Private Joint Stock Company Kyivstar

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

31 December 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Consolidated Balance Sheet (Consolidated Statement of Financial Position)....3
Consolidated Statement of Financial Results (Consolidated Statement of Comprehensive Income)....6
Consolidated Statement of Cash Flows (indirect method)....8
Consolidated Statement of Shareholders' Equity....10
1. Corporate information....12
2. Operating environment, risks, political and economic conditions in Ukraine....12
3. Basis of preparation....13
4. New or revised standards and interpretations....13
5. Summary of significant accounting policies....15
6. Critical accounting judgements and key sources of estimation uncertainty....24
7. Related party disclosure....25
8. Property, plant and equipment....28
9. Intangible assets....31
10. Construction-in-progress....33
11. Other non-current assets....33
12. Trade and other receivables....34
13. Cash and cash equivalents....35
14. Deferred expenses....35
15. Statutory capital....36
16. Interest-bearing loans and borrowings....36
17. Trade and other payables....37
18. Taxes payable, other than income tax....37
19. Advances received....37
20. Provisions....38
21. Other current liabilities....39
22. Deferred revenue....39
23. Revenue....40
24. Operating expenses....40
25. Finance income....41
26. Financial expenses....41
27. Other expenses....41
28. Income tax....41
29. Commitments and contingencies....44
30. Fair value of financial instruments....44
31. Financial instruments and risk management....44
32. Earnings per share....47
33. Events after the reporting period....47

pwc

Independent Auditor's Report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, consolidated financial statements present fairly, in all material respects, the financial position of PrJSC Kyivstar and its subsidiaries (the "Group") as at 31 December 2016, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet (the consolidated statement of financial position, form #1) as at 31 December 2016;
- the consolidated statement of financial results (the consolidated statement of comprehensive income, form #2) for the year then ended;
- the consolidated statement of cash flows (form #3) for the year then ended;
- the consolidated statement of shareholders' equity (form #4) for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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 Consolidated 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 Group 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 consolidated financial statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

10 April 2017

Originally has been signed by Yulia Victorivna Paranich
Chief Executive Officer

Yulia Victorivna Paranich
Audit certificate № 004720
Issued on 22 June 2001

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

(in thousands of Hryvnia)

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

		Codes		
	Date (year, month, date)	2017	01	01
Company Private Joint Stock Company "Kyivstar"	EDRPOU	21673832		
Territory Kyiv, Shevchenkivskyi district	KOATUU	8038900000		
Organisational and legal form of economic activity Joint Stock Company	KOPFG	230		
Type of economic activity Activities in the field of wireless telecommunications	KVED	61.20		

Average number of employees[1] 2,623
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 Consolidate Statement of Financial Results (Ther Consolidated Statement of Comprehensive Income) (Form 2) where amounts are stated in Ukrainian hryvnias with kopecks)
Prepared (tick the necessary box):

according to National Regulations (Standards) of Accounting in Ukraine	
according to International Financial Reporting Standards	X

Consolidated Balance Sheet (Consolidated Statement of Financial Position)

as at 31 December 2016

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	4,346,899	4,043,012
historical cost	1001		7,446,270	8,080,902
amortisation	1002		(3,099,371)	(4,037,890)
Construction-in-progress	1005	10	931,322	1,015,330
Property, plant and equipment	1010	8	6,993,237	6,135,705
historical cost	1011		18,585,869	19,501,069
depreciation	1012		(11,592,632)	(13,365,364)
Investment property	1015		-	-
Long-term biological assets	1020		-	-
Long-term financial investments: accounted for according to the equity method	1030		-	-
other financial investments	1035		-	-
Long-term accounts receivable	1040	12	404,795	-
Deferred tax assets	1045	28	-	302,310
Other non-current assets	1090	11	420,008	684,930
Total Section I	**1095**		**13,096,261**	**12,181,287**

The accompanying notes form an integral part of the consolidated financial statements

(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		48,986	50,858
production stock	1102		29,931	41,682
goods for resale	1104		19,055	9,176
Current biological assets	1110		-	-
Accounts receivable for goods, works and services	1125	12	1,111,292	1,357,747
Accounts receivable on settlements:				
on advances issued	1130	12	40,493	90,479
with the budget	1135	12	801,190	363,819
including corporate profit tax prepaid	1136	12, 28	799,997	361,466
Accounts receivable for settlements on accrued income	1140	12	8,353	26,163
Other current accounts receivable	1155	12	206	71
Current financial investments	1160		-	-
Cash and cash equivalents	1165	13	1,672,125	3,419,008
Deferred expenses	1170	14	100,007	93,676
Other current assets	1190		1,376	14,037
Total Section II	**1195**		**3,784,028**	**5,415,858**
III. Non-current assets held for sale and disposal groups	**1200**		**230**	**10,825**
BALANCE	**1300**		**16,880,519**	**17,607,970**

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	15	1,009,249	1,009,249
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		9,599,730	11,427,145
Unpaid capital	1425		-	-
Withdrawn capital	1430		(370,398)	(370,398)
Total Section I	**1495**		**10,629,808**	**12,457,223**
II. Long-term liabilities and provisions				
Deferred tax liabilities	1500	28	21,524	-
Retirement benefit liabilities	1505		8,846	6,231
Long-term bank borrowings	1510		-	-
Other long-term liabilities	1515	22	140,688	152,159
Long-term provisions	1520	20	18,366	57,089
including employee benefits	1521		-	23,190
Special-purpose financing	1525		-	-
Total Section II	**1595**		**189,424**	**215,479**

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	16	991,228	-
for goods, works, services	1615	17	1,701,847	1,628,380
with the budget	1620	18	237,261	161,447
including liability on corporate profit tax	1621		52	1,507
for insurance	1625		-	-
on payroll	1630		321	372
on advances received	1635	19	522,915	544,440
with shareholders	1640	15	549,966	1,531,735
Current provisions	1660	20	86,108	352,777
Deferred income	1665	22	354,744	417,648
Other current liabilities	1690	16, 21	1,616,897	298,469
Total Section III	**1695**		**6,061,287**	**4,935,268**
IV. Liabilities associated with non-current assets held for sale and disposal groups	**1700**		**-**	**-**
BALANCE	**1900**		**16,880,519**	**17,607,970**

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 10 April 2017:
Originally signed by President, Peter Chernyshov
Originally signed by Chief Accountant, Olena Ksenich

The accompanying notes form an integral part of the consolidated financial statements

(in thousands of Hryvnia)

		Codes		
Company Private Joint Stock Company "Kyivstar"	Date (year, month, date)	2017	01	01
(name)	EDRPOU	21673832		

