value of benefit obligations at the reporting date. The balance of employee benefit obligations equals discounted payments to be made in the future and accounts for staff turnover and relates to the period to the reporting date. Demographic information and assumptions on staff turnover are based on historical data.

Re-measurements, comprising of actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit and loss in subsequent periods.

Past service costs are recognised in profit and loss on the earlier of:

- ▶ the date of the plan amendment or curtailment, and
- ▶ the date that the Company recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability. Service costs comprise current service cost, past service cost, gains and losses on curtailments and non-routine settlements and are recognised in profit and loss.

Any actuarial gains or losses relating to jubilee benefits are recognised in profit and loss in the period in which they arise. The past service cost is recognised immediately.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

5. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ where the deferred tax liability arises from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; and
- ▶ taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses carried forward, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses carried forward can be utilised, except:

- ▶ when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- ▶ in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit and loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

- ▶ Revenues, expenses and assets are recognised net of value added tax (VAT) except: where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- ▶ receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the notes to the financial statements.

Within the scope of its economic activities, the Company simultaneously performs operations subject to VAT, and those that are not subject to VAT. The Company may purchase goods and services, which are simultaneously used in taxable and non-taxable transactions. In such case, the Company makes a proportionate allocation of tax amounts to a tax credit in respect of purchases of goods / services / non-current assets intended for simultaneous use in transactions subject to VAT and VAT exempt.

Current/non-current classification

An asset/liability is classified as current, when it is expected to be realised (settled) or is intended for sale or consumption within twelve months after the reporting date. Other assets/liabilities are classified as non-current. Financial instruments are classified based on expected life. Deferred tax assets are classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash at banks and on hand and short-term deposits with an original maturity of three months (92 days) or less.

For the purpose of cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

5. Summary of significant accounting policies (continued)

Provisions and reserves

Provisions and reserves are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit and loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent assets and liabilities

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

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

Withdrawn capital (treasury shares)

Treasury shares are recognised at purchase price and are deducted from equity. No gain or loss is recognised in the profit and loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if shares are reissued, is recognised in share premium. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them.

Events after the reporting period

Events after the reporting period that provide additional information on the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

Transactions with the ultimate parent and entities under common control

The transactions with ultimate parent and entities under common control are recognised in the financial statements at fair value. The difference between fair value and the amount of the transaction is recognised as contribution from or distribution to the shareholders through the Company's equity.

Changes in presentation

During the year, the Company has changed its classification of currency translation difference in share capital, accumulated until 1 May 2004 when the Company changed its functional currency from US dollar to Ukrainian Hryvnia, within the statement of financial position. The Company believes that the change provides reliable and more relevant information. In accordance with IAS 8, the change has been made retrospectively and comparatives have been restated accordingly.

The effect of reclassifications for presentation purposes was as follows on amounts at 31 December 2016:

<i>In thousands of Hryvnia</i>	As originally presented	Reclassification	As presented at 31 December 2016
Registered (share) capital	1,009,249	(122,130)	887,119
Retained earnings	11,683,353	122,130	11,561,223

6. Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty - critical accounting estimates

Certain amounts included in or affecting the financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared.

A critical accounting estimate is one, which is both important to the portrayal of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Management evaluates such estimates on an ongoing basis, based upon historical results and experience, consultation with experts, trends and other methods, which management considers reasonable in the particular circumstances, as well as the forecasts as to how these might change in the future. However, uncertainty about these estimates could result in outcomes that require a material adjustment to the carrying amount of an asset or liability affected in future periods.

Revenue recognition

The main part of the Company's revenues is earned from mobile services, such as airtime, one-time connection fees or periodic subscriptions. The Company has many pre-paid and post-paid subscribers and offers a number of different services with different tariff plans. The Company also provides discounts of various types, often in connection with different campaigns. Revenues from one-time subscriptions or connections to the Company's network are recognised as deferred revenue and released to the profit and loss in the periods when these revenues are earned, based on the average customer relationship period. The management regularly reviews its estimates in respect of customer relationship period, based on the historical experience and its plans for future development of the Company. As at 31 December 2017 the management estimated the customer relationship period to be equal to 108 months for contract subscribers and 59 months for pre-paid subscribers (2016: 87 months and 51 months, respectively). As a result of change in the above mentioned accounting estimates starting from 1 January 2017, the Company's profit before tax for the year 2017 decreased by UAH 5,481,377 thousand.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Please refer to Note 29 for additional information on the Company's tax position.

Depreciation and amortisation

Depreciation and amortisation methods are based on management estimates of the expected useful lives of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful lives and in the amortisation or depreciation charges. Some technological developments are difficult to predict and the Company's views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Company invested several years ago, are still in use and provide the basis for the new technologies.

The useful lives of property, plant and equipment and intangible assets are reviewed at least annually taking into consideration the factors mentioned above and all other important factors. In case of significant changes in estimated useful lives, depreciation and amortisation charges are adjusted prospectively.

On 1 January 2016, the Company made a decision to replace Ericsson and Nokia telecommunication equipment located in Ukraine. The expected useful lives of the equipment and the related software to be replaced were reduced from this date and these software and equipment were subject to accelerated amortization and depreciation. The amount of accelerated amortization and depreciation for 2017 amounted to UAH 355,650 thousand (2016: UAH 1,797,626 thousand).

On 1 November 2016, the Company made a decision to replace outdated software related to support systems, which is also subject to accelerated amortisation with related accelerated amortisation for 2017 totalling to UAH 175,932 thousand (2016: UAH 25,482 thousand).

Impairment of non-financial assets

The Company has made significant investments in property, plant and equipment, construction in progress and intangible assets. These assets are tested for impairment when circumstances indicate there may be a potential impairment. Factors considered important which could trigger an impairment evaluation include the following: significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy for the Company's overall business, including assets that are decided to be phased out or replaced and assets that are damaged or taken out of use, significant negative industry or economic trends and significant cost overruns in the development of assets.

6. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of non-financial assets (continued)

Estimating recoverable amounts of assets must in part be based on management's evaluations, including determining appropriate cash generating units, estimates of future performance, revenue generating capacity of the assets, assumptions of the future market conditions and the success in marketing of new products and services. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods. Additional information about loss on impairment of property, plant and equipment, construction in progress, intangible assets and assets of disposal group classified as held for sale is disclosed in Note 28.

7. Related party disclosure

As at 31 December 2017 and 2016, income and expenses with related parties were as follows:

	2017			2016		
	Immediate parent	Entities under common control	Other related parties	Immediate parent	Entities under common control	Other related parties
Sales of goods and services	-	1,185,215	544,535	-	1,858,074	102,275
Cost of materials, traffic charges and other direct costs	-	(595,806)	(43,181)	-	(849,027)	(13,893)
Other operating expenses	(533,003)	(75,976)	-	(174,473)	(45,060)	-
Loss on initial recognition of interest-free loans	-	(13,146)	-	-	(82,167)	-
Unwinding of discount on interest-free loans provided	-	63,603	-	-	21,853	-
Interest expense (including capitalised interest)	-	-	-	-	(37,788)	-
Other income	-	7,344	-	-	19,295	-
Total	(533,003)	571,234	501,354	(174,473)	885,180	88,382

In October 2016, the Company's parent disposed of part of its interest in Wind Telecomunicazioni S.p.A., an entity under common control. Starting from November 2016, Wind Telecomunicazioni S.p.A. is classified as other related parties. As at 5 December 2017, the Company's parent disposed part of its interest in Telenor Group of companies, previously classified as other related parties.

During 2017, the Company sold UAH 7,344 thousand of property, plant and equipment to an entity under common control (2016: UAH 19,295 thousand).

During 2017, 5.7% of total revenue represents sales to PJSC VimpelCom, the entity under common control (2016: 8.2% of total revenue).

As at 31 December 2017 and 2016, balances with related parties were as follows:

	2017			2016		
	Immediate parent	Entities under common control	Other related parties	Immediate parent	Entities under common control	Other related parties
Other financial investments	-	156,167	-	-	122,167	-
Interest-free loans	-	410,043	-	-	257,186	-
Trade and other receivables	-	113,249	262,585	-	181,906	249,601
Trade and other payables	(306,414)	(109,657)	-	(44,426)	(99,762)	(28,203)
Payables to shareholders	-	(459,189)	-	-	(1,531,682)	-
Other current liabilities	-	(130,186)	-	-	(96,351)	-
Total	(306,414)	(19,573)	262,585	(44,426)	(1,166,536)	221,398

Transactions with related parties were on contractual terms.

