Joint Stock Company
“National Joint Stock Company
“NAFTOGAZ OF UKRAINE”

Consolidated Financial Statements
as at and for the Year Ended
31 December 2021

JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

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Independent Auditor's Report

To the shareholder of Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine"

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply, in all material respects, with financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine**.**

Our auditor's report is consistent with our additional report to the shareholder dated 17 May 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit of Financial Statements and Auditing that are relevant to our audit of the consolidated financial statements in Ukraine. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 6 part 4 of the Law on Audit of Financial Statements and Auditing.

The services, other than the mandatory audit, that we have provided to the Group in the period from 1 January 2021 to 31 December 2021 include our review of the interim condensed consolidated financial statements of the Group for the 6 month period ended 30 June 2021.

Limited Liability Company Audit Firm "PricewaterhouseCoopers (Audit)"
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Material uncertainty relating to going concern

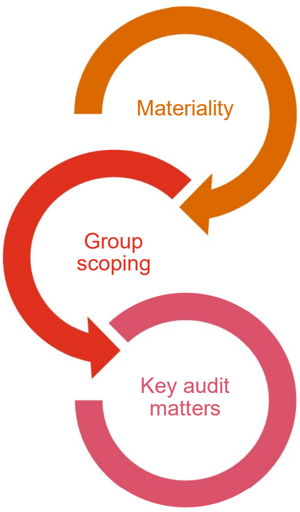
We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group is exposed to significant risks related to developments of the ongoing full scale military invasion of Ukraine by the Russian Federation. The magnitude or timing of further developments or timing of when those actions will cease are uncertain. As stated in the Note 2, these events or conditions, along with other matters as set forth in this note, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter - iXBRL reporting

In accordance with the legislation in force as at the date of this audit report, the IFRS consolidated financial statements of the Group should be prepared in a single electronic format (iXBRL). As described in Note 29 to the consolidated financial statements, as of the date of this audit report management of the Group has not yet prepared the iXBRL report due to the circumstances described in Note 29 and plans to prepare and submit the iXBRL report during 2022. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall Group materiality: UAH 2,692 million, which represents 0.75% of net assets.

- We conducted audit work over seven components all located in Ukraine. Because of the structure of the Group four components of the Group were audited by the group engagement team, while another three components were audited by the components auditors.
- Site visits were conducted in Ukraine.
- Our audit scope addressed 99% of the Group's revenues, 99% of the Group`s total assets and 98% of the Group's absolute value of underlying profit before tax.

- Valuation of Property, plant and equipment
- Accounting for rearrangement of receivable under the SPA and the agreement on compensation of underrecovered revenues from gas transportation services
- Valuation of receivables for natural gas
- Compliance with certain covenants of the loan agreements and the Eurobonds prospectuses that could affect classification of the Group's debt

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	UAH 2,692 million
How we determined it	0.75% of net assets
Rationale for the materiality benchmark applied	The Group is a state-owned business which operates on the highly regulated gas market, where existing legislation and market culture imposes certain limitations on the ability of the Group to influence prices and select customers. Most of the customers of the Group also operate on markets with regulated tariffs and their ability to pay to the Group is highly dependent on the state tariff regulation and compensation mechanisms. During recent years certain fundamental changes occurred on the Ukrainian gas market aimed to make it more liberal. However, the liberalisation process takes time therefore both profits and revenues of the Group are distorted by these regulatory factors and are also affected by other market factors (such as volatility of gas price). As such neither profit before tax nor revenues were considered to be an appropriate benchmark for materiality estimation. Instead, we chose net assets as the benchmark because, in our view, it represents a more appropriate measure of the size of the business. We chose 0.75% which is in the range of acceptable quantitative materiality thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Valuation of Property, plant and equipment *Refer to Notes 5, 27, 30 to the consolidated financial statements* The Group applies the revaluation model for subsequent measurement of property, plant and equipment ('PPE') used in the core activities of the Group. As at 31 December 2021 the carrying value of these assets amounted to UAH 266,266 million representing 91% of total PPE of the Group. The Group recognised UAH 84,593 million of revaluation uplift and UAH 2,048 million of impairment charge. Fair value was determined by reference to the valuation reports of independent licensed appraisers. Determining the fair value is a key audit matter since it requires application of subjective unobservable inputs and assumptions. In addition, the fair value model is sensitive to the assumptions used to determine economic impairment, such as price forecast for gas, oil and petroleum products, foreign currency exchange rates, mineral reserves; regulatory asset based tariffs for the Gas storage segment, discount rates for all segments.	As part of our audit procedures we performed the following: - engaged our internal valuation experts to assess the appropriateness of methodology used by the independent appraiser for PPE revaluation including calculation of WACC; - evaluated the competency of the independent licenced appraisers engaged in the process of PPE revaluation; - tested input data used by the independent appraisers for completeness and accuracy; - compared volumes of hydrocarbon reserves for the Exploration and production and Ukrnafta segments to the estimates of independent engineering firms; - made enquiries at different levels of the Group management, including technical specialists, to corroborate evidence obtained with testing of input data and verification of assumptions; - considered management's judgement in determining cash generating units and assumptions underlying the Group's cash flow forecast; - compared management estimates with the available short-term and mid-term budgets of the Group; - checked mathematical accuracy of economic models and whether the results are accurately compared and allocated to the carrying value of individual items of property, plant and equipment and relevant segments. We also assessed the adequacy of relevant disclosures related to properties measured at fair value in the notes to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Accounting for rearrangement of receivable under the SPA and the agreement on compensation of under recovered revenues from gas transportation services *Refer to Notes 8, 27, 30 to the consolidated financial statements* As described in Note 8 to the consolidated financial statements on 1 January 2020 the Group transferred its share in the subsidiary managing the gas transmission segment ("OGTSU") to an entity under common control of the shareholder under a sale-purchase agreement ("SPA"). The SPA presumed a fixed and dynamic component of the consideration payable which was recognised as a financial asset measured at fair value through profit or loss in the amount of UAH 81,058 million as at 31 December 2020. During 2021 additional information became available which highlighted that the structure of the deal as determined by the SPA agreement did not allow the parties to fulfil their obligation as originally planned. Therefore, following the instructions of the shareholder of the Group the parties rearranged the SPA agreement and the Group additionally entered a new related agreement directly with OGTSU related to compensation for under recovered revenues from gas transportation services. This new contract presumes certain fixed compensations for the period 2020-2024 and variable components for 2025-2034. The Group recognised a financial asset related to the contract and the net effect of UAH 31,131 million from rearrangement of the initial transaction was recognised directly in equity. As at 31 December 2021 the receivable for compensation of under recovered revenues from gas transportation services was revalued to UAH 16,567 million. Because of complex and non-routing nature of the transaction and significant management judgement involved as to its accounting treatment, we considered the matter as key audit matter.	As part of our audit procedures we performed the following: - obtained and analysed relevant agreements, regulatory framework and government decisions related to the rearrangement of receivable under the SPA and the agreement on compensation of under recovered revenues from gas transportation services; - assessed appropriateness of accounting for the net effect of the restructured arrangement directly in equity; - assessed appropriateness of classification of the financial receivable arising from the agreement on compensation of under recovered revenues and appropriateness of a methodology used by the management for the determination of the fair value of the receivable balance; - tested input data used by management for determination of the fair value of the receivable balance; - made enquiries at different levels of the Group management to corroborate evidence obtained within testing of input data and verification of assumptions; - checked mathematical accuracy of the models used to determine the fair value of the receivable. We also assessed the adequacy of relevant disclosures related to the receivable balance, including fair value disclosure and disclosure of relevant accounting judgements and estimates in the notes to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of receivables for natural gas *Refer to Notes 11, 30 to the consolidated financial statements* During the year the management of the Group reassessed its approach for determination of the level of expected credit losses ("ECL") for receivables from sales of gas to all customers except for direct sales to households. The Group switched from the simplified matrix of migration to a more comprehensive methodology which is based on the assessment of the Probability of Default (PD) for each customer and Loss Given Default (LGD) for different groups of customers. The new ECL model was developed by the Group based on statistical information which is adjusted for forward looking information. Given the Group operates on a market which is currently in the process of de-regulation, there are still plenty of legislative and market-specific factors which disrupt stability of cash inflows from customers and make the process of estimation of the expected credit losses subjective. Because of the significance of the receivable for gas balance and related ECL to these consolidated financial statements and involvement of significant accounting estimates and management judgements in the assessment process, we considered the matter as a key audit matter.	As part of our audit procedures we performed the following: - assessed appropriateness of methodology used by the management for the determination of ECL, including calculation of PD, LGD and incorporation of forward looking information; - tested input data used and analysed assumptions applied by management in the ECL model and classification of customers by group; - made enquiries at different levels of the Group management to corroborate evidence obtained within verification of assumptions. We also assessed the adequacy of relevant disclosures related to the receivables balance, including disclosure of relevant accounting judgements and estimates with the sensitivity analysis in the notes to the consolidated financial statements.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Compliance with certain covenants of the loan agreements and the Eurobonds prospectuses that could affect classification of the Group’s debt
Refer to Note 14 to the consolidated financial statements
Borrowings are disclosed in Note 14 to the financial statements. Under the terms and conditions of the credit agreements and the prospectuses for the bond issues, the Group should comply with certain financial and non-financial covenants, the breach of which may result in the requirement of early repayment of borrowings.
The statement of financial position as at the reporting date includes bank borrowings in the amount of UAH 19,052 million, including long-term bank borrowings of UAH 11,033 million and short-term bank borrowings of UAH 8,019 million. In addition, it includes Eurobonds borrowings in the amount of UAH 41,331 million, including long-term Eurobonds of UAH 32,193 million and short-term Eurobonds of UAH 9,138 million.
The Group's management reviewed compliance with the covenants during the reporting period and as at the reporting date and concluded that no breach of covenants occurred. We included this issue in the key audit matters, as the amount of borrowings is material and because the possibility of early settlement of liabilities may result in a significant cash outflow and, as a result, in liquidity issues.
</td><td>
As part of our audit procedures we performed the following:

read the credit agreements and the prospectuses for the Eurobond issues in terms of certain covenants included therein the breach of which may result in the requirement of early repayment of the borrowings;
considered compliance with the certain financial covenants by recalculating and comparing the values to thresholds set by the credit agreements and the prospectuses;
verified compliance with the certain non-financial covenants by inspection of documents confirming the compliance with these conditions and obtained and examined the Group’s correspondence with a state-owned bank where the Group requested and received clarification of terms of the covenant as part of their assessment of compliance with the covenants.

Also as part of our audit procedures we assessed the adequacy of the relevant disclosures related to the compliance with the covenants in the notes to the consolidated financial statements.
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How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the legal and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates. We also considered the nature of operations of its components and the markets in which the components of the Group operate.

The Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" is a state-owned company and is the parent of a group of entities operating predominantly in Ukraine. The Group is engaged in exploring for natural gas and oil, the development of new natural gas supplies, the transportation and storage of oil and gas and the sale of natural gas and liquefied petroleum gas to its customers. The detailed Group structure is included in the Note 1 to the consolidated financial statements.

In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at a component level.

The group audit included seven components in Ukraine, which were subjected to audits of their complete financial information, as those components are individually financially significant to the Group. Audit of the four significant components was performed by the group engagement team, while one of the significant components was audited by another PwC-network component team and two of the significant components were audited by other non-PwC-network component teams. We remain solely responsible for the opinion.

Additionally, we selected one component for specified audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. In total, in performing these procedures, we achieved the following coverage on the financial line items:

Line	Coverage
Revenues	99%
Profit before tax	98%
Total assets	99%
Net assets	99%

None of the remaining components represented more than 1% of total Group revenue or 1% of total Group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

By performing the procedures above, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the consolidated financial statements.

Other information including the management report

Management is responsible for the other information. The other information comprises the consolidated management report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual report and the Annual information of the issuer of securities, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, including the consolidated management report.

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

Based on the work undertaken in the course of our audit, in our opinion, the information given in the consolidated management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

When we read the Annual report and the Annual information of the issuer of securities, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine, and for such internal control as management determines is necessary to enable the preparation of the 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

Additional information provided in accordance with the National Securities and Stock Market Commission's Resolution N555 dated 22 July 2021

The audit of the consolidated financial statements of Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" was performed in accordance with agreement #14/76/21 dated 26 February 2021 and related additional agreements in the period from 1 September 2021 to the date of this report. The Company is a public interest entity in accordance with the Law on Accounting and Financial Reporting in Ukraine. The Company is neither a controller nor a member of a non-banking financial group.

Information on ultimate beneficial owner and ownership structure

In our opinion, information disclosed in the Note 1 in the consolidated financial statements is consistent with the information on the Company's ultimate beneficial owners and ownership structure disclosed in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Associations.

Information on Company's parents and subsidiaries

The Company is controlled by the Government of Ukraine. The Company's subsidiaries are:

Company	Country
Kirovogradgaz, OJSC	Ukraine
Gas supply company Naftogaz Trading, LLC	Ukraine
Gas supply company Naftogaz of Ukraine, LLC	Ukraine
Gaz Ukraiiny, SE	Ukraine
Naftogaz Trading Europe AG	Switzerland
Ukravtogaz, SE	Ukraine
Zakordonnaftogaz, SE	Ukraine
Chornomornafotgaz, SSE	Ukraine
Ukrgasvydobuvannya, JSC	Ukraine
Oleksandr, LLC	Ukraine
Naftogaz Drilling, LLC	Ukraine
Ukrnafta, PJSC	Ukraine
Ukrtransgaz, JSC	Ukraine
Ukrtransnafta, JSC	Ukraine
Naftogaz Oil Trading, LLC	Ukraine
Ukrtransnafta Service, LLC	Ukraine
UTN Bezpeka, LLC	Ukraine
IC Transmahystral, PrJSC	Ukraine
CF Ukrtransnafta, LLC	Ukraine
Ukrspectransgaz, JSC	Ukraine
Naftogaz Digital Technologies, LLC	Ukraine
Naftogaz Teplo, LLC	Ukraine
Vuglesyntezgaz Ukraiiny, LLC	Ukraine
Naukanaftogaz, SE	Ukraine
Naftogaz-Energoservice, SE	Ukraine
Naftogazbezpeka, SE	Ukraine
Nadra Uzivska, LLC	Ukraine
Donteskoblgaz, JSC	Ukraine

Reporting on consolidated management report

As stated in the Other information including the consolidated management report section of our auditor's report, based on the work undertaken in the course of our audit, in our opinion, the information given in the consolidated management report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements and we have nothing to report regarding identification of material misstatements.

Results of the revision commission's inspection

Results of the revision commission's inspection are not presented as the Company has no revision commission.

Appointment

We were first appointed as auditors of the Group for the mandatory audit for the year ended 31 December 2021. Our appointment was approved by the Cabinet of Ministers of Ukraine Resolution on 14 April 2021. This is the first year of our appointment.

The key audit partner on the audit resulting in this independent auditor's report is Julia Paranich.