Consolidated Statement of Financial Results (Consolidated Statement of Comprehensive Income)

for the year ended 31 December 2016

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	23	15,753,027	14,925,358
Cost of sales of goods, works and services	2050	24	(8,658,447)	(7,927,329)
Gross: Profit	2090		7,094,580	6,998,029
Loss	2095		-	-
Other operating income	2120		97,730	3,312
Administrative expenses	2130	24	(1,271,998)	(1,077,082)
Selling expenses	2150	24	(1,316,755)	(1,327,902)
Other operating expenses	2180	24	(374,209)	(162,366)
Financial results from operating activities: Profit	2190		4,229,348	4,433,991
Loss	2195		-	-
Income from participation in equity	2200		-	-
Other financial income	2220	25	325,360	206,591
Other income	2240		26,302	6,390
Financial expenses	2250	26	(18,454)	(162,896)
Losses from participation in equity	2255		-	-
Other expenses	2270	27	(337,454)	(1,029,620)
Financial results before taxation: Profit	2290		4,225,102	3,454,456
Loss	2295		-	-
Income tax expense	2300	28	(815,589)	(881,777)
Profit (loss) from discontinued operations after tax	2305		-	-
Net financial result: Profit	2350		3,409,513	2,572,679
Loss	2355		-	-

The accompanying notes form an integral part of the consolidated financial statements

(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**		**3,409,513**	**2,572,679**

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	24	2,275,894	3,347,186
Payroll	2505	24	844,462	837,710
Social payments	2510	24	127,569	208,299
Depreciation/amortisation	2515	24	3,675,708	1,737,246
Other operating expenses	2520	24	4,697,776	4,364,238
Total	**2550**		**11,621,409**	**10,494,679**

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 Group are not sold or purchased on stock exchanges. Detailed information is presented in notes 16 and 33.

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 10 April 2017:

Originally signed by President, Peter Chernyshov

Originally signed by Chief Accountant, Olena Ksenich

(in thousands of Hryvnia)

Company Private Joint Stock Company "Kyivstar" (name)		Codes
	Date (year, month, date)	2017 01 01
	EDRPOU	21673832

Consolidated Statement of Cash Flows (indirect method)

for the year ended 31 December 2016

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		4,225,102	3,454,456
Adjustments for: depreciation of non-current assets	3505	24	3,675,708	1,737,246
increase (decrease) in provisions	3510	20	305,392	49,779
non-realised foreign exchange differences	3515		(26,947)	536,112
loss (income) from other non-operating and non-cash transactions	3520		246,803	37,293
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	27	42,237	454,470
Financial expenses	3540	26	18,454	162,896
Decrease (increase) in current assets	3550		(43,752)	57,721
Decrease (increase) in inventories	3551		(1,872)	(12,467)
Decrease (increase) in accounts receivable for goods, works and services	3553		(128,920)	225,813
Decrease (increase) in other current accounts receivable	3554		126	-
Decrease (increase) in deferred expenses	3556		(23,629)	(8,032)
Decrease (increase) in other current assets	3557		(13,835)	-
Increase (decrease) in current liabilities	3560		357,582	(171,856)
Increase (decrease) in current accounts payable for goods, works and services	3561		(194,368)	(1,170,792)
Increase (decrease) in current accounts payable for settlements with the budget	3562		(98,672)	(48,471)
Increase (decrease) in current accounts payable for settlements on insurance	3563		-	-
Increase (decrease) in current accounts payable for settlements on payroll	3564		57	-
Increase (decrease) in deferred income	3566		(273,115)	44,642
Increase (decrease) in other current liabilities	3567		25,300	(5,024)
Cash flows from operating activities	3570		8,091,651	5,343,786
Income tax paid	3580		(303,696)	(164,045)
Interest paid	3585		-	(243,499)
Cash flows from operating activities, net	**3195**		**7,787,955**	**4,936,242**

(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		23,674	26,687
Receipts from:				
interest received	3215		-	-
dividends received	3220		-	-
Receipts from derivatives	3225		-	-
Other receipts	3250		-	55,472
Purchases of:				
financial investments	3255		-	-
non-current assets	3260		(2,779,928)	(6,361,537)
Payments on derivatives	3270		-	-
Expenditure for loan issue	3275		(317,500)	-
Other payments	3290		-	-
Cash flows from investing activities, net	**3295**		**(3,073,754)**	**(6,279,378)**
III. Cash flows from financing activities				
Receipts from:				
Equity	3300		-	-
Loans received	3305		-	2,139,368
Other receipts	3340		-	-
Expenditure for:				
Repurchase of own shares	3345		-	-
Loans repayment	3350		(2,449,156)	(984,523)
Payment of dividends	3355		(518,162)	-
Interest paid			-	-
Other payments	3390		-	-
Cash flows from financing activities, net	**3395**		**(2,967,318)**	**1,154,845**
Cash flows for the reporting period, net	**3400**		**1,746,883**	**(188,291)**
Cash at the beginning of the year	3405		1,672,125	1,827,399
Effect of exchange rates on cash balances	3410		-	33,017
Cash at the end of the year	3415		3,419,008	1,672,125

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 10 April 2017:
Originally signed by President, Peter Chernyshov
Originally signed by Chief Accountant, Olena Ksenich

(in thousands of Hryvnia)

Company Private Joint Stock Company "Kyivstar"
(name)

	Codes		
Date (year, month, date)	2017	01	01
EDRPOU	21673832		

Consolidated Statement of Shareholders' Equity

for the year ended 31 December 2016

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**	**1,009,249**	**-**	**258,294**	**132,933**	**9,599,730**	**-**	**(370,398)**	**10,629,808**
Adjustments: Change in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-
Balance at the beginning of the year, adjusted	**4095**	**1,009,249**	**-**	**258,294**	**132,933**	**9,599,730**	**-**	**(370,398)**	**10,629,808**
Net profit (loss) for the reporting period	**4100**	**-**	**-**	**-**	**-**	**3,409,513**	**-**	**-**	**3,409,513**
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	-	-	-	-	-	-	-	-

The accompanying notes form an integral part of the consolidated financial statements

(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	-	-	-	-	(82,167)	-	-	(82,167)
Changes in equity, total	**4295**	-	-	-	-	1,827,415	-	-	1,827,415
Balance at the end of the year	**4300**	**1,009,249**	**-**	**258,294**	**132,933**	**11,427,145**	**-**	**(370,398)**	**12,457,223**

Signed and authorised for release on behalf of management of Private Joint Stock Company Kyivstar on 10 April 2017:

Originally signed by President, Peter Chernyshov

Originally signed by Chief Accountant, Olena Ksenich

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 Processing Centre in Lviv.

As at 31 December 2016 and 2015 the Company's direct shareholders and their respective declared interests were as follows:

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

As at 31 December 2016 and 31 December 2015, the Company had two wholly owned subsidiaries – Subsidiary Company "Staravto" and Limited Liability Company "StarMoney". The Company and its subsidiaries are hereinafter together referred to as the "Group".

The Company's ultimate parent is VimpelCom 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 2016, though to a lesser extent as compared to 2014–2015.

The inflation rate in Ukraine during 2016 reduced to 12% (as compared to 43% in 2015), while GDP returned to growth of 1% (after 10% decline in 2015).