7. Related party disclosure (continued)

Terms and conditions of transactions with related parties

Outstanding balances on settlements with related parties at the year-end are unsecured and settlement occurs in cash. Outstanding balances on settlements with related parties are interest free. There have been no financial guarantees issued in favour of the Company or received to/from any related party. For the years ended 31 December 2017 and 2016, the Company has not recorded any impairment of receivables due from the related parties.

Revenues and trade receivables

In 2017 the Company provided to domestic and foreign telecom operators, being the Company's related parties, interconnection, roaming and access to network services in the total amount of UAH 1,729,750 thousand (2016: UAH 1,960,349 thousand).

The related trade receivables as at 31 December 2017 and 2016 due from related parties are non-interest bearing, unsecured and are settled in the normal course of business.

Cost of materials, traffic charges and other direct costs and trade payables

Cost of materials, traffic charges and other direct costs included access to network, roaming and interconnection services, provided by entities under common control and other related parties.

Trade payables to entities under common control and other related parties comprise amounts due for access to network, roaming and interconnection services. Trade payables to related parties are non-interest bearing and are settled in the normal course of business.

Other operating expenses

Other operating expenses included consultancy fees and external personnel services provided by the ultimate parent and entities under common control.

Interest costs

Interest costs included interest expense which relate to current loans from the entities under common control.

Other financial investments

Other financial investments comprise of investments into share capital of subsidiaries SC "Staravto" and LLC "Starmoney". Detailed information regarding investments into subsidiaries is presented in the note 11.

Other current assets

During 2016, the Company provided an interest-free loan in the amount of UAH 317,500 thousand to an entity under common control with maturity of over one year. The nominal value of the loan was remeasured to amortised cost using the effective interest rate of 22.0%.

On 29 September 2017 and 11 December 2017, the Company provided two additional tranches in the amount of UAH 102,400 thousand, increasing the total nominal amount of the interest-free loan to UAH 419,900 thousand. As at 11 December 2017, as a result of the change in repayment schedule the maturity of the arrangement was extended until 28 February 2018. Respectively, additional loss on initial recognition of UAH 13,146 thousand (2016: 82,167 thousand) was recognised in other changes in equity using the effective interest rate of 14.7%. Related unwinding of discount of UAH 63,603 thousand was recognised in the finance income (2016: 21,853 thousand).

Settlements with shareholders

Settlements with shareholders comprise of dividends declared but not yet paid to shareholders as at 31 December 2017 and 2016.

Other current liabilities

Other current liabilities to entities under common control included deferred payment for the share in Golden Telecom LLC that was acquired by the Company and payable for the additional increase in the share capital of Starmoney LLC as announced in 2017.

7. Related party disclosure (continued)

Compensation to management personnel

As at 31 December 2017 key management personnel consisted of 12 top executives of the Company (2016: 21).

For the years ended 31 December total compensation to key management personnel included in salaries and personnel costs comprised:

	2017	2016
Short-term employee benefits	67,241	108,341
Long term incentive plan for management	71,835	23,190
Total compensation to key management personnel	139,076	131,531

Had the key management personnel consist of the same 12 executives in 2016 as in 2017, the amount of compensation to management personnel for 2016 would be UAH 60,915 thousand of short term employee benefit and UAH 22,000 thousand of long term incentive plan for management.

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8. Property, plant and equipment

The movement of property, plant and equipment during 2017 is as follows:

Groups of property, plant and equipment	Line code	Balance at the beginning of the year		Additions in the year	Revaluation (upward +, downward -)		Disposals in the year		Depreciation charge for the year	Impairment loss	Other changes for the year		Balance at the end of the year		Including:			
		Cost or valuation	Accum. deprec'n		Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n			Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n	Received on finance lease		Transferred on operating lease	
															Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Land plots	100	44,684	-	-	-	-	-	-	-	-	-	-	44,684	-	-	-	-	-
Investment property	105	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital costs of land improvement	110	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings, constructions and transmission equipment	120	1,836,033	651,786	46,948	-	-	2,370	1,659	89,532	-	44,892	4,470	1,925,503	744,129	-	-	-	-
Machinery and equipment	130	17,555,734	12,656,183	2,307,959	-	-	2,212,911	2,180,813	1,352,608	25,471	(16,154)	(33,440)	17,634,628	11,820,009	-	-	-	-
Vehicles	140	-	-	134,084	-	-	-	-	26,361	-	-	-	134,084	26,361	-	-	-	-
Tools, fittings and furniture	150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Livestock	160	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Perennial plants	170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed assets	180	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library assets	190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current low-value items	200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Temporary buildings	210	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Natural resources	220	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Packaging	230	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hire items	240	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current tangible assets	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	260	19,436,451	13,307,969	2,488,991	-	-	2,215,281	2,182,472	1,468,501	25,471	28,738	(28,970)	19,738,899	12,590,499	-	-	-	-

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8. Property, plant and equipment (continued)

The movement of property, plant and equipment during 2016 is as follows:

Groups of property, plant and equipment	Line code	Balance at the beginning of the year		Additions in the year	Revaluation (upward +, downward -)		Disposals in the year		Depreciation charge for the year	Impairment loss	Other changes for the year		Balance at the end of the year		Including:			
		Cost or valuation	Accum. deprec'n		Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n			Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n	Received on finance lease		Transferred on operating lease	
															Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Land plots	100	44,684	-	-	-	-	-	-	-	-	-	-	44,684	-	-	-	-	-
Investment property	105	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital costs of land improvement	110	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings, constructions and transmission equipment	120	1,852,177	573,315	-	-	-	16,144	8,673	87,144	-	-	-	1,836,033	651,786	-	-	-	-
Machinery and equipment	130	16,621,868	10,963,850	1,839,114	-	-	905,248	904,722	2,587,247	9,808	-	-	17,555,734	12,656,183	-	-	-	-
Vehicles	140	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tools, fittings and furniture	150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Livestock	160	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Perennial plants	170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed assets	180	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library assets	190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current low-value items	200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Temporary buildings	210	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Natural resources	220	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Packaging	230	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hire items	240	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current tangible assets	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	260	18,518,729	11,537,165	1,839,114	-	-	921,392	913,395	2,674,391	9,808	-	-	19,436,451	13,307,969	-	-	-	-

8. Property, plant and equipment (continued)

Temporarily dismantled equipment continues to be depreciated over the estimated remaining useful life.

As at 31 December 2017 historical cost of fully depreciated items that are still in use is UAH 6,346,899 thousand (2016: UAH 6,422,576 thousand).

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9. Intangible assets

The movement of intangible assets during 2017 is as follows:

Groups of intangible assets	Line code	Balance at the beginning of the year		Additions in the year	Revaluation (upward +, downward -)		Disposals in the year		Amortisation charges for the year	Impairment losses for the year	Other changes for the year		Balance at the end of the year	
		Cost or valuation	Accum. amortisation		Cost or valuation	Accum. amortisation	Cost or valuation	Accum. amortisation			Cost or valuation	Accum. amortisation	Cost or valuation	Accum. amortisation
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Rights to use natural resources	010	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights to use property	020	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights for commercial signs	030	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights for the industrial property objects	040	-	-	-	-	-	-	-	-	-	-	-	-	-
Copyright and allied rights	050	-	-	-	-	-	-	-	-	-	-	-	-	-
	060	-	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	070	8,077,619	4,037,873	837,439	-	-	147,994	147,819	786,979	-	-	-	8,767,064	4,677,033
Total	080	8,077,619	4,037,873	837,439	-	-	147,994	147,819	786,979	-	-	-	8,767,064	4,677,033
Goodwill	090	-	-	-	-	-	-	-	-	-	-	-	-	-

The movement of intangible assets during 2016 is as follows:

Groups of intangible assets	Line code	Balance at the beginning of the year		Additions in the year	Revaluation (upward +, downward -)		Disposals in the year		Amortisation charges for the year	Impairment losses for the year	Other changes for the year		Balance at the end of the year	
		Cost or valuation	Accum. amortisation		Cost or valuation	Accum. amortisation	Cost or valuation	Accum. amortisation			Cost or valuation	Accum. amortisation	Cost or valuation	Accum. amortisation
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Rights to use natural resources	010	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights to use property	020	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights for commercial signs	030	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights for the industrial property objects	040	-	-	-	-	-	-	-	-	-	-	-	-	-
Copyright and allied rights	050	-	-	-	-	-	-	-	-	-	-	-	-	-
	060	-	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	070	7,446,227	3,099,354	728,525	-	-	97,133	58,436	996,955	-	-	-	8,077,619	4,037,873
Total	080	7,446,227	3,099,354	728,525	-	-	97,133	58,436	996,955	-	-	-	8,077,619	4,037,873
Goodwill	090	-	-	-	-	-	-	-	-	-	-	-	-	-

9. Intangible assets (continued)

As at 31 December 2017 historical cost of fully amortised intangible assets that are still in use is UAH 2,840,498 thousand (2016: UAH 1,707,084 thousand).