LLC AF "PricewaterhouseCoopers (Audit)"
Identification number 21603903
Registration number in the Register of Auditors and Auditing Entities 0152

Julia Paranich
Registration number in the Register of Auditors and Auditing Entities 101809

Kyiv, Ukraine

17 May 2022

Original has been signed by Julia Paranich

JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

In millions of Ukrainian hryvnias	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	5	294,042	211,134
Intangible assets	6	4,367	3,147
Investments in associates and joint ventures	7	722	772
Deferred tax assets	24	5,668	7,685
Compensation of underrecovered gas transmission revenues	8	1,898	-
Consideration receivable under the SPA	8	-	63,432
Prepaid corporate income tax		3,269	9,375
Other non-current assets	9	5,787	2,892
Total non-current assets		**315,753**	**298,437**
Current assets			
Inventories	10	69,010	40,691
Trade accounts receivable	11	49,494	28,129
Prepayments made and other current assets	12	23,558	22,641
Compensation of underrecovered gas transmission revenues	8	14,669	-
Consideration receivable under the SPA	8	-	17,626
Prepaid corporate income tax		4,135	702
Cash and bank balances	26	30,540	37,106
Restricted cash	26	4,293	659
Total current assets		**195,699**	**147,554**
TOTAL ASSETS		**511,452**	**445,991**
EQUITY			
Share capital	13	194,307	194,307
Revaluation reserve		206,306	140,171
Foreign currency translation reserve		3,871	4,069
Accumulated deficit		(51,565)	(27,801)
Equity attributable to owners of the Parent		**352,919**	**310,746**
Non-controlling interest in equity	13	**6,075**	**3,535**
TOTAL EQUITY		**358,994**	**314,281**
LIABILITIES			
Non-current liabilities			
Borrowings	14	40,154	56,547
Provisions	15	8,015	9,853
Deferred tax liabilities	24	23,701	12,910
Other long-term liabilities	16	3,245	3,354
Total non-current liabilities		**75,115**	**82,664**
Current liabilities			
Borrowings	14	21,431	9,795
Provisions	15	15,077	13,576
Trade accounts payable	17	10,857	3,585
Advances received and other current liabilities	18	27,789	20,277
Corporate income tax payable		2,189	1,813
Total current liabilities		**77,343**	**49,046**
TOTAL LIABILITIES		**152,458**	**131,710**
TOTAL LIABILITIES AND EQUITY		**511,452**	**445,991**

Yuriy Vitrenko
Chairman of the Executive Board

Roman Chumak
Member of the Executive Board

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE FOR THE YEAR ENDED 31 DECEMBER 2021

In millions of Ukrainian hryvnias	Note	2021	2020
Revenue	3, 19	217,384	159,234
Compensation for performing public service obligations	2	-	32,205
Interest and other income		1,595	1,578
Total revenue and other income		**218,979**	**193,017**
Production and manufacturing expenses	20	(82,021)	(48,222)
Purchases	21	(63,235)	(64,558)
Depreciation, depletion and amortisation		(13,755)	(16,548)
Research, development and exploration costs		(1,060)	(588)
Impairment losses of non-financial assets		(2,777)	(7,950)
Selling, general and administrative expenses	22	(22,181)	(21,340)
Finance costs	23	(5,614)	(6,738)
Net movement in provision for financial assets	9,11,12	(10,514)	(42,595)
Total expenditure		**(201,157)**	**(208,539)**
Foreign exchange gain		1,529	1,545
Share of after-tax results of associates and joint ventures	7	(37)	(65)
Profit/(loss) before income tax		**19,314**	**(14,042)**
Income tax expense	24	(7,291)	(4,960)
Net profit/(loss)		**12,023**	**(19,002)**
Net profit/(loss) is attributable to:			
Owners of the Company		11,300	(20,851)
Non-controlling interest		723	1,849
Net profit/(loss)		**12,023**	**(19,002)**

JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

In millions of Ukrainian hryvnias	**Note**	**2021**	**2020**
Net profit/(loss)		**12,023**	**(19,002)**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss, net of income tax:			
Gain/(loss) on revaluation of property, plant and equipment, net of income tax effect of UAH 15,227 million (2020: UAH 3,572 million)		69,366	(15,889)
Remeasurement of defined benefit obligation, net of income tax effect of UAH 106 million (2020: UAH 125 million)	15	1,123	592
Remeasurement of decommissioning liability (net of income tax effect of UAH 202 million (2020: UAH 82 million)	15	921	371
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation reserve		(198)	729
Other comprehensive income/(loss)		71,212	(14,197)
Total comprehensive income/(loss)		**83,235**	(33,199)
Total comprehensive income/(loss) is attributable to:			
Owners of the Company		78,581	(34,279)
Non-controlling interests		4,654	1,080
Total comprehensive income/(loss)		**83,235**	**(33,199)**

JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Equity attributable to owners of the Parent						
In millions of Ukrainian hryvnias	Share capital	Revaluation reserve	Foreign currency translation reserve	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 31 December 2019	**194,307**	**316,264**	**3,340**	**(123,234)**	**390,677**	**1,897**	**392,574**
(Loss)/Profit for the year	-	-	-	(20,851)	(20,851)	1,849	(19,002)
Other comprehensive (loss)/income for the year	-	(14,686)	729	529	(13,428)	(769)	(14,197)
Total comprehensive (loss)/income for the year	**-**	**(14,686)**	**729**	**(20,322)**	**(34,279)**	**1,080**	**(33,199)**
Transfer of revaluation reserve (Note 8)	-	(161,407)	-	161,407	-	-	-
Provision for dividends payable to the State Budget and to other equity holders (Note 13)		-		(1,921)	(1,921)	(1,921)	(3,842)
Profit share paid to the State Budget (Note 13)	-	-	-	(32,928)	(32,928)	-	(32,928)
Loss on disposal of subsidiary (Note 8)	-	-	-	(8,336)	(8,336)	-	(8,336)
Part of non-controlling interest of transaction between Group companies		-		(2,473)	(2,473)	2,473	-
Other changes	-	-	-	6	6	6	12
Balance at 31 December 2020	**194,307**	**140,171**	**4,069**	**(27,801)**	**310,746**	**3,535**	**314,281**
Profit for the period	-	-	-	11,300	11,300	723	12,023
Other comprehensive income/(loss) for the period	-	66,526	(198)	953	67,281	3,931	71,212
Total comprehensive income/(loss)	**-**	**66,526**	**(198)**	**12,253**	**78,581**	**4,654**	**83,235**
Change in consideration receivable under the SPA and compensation for underrecovered gas transmission revenue (Note 8)	-	-	-	(31,131)	(31,131)	-	(31,131)
Loss due to acquisition of the subsidiary (Note 13)	-	-	-	(37)	(37)	(1,144)	(1,181)
Transfer of revaluation reserve	-	(391)	-	391	-	-	-
Dividends payable to the State Budget and to other equity holders (Note 13)	-	-	-	(1,331)	(1,331)	(966)	(2,297)
Profit share paid to the State Budget (Note 13)	-	-	-	(3,915)	(3,915)	-	(3,915)
Other changes	-	-	-	6	6	(4)	2
Balance at 31 December 2021	**194,307**	**206,306**	**3,871**	**(51,565)**	**352,919**	**6,075**	**358,994**

The accompanying notes are an integral part of these consolidated financial statements

JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

In millions of Ukrainian hryvnias	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before income tax		**19,314**	**(14,042)**
Adjustments for:			
Depreciation and depletion of property, plant and equipment and amortisation of intangible assets		13,755	16,548
Loss on disposal of property, plant and equipment		783	505
Impairment losses of non-financial assets		2,777	7,950
Write down of inventories	10	753	96
Net movement in provision for financial assets, prepayments made and other assets	9,11, 12	10,514	42,697
Fair value remeasurement of financial assets		609	321
Loss on disposal of investment		3	-
Change in provisions		7,421	3,232
Write-off of accounts payable and other current liabilities		(11)	(41)
Share of after-tax results of associates and joint-ventures	7	37	65
Net foreign exchange gain		(1,529)	(1,545)
Finance costs (net of Interest and other income)		4,019	5,160
Operating cash flows before working capital changes		**58,445**	**60,946**
(Increase)/decrease in other non-current assets		(1,391)	88
(Increase)/decrease in inventories		(28,685)	17,415
Increase in trade accounts receivable		(34,673)	(7,105)
(Increase)/decrease in prepayments made and other current assets		(13,420)	3,003
(Decrease)/increase in other long-term liabilities		(217)	21
Provisions paid or used	15	(2,610)	(32,982)
Increase/(decrease) in trade accounts payable		6,814	(1,473)
(Decrease)/increase in advances received and other current liabilities		(1,384)	2,822
Cash (used in)/generated from operations		**(17,121)**	**42,735**
Income taxes paid		(7,248)	(23,245)
Net cash (used)/generated by operating activities		**(24,369)**	**19,490**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(15,568)	(15,044)
Proceeds from sale of property, plant and equipment		41	9
Placement of restricted cash		(3,634)	(223)
Proceeds from sale of the State treasury bonds	4	11,423	22,563
Acquisition of the State treasury bonds	12	-	(34,832)
Proceeds from consideration receivable under the SPA	8	3,200	-
Compensation of underrecovered gas transmission revenues	8	30,278	-
(Purchase)/Proceeds of subsidiary (net of subsidiary's cash)	1,8, 13	(348)	3,851
Prepayment for lease		(241)	-
Interest received		775	846
Net cash generated from /(used in) investing activities		**25,926**	**(22,830)**