Devaluation during 2016 has been moderate. As at the date of this report the official exchange rate of Hryvnia against US dollar was UAH 26.97 per USD 1, compared to UAH 27.19 per USD 1 as at 31 December 2016 (31 December 2015: UAH 24.00 per USD 1). In 2016 the National Bank of Ukraine ("NBU") has made certain steps to ease the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency for mandatory sale was decreased from 75% to 65% starting from 9 June 2016 and the settlement period for export-import transactions in foreign currency was increased from 90 to 120 days starting from 28 June 2016. Also starting from 13 June 2016, the NBU allowed Ukrainian companies to pay dividends to non-residents with a limit of USD 5 million per month.

The National Bank of Ukraine prolonged these restrictions several times during 2015 – 2016 years and the current restrictions are effective until rescinded by the NBU (with minor exceptions, including mandatory conversion of foreign currency proceeds, which are set to expire on 16 June 2017). The IMF continued to support the Ukrainian government under the four-year Extended Fund Facility ("EFF") Programme approved in March 2015, providing the third tranche of approximately USD 1 billion in September 2016. Further disbursements of IMF tranches depend on the continued implementation of Ukrainian government reforms, and other economic, legal and political factors.

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. During 2014–2016 the Deposit Guarantee Fund repaid about UAH 74 billion to depositors of insolvent banks and over UAH 150 billion were allocated to capitalisation of state-owned and nationalised banks.

The conflict in the parts of Eastern Ukraine which started in spring 2014 has not been resolved to date. The relationships between Ukraine and the Russian Federation remain 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.

Despite certain improvements in 2016, 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 consolidated financial statements of the Group 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 consolidated financial statements are presented in UAH and all values are rounded to the nearest thousand, except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group 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 consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries, companies Subsidiary Company Staravto and Limited Liability Company StarMoney. The subsidiaries are fully consolidated from the date they were incorporated by the Company. The subsidiaries' financial statements are prepared at the same reporting date as the Company's, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

4. New or revised standards and interpretations

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- *Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016);*
- *Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).*

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

The following are significant and relevant new standards that are issued, but not yet effective, up to the date of the issuance of the Group's consolidated financial statements, and which have not been early adopted by the Group:

- *IFRS 9, Financial instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018);*
- *IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for periods beginning on or after 1 January 2018);*
- *Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for periods beginning on or after 1 January 2018);*
- *IFRS 16, Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019);*
- *Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).*

The nature and impact of each applicable new standards and amendment is described below:

IFRS 9, Financial instruments: Classification and Measurement

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).

4. New or revised standards and interpretations (continued)

- 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.

IFRS 15, Revenue from Contracts with Customers

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

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.

IFRS 16, Leases

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 consolidated income statement. 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.

Disclosure Initiative - Amendments to IAS 7

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group will present relevant disclosures in its consolidated financial statements for the year ended 31 December 2017.

IFRSs are continuously undergoing a process of revision, with a view to increasing harmonisation of accounting rules internationally. Proposals to issue new IFRSs or amendments to IFRS, as yet unpublished, including standards as discussed above, or other topics may change standards and may therefore affect the accounting policies applied by the Group in future periods.

The Group is currently assessing the impact of the above standards on its consolidated financial statements.

5. Summary of significant accounting policies

Functional and presentation currencies

The functional and presentation currency of the Company and its subsidiaries is Ukrainian Hryvnia, the currency of the primary economic environment in which the Group operate.

Foreign currency translation

Monetary assets and liabilities are translated into the functional currency of the Group 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 Group'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 2016, the principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2016, UAH	31 December 2015, UAH
1 US dollar (USD)	27.191	24.001
1 Euro (EUR)	28.423	26.223

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 Group recognises revenue when the amount of revenue can be reliably measured, and when it is probable that future economic benefits will flow to the Group. 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 51 months for pre-paid subscribers (2015: 46 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 87 months for contract subscribers, 51 months for pre-paid subscribers and 109 months for fixed line subscribers (2015: 93 months, 46 months and 77 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 consolidated statement of comprehensive income.

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

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

The Group 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 Group'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 Group's operations.

Selling expenses are expenses related to sales (distribution) of the Group'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 Group's expenses not included in the cost of sales, administrative expenses, selling expenses, financial expenses and corporate profit tax expenses but associated with the Group'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 Group's expenses not related to its operating activities. These include expenses resulting from unusual events not inherent in the Group's operations: 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 Group 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. 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 consolidated 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 till 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

Local, regional & trunk networks, mobile telephone network and switches, radio installations are included to achinery 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 Group does not expect to use vehicles 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 profit and loss in the year 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.

Gains and losses arising from derecognition of property, plant and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as other expenses in the consolidated statement of comprehensive income.

Land

Freehold land to which the Group has due legal title is included in the Group's consolidated statement of financial position at its historical cost 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 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 Group 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 Group 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 Group 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 Group 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 Group 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)

Investment property

Investment property is real estate property (land or a building, or both) held by the Group (in proprietorship or under the finance lease contract) to earn rentals or for capital appreciation or both.

The same property can be split into structurally isolated portions intended for different purposes: one portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the Group's operations or for administrative purposes. If these portions cannot be sold separately, this property is defined as investment property providing that only portion of the property of less than 40% of the total area is held for use in the Group's operations or for administrative purposes.

Investment property is recorded at cost (amortised cost). As at 31 December 2016 and 2015, the Group did not have items recognised as investment property.

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 expenditure is 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 consolidated statement of comprehensive income.

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 Group 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 Group.

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 Group 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 consolidated 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 consolidated financial statements on a recurring basis, the Group 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 Group 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 Group 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 Group's operations, the management concluded that the Group has one cash generating unit, which is the Group'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 Group 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 Group commits to purchase or sell the asset.

The Group'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 consolidated 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 Group 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 Group'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 consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 Group 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 Group 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 Group 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 consolidated 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 derecognsed when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group's continuing involvement in the asset. In that case, the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 consolidated 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 Group 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 recognsed 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 consolidated financial statements.

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 or less.

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

Provisions and reserves

Provisions and reserves are recognised when the Group 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 Group 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.

5. Summary of significant accounting policies (continued)

Contingent assets and liabilities

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

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. 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 Group'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 Group and no dividends are allocated to them.

Events after the reporting period

Events after the reporting period that provide additional information on the Group 's position at the reporting date (adjusting events) are reflected in the consolidated 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 consolidated 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 Group's equity.

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 consolidated 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 consolidated financial statements are prepared.