The Company's major licences as at 31 December are as follows:

Licence #	Coverage	Licence	Acquisition date	Expiration date	Net book value as at 31 December 2017	Net book value as at 31 December 2016
#000669	National	GSM-1800 cellular (mobile) telecommunication services (iii)	Oct 2011	Oct 2026	5,517	6,142
#000670	National	GSM-900 cellular (mobile) telecommunication services (iii)	Oct 2011	Oct 2026	5,517	6,142
#000671	International	Fixed international communication services (i), (iii)	Aug 2004	Aug 2019	996	1,594
#000672	Inter city	Fixed inter city communication services (i), (iii)	Aug 2004	Aug 2019	1,017	1,627
#000673	City	Fixed city communication services (iii)	Aug 2015	Aug 2020	220	303
#000668	National	Cellular (mobile) telecommunication services (ii)	Apr 2015	Mar 2030	7,547	8,159
ДЛ №000912 (#8665)	National	Digital Mobile Radio IMT-2000 (UMTS) (ii)	Apr 2015	Mar 2030	2,627,819	2,449,652
Total					2,648,633	2,473,619

(i) In April 2011 National Commission for the State regulation of Communications and Informatization has reissued licences previously granted to Kyivstar due to the change of the Company's legal form from "Closed" to "Private" Joint Stock Company pursuant to the amendments introduced to the Ukrainian legislation on joint stock companies.

(ii) Based on the results of the auction in 2015 the Company received Licences to use the radio frequency band 1965-1980 / 2155-2170 MHz for services provision in the standard 3G («digital cellular radio Communication IMT-2000 (UMTS)»). On 1 April 2015, the Company paid for the respective Licences.

(iii) In December 2016 National Commission for the State regulation of Communications and Informatization has reissued licences previously granted to Kyivstar due to the change of the Company's registered address pursuant to the amendments introduced to the Company's statutory and registration documents.

10. Construction-in-progress

Construction in progress for 2017 was as follows:

Item	Line code	For the year	At the end of the year
1	2	3	4
Capital construction	280	773,596	168,945
Purchase (manufacturing) of property, plant and equipment	290	1,434,477	534,109
Purchase (manufacturing) of other non-current tangible assets	300	-	-
Purchase (manufacturing) of intangible assets	310	826,866	22,651
Purchase (growing) of long-term biological assets	320	-	-
Other	330	-	-
Total	340	3,034,939	725,705

Construction in progress for 2016 was as follows:

Item	Line code	For the year	At the end of the year
1	2	3	4
Capital construction	280	-	249,879
Purchase (manufacturing) of property, plant and equipment	290	1,922,388	725,338
Purchase (manufacturing) of other non-current tangible assets	300	-	-
Purchase (manufacturing) of intangible assets	310	746,434	40,113
Purchase (growing) of long-term biological assets	320	-	-
Other	330	-	-
Total	340	2,668,822	1,015,330

11. Investments in subsidiaries

The table below summarises the movements in the carrying amount of the Company's investments in subsidiaries.

	2017	2016
Carrying amount at 1 January	122,167	72,179
Additional contributions during the year	34,000	54,000
Impairment of investment in subsidiaries	-	(4,012)
Carrying amount at 31 December	156,167	122,167

Interest held by the Company in its principal subsidiaries is disclosed below:

Name	2017		2016	
	Interest held	Country of operation	Interest held	Country of operation
Subsidiary SC "Staravto"	100.00%	Ukraine	100.00%	Ukraine
Subsidiary LLC "Starmony"	100.00%	Ukraine	100.00%	Ukraine

12. Other non-current assets

Other non-current assets as at 31 December are as follows:

	2017	2016
Prepayments for intangible assets	301,483	349,954
Non-current deferred expenses (Note 15)	105,494	70,492
Prepayments for property, plant and equipment	6,271	6,291
Interest-free loans	-	257,186
Other non-current assets	-	1,007
Total	413,248	684,930

In 2017 the Company reclassified interest-free loan provided to an entity under common control to other current assets, refer to Note 16.

13. Trade and other receivables

Trade and other receivables consist of the following as at 31 December:

	2017	2016
Trade receivables – roaming	632,055	759,756
Trade receivables – interconnection and access to network	391,496	450,391
Trade receivables – subscribers	276,511	259,285
Accounts receivable for settlements on accrued income	89,244	25,217
Accounts receivable from sale of non current assets	26,673	20,031
Trade receivables – dealers for pre-paid cards and packages	22,701	22,206
Other receivables	13,517	5,677
Allowance for impairment	(179,877)	(159,581)
Total current financial receivables	1,272,320	1,382,982
Advances issued	87,615	97,905
Other settlements with budget	1,898	2,333
Corporate profit tax prepaid – current part	-	361,466
Allowance for impairment	(5,908)	(7,454)
Total	1,355,925	1,837,232

Trade and other receivables, net of allowance for impairment as at 31 December are denominated in the following currencies:

	2017	2016
EUR	625,047	802,823
UAH	342,100	225,162
USD	299,545	351,779
GBP	5,628	3,218
Total	1,272,320	1,382,982

As at 31 December 2017 and 2016 trade and other receivables are non-interest bearing and are settled in the normal course of business.

The reconciliation of changes in allowance accounts is as follows:

	Trade and other receivables	Advances	Total
As at 1 January 2016	129,995	5,860	135,855
Charge for the year	74,557	1,731	76,288
Utilised	(27,153)	(1)	(27,154)
Unused amounts reversed	(17,818)	(136)	(17,954)
As at 31 December 2016	159,581	7,454	167,035
Charge for the year	68,719	4,818	73,537
Utilised	(39,136)	-	(39,136)
Unused amounts reversed	(9,287)	(6,364)	(15,651)
As at 31 December 2017	179,877	5,908	185,785

In 2017 bad debt expense in the amount of UAH 57,886 thousand (2016: 58,334 thousand) is included in other operating expenses (Note 26). Accounts receivable with related parties is disclosed in Note 7.

14. Cash and cash equivalents

Cash and cash equivalents consist of the following as at 31 December:

	2017	2016
Short-term deposits	4,942,869	2,635,000
Cash at banks	250,263	612,564
Cash in transit	155,255	72,219
Total	5,348,387	3,319,783

As at 31 December cash at banks is denominated in the following currencies:

	2017	2016
UAH	231,032	606,657
USD	12,514	4,096
EUR	6,448	1,804
GBP	269	7
Total	250,263	612,564

Cash in transit is denominated in UAH.

In 2017 and 2016 cash at bank accounts earned interest at fixed rates varying from 0.1% to 18.0% per annum.