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)

In millions of Ukrainian hryvnias	**Note**	**2021**	**2020**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	14	7,607	6,136
Repayment of borrowings	14	(8,720)	(10,826)
Interest paid	14	(4,725)	(6,190)
Lease paid		(98)	(40)
Profit share and dividends paid	13,15	(9)	(39,625)
Net cash used in financing activities		**(5,945)**	**(50,545)**
Net decrease in cash and cash equivalents		**(4,388)**	**(53,885)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**37,106**	**77,593**
Effect of exchange rates change on cash and cash equivalents		(2,178)	13,398
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**30,540**	**37,106**

1. THE ORGANISATION AND ITS OPERATIONS

Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" ("Naftogaz", the "Parent" or the "Company") was founded in 1998 in accordance with the Resolution of the Cabinet of Ministers of Ukraine No.747 dated 25 May 1998.

Naftogaz is owned by the State of Ukraine. The Cabinet of Ministers of Ukraine executes the State corporate rights and the shareholders' meetings and appoints the Supervisory Board that controls and regulates the Executive Board activities.

Naftogaz and its subsidiaries (hereinafter collectively referred to as the "Group") is a vertically integrated oil and gas group of companies allowing optimisations across its portfolio. The Group is engaged in exploring for natural gas and oil, the development of new natural gas supplies, the transportation and storage of oil and gas and the sale of natural gas and liquefied petroleum gas to its customers. The Company holds stakes in various entities that form the national system of production, refinery, distribution, transportation, and storage of natural gas, gas condensate and oil.

On 28 April 2021, the Cabinet of Ministers of Ukraine announced the dismissal of Andriy Kobolyev, Chairman of the Executive Board, and appointed Yuriy Vitrenko to this position for one year. Prior to it, the Cabinet of Ministers of Ukraine terminated the powers of independent members and representatives of the State in the Supervisory Board with their subsequent re-election in full, from 30 April 2021. However, on 30 April 2021, the Supervisory Board notified the Cabinet of Ministers of Ukraine on the early termination of its powers from 14 May 2021.

On 19 May 2021, the Cabinet of Ministers of Ukraine reappointed Clare Spottiswoode, Bruno Lescoeur, Ludo Van der Heyden, Yuliya Kovaliv, and Nataliya Boyko as Naftogaz Supervisory Board members. Independent members and State representatives of the Supervisory Board will continue to exercise their powers until election and appointment of new Supervisory Board members, but no longer than one year. Further on 31 May 2021, the Cabinet of Ministers of Ukraine has appointed Yulia Svyrydenko as a State representative of the Supervisory Board member until election and appointment of new Supervisory Board members, but no longer than one year. On 7 September 2021, independent members of the Supervisory Board had notified the Cabinet of Ministers of Ukraine on the early termination of their powers from 22 September 2021. On 27 September 2021, the powers of State representatives in the Supervisory Board were also terminated. Given that the powers of all Supervisory Board members were terminated, the Cabinet of Ministers of Ukraine executes rights of the Supervisory Board within its rights as General Meetings starting from 28 September 2021.

On 22 September 2021, the Supervisory Board terminated the powers of Otto Waterlander and Peter Van Driel as Executive Board members. The powers of Sergiy Pereloma and Yaroslav Teklyuk as the Executive Board members were terminated by the Cabinet of Ministers of Ukraine, acting as the Supervisory Board. On 28 September 2021, the Cabinet of Ministers of Ukraine temporarily appointed Mavriky Kalugin, Olena Boichenko, Roman Chumak, and Vladyslav Volovyk as members to the Executive Board of Naftogaz. On 26 April 2022, the Cabinet of Ministers of Ukraine appointed Yuriy Vitrenko as a Chairman of the Executive Board and re-appointed Mavriky Kalugin, Olena Boichenko, Roman Chumak, and Vladyslav Volovyk as members to the Executive Board of Naftogaz till 30 April 2023.

The Company is registered at 6 B. Khmelnytskoho Street, Kyiv, Ukraine.

These consolidated financial statements were authorised for issue by the Executive Board on 17 May 2022.

1. THE ORGANISATION AND ITS OPERATIONS (Continued)

The Group conducts its business and holds its production facilities mainly in Ukraine. The principal subsidiaries and joint operations are:

Name/ business units	% Interest held as at 31 December		Subsidiary/ Joint operations	Country of registration
	2021	2020		
Exploration and Production				
Ukrgasvydobuvannya, JSC	100.00	100.00	Subsidiary	Ukraine
Natural Gas Storage				
Ukrtransgaz, JSC	100.00	100.00	Subsidiary	Ukraine
Oil Transit and Transportation				
Ukrtransnafta, JSC	100.00	100.00	Subsidiary	Ukraine
Ukrspectransgaz, JSC	100.00	100.00	Subsidiary	Ukraine
Ukravtogaz, SE	100.00	100.00	Subsidiary	Ukraine
Trading				
Gas supply company Naftogaz Trading, LLC	100.00	100.00	Subsidiary	Ukraine
Naftogaz Trading Europe AG	100.00	100.00	Subsidiary	Switzerland
Retail Business				
Gas supply company Naftogaz of Ukraine, LLC	100.00	100.00	Subsidiary	Ukraine
Gaz Ukraiiny, SE	100.00	100.00	Subsidiary	Ukraine
Kirovogradgaz, OJSC	51.00	51.00	Subsidiary	Ukraine
Heat Energy				
LLC "Naftogaz Teplo"	100.00	100.00	Subsidiary	Ukraine
Others				
Ukrnafta, PJSC	50.00+1 share	50.00+1 share	Subsidiary	Ukraine
Petrosannan Company, Joint operations with the Arab Republic of Egypt and Egyptian General Petroleum Corporation ("EGPC")	50.00	50.00	Joint operations	Egypt
Zakordonnaftogaz, SE	100.00	100.00	Subsidiary	Ukraine
Donteskoblgaz, JSC	88.18	-	Subsidiary	Ukraine
Nadra Yuzivska, LLC	100.00	-	Subsidiary	Ukraine

Acquisition of "Nadra Yuzivska" LLC

In January 2021, the Group acquired 100% of the corporate rights in the share capital of "Nadra Yuzivska LLC", which has the right to explore and extract hydrocarbons in the Yuzivka site located in Donetsk and Kharkiv regions. The amount of consideration paid amounts to UAH 432 million. The amount of subsidiary's cash at the date of acquisition was UAH 20 million.

"Donetskoblgaz" JSC management

On 1 October 2021, the Company signed an agreement with the Asset Recovery and Management Agency to operate "Donetskoblgaz" JSC for 5 years. The entity distributes natural gas to circa 370 thousand customers in Donetsk region (Note 13).

2. OPERATING ENVIRONMENT

On 24 February 2022 the Russian Federation launched a full-scale military invasion of Ukraine. The broad security concerns became challenging for the further stable development of economical and finance segments in Ukraine, and the operating environment remains risky and with high level of uncertainties since then.

Given the fast-moving nature of the situation and the unpredictability of the war, it will likely take time to assess the economic fallout. For now, the Government has prioritised defence and social spending and remain current on its foreign debt obligations. Companies are still paying taxes and money is still flowing through its financial system. Since the initial full-scale military attack, fighting continues causing thousands of civilian casualties. Russian attacks are targeted for destroying civilian infrastructure all over Ukraine, including hospitals and residential complexes. At the same time, logistics routes in some parts of Ukraine were damaged and there is no access to them. Other railway and car logistic routes are available for usage as Ukraine has extensive road and railway network. As of the date of approval of these consolidated financial statements, the Group’s assets were not destroyed materially based on available information.