A critical accounting estimate is one, which is both important to the portrayal of the Group'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 Group's revenues is earned from mobile services, such as airtime, one-time connection fees or periodic subscriptions. The Group has many pre-paid and post-paid subscribers and offers a number of different services with different tariff plans. The Group also provides discounts of various types, often in connection with different campaigns. Revenues from one-time subscriptions or connections to the Group'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 Group. As at 31 December 2016 the management estimated the customer relationship period to be equal to 87 months for contract subscribers and 51 months for pre-paid subscribers (2015: 93 months and 46 months, respectively). As a result of change in the above mentioned accounting estimates starting from 1 January 2016, the Group's profit before tax for the year 2016 decreased by UAH 3,992 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 28 for additional information on the Group'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 Group's views on the trends and pace of development may change over time. Some of the assets and technologies, in which the Group invested several years ago, are still in use and provide the basis for the new technologies.

(in thousands of Hryvnia)

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

Depreciation and amortisation (continued)

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 Group made a decision to replace Ericsson and Nokia telecommunication equipment located in Ukraine. The expected useful lives of the equipment and software to be replaced were reduced from this date and this equipment was subject to accelerated depreciation. The amount of accelerated depreciation for 2016 totalled UAH 1,797,626 thousand.

On 1 November 2016, the Group made a decision to replace outdated software related to support systems, which is also subject to accelerated amortisation with related accelerated amortisation for 2016 totalling UAH 25,482 thousand.

Impairment of non-financial assets

The Group 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 Group'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.

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 27.

7. Related party disclosure

As at 31 December 2016 and 2015, income and expenses with related parties were as follows:

			2016			2015
	Immediate parent	Entities under common control	Other related parties	Immediate parent	Entities under common control	Other related parties
Sales of goods and services	-	1,857,508	102,275	-	2,656,396	4,493
Cost of materials, traffic charges and other direct costs	-	(791,093)	(13,893)	-	(1,712,072)	(4,056)
Other operating expenses	(174,473)	(44,547)	-	(72,580)	(84,038)	-
Loss on initial recognition of interest-free loans	-	(82,167)	-	-	-	-
Unwinding of discount on interest-free loans provided	-	21,853	-	-	-	-
Interest expense (including capitalised interest)	-	(37,788)	-	-	(206,841)	-
Other income	-	19,295	-	-	-	-
Total	**(174,473)**	**943,061**	**88,382**	**(72,580)**	**653,445**	**437**

In October 2016, the Group's parent disposed of part of its interest in an entity under common control Wind Telecomunicazioni S.p.A. Starting from November 2016, Wind Telecomunicazioni S.p.A. is classified as other related parties.

During 2016, the Group sold UAH 19,295 thousand of property, plant and equipment to an entity under common control. There were no sales of property, plant and equipment to/from entities under common control in 2015.

During 2016, 8.2% of total revenue represents sells to one customer, the entity under common control PJSC VimpelCom (2015: 12.5% of total revenue).

(in thousands of Hryvnia)

7. Related party disclosure (continued)

As at 31 December 2016 and 2015, balances with related parties were as follows:

	2016			2015		
	Immediate parent	Entities under common control	Other related parties	Immediate parent	Entities under common control	Other related parties
Interest-free loans	-	257,186	-	-	-	-
Trade and other receivables	-	181,906	249,601	-	550,205	6,977
Loans payables CL	-	-	-	-	(2,280,121)	-
Interest accrued CL	-	-	-	-	(36,675)	-
Trade and other payables	(44,426)	(93,988)	(28,203)	(54,999)	(261,959)	(11,094)
Payables to shareholders	-	(1,531,682)	-	-	(549,966)	-
Other current liabilities	-	(96,351)	-	-	(96,561)	-
Total	**(44,426)**	**(1,282,929)**	**221,398**	**(54,999)**	**(2,675,077)**	**(4,117)**

Transactions with related parties were on contractual terms.

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. Except for loan payables, outstanding balances on settlements with related parties are interest free. There have been no financial guarantees issued in favour of the Group or received to/from any related party. For the years ended 31 December 2016 and 2015, the Group has not recorded any impairment of receivables as regards to the amounts owed by the related parties.

Revenues and trade receivables

In 2016 the Group provided to domestic and foreign telecom operators, being the Group's related parties, interconnection, roaming and access to network services in the total amount of UAH 1,960,349 thousand (2015: UAH 2,660,922 thousand).

The related trade receivables as at 31 December 2016 and 2015 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 bank charges, 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 non-current assets

Other non-current assets include an interest-free loan in the amount of UAH 317,500 thousand provided 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% with the related loss on initial recognition of UAH 82,167 thousand (2015: nil) recognised in other changes in equity and related unwinding of discount of UAH 21,853 thousand recognised in finance income (2015: nil).

Loans payables CL

Loans payables CL included current loans from the entities under common control payable within twelve months after the balance sheet date. Loans payables CL are recorded at the amount to be repaid.

(in thousands of Hryvnia)

7. Related party disclosure (continued)

Interest accrued CL

Interest accrued CL included interest on loans from the entities under common control payable within twelve months after the balance sheet date.

Settlements with shareholders

Settlements with shareholders comprise of dividends declared but not yet paid to shareholders as at 31 December 2016 and 2015.

Other current liabilities

Other current liabilities to entities under common control included deferred payment for investment in Golden Telecom LLC.

Compensation to management personnel

As at 31 December 2016 key management personnel consisted of 21 top executives of the Group (2015: 20).

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

	2016	2015
Short-term employee benefits	108,341	126,456
Long term incentive plan for management	23,190	-
Total compensation to key management personnel	**131,531**	**126,456**

(in thousands of Hryvnia)

8. Property, plant and equipment

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: Received on finance lease		Including: Transferred on operating lease	
		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	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	1,852,614	573,484	-	-	-	16,147	8,674	87,145	-	-	-	1,836,467	651,955	-	-	-	-
Machinery and equipment	130	16,622,071	10,963,999	1,839,114	-	-	905,248	904,722	2,587,261	9,808	-	-	17,555,937	12,656,346	-	-	-	-
Vehicles	140	65,975	54,684	155	-	-	2,603	2,296	4,316	-	-	-	63,527	56,704	-	-	-	-
Tools, fittings and furniture	150	419	366	-	-	-	139	136	29	-	-	-	280	259	-	-	-	-
Livestock	160	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Perennial plants	170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed assets	180	106	99	70	-	-	2	2	3	-	-	-	174	100	-	-	-	-
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**	**18,585,869**	**11,592,632**	**1,839,339**	**-**	**-**	**924,139**	**915,830**	**2,678,754**	**9,808**	**-**	**-**	**19,501,069**	**13,365,364**	**-**	**-**	**-**	**-**

(in thousands of Hryvnia)

8. Property, plant and equipment (continued)

The movement of property, plant and equipment during 2015 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: Received on finance lease		Including: Transferred on operating lease	
		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	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	1,855,046	414,036	30,071	-	-	32,503	15,915	110,515	64,848	-	-	1,852,614	573,484	-	-	-	-
Machinery and equipment	130	14,749,614	10,260,724	2,576,681	-	-	704,224	701,481	1,225,666	179,090	-	-	16,622,071	10,963,999	-	-	-	-
Vehicles	140	65,757	48,859	1,636	-	-	1,418	1,307	7,132	-	-	-	65,975	54,684	-	-	-	-
Tools, fittings and furniture	150	421	313	-	-	-	2	2	55	-	-	-	419	366	-	-	-	-
Livestock	160	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Perennial plants	170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other fixed assets	180	106	96	-	-	-	-	-	3	-	-	-	106	99	-	-	-	-
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**	**16,715,628**	**10,724,028**	**2,608,388**	**-**	**-**	**738,147**	**718,705**	**1,343,371**	**243,938**	**-**	**-**	**18,585,869**	**11,592,632**	**-**	**-**	**-**	**-**

8. Property, plant and equipment (continued)

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

As at 31 December 2016 historical cost of fully depreciated items that are still in use comprised UAH 6,422,576 thousand (2015: UAH 6,149,853 thousand).