As at 31 December short-term deposits split by contractual maturity, currency and interest rate earned is as follows:

Currency	Maturity date	2017		2016	
		UAH thousands	Interest rate p.a.	UAH thousands	Interest rate p.a.
UAH	0-30 days	-	-	200,000	10.0%
UAH	31-60 days	270,000	13.0%	482,000	13.5%-15.5%
UAH	61-92 days	4,555,000	11.0%-15.5%	1,953,000	15.0%-16.5%
USD	61-92 days	14,033	0.5%	-	-
EUR	61-92 days	103,836	0.1%	-	-
Total		4,942,869		2,635,000	

15. Deferred expenses

As at 31 December deferred expenses consist of the following:

	2017	2016
Deferred connection costs (i)	108,722	95,217
Deferred costs of start packages and scratch-cards (ii)	14,450	23,809
Deferred costs of fixed line connections (iii)	11,309	22,689
Other deferred costs	56,185	22,453
Total	190,666	164,168
Current deferred expenses	85,172	93,676
Non-current deferred expenses (Note 12)	105,494	70,492

- (i) As at 31 December 2017 and 2016 deferred connection costs mainly consisted of costs of start packages, dealers bonuses related to connection of new subscribers and cost of Wi-Fi routers limited to the amount of respective deferred connection fees;
- (ii) Deferred costs of start packages and scratch-cards represent costs of start packages and scratch-cards sold to dealers, but not yet activated by subscribers;
- (iii) Deferred costs of fixed line connections consist of costs of last mile.

15. Deferred expenses (continued)

The movement in deferred connection costs mobile is as follows:

	Deferred connection costs	Deferred costs of start packages and scratch-cards	Deferred costs of fixed line connections	Other deferred costs	Total
As at 1 January 2016	73,301	29,706	20,153	29,960	153,120
Deferred during the year	61,707	65,782	6,266	607,470	741,225
Released to profit and loss	(39,791)	(71,679)	(3,730)	(614,977)	(730,177)
As at 31 December 2016	95,217	23,809	22,689	22,453	164,168
Deferred during the year	59,531	58,534	7,014	127,009	252,088
Released to profit and loss	(46,026)	(67,893)	(18,394)	(93,277)	(225,590)
As at 31 December 2017	108,722	14,450	11,309	56,185	190,666

16. Other current assets

Other current assets consist of the following as at 31 December:

	2017	2016
Short-term deposits (over 3 months)	1,679,402	-
Interest-free loans	410,043	-
Other assets	149	13,835
Total	2,089,594	13,835

As at 31 December short-term deposits (over 3 months) split by contractual maturity, currency and interest rate earned is as follows:

Currency	Maturity date	2017		2016	
		UAH thousands	Interest rate p.a.	UAH thousands	Interest rate p.a.
UAH	3-6 months	905,000	13.0%-14.5%	-	-
USD	3-6 months	481,016	3.5%-4.5%	-	-
EUR	3-6 months	293,386	1.0%-2.5%	-	-
Total		1,679,402		-	

During 2016, the Company provided an interest-free loan in the amount of UAH 317,500 thousand to an entity under common control with maturity of over one year. The nominal value of the loan was remeasured to amortised cost using the effective interest rate of 22.0%.

As at 29 September 2017 and 11 December 2017, the Company provided two additional tranches in the amount of UAH 102,400 thousand, increasing the total nominal amount of interest-free loan to UAH 419,900 thousand. As at 11 December 2017, as a result of change in repayment schedule the maturity of the arrangement was extended until 28 February 2018. Additional loss on initial recognition of UAH 13,146 thousand (2016: 82,167 thousand) was recognised in other changes in equity using the effective interest rate of 14.7%. Related unwinding of discount of UAH 63,603 thousand was recognised in the finance income (2016: 21,853 thousand).

17. Statutory capital

Registered (share) capital

As at 31 December 2017 the authorised and fully paid share capital comprised 17,742,389 ordinary shares (2016: 17,742,389 ordinary shares) at a par value of UAH 50 each. Following changes in presentation, disclosed in Note 5, the nominal registered amount of the Company's issued share capital corresponds to the amount reported in these financial statements.

Dividends declared

In 2017, the Company declared dividends in the amount of UAH 1,499,931 thousand or UAH 114.54 per share (2016: UAH 1,499,931 thousand or UAH 114.54 per share). As at 31 December 2017, the total amount of unpaid dividends is UAH 459,389 thousand (2016: UAH 1,531,735 thousand). As at 31 December 2017 and 2016, according to the decision No 758 of 1 December 2014, the NBU extended some restrictions on payment of dividends in foreign currency.

18. Trade and other payables

As at 31 December trade and other payables consist of the following:

	2017	2016
Professional and consultancy fees	412,355	98,457
Technical support services	281,883	211,181
Roaming	269,225	442,576
Equipment and construction works	262,348	304,930
Advertising and promotion	96,376	85,759
Software	95,617	183,635
Dealers	59,765	48,122
Interconnection	52,528	65,538
Rent	49,896	50,992
Inventory	38,620	41,477
Content services	31,521	31,592
Other payables	67,893	65,848
Total	1,718,027	1,630,107

Payables for interconnection are mostly due to related parties (refer to Note 7), mainly denominated in foreign currencies.

As at 31 December trade and other payables are denominated in the following currencies:

	2017	2016
USD	856,246	586,035
UAH	727,809	685,338
EUR	129,149	351,381
RUB	4,425	6,326
GBP	398	1,027
Total	1,718,027	1,630,107

As at 31 December 2017 and 2016 trade and other payables are non-interest bearing and are settled in the normal course of business.

19. Taxes payable, other than income tax

Taxes payable, other than income tax consist of the following as at 31 December:

	2017	2016
VAT payable	107,327	51,592
Frequency fee	85,927	70,056
Pension fund duty for mobile services	32,133	36,738
Miscellaneous other taxes	905	629
Total	226,292	159,015

20. Advances received

As at 31 December advances received consist of the following:

	2017	2016
Advances received from subscribers	583,805	543,771
Advances received from dealers	15,457	297
Other advances received	1,057	372
Total	600,319	544,440

21. Provisions

The movement in provisions is as follows:

	Decommissioning	Legal cases and penalties	Long-terms incentive to management	Other	Total
As at 1 January 2016	18,366	12,559	-	71,200	102,125
Arising during the year	1,067	263,998	23,190	5,962	294,217
Utilised	(713)	-	-	-	(713)
Unused amounts reversed	-	(1,364)	-	-	(1,364)
Change in estimates	13,078	-	-	-	13,078
Discount rate adjustment	2,101	-	-	-	2,101
As at 31 December 2016	33,899	275,193	23,190	77,162	409,444
Arising during the year	2,769	-	71,835	46,890	121,494
Utilised	(1,806)	-	(21,876)	(1,176)	(24,858)
Unused amounts reversed	-	(242,568)	-	-	(242,568)
Change in estimates	16,488	-	-	-	16,488
Discount rate adjustment	3,151	-	-	-	3,151
As at 31 December 2017	54,501	32,625	73,149	122,876	283,151
As at 31 December 2016	33,899	275,193	23,190	77,162	409,444
Current	-	275,193	-	77,162	352,355
Non-current	33,899	-	23,190	-	57,089
As at 31 December 2017	54,501	32,625	73,149	122,876	283,151
Current	-	32,625	-	122,876	155,501
Non-current	54,501	-	73,149	-	127,650

Decommissioning liabilities

As at 31 December 2017 the Company recognised UAH 54,501 thousand (2016: UAH 33,899 thousand) of provision for decommissioning in respect of future dismantling costs related to its network equipment installed on leased sites. Provision for decommissioning has increased in 2017 due to the changes in input assumptions as follows:

	Assumptions used as at 31 December 2017	Assumptions used as at 31 December 2016
Cost of dismantling per site, UAH	42,000	42,000
Discount rate	13.0%	14.7%
Inflation rate	5.0%	5.0%

As at 31 December 2017, the 1% decrease in the discount rate would increase the provision by UAH 16,682 thousand. As at 31 December 2016, the 1% decrease in the discount rate would increase the provision by UAH 7,772 thousand.

22. Other current liabilities

As at 31 December other current liabilities consist of the following:

	2017	2016
Bonuses accrued	199,999	130,826
Deferred payment for investment in subsidiaries	130,186	96,351
Accrual for unused vacations	46,390	39,847
Other	31,094	31,445
Total	407,669	298,469

As at 31 December 2017 and 2016, other current liabilities are non-interest bearing and denominated in UAH.