The Ukrainian government received financing and donations from international organisations and different countries to support financial stability and financing social related payments and military needs (International Monetary Fund, European Union, and directly from numerous countries).

The National Bank of Ukraine has postponed its key policy rate decision, and the key policy rate will therefore stay unchanged at 10% since the forced administrative restrictions are in place and till the events in Ukraine will come back to normal.

The National Bank of Ukraine (‘NBU’) has imposed restrictions on cash withdrawals, purchase of currency and transfers abroad. The official exchange rate was fixed at UAH 29.25 for 1 USD to ensure the sound and stable operation of the country’s financial system while under martial law. Despite the current situation, the banking system remains resilient.

In March 2022, the Board of Directors of the European Bank for Reconstruction and Development (“EBRD”) has announced an initial EUR 2 billion resilience package of measures to help citizens, companies and countries affected by the war on Ukraine. The EBRD has also pledged to do all it can to help with the country’s reconstruction once conditions allow. The EBRD funding will be available to support Ukrainian companies with deferred loans, liquidity support and trade finance. In addition, the EBRD’s Resilience and Livelihoods Framework will help in countries directly affected by inflows of Ukrainian refugees.

Once conditions permit, the EBRD will also be prepared to take part in a reconstruction programme for Ukraine, to rebuild livelihoods and businesses; restore vital infrastructure; support good governance; and enable access to services.

Impact of COVID-19

The ultimate impact of COVID-19 will depend on future developments, including, among others, the ultimate geographic spread and severity of new strains of the virus, the consequences of governmental and other measures designed to prevent the spread of the virus, the development of effective treatments, the duration of the outbreak, actions taken by governmental authorities, customers, suppliers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume. Management continues to make efforts to identify, manage and mitigate the economic disruption impacts of the COVID-19 pandemic to the Group; however, there are factors beyond its knowledge or control, including the duration and severity of this outbreak, any such similar outbreak, as well as further governmental and regulatory actions taken.

2. OPERATING ENVIRONMENT (Continued)

Gas market in Ukraine

In 2021 European market experienced severe energy crisis with soaring gas prices far surpassing previous level, which have had and continue to have significant negative effects both on the European energy markets, the European economy, and the economy of European end users.

The average price at the Dutch Gas hub TTF in 2021 was 47.1 Euro/MWh, which is almost 4 times higher than the same price in the previous year. This European upward trend contributed to the rise of Ukrainian VTP gas prices. The average market price during 2021 was about 18,325 UAH/tcm including VAT, which is 4.1 times higher than the same price of the previous year.

Starting from 1 August 2020, "Gas supply company Naftogaz of Ukraine" LLC was defined by the Government of Ukraine as a supplier of "last resort" for 3 years.

The Company's public service obligations ("PSO") were terminated starting from 1 August 2020 in respect of gas sales for the needs of households and religious organisations and starting from 20 May 2021 in respect of heat generating entities. These changes have led to new contract terms with these groups of customers.

In December 2020, the Ministry of Energy of Ukraine paid the Company compensation for imported gas supplied for the needs of the PSO customers during 2015-2019. The compensation received amounts to UAH 32,204 million.

In March-April 2021, the Group concluded one-year agreements for natural gas supply for the needs of households with gas trading and supply companies with a fixed price of UAH 7.42 per cubic meter for the biggest part of the contract volume.

In May 2021, the Group concluded 3-year agreements for natural gas supply for heat generating entities with the same (since it became a benchmark wholesale price for household needs) fixed price for the household needs for the first year of supply of UAH 7.42 per cubic meter including VAT.

In October-November 2021, in order not to allow resale of the gas, provided for the households needs, to industrial consumers for much higher prices, while the Group would still be obliged to provide gas for the household needs as a "supplier of the last resort", the above mentioned agreements with gas trading and supply companies were transformed, and "Gas supply company Naftogaz Trading" LLC has concluded agreements with regional gas supply companies on creating the balancing group as a party, responsible for the daily imbalance of this balancing group.

Subject to joining the balancing group and settling overdue debts for natural gas, the Executive Board approved the conclusion of the framework and individual sale contracts with gas supply companies by "Gas supply company Naftogaz Trading" LLC at the same fixed price of UAH 7.42 per cubic meter for the period from 1 October 2021 to 30 April 2022. Since 1 May 2022 to 30 September 2022, the PSO obligations were imposed on market participants for supplies for the needs of households. Gas supply companies can join the balancing group where "Gas supply company Naftogaz Trading" LLC will be the balancing agent after complying with credit and technical requirements. Natural gas will then be supplied to gas supply companies at UAH 0.6 per cubic meter discount on their published annual price.

2. OPERATING ENVIRONMENT (Continued)

Given the military aggression of the Russian Federation, the Cabinet of Ministers of Ukraine has issued Resolution #222 dated 6 March 2022, imposing public service obligations on the Company ("PSO"), particularly in respect of a purchase of gas of domestic production from "Ukrgasvydobyvannia" PJSC and "Chornomornaftogaz" JSC at a price of 7,240 UAH/tcm including VAT to create gas resource for the needs of households and heat and electricity producers. Under the PSO the Company also sells gas to 12 heat and electricity producing entities starting from the date of the contract until 30 April 2022 at a price of UAH 7.08 per cubic meter including VAT.

According to the PSO, the Group as the supplier of "last resort", is also obliged to sell natural gas to consumers that do not belong to the household consumers and to perform vital functions to ensure the State's defence capabilities, according to a list approved by central executive bodies in accordance with their powers until 30 September 2022 at the price of UAH 32.0 per cubic meter including VAT.

Under the PSO, the supplier of "last resort" is also obliged to buy natural gas from OGTSU from 1 March to 30 April 2022 and to sell it to OGTSU for gas transmission system physical balancing at the price of the last sale of natural gas by private Ukrainian producing companies at "Ukrainian Energy Exchange" commodity exchange, amounting to UAH 15.190 per cubic meter including VAT.

In addition, "Gas supply company Naftogaz of Ukraine" LLC concluded sale agreements with gas distribution network operators under the PSO conditions for the period from 1 March to 30 September 2022 to cover their production and technological needs and losses caused by military actions.

Anti-Crisis Law

In July 2021, the Parliament adopted a Law "On measures on crisis overcoming and ensuring financial stability in the natural gas market" ("Anti-Crisis Law") No.1639 aiming to settle certain debts among natural gas market participants. The Anti-Crisis Law anticipated, inter alia, receiving compensation of negative difference between actual heat tariffs and their cost to the heat generating entities, and further settlement of their outstanding debts to Naftogaz. In December 2021 UAH 22 billion was received by the Company under the Anti-Crisis Law.

The Anti-Crisis Law also assumes a similar mechanism of settlements for regional gas supply and distribution entities and further settlement of their outstanding debts to Naftogaz. The execution of the Anti-crisis Law for these entities is expected in 2022 (Note 30).

Product sharing agreements

In late 2020 the Group concluded several product sharing agreements to increase its portfolio of exploration and production assets. Additionally, in December 2020 "Ukrgasvydobuvannya" JSC concluded product sharing agreements with the State of Ukraine on development of four areas located in Kharkiv and Dnipropetrovsk regions of Ukraine. The State of Ukraine transfers rights for exploration, extraction and production on these areas to "Ukrgasvydobuvannya" JSC, and the latter is obliged to perform such works at its own expense and receive compensation and profit share of produced oil and gas. During the first five years of these agreements, "Ukrgasvydobuvannya" JSC will be focused on 3D-seismic works and drilling exploration wells.

2. OPERATING ENVIRONMENT (Continued)

Oil product pipeline management

On 30 June 2021, the Group’s subsidiary “Ukrtransnafta” JSC signed an agreement with the Asset Recovery and Management Agency (ARMA) to operate the Ukrainian part of the Samara - Western direction oil product pipeline. According to the terms of the agreement, the Group has the rights and obligations regarding the implementation of economic activities for the transportation, storage, transshipment of oil products to road and rail transport. The company also undertakes to provide at least UAH 1.1 million of monthly income to the State from the management of the oil product pipeline within 5 years. The transfer of assets was completed in July 2021.