During 2016 the Group capitalised borrowing costs to the cost of property, plant and equipment in the amount of UAH 9,804 thousand (2015: UAH 48,450 thousand). During 2016 and 2015 the average capitalisation rate was 0.86% per month.

(in thousands of Hryvnia)

9. Intangible assets

The movement of intangible assets during 2016 is as follows:

Groups of intangible assets	Line code	Balance at the beginning of the year		Addi-tions 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	7,446,270	3,099,371	731,765	-	-	97,133	58,436	996,955	-	-	-	8,080,902	4,037,890
Total	**080**	**7,446,270**	**3,099,371**	**731,765**	**-**	**-**	**97,133**	**58,436**	**996,955**	**-**	**-**	**-**	**8,080,902**	**4,037,890**
Goodwill	090	-	-	-	-	-	-	-	-	-	-	-	-	-

The movement of intangible assets during 2015 is as follows:

Groups of intangible assets	Line code	Balance at the beginning of the year		Addi-tions 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	4,352,858	3,138,029	3,530,656	-	-	437,244	432,533	393,875	-	-	-	7,446,270	3,099,371
Total	**080**	**4,352,858**	**3,138,029**	**3,530,656**	**-**	**-**	**437,244**	**432,533**	**393,875**	**-**	**-**	**-**	**7,446,270**	**3,099,371**
Goodwill	090	-	-	-	-	-	-	-	-	-	-	-	-	-

(in thousands of Hryvnia)

9. Intangible assets (continued)

As at 31 December 2016 historical cost of fully amortised intangible assets that are still in use comprised UAH 1,707,084 thousand (2015: UAH 1,332,365 thousand).

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

Licence #	Coverage	Licence	Acquisition date	Expiration date	Net book value as at 31 December 2016	Net book value as at 31 December 2015
#000669	National	GSM-1800 cellular (mobile) telecommunication services (iii)	Oct 2011	Oct 2026	6,142	6,767
#000670	National	GSM-900 cellular (mobile) telecommunication services (iii)	Oct 2011	Oct 2026	6,142	6,767
#000671	Interna-tional	Fixed international communication services (i), (iii)	Aug 2004	Aug 2019	1,594	2,193
#000672	Inter city	Fixed inter city communication services (i), (iii)	Aug 2004	Aug 2019	1,627	2,238
#000673	City	Fixed city communication services (iii)	Aug 2015	Aug 2020	303	386
#000668	National	Cellular (mobile) telecommunication services (ii)	Apr 2015	Mar 2030	8,159	8,771
ДЛ №000912 (#8665)	National	Digital Mobile Radio IMT-2000 (UMTS) (ii)	Apr 2015	Mar 2030	2,449,652	2,634,532
Total					**2,473,619**	**2,661,654**

(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.

During 2016 the Group capitalised borrowing costs to the cost of intangible assets in the amount of UAH 12,562 thousand (2015: UAH 28,173 thousand). During 2016 and 2015 the average capitalisation rate was 0.86% per month.

(in thousands of Hryvnia)

10. Construction-in-progress

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 PPE	290	1,922,543	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**	**2,668,977**	**1,015,330**

Construction in progress for 2015 was as follows:

Item	Line code	For the year	At the end of the year
1	2	3	4
Capital construction	280	-	233,353
Purchase (manufacturing) of PPE	290	2,841,664	675,771
Purchase (manufacturing) of other non-current tangible assets	300	-	-
Purchase (manufacturing) of intangible assets	310	3,532,599	22,198
Purchase (growing) of long-term biological assets	320	-	-
Other	330	-	-
Total	**340**	**6,374,263**	**931,322**

11. Other non-current assets

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

	2016	2015
Prepayments for intangible assets	349,954	364,964
Interest-free loans	257,186	-
Non-current deferred expenses (Note 15)	70,492	53,113
Prepayments for property, plant and equipment	6,291	1,931
Other non-current assets	1,007	-
Total	**684,930**	**420,008**

During the year, the Group 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% with the related loss on initial recognition of UAH 82,167 thousand (2015: nil) recognised in other changes in equity and related unwinding of discount of UAH 21,853 thousand recognised in finance income (2015: nil).

(in thousands of Hryvnia)

12. Trade and other receivables

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

	2016	2015
Corporate profit tax prepaid – long term part	-	404,795
Total long term receivables	**-**	**404,795**
Trade receivables – interconnection and access to network	450,391	520,779
Trade receivables – roaming	759,756	464,585
Trade receivables – subscribers	259,285	219,388
Accounts receivable for settlements on accrued income	26,163	8,353
Trade receivables – dealers for pre-paid cards and packages	22,206	22,206
Accounts receivable from sale of long-lived assets	20,031	-
Other receivables	5,731	14,536
Allowance for impairment	(159,582)	(129,996)
Total current financial receivables	**1,383,981**	**1,119,851**
Corporate profit tax prepaid – current part	361,466	799,997
Advances issued	97,933	46,353
Other settlements with budget	2,353	1,193
Allowance for impairment	(7,454)	(5,860)
Total	**1,838,279**	**2,366,329**

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

	2016	2015
EUR	802,823	578,798
USD	351,779	410,953
UAH	226,161	130,100
GBP	3,218	-
Total	**1,383,981**	**1,119,851**

As at 31 December 2016 and 2015 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 2015	**84,368**	**1,427**	**85,795**
Charge for the year	97,553	4,612	**102,165**
Utilised	(20,518)	(165)	**(20,683)**
Unused amounts reversed	(31,408)	(14)	**(31,422)**
As at 31 December 2015	**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**

In 2016 bad debt expense in the amount of UAH 58,334 thousand (2015: 70,743 thousand) is included in other operating expenses. Refer to Note 24. Accounts receivable with related parties is disclosed in Note 7.

(in thousands of Hryvnia)

13. Cash and cash equivalents

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

	2016	2015
Short-term deposits	2,733,600	1,452,000
Cash at banks	613,189	156,893
Cash in transit	72,219	63,232
Total	**3,419,008**	**1,672,125**

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

	2016	2015
UAH	607,282	135,894
USD	4,096	15,707
EUR	1,804	5,292
GBP	7	-
Total	**613,189**	**156,893**

Cash in transit all denominated in UAH.