23. Deferred revenue

As at 31 December deferred revenue consists of the following:

	2017	2016
Deferred revenue - dealers and subscribers (i)	367,422	323,329
Deferred connection and one-time subscription fees mobile (ii)	242,049	210,091
Deferred connection fees fixed (iii)	7,890	24,628
Customer loyalty programs (iv)	1,152	11,759
Total	618,513	569,807
Deferred revenue current	445,215	417,648
Deferred revenue non-current	173,298	152,159

- (i) *Deferred revenue – dealers* – represents deferred revenue from unused time on pre-paid cards, which were sold to dealers, but have not yet been activated by subscribers. Deferred revenue – dealers is recognised in the statement of financial position until the pre-paid cards have been activated by subscribers or the pre-paid card has expired. *Deferred revenue – subscribers* – mainly consists of deferred revenue from unused time on pre-paid cards, which were activated by subscribers. Deferred revenue – subscribers is recognised as revenue in the statement of comprehensive income on the basis of actual mobile communication services usage by subscribers;
- (ii) *Deferred connection and one-time subscription fees mobile* – mainly consist of fees for initial connection to the network and one-off payments for subscription to additional services. Deferred connection and subscription fees are recognised in the statement of comprehensive income over the periods that the fees are earned;
- (iii) *Customer loyalty – programs* represent various loyalty programs, established by the Company, whereby enrolled mobile and FTTB subscribers are eligible for bonuses, which may then be used for discounts on future mobile calls or additional FTTB internet services.
- (iv) *Deferred connection fees fixed* – consist of fees for initial connection to the fixe network. Deferred connection fees are recognised in the statement of comprehensive income over the periods that the fees are earned.

The movements in deferred connection and one-time subscription fees mobile and deferred connection fees fixed are as follows:

	Deferred connection and one-time subscription fees mobile	Deferred connection fees fixed	Customer loyalty programs	Total
As at 1 January 2016	192,603	25,613	14,762	232,978
Deferred during the year	100,662	3,112	159,736	263,510
Released to profit and loss	(82,440)	(4,831)	(162,739)	(250,010)
Other changes	(734)	734	-	-
As at 31 December 2016	210,091	24,628	11,759	246,478
Deferred during the year	104,523	4,878	38,733	148,134
Released to profit and loss	(72,565)	(21,616)	(49,340)	(143,521)
As at 31 December 2017	242,049	7,890	1,152	251,091

24. Revenue

	2017	2016
Periodic fees	7,390,889	5,504,926
Interconnect fees	3,496,223	3,879,681
Air time charges	2,236,864	2,701,628
Value added services	1,929,635	1,817,288
FTTB internet	676,075	603,845
Roaming (subscribers)	475,250	357,504
Fixed lines	393,265	415,813
Roaming and access to network	207,367	206,317
Connection and one-time subscription fees	77,767	82,440
Customer equipment sales	5,239	1,779
Other revenue	190,414	181,806
Total	17,078,988	15,753,027

25. Other operating income

	2017	2016
Reversal of provision for litigations and other claims ((Note 21, 26)	242,568	-
Operating foreign transaction gain	150,793	42,222
Rent income	53,123	33,907
Other income	11,623	22,455
Total	458,107	98,584

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(in thousands of Hryvnia)

26. Operating expenses

	2017	2016
Interconnection	1,334,812	1,627,691
Roaming	390,971	300,736
Cost of materials and services	284,855	235,370
Leased line costs	109,177	87,096
Access to network	19,375	25,001
Material expenses	2,139,190	2,275,894
Salaries and wages	537,608	530,161
Bonuses to employees	399,987	255,783
Other staff costs	53,142	55,451
Payroll	990,737	841,395
Social payments	152,485	126,932
Depreciation/amortisation	2,255,480	3,671,345
Local taxes and nonreimbursable VAT	1,201,717	1,009,986
Repair and maintenance	911,283	1,056,319
Consultancy fees and external personnel	771,220	313,145
Marketing and sales commission	681,389	600,167
Operating leases of building, land and equipment	560,441	521,658
Electricity	474,156	410,583
Advertising	239,214	270,387
License and research fees	186,134	59,821
Outsourced services	103,739	-
Bad debts	57,886	58,334
Business trip expenses	50,620	33,263
Postage, freight, distribution and telecommunication	38,215	63,071
Materials and supplies	32,201	24,594
Insurance	3,815	2,793
Bank charges	1,722	4,604
Provision for litigations and other claims (Note 21, 25)	-	283,853
Other operating expenses	50,202	34,060
Other operating expenses	5,363,954	4,746,638
Total	10,901,846	11,662,204
Cost of sales of goods, works and services	7,372,418	8,699,457
Administrative expenses	1,922,854	1,269,207
Selling expenses	1,514,947	1,316,755
Other operating expenses	91,627	376,785
Total	10,901,846	11,662,204

The average number of employees of the Company in 2017 was 2,486 (2016: 2,545).

27. Finance income

	2017	2016
Interest income	655,341	300,551
Unwinding of discount on interest-free loans provided	63,603	21,853
Total	718,944	322,404

28. Other income and expenses

	2017	2016
Gain on disposal of property, plant and equipment, construction in progress, intangible assets and assets of disposal group classified as held for sale	115,248	21,772
Gain on reversal of impairment of property, plant and equipment, construction in progress, intangible assets and assets of disposal group classified as held for sale	20,839	-
Other income	3,736	4,530
Other income	139,823	26,302
Foreign transaction loss	(18,627)	(224,342)
Write-off of property, plant and equipment, construction in progress, intangible assets and assets of disposal group classified as held for sale	(18,235)	(47,052)
Loss on impairment of property, plant and equipment, construction in progress, intangible assets and assets of disposal group classified as held for sale	-	(42,237)
Contributions and donations	(8,155)	(6,301)
Impairment loss from other financial assets	-	(4,416)
Other expenses	(3,535)	(360)
Other expenses	(48,552)	(324,708)
Total	91,271	(298,406)

In 2017 the Company recognised impairment losses on property, plant and equipment in the amount of UAH 74,787 thousand (2016: UAH 138,802 thousand), based on internal indications of impairment for various individual components of network equipment, as the Company did not plan to use this equipment in future. Assets identified as no longer in use were written down to their recoverable amounts, which were based on value in use determined for individual assets, usually zero.

In addition, in 2017 the Company recognised reversal of impairment losses in respect of network equipment in the amount of UAH 95,626 thousand (2016: UAH 96,565 thousand) as a result of changes in plans for future usage of previously impaired network equipment in accordance with adjusted capital expenditure budgets.

29. Income tax

The Company's profits are subject to corporate profit tax in Ukraine only.

The major components of income tax expense for the years ended 31 December are:

	2017	2016
Current income tax:		
Current income tax charge	1,256,389	1,131,769
Deferred tax:		
Relating to origination and reversal of temporary differences	16,127	(323,860)
Total	1,272,516	807,909

29. Income tax (continued)

Reconciliations between tax expense and the product of accounting profit multiplied by the tax rate for the years ended 31 December are as follows:

	2017	2016
Accounting profit before tax	7,441,454	4,194,976
Income tax at actual rate (18%)	1,339,462	755,096
Non - deductible expenses for tax purposes	39,565	20,788
Change of approach in temporary differences recognition	(71,505)	-
Adjustments recognised in the period for current tax of prior periods	(30,610)	-
Change in estimates of deferred tax asset related to decision to write-off fixed assets subject to the network modernisation	-	(31,962)
Decrease in deferred tax asset due to decision to write-off fixed assets subject to the network modernisation	-	28,184
Other changes (reassessment of temporary differences, effect of changes in tax rules)	(4,396)	35,803
Total	1,272,516	807,909

Deferred tax assets and liabilities relate to the following items in 2017:

	31 December 2017	Recognised in profit and loss	31 December 2016
Deferred tax assets:			
Property, plant and equipment (i)	172,908	(11,606)	184,514
Intangible assets (i)	67,074	21,431	45,643
Other current liabilities (ii)	59	59	-
Employee benefit liability (ii)	15,478	9,820	5,658
Provisions (ii)	14,893	(40,958)	55,851
Taxes payable other than income tax (ii)	15,771	5,127	10,644
Accumulated tax losses (iii)	56,063	-	56,063
Total	342,246	(16,127)	358,373
Provision for deferred tax asset	(56,063)	-	(56,063)
Net deferred tax asset	286,183	(16,127)	302,310