Going concern

On 24 February 2022, the Russian Federation launched a full-scale military invasion of Ukraine. None of the Group's critical facilities or infrastructure has suffered any significant damage.

More than 4.3 million Ukrainians (circa 10% of the Ukraine's population) were forced to move to European countries and until coming back, they will no longer be consumers of gas and heat in Ukraine. In addition, the number of internally displaced persons who left their cities equals 6.5 million (27% of the population) according to the International Organisation for Migration. This is expected to lead to a decline in consumption of gas by households and heat generating entities by approximately 13% this year compared to pre-war forecasts.

The Group’s key priority is safety and security of its employees and their families. The Group coordinates, to the extent possible, the evacuation of its employees from the regions engaged in active military activities, covers associated relocation costs and provides additional assistance needed. The business processes have been reorganised to adjust to the existing challenges and to provide continuity to the Group’s activities. Approximately 1,300 employees of the Group joined the Ukrainian Armed Forces and Territorial Defence.

In consequence of the above events, the Group’s assets carried at UAH 400 million were damaged and the refining operations at one of “Ukrgasvydobuvannia” PJSC branches located in Kharkiv region were temporarily shut down due to proximity to military activities. None of the Group's critical facilities or infrastructure has suffered any significant damage. The Group continues to steadily produce natural gas at all its sites, except for those located close to the conflict line. According to the latest forecasts, the optimistic scenario assumes that the Group will produce 12.1 billion cubic metres of gas in 2022. Under the pessimistic scenario which assumes the prolonged military conflict, the production output amounts to 11.25 billion cubic metres of gas. Gas production wells may be suspended for a certain period in case of emergency and can continue to operate once the security of production is restored.

The production of liquids may suffer more seriously due to an inability to store and transport the inventory caused by suspension of refining operations, however, these events will not have a material impact on the Group’s performance. Currently, the Group has capacities to store liquids or can sell the produced output to other entities with operating refining facilities. The Group intends to initiate removal of the administrative restrictions on oil exports to maintain its profitable operations in this segment if it is unable to sell the produced oil volumes to third parties. Oil production wells may also be suspended and can continue to operate once conditions allow.

The Group continues to provide gas transit organisation services, to receive the compensation of underrecovered gas transmission revenues in accordance with the schedule, to maintain oil transit and to perform its key operations as usual.

2. OPERATING ENVIRONMENT (Continued)

Given high prices of natural gas sustained in the global markets, customer settlement-related issues and real difficulties in covering the full cost of the natural gas consumed by customers, gas suppliers including the Group are likely to be unable to secure gas reserves needed for safe completion of the 2022-2023 heating season in Ukraine using their own financial resources.

In its turn, the Group liquidity forecast expectations are based on the following assumptions:

- a collectability of accounts receivable for natural gas in 2 and 3 quarters 2022 is expected at the level of March 2022 with gradual improvement of the situation in 4 quarter 2022;
- the upside potential of the price for gas sold to heat generating entities starting from June 2022, as envisaged by the three-year agreements signed in 2021;
- continued cash inflows from the gas and oil transit organization services;
- continued cash inflows from the compensation of underrecovered gas transmission revenues.

Management of the Group directs efforts to ensure sustainable and predictable cash flows from operating and financing activities focusing on collection of accumulated accounts receivable as a top priority. As such, during 2021, the Group collected UAH 22 billion in repayment of accounts receivable from heat generating entities under the mechanism provided for by the Law No.1730.

During 2022, the Group expects to receive UAH 76 billion, specifically:

- a repayment of accounts receivable from regional gas supply and gas distribution entities under the mechanism provided for by the Anti-Crisis Law No.1639, as presently in effect, in the amount of UAH 43 billion, which were originated due the state regulation of tariffs in the natural gas market as of 31 December 2020;
- introduction of amendments to the Anti-Crisis Law No.1639, that will enable to collect additional UAH 33 billion of accounts receivable from regional gas supply and gas distribution entities, which were originated during 2021-early 2022 under the mechanism indicated above.

In connection with imposition of the martial law, the Group is imposed with public service obligations for natural gas supplies to certain groups of consumers until the end of 2022 according to the CMU Resolution dated 6 March 2022 No.222. An important factor also represents the compensation to be received from the State for performance of public service obligations, as defined in Article 11 of the Law of Ukraine on the Natural Gas Market.

The Group continues to settle its financial liabilities in good faith.

Furthermore, new credit facilities were received from Ukrainian state-owned banks in 2022. The Group received UAH 7.5 billion of borrowings and UAH 4.5 of new credit line facilities. At present, terms and conditions of the EBRD loan arrangement to be used for natural gas purchases are negotiated.

Therefore, the Group management makes forecasts of the natural gas balance and the subsequent cash flow projection applying stage-based approach. It involves purchases of additional natural gas volumes based on the Company’s financial capacity, which, in its turn, depends on the state regulation and financing of the housing and public utility services sector (i.e. execution and implementation of the Anti-Crisis Law, PSO compensation, etc.).

2. OPERATING ENVIRONMENT (Continued)

Thus, even in view of the negative trends in the natural gas market, it is the ability to accumulate significant natural gas volumes (when necessary) required for sustainable completion of the heating season in Ukraine, which is exposed to a risk. It is actually the risk exposure for the State and end consumers. The Group’s ability to continue as a going concern does not depend directly on the ability to accumulate the natural gas volume required to meet the domestic demand in full.

Material uncertainty which may cast significant doubts on the Group’s ability to continue as a going concern, and therefore to realize its assets and to settle its liabilities in the normal course of business exists and is associated with the potential impact of the military invasion on:

- the Group’s extraction assets a significant portion of which is located in Kharkiv and Poltava regions, specifically in close proximity to military activities;
- a possibility of receiving revenues under the natural gas transit agreement.

At present, it is more likely than not that these risks, particularly taken all together, will not arise. The following circumstances should also be considered:

- The Group has significant hydrocarbon reserves and ensures an extraction of approximately 12 billion cubic metres of natural gas annually, which, in view of extremely high gas and oil prices, means high value of the Group for the owner;
- the agreement on the natural gas transit organization services sets forth the ship-or-pay principle. Consequently, cash inflows from this area over two years are maintained even in the event of refusal of the transmission services (directly under the agreement or by reference to the court);
- the State, as the Group owner, also considers, in addition to the above factors, the importance of the Group for ensuring security of supplies to consumers in Ukraine and, therefore, the State is directly interested in supporting its operations.

Given all discussed above, management believes that application of a going concern assumption in preparing these consolidated financial statements is appropriate.

3. SEGMENT INFORMATION

The Executive Board is the Group’s chief operating decision maker. As at 31 December 2021, the Group has changed presentation of segment information in line with performance management approach to its subsidiaries. As a result, Oil midstream and downstream segment was transformed into Oil transit and Domestic oil transmission segments. Also, management re-introduced segment performance measurement indicator - adjusted operating result, net of income taxes (NOPLAT) which was applied before 2019. EBITDA remained a secondary performance measurement indicator. Comparative information for the year ended 31 December 2020 and 31 December 2019 was restated to reflect the changes in presentation.

Gas exploration and production. This segment includes natural gas, oil and gas condensate exploration and production, performed by “Ukrgasvydobyvannya” JSC where oil and condensate production is considered to be by-products of natural gas production. The Group controls about 70% of all natural gas production in Ukraine. The segment also includes petroleum products produced by “Ukrgasvydobuvannya” JSC. Domestic refinery of petroleum products is performed at oil and gas refineries controlled by the Group.

3. SEGMENT INFORMATION (Continued)

Gas imports, trading and supply. This segment includes purchasing domestically produced natural gas, gas imports, trading and supply to different groups of customers.

Gas storage. Ukrainian gas transportation system includes 12 underground natural gas storage facilities located in mainland Ukraine. The total capacity of the underground gas storage system located in Ukraine is 31 billion cubic meters of gas.

Oil transit. This segment is presented by the transmission oil pipelines operated by the Group performing oil transit through the territory of Ukraine.