In 2016 and 2015 cash at current bank accounts earned interest at fixed rates varying from 1.25% to 26.00% per annum.

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

		2016		2015	
Currency	**Maturity date**	**UAH thousands**	**Interest rate p.a.**	**UAH thousands**	**Interest rate p.a.**
UAH	0-30 days	257,000	10.0%	1,172,000	16.5%-18.5%
	31-60 days	487,900	13.5%-15.5%	280,000	16.0%-20.0%
	61-90 days	1,988,700	15.0%-16.5%	-	-
Total		**2,733,600**		**1,452,000**	

14. Deferred expenses

As at 31 December deferred expenses consist of the following:

	2016	2015
Deferred connection costs (i)	95,217	73,301
Deferred costs of start packages and scratch-cards (ii)	23,809	29,706
Deferred costs of fixed line connections (iii)	22,689	20,153
Other deferred costs	22,453	29,960
Total	**164,168**	**153,120**
Current deferred expenses	93,676	100,007
Non-current deferred expenses (Note 11)	70,492	53,113

(i) As at 31 December 2016 and 2015 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.

(in thousands of Hryvnia)

14. 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 2015	**59,845**	**30,670**	**24,614**	**15,660**	**130,789**
Deferred during the year	55,077	65,621	5,153	642,698	768,549
Released to profit and loss	(41,621)	(66,585)	(9,614)	(628,398)	(746,218)
As at 31 December 2015	**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**

15. Statutory capital

Registered (share) capital

As at 31 December 2016 the authorised and fully paid share capital comprised 17 742 389 ordinary shares (2015: 17 742 389 ordinary shares) at a par value of UAH 50 each. The carrying value of share capital differs from par by UAH 122 130 thousand being the currency translation difference, accumulated till 1 May 2004 when the Company changed its functional currency from US dollar to Ukrainian Hryvnia.

Dividends declared

In 2016, the Company declared dividends in the amount of UAH 1 499 931 thousand (UAH 114.54 per share). In 2015, the Company did not declare any dividends. As at 31 December 2016, the total amount of unpaid dividends is UAH 1 531 735 thousand (2015: UAH 549 966 thousand). As at 31 December 2015 and 2016, according to the decision No 758 of 1 December 2014, the NBU extended some restrictions on payment of dividends in foreign currency.

16. Interest-bearing loans and borrowings

As at 31 December, interest-bearing loans and borrowings comprise the following:

	2016	2015
Current		
Interest-bearing borrowings from Vimpelcom Cyprus Finance Ltd (USD-denominated, at 9.8% p. a., mature on 18 February 2016)	-	1,286,436
Interest accrued	-	20,528
Interest-bearing borrowings from Golden Telecom Inc. (USD-denominated, at 5% p. a., mature on 31 January 2016)	-	631,218
Interest accrued (current portion)	-	7,890
Interest-bearing borrowings from OJSC Vimpel-Communications (USD-denominated, at 7.7% p. a., mature on 5 February 2016)	-	360,010
Interest accrued	-	8,257
Total	**-**	**2,314,339**
Other current liabilities	-	1,323,111
Long-term liabilities (short-term part)	-	991,228

(in thousands of Hryvnia)

17. Trade and other payables

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

	2016	2015
Equipment and construction works	304,930	328,486
Roaming	442,576	297,240
Technical support services	211,181	291,285
Software	183,635	265,094
Professional and consultancy fees	98,457	169,224
Interconnection	65,538	144,100
Advertising and promotion	85,759	78,019
Dealers	48,122	40,646
Rent	50,992	30,267
Content services	31,592	26,238
Inventory	41,477	18,009
Other payables	64,121	13,239
Total	**1,628,380**	**1,701,847**

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:

	2016	2015
UAH	683,611	783,509
USD	586,035	696,559
EUR	351,381	214,967
RUB	6,326	5,133
GBP	1,027	1,679
Total	1,628,380	1,701,847

As at 31 December 2016 and 2015 trade and other payables are non-interest bearing and are settled in the normal course of business.

18. Taxes payable, other than income tax

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

	2016	2015
Frequency fee	70,056	-
VAT payable	51,592	210,777
Pension fund duty for mobile services	36,738	25,702
Miscellaneous other taxes	1,554	730
Total	159,940	237,209

19. Advances received

As at 31 December advances received consist of the following:

	2016	2015
Advances received from subscribers	543,771	517,169
Advances received from dealers	297	5,539
Advances received from agents for subscribers account replenishment	-	30
Other advances received	372	177
Total	544,440	522,915

(in thousands of Hryvnia)

20. Provisions

The movement in provisions is as follows:

	Decommi-ssioning	Legal cases and penalties	Restructuring	Long-terms incentive to management	Other	Total
As at 1 January 2015	**24,872**	**11,325**	**18,140**	-	**358**	**54,695**
Arising during the year	2,572	1,234	-	-	73,549	77,355
Utilised	(2,172)	-	(18,140)	-	-	(20,312)
Unused amounts reversed	-	-	-	-	(358)	(358)
Change in estimates	(9,445)	-	-	-	-	(9,445)
Discount rate adjustment	2,539	-	-	-	-	2,539
As at 31 December 2015	**18,366**	**12,559**	-	-	**73,549**	**104,474**
Arising during the year	1,067	263,998	-	23,190	4,035	292,290
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**	**77,584**	**409,866**
As at 31 December 2015	**18,366**	**12,559**	-	-	**73,549**	**104,474**
Current	-	12,559	-	-	73,549	86,108
Non-current	18,366	-	-	-	-	18,366
As at 31 December 2016	**33,899**	**275,193**	-	**23,190**	**77,584**	**409,866**
Current	-	275,193	-	-	77,584	352,777
Non-current	33,899	-	-	23,190	-	57,089

Decommissioning liabilities

As at 31 December 2016 the Group recognised UAH 33 899 thousand (2015: UAH 18 365 thousand) of provision for decomissioning in respect of future dismantling costs related to its network equipment installed on leased sites. Provision for decommissioning has increased in 2016 due to the changes in input assumptions as follows:

	Assumptions used as at 31 December 2016	Assumptions used as at 31 December 2015
Cost of dismantling per site, UAH	42,000	42,000
Discount rate	14.7%	17.0%
Inflation rate	5.0%	5.0%

As at 31 December 2016, the 1% decrease in the discount rate would increase the provision by UAH 7 772 thousand. As at 31 December 2015, the 1% decrease in the discount rate would increase the provision by UAH 5 394 thousand.

(in thousands of Hryvnia)

21. Other current liabilities

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

	2016	2015
Current loans and borrowings (Note 17)	-	1 323,111
Bonuses accrued	130,826	123,419
Deferred payment for investment in subsidiaries	96,351	96,561
Accrual for unused vacations	39,847	31,313
Other	31,445	42,493
Total	**298,469**	**1,616,897**

As at 31 December 2016 and 2015, other current liabilities other than borrowings are non-interest bearing and denominated in UAH.