29. Income tax (continued)

Deferred tax assets and liabilities relate to the following items in 2016:

	31 December 2016	Recognised in profit and loss	31 December 2015
Deferred tax liabilities:			
Property, plant and equipment (i)	-	100,351	(100,351)
Trade and other payables (ii)	-	1,474	(1,474)
Total	-	101,825	(101,825)
Deferred tax assets:			
Property, plant and equipment (i)	184,514	184,514	-
Intangible assets (i)	45,643	20,618	25,025
Other current liabilities (ii)	-	(33,977)	33,977
Deferred expenses (ii)	-	(3,657)	3,657
Employee benefit liability (ii)	5,658	4,054	1,604
Advances received and deferred revenue (ii)	-	(11,626)	11,626
Provisions (ii)	55,851	52,545	3,306
Taxes payable other than income tax (ii)	10,644	9,564	1,080
Accumulated tax losses (iii)	56,063	-	56,063
Total	358,373	222,035	136,338
Provision for deferred tax asset	(56,063)	-	(56,063)
Net deferred tax asset / (liability)	302,310	323,860	(21,550)

The nature of the temporary differences is as follows:

- (i) For property, plant and equipment, intangible assets – differences arise mainly due to different useful lives estimation; differences in capitalisation principles;
- (ii) For advances received and deferred revenue, deferred expenses, employee benefit liability, other current liabilities, trade and other payables, provisions, taxes payable other than income tax – differences arise due to different period of expenses recognition in financial and tax accounting, as well as due to the differences in measurement and recognition principles;
- (iii) In 2014, the Company recognised deferred tax assets of UAH 56,063 thousand on accumulated tax losses inherited from 'Golden Telecom LLC' ("GT"). In 2015 the Company recognised provision for deferred tax assets of UAH 56,063 thousand on accumulated tax losses inherited from LLC "Golden Telecom" ("GT").

Prepaid income tax as at 31 December 2016 (UAH 361,466 thousand) was fully utilised within 2017. As at 31 December 2017, the Company has payable position on settlements with the budget amounted to UAH 300,312 thousand, which was classified as a current liabilities.

It is expected that all tax differences, except those arising on property plant and equipment, and intangible assets, will be utilized within the next accounting period.

30. Commitments and contingencies

(i) Tax risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual.

Management believes that the Company has complied with the laws governing its activities and that the Company paid and accrued all taxes. Where the risk of outflow of resources is probable, the Company has accrued provisions based on management's best estimate. The Company identified certain possible tax contingencies, which are not required to be accrued in the financial statements. These potential tax liabilities may arise and the Company will have to pay additional taxes. The tax authorities can perform inspections for the financial period of three calendar years preceding the year of the inspection. Under certain circumstances reviews may cover longer periods.

(ii) Legal matters

In the ordinary course of business, the Company is subject to legal actions and complaints. Where the risk of outflow of resources is probable, the Company has accrued provisions based on management's best estimate.

Management believes that the ultimate liability, arising from unasserted claims and complaints, if any, will not have an adverse effect on the Company's financial position or the results of its future operations in excess of provisions that have been made in these financial statements.

(iii) Other capital commitments

As at 31 December 2017 the Company had outstanding commitments in respect of purchase and construction of property, plant and equipment in the amount of UAH 126,673 thousand (2016: UAH 446,590 thousand).

As at 31 December 2017 the Company had outstanding commitments related to purchases of intangible assets in the amount of UAH 216,404 thousand (2016: UAH 573,051 thousand).

(iv) Lease commitments

Operating lease – the Company as a lessee

The Company has entered into certain leases of land and buildings. These leases have an average life from one to five years with a renewal option included in the contracts.

Future minimum rentals payable under non-cancellable operating lease agreements as at 31 December are as follows:

	2017	2016
Within one year	351,509	361,412
After one year but not more than five years	270,806	310,503
More than five years	551,884	568,115
Total	1,174,199	1,240,030

31. Fair value of financial instruments

The management assessed that as at 31 December 2017 and 2016 fair value of cash and short-term deposits, trade and other receivables, other current financial assets, other non-current financial liabilities, trade and other payables approximates their carrying amounts largely due to the short-term maturities of these instruments.

32. Financial instruments and risk management

The Company's principal financial instruments comprise cash and cash equivalents and other current financial assets. The Company has various other financial instruments, such as trade payables and trade receivables, which arise directly from its operations.

It is the Company's policy not to trade with financial instruments. The Company is exposed to market risk, credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. The Company's senior management oversees the management of these risks and financial risk-taking activities are governed by appropriate policies and procedures so that financial risks are identified, measured and managed in accordance with the Company policies.

The policies for managing each of these risks are summarised below.

32. Financial instruments and risk management (continued)

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. The Company does not have significant exposure to interest rate risk as it normally borrows at fixed rates. Neither it has exposure to other price risk.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when the Company's trade receivables and trade payables are denominated in foreign currencies) and financing activities (when interest-bearing borrowings are denominated in foreign currencies).

The exchange rates for foreign currencies, in which the Company's financial assets and liabilities were denominated, against Ukrainian hryvnia, as declared by the National Bank of Ukraine as at the dates and periods stated, are as follows:

	USD	EUR
1 January 2016	24.001	26.223
Average for 2016	25.551	28.292
31 December 2016	27.191	28.423
Average for 2017	26.595	30.013
31 December 2017	28.067	33.495

The following tables demonstrate the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets and liabilities).

The sensitivity analyses have been prepared on the basis that the proportion of financial instruments in foreign currencies is constant at 31 December 2017 and 2016.

2017	Increase/ (decrease) in basis points	Increase/ (decrease) of profit before tax	Increase/ (decrease) of retained earnings
Change in USD exchange rate	+10.00%	(10,389)	(8,519)
Change in the EUR exchange rate	+10.00%	46,332	37,992
Change in the USD exchange rate	-1.00%	1,039	852
Change in the EUR exchange rate	-1.00%	(4,633)	(3,799)

2016	Increase/ (decrease) in basis points	Increase/ (decrease) of profit before tax	Increase/ (decrease) of retained earnings
Change in USD exchange rate	+10.00%	(22,690)	(18,606)
Change in the EUR exchange rate	+10.00%	47,629	39,056
Change in the USD exchange rate	-1.00%	2,269	1,861
Change in the EUR exchange rate	-1.00%	(4,763)	(3,906)

Liquidity risk

The Company analyses the ageing of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments. The Company's short-term and long-term liquidity needs are funded largely through cash flow from operating activities.

The maturity profile of the Company's financial liabilities as at 31 December 2017 includes only trade and other payables and other financial liabilities with maturity less than 3 months in the amount of UAH 1,848,213 thousand (2016: UAH 1,726,458 thousand) based on contractual undiscounted payments.

32. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Financial instruments, which potentially expose the Company to significant concentrations of credit risk, consist principally of cash in bank, short-term deposits, and trade and other receivables.

The Company's maximum credit risk exposure at 31 December comprises:

	2017	2016
Cash and cash equivalents (except for cash in hand)	5,348,387	3,319,783
Trade and other receivables	1,272,320	1,382,982
Other current assets	2,089,594	13,835
Total	8,710,301	4,716,600

The Company's cash and deposits are primarily held in major reputable banks located in Ukraine. As at 31 December 2017 63% of cash and cash equivalents were held in top three banks (2016: 90%). As at 31 December 2017 100% of short term deposits over 3 month were held in 2 banks (2016: zero). Analysis by credit quality of cash and cash equivalents and short term deposits over 3 months based on Fitch's ratings as at 31 December is as follows:

	2017		2016	
	Cash and cash equivalents	Short term deposits over 3 months	Cash and cash equivalents	Short term deposits over 3 months
- B- rated	3,781,611	1,679,402	2,202,051	-
- Unrated – Other Ukrainian banks	1,566,776	-	1,117,732	-
Total	5,348,387	1,679,402	3,319,783	-

Accounts receivable are presented net of allowances. The Company does not require collateral for trade receivables. As at 31 December 2017 part of trade receivables are due from entities under common control totalling to 9.6% (2016: 13.0%) and due from other related parties totalling to 22.2% (2016: 18.0%).