Domestic oil transmission. This segment is presented by the transmission oil pipelines performing oil transmission between production sites, sea import terminals and refineries in Ukraine, operated by the Group. Total length of oil transmission pipelines in Ukraine is 4.7 thousand km.

Gas transit. At the end of 2019 the Company and “Gazprom” JSC signed an agreement on organising gas transit through the territory of Ukraine until 2024. In turn, Naftogaz receives gas transmission services from “Gas Transmission System Operator of Ukraine” LLC) and renders gas transit organisation service to “Gazprom” JSC.

“Ukrnafta” PJSC. “Ukrnafta” PJSC is the biggest oil producing company in Ukraine. “Ukrnafta” PJSC is composed of several production and maintenance units, which are currently in the process of corporate restructuring, including six oil and gas production units, one well drilling division and three gas processing plants.

“Ukrnafta” PJSC also owns one of the largest filling station networks in Ukraine located in different regions of Ukraine.

Other. Other segments include results of joint operations under the concession agreement for exploration and development with the Arab Republic of Egypt, corporate administrative functions, “new energy” and other activities.

Segment assets are allocated based on the operations of the segment and the physical location of the asset.

Management uses net operating profit less adjusted taxes (NOPLAT) as is the earnings measure for the purposes of making decisions about allocating resources and assessing performance. Income taxes at nominal tax rate are deducted from net operating profit to arrive to NOPLAT. Net operating loss is not corrected for income taxes.

Management uses EBITDA as an additional measure of operational efficiency. This measure is not defined by IFRS, and other companies can define it differently.

EBITDA represents net profit/(loss) for the year after excluding the following income statement items: income tax (expense)/benefit, finance costs, finance income, share of after-tax results of associates, impairment of property, plant and equipment, amortisation, loss on disposal of assets, depreciation and depletion of property, plant and equipment and amortisation of intangible assets.

Management uses capital expenditures a measure of a segment’s contribution to the Group’s development. Capital expenditures are presented on a cash basis for these purposes. Respective reconciliations to the closest IFRS measure are presented in this note.

The accounting policies of the reportable segments are the same as the Group’s accounting policies described in Note 29.

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2021 is as follows:

	Gas domestic exploration and production	**Gas imports, trading and supply**	**Gas storage**	**Oil transit**	**Domestic oil transmission**	**Gas transit**	**Ukrnafta**	**Other**	**Elimination**	**Total**
Segment revenue	8,268	133,901	2,555	3,583	364	32,720	33,700	2,293	-	217,384
Inter-segment revenue	82,041	2,850	2,209	-	47	-	3,244	872	(91,263)	-
Total revenue	**90,309**	**136,751**	**4,764**	**3,583**	**411**	**32,720**	**36,944**	**3,165**	**(91,263)**	**217,384**
Production and manufacturing expenses	(40,287)	(13,094)	(2,089)	(1,055)	(604)	-	(23,631)	(1,261)		(82,021)
Purchases	(405)	(27,723)	-	-	-	(31,980)	(1,811)	(1,316)		(63,235)
Depreciation, depletion and amortization	(7,891)	(2,284)	(537)	(586)	(301)	-	(1,990)	(166)		(13,755)
Research, development and exploration costs	(185)	(807)	(68)	-	-	-	-	-		(1,060)
Net impairment losses	(1,506)	(251)	(89)	-	-	-	(877)	(54)		(2,777)
Selling, general and administrative expenses	(2,581)	(4,593)	(9,052)	(500)	(280)	(29)	(3,590)	(1,556)		(22,181)
Net movement in provision for financial assets	20	(15,065)	(341)	1	-	-	(422)	5,293		(10,514)
Inter-segment expenses	(15,528)	(73,417)	(1,800)	(62)	(48)	-	(77)	(331)	91,263	-
Nominal income tax	*(3,950)*	-	-	*(249)*	-	*(128)*	*(818)*	*(679)*		*(5,824)*
NOPLAT	**17,996**	**(483)**	**(9,212)**	**1,132**	**(822)**	**583**	**3,728**	**3,095**	**-**	**16,017**
add back Nominal income tax	*3,950*	-	-	*249*	-	*128*	*818*	*679*		*5,824*
Interest and other income										1,595
Finance costs										(5,614)
Net foreign exchange (loss)/gain										1,529
Share of after-tax results of associates and joint-ventures										(37)
Profit before income tax										**19,314**
Income tax expense										(7,291)
Net profit for the year										**12,023**

3. SEGMENT INFORMATION (Continued)

	Gas domestic exploration and production	Gas imports, trading and supply	Gas storage	Oil transit	Domestic oil transmission	Gas transit	Ukrnafta	Other	Elimination	Total
Capital expenditure	12,564	-	564	410	274	-	1,082	674	-	15,568
PPE	183,192	1,672	75,941	6,176	4,117	-	21,316	1,628		294,042
Intangible assets	2,537	566	109	116	65	-	281	693		4,367
Inventories	3,654	57,439	2,092	72	1,877	-	3,700	176		69,010
Trade accounts receivable	36	40,087	4,629	-	-	238	4,517	53		49,560
Prepayments made and other current assets	5,957	10,809	633	44	25	2,815	1,422	336		22,041
Other segment assets	1	2,812	522	15	9	-	2,394	34		5,787
Cash and bank balances										30,540
Restricted cash										4,293
Deferred tax assets										5,668
Consideration of underrecovered gas transmission revenues										16,567
Prepaid corporate income tax										7,404
Unallocated assets										2,173
Total assets	**195,377**	**113,385**	**83,926**	**6,423**	**6,093**	**3,053**	**33,630**	**2,920**		**511,452**
Trade accounts payable	468	4,193	1,324	36	20	-	617	4,199		10,857
Advances received and other current liabilities	6,079	3,216	447	296	166	2,455	10,499	351		23,509
Provisions	7,463	313	7,655	22	12	-	5,028	238		20,731
Borrowings										61,585
Deferred tax liabilities										23,701
Unallocated liabilities										22,380
Total liabilities	**14,010**	**7,722**	**9,426**	**354**	**198**	**2,455**	**16,144**	**4,788**		**162,763**

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2020 is as follows:

	Gas domestic exploration and production	Gas imports, trading and supply	Gas storage	Oil transit	Domestic oil transmission	Gas transit	Ukrnafta	Other	Elimination	Total
Segment revenue	5,019	75,090	3,742	3,466	237	46,724	22,973	1,983	-	159,234
Inter-segment revenue	56,453	731	2,304	-	38	-	12,562	793	(72,881)	-
Total revenue	**61,472**	**75,821**	**6,046**	**3,466**	**275**	**46,724**	**35,535**	**2,776**	**(72,881)**	**159,234**
Compensation for performing public service	-	32,204	-	-	-	-	-	-		32,204
Production and manufacturing expenses	(24,028)	(1,854)	(1,697)	(764)	(469)	-	(18,789)	(621)		(48,222)
Purchases	(23)	(16,683)	-	-	-	(44,858)	(1,610)	(1,384)		(64,558)
Depreciation, depletion and amortization	(12,549)	(150)	(609)	(418)	(212)	-	(2,498)	(112)		(16,548)
Research, development and exploration costs	(548)	-	(19)	-	-	-	(17)	(4)		(588)
Net impairment losses	(5,960)	(166)	(584)				(806)	(434)		(7,950)
Selling, general and administrative expenses	(3,187)	(3,255)	(8,212)	(388)	(238)	(145)	(2,069)	(3,846)		(21,340)
Net movement in provision for financial assets	(12)	(36,471)	64	-	-	-	(3,341)	(2,835)		(42,595)
Inter-segment expenses	(6,001)	(69,041)	2,554	(146)	(64)	-	(81)	(102)	72,881	-
Nominal income tax	*(1,650)*	-	-	*(315)*	-	*(310)*	*(1,138)*	-		*(3,413)*
NOPLAT	**7,514**	**(19,595)**	**(2,457)**	**1,435**	**(708)**	**1,411**	**5,186**	**(6,562)**		**(13,776)**
add back Nominal income tax	*1,650*	-	-	*315*	-	*310*	*1,138*	-		*3,413*
Interest and other income										1,578
Finance costs										(6,738)
Net foreign exchange (loss)/gain										1,546
Share of after-tax results of associates and joint-ventures										(65)
Profit before income tax										**(14,042)**
Income tax expense										(4,960)
Net loss for the year										**(19,002)**