22. Deferred revenue

As at 31 December deferred revenue consists of the following:

	2016	2015
Deferred revenue - dealers and subscribers (i)	323,329	262,454
Deferred connection and one-time subscription fees mobile (ii)	210,091	192,603
Deferred connection fees fixed (iii)	24,628	25,613
Customer loyalty programs (iv)	11,759	14,762
Total	**569,807**	**495,432**
Deferred revenue current	417,648	354,744
Deferred revenue non-current	152,159	140,688

(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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 2015	**165,656**	**35,451**	**42,124**	**243,231**
Deferred during the year	90,799	4,437	216,590	311,826
Released to profit and loss	(64,586)	(13,541)	(243,952)	(322,079)
Other changes	734	(734)	-	-
As at 31 December 2015	**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**

(in thousands of Hryvnia)

23. Revenue

	2016	2015
Periodic fees	5,504,926	4,073,483
Interconnect fees	3,879,681	4,630,946
Air time charges	2,701,628	3,073,121
Value added services	1,817,288	1,477,099
FTTB internet	603,845	524,031
Fixed lines	415,813	400,861
Roaming (subscribers)	357,504	331,179
Roaming and access to network	206,317	199,410
Connection and one-time subscription fees	82,440	64,586
Customer equipment sales	1,779	5,096
Other revenue	181,806	145,546
Total	**15,753,027**	**14,925,358**

24. Operating expenses

	2016	2015
Interconnection	1,627,691	2,862,218
Roaming	300,736	147,197
Cost of materials and services	235,370	263,047
Leased line costs	87,096	38,051
Access to network	25,001	36,673
Material expenses	**2,275,894**	**3,347,186**
Salaries and wages	533,228	477,570
Bonuses to employees	255,783	303,776
Other staff costs	55,451	56,364
Payroll	**844,462**	**837,710**
Social payments	**127,569**	**208,299**
Depreciation/amortisation	**3,675,708**	**1,737,246**
Local taxes and nonreimbursable VAT	1,009,986	1,023,738
Repair and maintenance	1,007,457	1,142,571
Marketing and sales commission	600,167	534,986
Operating leases of building, land and equipment	521,658	487,725
Electricity	410,583	373,698
Consultancy fees and external personnel	313,145	245,697
Provision for litigations and other claims	283,853	1,234
Advertising	270,387	262,299
Postage, freight, distribution and telecommunication	63,071	7,540
License and research fees	59,821	29,909
Bad debts	58,334	70,743
Business trip expenses	33,263	21,455
Materials and supplies	24,594	27,980
Bank charges	4,604	5,112
Insurance	2,793	24,095
Other operating expenses	34,060	105,456
Other operating expenses	**4,697,776**	**4,364,238**
Total	**11,621,409**	**10,494,679**
Cost of sales of goods, works and services	8,658,447	7,927,329
Administrative expenses	1,271,998	1,077,082
Selling expenses	1,316,755	1,327,902
Other operating expenses	374,209	162,366
Total	**11,621,409**	**10,494,679**

The average number of employees of the Group (including contactors) in 2016 was 2,623 (2015: 3,192).

(in thousands of Hryvnia)

25. Finance income

	2016	2015
Interest income	303,507	206,591
Unwinding of discount on interest-free loans provided	21,853	-
Total	325,360	206,591

26. Financial expenses

	2016	2015
Interest expense	15,941	130,220
Other finance costs	2,513	32,676
Total	18,454	162,896

27. Other expenses

	2016	2015
Foreign transaction loss	219,912	529,061
Loss on disposal of property, plant and equipment, construction in progress, intangible assets and assets of disposal group classified as held for sale	47,052	24,919
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	454,470
Contributions and donations	6,301	1,945
Impairment loss from other financial assets	4,416	18,730
Other expenses	17,536	495
Total	**337,454**	**1,029,620**

In 2016 the Group recognised impairment losses on property, plant and equipment in the amount of UAH 138,802 thousand (2015: UAH 475,898 thousand), based on internal indications of impairment for various individual components of network equipment, as the Group 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 2016 the Group recognised reversal of impairment losses in respect of network equipment in the amount of UAH 96,565 thousand (2015: UAH 21,428 thousand) as a result of changes in plans for future usage of previously impaired network equipment in accordance with adjusted capital expenditure budgets.

28. Income tax

The Group'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:

	2016	2015
Current income tax:		
Current income tax charge	1,139,449	605,445
Deferred tax:		
Relating to origination and reversal of temporary differences	(323,860)	276,332
Total	815,589	881,777

(in thousands of Hryvnia)

28. 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:

	2016	2015
Accounting profit before tax	4,225,102	3,454,456
Income tax at actual rate (18%)	760,518	621,802
Non - deductible expenses for tax purposes	20,788	118,579
Increase in deferred tax liability due to decision to write-off fixed assets, which are not fully amortised in tax accounts, in the course of the network modernisation	-	259,740
Change in estimates of deferred tax asset related to decision to write-off fixed assets, which are not fully amortised in tax accounts, in the course of the network modernisation	(31,962)	-
Recognition of deferred tax asset due to indexation of fixed assets value in tax accounts	-	(156,060)
Decrease in deferred tax asset due to decision to write-off fixed assets, which are not fully amortised in tax accounts, in the course of the network modernisation	28,184	-
Change in estimates of deferred tax asset on losses carried forward	-	56,063
Other changes (reassessment of temporary differences, effect of changes in tax rules)	38,061	(18,347)
Total	**815,589**	**881,777**

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)	-	(34,003)	34,003
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**	**222,009**	**136,364**
Provision for deferred tax asset	(56,063)	-	(56,063)
Net deferred tax asset / (liability)	**302,310**	**323,834**	**(21,524)**

(in thousands of Hryvnia)

28. Income tax (continued)

Deferred tax assets and liabilities relate to the following items in 2015:

	31 December 2015	Recognised in profit and loss	31 December 2014
Deferred tax liabilities:			
Property, plant and equipment (i)	(100,351)	(100,351)	-
Deferred expenses (ii)	-	14,193	(14,193)
Prepayments (ii)	-	17	(17)
Trade and other receivables (ii)	(1,474)	(1,474)	-
Total	**(101,825)**	**(87,615)**	**(14,210)**
Deferred tax assets:			
Property, plant and equipment (i)	-	(3,058)	3,058
Intangible assets (i)	25,025	24,600	425
Other current liabilities (ii)	33,977	6,261	27,716
Employee benefit liability (ii)	1,604	1,604	-
Advances received and deferred revenue (ii)	15,283	(33,281)	48,564
Inventories (ii)	-	(216)	216
Trade and other payables (ii)	-	(76,028)	76,028
Provisions (ii)	3,306	(1,171)	4,477
Taxes payable other than income tax (ii)	1,080	519	561
Interest-bearing loans and borrowings – NC (ii)	-	(528)	528
Accumulated tax losses (iii)	56,063	(51,356)	107,419
Total	**136,338**	**(132,654)**	**268,992**
Provision for deferred tax asset	(56,063)	(56,063)	-
Net deferred tax asset	**(21,550)**	**(276,332)**	**254,782**