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. Credit risk arising from financial transactions is reduced through diversification, through accepting counterparties with high credit ratings only and through defining limits on aggregated credit exposure towards each counterparty. The Company's credit risk exposure is monitored and analysed on a case-by-case basis, and the Company's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets.

As at 31 December 2017 and 2016, the ageing of the Company's trade and other receivables and other current financial assets, net of impairment, is as follows:

	Neither past due, nor impaired	Past due but not impaired					Total
		Less than 30 days	30-60 days	60-90 days	90-120 days	More than 120 days	
2017	874,254	305,658	77,163	14,176	1,069	-	1,272,320
2016	1,161,534	137,677	69,244	10,146	4,381	-	1,382,982

32. Financial instruments and risk management (continued)

Offsetting financial assets and financial liabilities

The following table presents gross amounts recognised and financial assets and liabilities which are subject to offsetting as at 31 December 2017 and 31 December 2016:

2017	Gross amounts recognised	Gross amounts set off in the statement of financial position	Net amounts presented in the statement of financial position
Trade and other receivables	1,433,390	(161,070)	1,272,320
Trade and other payables	(1,879,097)	161,070	(1,718,027)

2016	Gross amounts recognised	Gross amounts set off in the statement of financial position	Net amounts presented in the statement of financial position
Trade and other receivables	1,761,644	(378,662)	1,382,982
Trade and other payables	(2,008,769)	378,662	(1,630,107)

For the financial assets and liabilities subject to netting arrangements, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis. The major arrangements are agreements with national and international interconnect operators and agreements with roaming partners in respect of roaming rebates settlements.

No enforceable master netting arrangements or similar arrangements were signed as at 31 December 2017 and 2016 and for the years then ended.

33. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company has established certain financial targets and coverage ratios that it monitors on a quarterly and annual basis and may adjust its capital management policies and targets following changes of its operating environment, market sentiment or its development strategy. Management is still assessing their optimum capital structure.

The Company considers its net debt and equity as its primary capital sources. Its net debt comprises long-term and short-term borrowings (if any) adjusted for the amount of cash and cash equivalents and short term deposits over 3 months. The amount of capital that the Company managed as of 31 December 2017 was UAH 10,097,242 thousand (2016: UAH 9,149,388 thousand).

34. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share for the years ended 31 December are as follows:

	2017	2016
Net profit attributable to ordinary equity holders of the parent for basic earnings, UAH thousand	6,152,495	3,387,067
Weighted average number of ordinary shares for basic earnings per share	13,095,262	13,095,262
Basic earnings per share, UAH	469.82	258.65

35. Events after the reporting period

On 31 January 2018 the National Commission for the Regulation of Communications and Informatisation (NCCIR) held an auction for the 15-year right to use of 4G licenses in the 2600 MHz band. As a result of the open tender Company has offered a highest bid price for 3 out of 7 lots, in the amount of UAH 916,302 thousand, including:

- ▶ *lot No. 3 (5 x 2 MHz), radio frequency bands: 2530-2535/2650-2655 MHz;*
- ▶ *lot No. 4 (5 x 2 MHz), radio frequency bands: 2525-2530/2645-2650 MHz;*
- ▶ *lot No. 5 (5 x 2 MHz), radio frequency bands: 2520-2525/2640-2645 MHz.*

The price of these lots is payable within 30 calendar days, and does not include conversion fee.

On 7 February 2018, the Company entered into the agreement with MMDS-Ukraine LLC for radio frequency bands conversion services related to 4G licenses auction. According to the agreement, specified radio frequency bands shall be released within one month from the payment date.

On 18 January 2018 a General Meeting of Shareholders declared a dividend on ordinary shares of UAH 2,211,781 thousand (UAH 168.90 per ordinary share).

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Notes to the Financial Statements - 31 December 2017
(in thousands of Hryvnia)

36. Supplementary notes

Company: PrJSC Kyivstar
Territory: Kyiv, Solomyansky district
State power authority: -
Organisational and legal form of economic activity: Joint Stock Company
Type of economic activity: Wireless electric communication
Measurement unit: thousands of hryvnias

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

Codes		

Notes to the Annual Financial Statements
for the year ended 31 December 2017

Form 5

DKUD code

I. Intangible assets

Groups of intangible assets	Line code	Balance at the beginning of the year		Additions in the year	Revaluation (upward +, downward -)		Disposals in the year		Amortisation charges for the year	Impairment losses for the year	Other changes for the year		Balance at the end of the year	
		Cost or valuation	Accum. amortisation		Cost or valuation	Accum. amortisation	Cost or valuation	Accum. amortisation			Cost or valuation	Accum. amortisation	Cost or valuation	Accum. amortisation
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Rights to use natural resources	010	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights to use property	020	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights for commercial signs	030	-	-	-	-	-	-	-	-	-	-	-	-	-
Rights for the industrial property objects	040	-	-	-	-	-	-	-	-	-	-	-	-	-
Copyright and allied rights	050	-	-	-	-	-	-	-	-	-	-	-	-	-
	060	-	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	070	8,077,619	4,037,873	837,439	-	-	147,994	147,819	786,979	-	-	-	8,767,064	4,677,033
Total	080	8,077,619	4,037,873	837,439	-	-	147,994	147,819	786,979	-	-	-	8,767,064	4,677,033
Goodwill	090	-	-	-	-	-	-	-	-	-	-	-	-	-

Item	Line code	Amount
1	2	3
From line 080, col. 14		
cost of intangible assets with restricted ownership rights	081	-
cost of pledged intangible assets	082	-
cost of intangible assets created in-house	083	-
From line 080, col. 5, cost of intangible assets received for targeted financing	084	-
From line 080, col. 15, accumulated amortisation of intangible assets with restricted ownership rights	085	-

Notes to the Annual Financial Statements for the year ended 31 December 2017

Form 5
(continued)

II. Property, plant and equipment

Groups of property, plant and equipment	Line code	Balance at the beginning of the year		Additions in the year	Revaluation (upward +, downward -)		Disposals in the year		Depreciated on charge for the year	Impairment loss	Other changes for the year		Balance at the end of the year		Including:			
		Cost or valuation	Accum deprec'n		Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n			Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n	Received on finance lease		Transferred on operating lease	
															Cost or valuation	Accum. deprec'n	Cost or valuation	Accum. deprec'n
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Land plots	100	44,684	-	-	-	-	-	-	-	-	-	-	44,684	-	-	-	-	-
Investment property	105	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital costs of land improvement	110	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings, constructions and transmission equipment	120	1,836,033	651,786	46,948	-	-	2,370	1,659	89,532	-	44,892	4,470	1,925,503	744,129	-	-	-	-
Machinery and equipment	130	17,555,734	12,656,183	2,307,959	-	-	2,212,911	2,180,813	1,352,608	25,471	(16,154)	(33,440)	17,634,628	11,820,009	-	-	-	-
Vehicles	140	-	-	134,084	-	-	-	-	26,361	-	-	-	134,084	26,361	-	-	-	-
Tools, fittings and furniture	150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Livestock	160	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Perennial plants	170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed assets	180	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library assets	190	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-current low-value items	200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Temporary buildings	210	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Natural resources	220	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Packaging	230	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hire items	240	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current tangible assets	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	260	19,436,451	13,307,969	2,488,991	-	-	2,215,281	2,182,472	1,468,501	25,471	28,738	(28,970)	19,738,899	12,590,499	-	-	-	-

Notes to the Annual Financial Statements for the year ended 31 December 2017

Form 5
(continued)

II. Property, plant and equipment

(continued)

	Item	Supplemen- tary notes	Line code	Amount
From line 260, col. 14	cost of PPE where legal restrictions of ownership rights exist		261	-
	cost of pledged PPE		262	-
	residual value of PPE out of use on a temporary basis (conservation, reconstruction, etc.)		263	-
	cost (or valuation) of fully depreciated PPE		264	6,346,899
	PPE of leased property		2641	-
From line 260, col. 8	residual value of PPE decommissioned for future sale		265	3,223
	residual value of fixed assets lost due to accidents		2651	-
From line 260, col. 5	cost of PPE purchased for targeted finance		266	-
	Cost of PPE received on operating lease terms		267	-
From line 260, col. 15	accumulated depreciation of fixed assets where legal restrictions of ownership rights exist		268	-
From line 105, col. 14	cost of investment property valued at fair value		269	-