The nature of the temporary differences is as follows:

(i) Property, plant and equipment and intangible assets – differences in depreciation and amortisation patterns and estimates of the remaining useful lives, differences in capitalisation principles;

(ii) Advances received and deferred revenue, deferred expenses, employee benefit liability, inventories, trade and other payables, provisions, taxes payable, other than income tax – differences in period of recognition, differences in measurement and recognition principles;

(iii) In 2013 the Company recognised deferred tax assets of UAH 175,338 thousand on accumulated tax losses inherited from JSC "Ukrainian RadioSystems" ("URS"), UAH 75,480 thousand of which were utilised within 2013, and UAH 99,858 thousand of which were utilised within 2014-2015. In 2014 the Company recognised deferred tax assets of UAH 56,063 thousand on accumulated tax losses inherited from LLC "Golden Telecom" ("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 in the amount of UAH 361,466 thousand is expected to be utilised within the next twelve months and was classified as a current asset (accounts receivable on settlements with the budget) as at 31 December 2016. In 2015, UAH 799 997 thousand was classified as a current asset (accounts receivable on settlements with the budget) and UAH 404,795 thousand was classified as a non-current asset (long term receivable).

All taxable and deductible differences will be realised in the next accounting period, except for those arising on property plant and equipment, intangible assets and non-current portion of deferred revenue and expense.

(in thousands of Hryvnia)

29. 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 Group has complied with the laws governing its activities and that the Group paid and accrued all taxes. Where the risk of outflow of resources is probable, the Group has accrued provisions based on management's best estimate. The Group identified certain possible tax contingencies, which are not required to be accrued in the consolidated financial statements. These potential tax liabilities may arise and the Group 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 Group is subject to legal actions and complaints. Where the risk of outflow of resources is probable, the Group 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 Group's consolidated financial position or the results of its future operations in excess of provisions that have been made in these consolidated financial statements.

(iii) Other capital commitments

As at 31 December 2016 the Group had outstanding commitments in respect of purchase and construction of property, plant and equipment in the amount of UAH 446,590 thousand (2015: UAH 29,496 thousand).

As at 31 December 2016 the Group had outstanding commitments related to purchases of intangible assets in the amount of UAH 573 051 thousand (2015: UAH 456,975 thousand).

(iv) Lease commitments

Operating lease – the Group as a lessee

The Group 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:

	2016	2015
Within one year	361,412	194,209
After one year but not more than five years	310,503	134,800
More than five years	568,115	299,417
Total	**1,240,030**	**628,426**

30. Fair value of financial instruments

The management assessed that as at 31 December 2016 and 2015 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.

31. 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 Group's policy not to trade with financial instruments. The Group is exposed to market risk, credit risk and liquidity risk.

The Group'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 Group. The Group'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 Group policies.

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

(in thousands of Hryvnia)

31. 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 Group 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 Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when the Group'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 Group'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 2015	15.769	19.233
Average for 2015	21.830	24.205
31 December 2015	24.001	26.223
Average for 2016	25.551	28.292
31 December 2016	27.191	28.423

The following tables demonstrate the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group'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 2016 and 2015.

2016	Increase/ (decrease) in basis points	Increase/ (decrease) of profit before tax
Change in USD exchange rate	+10.00%	(22,690)
Change in the EUR exchange rate	+10.00%	47,629
Change in the USD exchange rate	-1.00%	2,269
Change in the EUR exchange rate	-1.00%	(4,763)

2015	Increase/ (decrease) in basis points	Increase/ (decrease) of profit before tax
Change in USD exchange rate	+10.00%	(258,324)
Change in the EUR exchange rate	+10.00%	36,933
Change in the USD exchange rate	-1.00%	25,832
Change in the EUR exchange rate	-1.00%	(3,693)

Liquidity risk

The Group 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 Group's short-term and long-term liquidity needs are funded largely through cash flow from operating activities.

The tables below show the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted payments.

2016	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
Trade and other payables	1,628,380	-	-	-	1,628,380
Other financial liabilities	96,351	-	-	-	96,351
Total	**1,724,731**	**-**	**-**	**-**	**1,724,731**

(in thousands of Hryvnia)

31. Financial instruments and risk management (continued)

2015	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
Loans payables	2,277,663	-	-	-	2,277,663
Trade and other payables	1,701,847	-	-	-	1,701,847
Interest on loans	57,768	-	-	-	57,768
Other financial liabilities	96,561	-	-	-	96,561
Total	**4,133,839**	**-**	**-**	**-**	**4,133,839**

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 Group 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 Group 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:

	2016	2015
Cash and cash equivalents (except for cash in hand)	3,419,008	1,673,326
Trade and other receivables	1,383,981	1,119,851
Total	**4,802,989**	**2,793,177**

The Group's cash is primarily held in major reputable banks located in Ukraine. As at 31 December 2016 90% of cash and cash equivalents were held in three banks (2015: 81%).

Accounts receivable are presented net of allowances. The Group does not require collateral for trade receivables. As at 31 December 2016 significant part of trade receivables are due from entities under common control (13%) (2015: 49%) and due from other related parties (18%) (2015: 1%).

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 Group's credit risk exposure is monitored and analysed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets.

As at 31 December 2016 and 2016, the ageing of the Group'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					
		Less than 30 days	30-60 days	60-90 days	90-120 days	More than 120 days	Total
2016	1,162,533	137,677	69,244	10,146	4,381	-	**1,383,981**
2015	1,043,111	66,332	5,540	2,919	1,949	-	**1,119,851**

Capital management

The Group considers shareholders' equity as a primary capital source. Also the Group can incur debt either through shareholder loans or through external funding. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and sustain the Group's development strategy.

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy.

(in thousands of Hryvnia)

31. 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 2016 and 31 December 2015:

2016	Gross amounts recognised	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Trade and other receivables	1,762,643	(378,662)	1,383,981
Trade and other payables	(2,007,042)	378,662	(1,628,380)

2015	Gross amounts recognised	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position
Trade and other receivables	1,601,833	(481,982)	1,119,851
Trade and other payables	(2,183,829)	481,982	(1,701,847)

For the financial assets and liabilities subject to netting arrangements, each agreement between the Group 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 2016 and 2015 and for the years then ended.

32. 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:

	2016	2015
Net profit attributable to ordinary equity holders of the parent for basic earnings, UAH thousand	3,409,513	2,572,679
Weighted average number of ordinary shares for basic earnings per share	13,095,262	13,095,262
Basic earnings per share, UAH	**260.36**	**196.46**

33. Events after the reporting period

There were no significant events after the end of the reporting period requiring disclosure in the Group's consolidated financial statements.