Notes to the Annual Financial Statements
for the year ended 31 December 2017

Form 5
(continued)

III. Capital investments

Item	Line code	For the year	At the end of the year
1	2	3	4
Capital construction	280	773,596	168,945
Purchase (manufacturing) of PPE	290	1,434,477	534,109
Purchase (manufacturing) of other non-current tangible assets	300	-	-
Purchase (manufacturing) of intangible assets	310	826,866	22,651
Purchase (growing) of long-term biological assets	320	-	-
Other	330	-	-
Total	340	3,034,939	725,705

From line 340, col. 3

capital investments in investment property
financial costs included in financial investments

(341) -
(342) -

IV. Financial investments

Item	Line code	For the year	At the end of the year	
			Long-term	Current
1	2	3	4	5
A. Financial investments under equity method into:				
associates	350	-	-	-
subsidiaries	360	-	-	-
joint activities	370	-	-	-
B. Other financial investments into:				
shares in other entities' statutory capital	380	34,000	156,167	-
shares	390	-	-	-
bonds	400	-	-	-
other	410	-	-	-
Total (A+ B)	420	34,000	156,167	-

From line 1035 col. 4 of the Balance Sheet
(Statement of Financial Position)

Other long-term financial investments stated:
at cost (421)
at fair value (422)
at fair value (423)

156,167
-
-

From line 1160 col. 4 of the Balance Sheet
(Statement of Financial Position)

Current financial investments stated:
at cost (424)
at fair value (425)
at amortised cost (426)

-
-
-

**Notes to the Annual Financial Statements
for the year ended 31 December 2017**

Form 5
(continued)

V. Income and expenses

Item	Suppleme n-tary notes	Line code	Income	Expenses
1		2	3	4
A. Other operating income and expenses				
Operating lease of assets		440	53,123	-
Operating exchange difference		450	150,793	-
Sale of other current assets		460	-	-
Fines, penalties and interest		470	811	152
Maintenance of social assets		480	-	-
Other operating income and expenses		490	253,380	91,475
Including:				
charges to bad debt reserve		491	X	73,537
non-productive expenses and losses		492	X	-
B. Income and expenses from participation in equity of:				
associates		500	-	-
subsidiaries		510	-	-
joint activities		520	-	-
C. Other financial income and expenses				
Dividends		530	-	X
Interest		540	X	-
Finance lease of assets		550	-	-
Other financial income and expenses		560	718,944	4,010
D. Other income and expenses				
Sale of financial investments		570	-	-
Income from business combinations		580	-	-
Result of impairment test		590	-	-
Non-operating exchange difference		600	-	18,627
Assets received for free		610	-	X
Write-off of non-current assets		620	X	18,235
Other income and expenses		630	139,823	11,690

Item	Line code	Amount
1	2	3
Barter transactions with goods, works and services	631	-
Share in sales revenue from sales of goods, works and services under barter agreements with related parties (%)	632	-
From lines 540-560 col. 4: finance expenses included in cost of sales	633	-

**Notes to the Annual Financial Statements
for the year ended 31 December 2017**

Form 5
(continued)

VI. Cash

Item	Line code	At the end of the year
1	2	3
Cash on hand	640	-
Current bank account	650	250,263
Other bank accounts (letters of credit, cheque books)	660	4,942,869
Cash in transit	670	155,255
Cash equivalents	680	-
Total	690	5,348,387

From line 1090, col. 4 of the Balance Sheet (Statement of Financial Position) cash with restricted use	691	-
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VII. Provisions

Type of provision	Line code	Balance at the beginning of the year	Increase during the reporting period		Amount used during the year	Reversal of unused amounts during the reporting year	Amount of expected compensation by the other party included in the provision assessment	Balance at the end of the year
			Provision created	Additional charges				
1	2	3	4	5	6	7	8	9
Provision for vacation payments to employees	710	39,847	59,314	-	52,771	-	-	46,390
Provision for additional future pension expenses	720	6,060	3,847	-	-	-	-	9,907
Provision for future expenses related to guarantees	730	-	-	-	-	-	-	-
Provision for future restructuring expenses	740	-	-	-	-	-	-	-
Provision for future expenses related to onerous contracts	750	-	-	-	-	-	-	-
Other provisions	760	409,444	116,275	-	-	242,568	-	283,151
	770	-	-	-	-	-	-	-
Doubtful debt provision	775	167,035	73,537	-	39,136	15,651	-	185,785
Total	780	622,386	252,973	-	91,907	258,219	-	525,233

**Notes to the Annual Financial Statements
for the year ended 31 December 2017**

Form 5
(continued)

VIII. Inventories

Item	Line code	Closing book value	Revaluation in the year	
			Increase in the net realisable value*	Downward revaluation
1	2	3	4	5
Raw and other materials	800	37,293	-	-
Purchased components and units	810	-	-	-
Fuel	820	-	-	-
Packaging	830	-	-	-
Construction materials	840	-	-	-
Spare parts	850	-	-	-
Agricultural materials	860	-	-	-
Current biological assets	870	-	-	-
Low-value items	880	130	-	-
Work in progress	890	-	-	-
Finished goods	900	-	-	-
Goods for resale	910	12,355	-	-
Total	920	49,778	-	-

From line 920, col. 3

Book value of inventories:

Supplementary notes

shown at net realisable value	(921)	-
transferred for processing	(922)	-
pledged	(923)	-
transferred on commission	(924)	-

Assets on safekeeping (off-balance sheet account 02) (925) -

From line 1200, col. 4 of the Balance Sheet (Statement of Financial Position) Inventories held for sale (926) -

* determined according to p. 28 of NR(S)AU 9 "Inventories"

**Notes to the Annual Financial Statements
for the year ended 31 December 2017**

Form 5
(continued)

IX. Accounts receivable

Item	Line code	Total at year-end	Including outstanding by age:		
			Less than 12 months	From 12 to 18 months	From 18 to 36 months
1	2	3	4	5	6
Accounts receivable for goods, works and services	940	1,183,076	1,183,076	-	-
Other current accounts receivable	950	-	-	-	-

Bad accounts receivable written-off during the reporting year (951) 39,136
From lines 940 and 950 accounts receivable with related parties (952) 375,834

X. Losses and shortages resulting from damages

Item	Line code	Amount
1	2	3
Losses and shortages identified and written-off during the year	960	1,193
Recognised as debts of the guilty parties during the year	970	-
Losses and shortages where guilty parties are not identified at year end (off-balance sheet account 072)	980	-

XI. Construction contracts

Item	Line code	Amount
1	2	3
Revenue from construction contracts for current year	1110	-
Amounts outstanding at reporting year end:		-
from customers, gross	1120	-
to customers, gross	1130	-
on advances received	1140	-
Overdue amounts at year end	1150	-
Cost of work done by subcontractors for construction contracts in progress	1160	-

**Notes to the Annual Financial Statements
for the year ended 31 December 2017**

Form 5
(continued)

XII. Corporate profit tax

Item	Line code	Amount
1	2	3
Current corporate profit tax	1210	1,256,389
Deferred tax assets:		
at the beginning of year	1220	302,310
at the end of year	1225	286,183
Deferred tax liabilities:		
at the beginning of year	1230	-
at the end of year	1235	-
Included in the Statement of Financial Results – total	1240	1,272,516
Including:		
current corporate profit tax	1241	1,256,389
decrease (increase) of deferred tax assets	1242	16,127
increase (decrease) of deferred tax liabilities	1243	-
Recorded in equity – total	1250	-
Including:		
current corporate profit tax	1251	-
decrease (increase) of deferred tax assets	1252	-
increase (decrease) of deferred tax liabilities	1253	-

XIII. Use of depreciation charge

Item	Line code	Amount
1	2	3
Depreciation charge for the year	1300	2,255,480
Used during the year – total	1310	2,255,480
Including for:		
construction of units	1311	574,915
purchasing (manufacturing) and improvements of PPE	1312	1,066,062
including machines and equipment	1313	931,978
purchasing (manufacturing) of intangible assets	1314	614,503
paying off loans received for capital investments	1315	-
	1316	-
	1317	-

Originally signed by President, Peter Chernyshov

Originally signed by Chief Accountant, Olena Ksenich