3. SEGMENT INFORMATION (Continued)

	Gas domestic exploration and production	Gas imports, trading and supply	Gas storage	Oil transit	Domestic oil transmission	Gas transit	Ukrnafta	Other	Elimination	Total
Capital expenditure	12,023	141	110	435	290	-	1,113	932		15,044
PPE	115,965	1,482	68,166	6,505	4,337	-	13,233	1,446	-	211,134
Intangible assets	1,928	57	109	68	38	-	331	549		3,080
Inventories	2,312	30,491	1,189	162	2,341	-	4,130	66		40,691
Trade accounts receivable	12	20,881	199	14	-	841	6,150	32		28,129
Prepayments made and other current assets	434	14,957	1,159	38	22	3,614	2,156	261		22,641
Other segment assets	2	2,117	656	20	11	-	122	32	-	2,960
Cash and bank balances										37,106
Restricted cash										659
Deferred tax assets										7,685
Consideration receivable under the SPA										81,058
Prepaid corporate income tax										10,077
Unallocated assets										771
Total assets	**120,653**	**69,985**	**71,478**	**6,807**	**6,749**	**4,455**	**26,122**	**2,386**		**445,991**
Trade accounts payable	616	1,822	446	19	11	-	599	72		3,585
Advances received and other current liabilities	6,338	4,089	2,933	463	260	2,517	3,222	455		20,277
Provisions	8,479	2,045	2,728	63	35	-	6,148	88		19,586
Borrowings										66,342
Deferred tax liabilities										12,910
Unallocated liabilities										9,010
Total liabilities	**15,433**	**7,956**	**6,107**	**545**	**306**	**2,517**	**9,969**	**615**		**131,710**

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2019 (not audited) is as follows:

	Gas domestic exploration and production	Gas imports, trading and supply	Gas storage	Oil transit	Domestic oil transmission	Gas transit	Domestic gas transmission	Ukrnafta	Other	Elimination	Total
Segment revenue	7,722	90,664	730	3,381	164	70,207	18,223	28,074	687	-	219,852
Inter-segment revenue	78,786	18,735	2,548	-	32	-	5,524	136	202	(105,963)	-
Total revenue	**86,508**	**109,399**	**3,278**	**3,381**	**196**	**70,207**	**23,747**	**28,210**	**889**	**(105,963)**	**219,852**
Income recognised per results of Gas Transit Arbitration	-	-	-	-	-	67,958	-	-	-		67,958
Production and manufacturing expenses	(30,491)	(1,371)	(1,124)	(987)	(622)	(19,146)	(8,069)	(15,641)	(436)		(77,887)
Purchases	(789)	(36,211)	-	-	-	(5)	-	(4,562)	(22)		(41,589)
Depreciation, depletion and amortization	(11,011)	(91)	(886)	(419)	(224)	(17,975)	(2,246)	(1,551)	(35)		(34,438)
Research, development and exploration	(767)	(4)	(14)	-	-	-		(16)	(3)		(804)
Net impairment losses	(8,056)	114	(386)	-	(205)	(806)	-	(678)	(213)		(10,230)
Selling, general and administrative expenses	(3,380)	(5,619)	(117)	(71)	(55)	12	(26)	(5,796)	(651)		(15,703)
Net movement in provision for financial	51	(3,241)	(20)	(7)	(4)	30	(15,230)	(3,251)	-		(21,672)
Inter-segment expenses	(8,788)	(75,786)	(494)	26	12	(12,247)	(8,023)	(199)	(464)	105,963	-
Nominal income tax	*(4,190)*	-	*(43)*	*(346)*	-	*(15,845)*	-	-	-		*(20,424)*
NOPLAT	**19,087**	**(12,810)**	**194**	**1,577**	**(902)**	**72,183**	**(9,847)**	**(3,484)**	**(935)**		**65,063**
add back Nominal income tax	*4,190*	-	*43*	*346*	-	*15,845*		-	-		*20,424*
Interest and other income											2,052
Finance costs											(6,581)
Net foreign exchange (loss)/gain											1,414
Share of after-tax results of associates and joint-ventures											(121)
Profit before income tax											**82,251**
Income tax expense											(18,957)
Net profit for the year											**63,294**

3. SEGMENT INFORMATION (Continued)

	Gas domestic exploration and production	Gas imports, trading and supply	Gas storage	Oil transit	Domestic oil transmission	Gas transit	Domestic gas transmission	Ukrnafta	Other	Elimination	Total
Capital expenditure	23,384	21	412	1,017	678	-	-	1,401	11		26,924
PPE	130,332	1,140	80,118	6,133	4,088	-	-	17,756	939		240,506
Intangible assets	1,963	56	6	57	35	51	65	348	200		2,781
Inventories	2,623	45,794	251	1,539	349	844	115	6,121	69		57,705
Trade accounts receivable	131	42,961	18	-	-	5,673	3,325	6,896	52		59,056
Prepayments made and other current assets	928	5,948	322	57	34	101,733	14,123	1,997	100		125,242
Other segment assets	60	4,267	159	5	3	703	96	123	308		5,724
Cash and bank balances											77,593
Restricted cash											436
Deferred tax assets											10,439
Prepaid corporate income tax											263
Unallocated assets											835
Total assets	**136,037**	**100,166**	**80,874**	**7,791**	**4,509**	**109,004**	**17,724**	**33,241**	**1,668**		**580,580**
Trade accounts payable	892	1,796	1,395	9	5	-	262	652	50		5,061
Advances received and other current liabilities	3,983	2,433	(442)	257	223	(106)	1,210	11,660	26		19,244
Provisions	8,307	13,352	1,953	61	36	63	80	23,891	21		47,764
Borrowings											60,662
Deferred tax liabilities											18,858
Unallocated liabilities											36,417
Total liabilities	**13,182**	**17,581**	**2,906**	**327**	**264**	**(43)**	**1,552**	**36,203**	**97**		**188,006**

3. SEGMENT INFORMATION (Continued)

Reconciliations

The following tables include reconciliations of NOPLAT to EBITDA:

In millions of Ukrainian hryvnias	2021	2020	2019 (not audited)
NOPLAT	**16,017**	**(13,776)**	**65,063**
Depreciation, depletion and amortization	13,755	16,548	34,438
Net impairment losses	2,777	7,950	10,230
Net movement in provision for financial assets	(5,339)	2,830	-
Loss on disposal of assets	783	442	861
Non-refundable VAT	-	3,205	-
Income/(loss) from the sale of inventories and other current assets	-	1,818	-
Charity and social infrastructure	-	681	-
Nominal income tax	5,824	3, 413	20,424
Other (income)/expense	(119)	445	-
EBITDA	**33,698**	**23,556**	**131,016**

Geographical concentration of sales

In millions of Ukrainian hryvnias	2021	2020
Ukraine	175,709	104,266
Russian Federation	36,071	49,910
Europe	4,457	4,837
Asia	802	-
Egypt	342	209
USA	3	12
Total revenue (Note 19)	**217,384**	**159,234**

Allocation of sales in the table above is made based on the country of residence of the Group's customers.

External customers concentration, exceeding 10% of total revenues

During the years ended 31 December 2021 and 2020, the only external customer with concentration of revenue exceeding 10% of total revenues was Gazprom. Revenue from Gazprom related to gas transit organisation services in 2021 amounted to UAH 32,720 million (2020: revenue related to gas transit in the amount of UAH 46,724 million).

4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As described in the Note 1, the Group is ultimately controlled by the Government of Ukraine, and therefore, all state-controlled entities and institutions are considered as related parties under common control.

Transactions with related parties may be performed on terms that would not necessarily be available to unrelated parties.

Transactions with state-controlled entities and institutions. The Group performs significant transactions with entities and institutions controlled, jointly controlled or significantly influenced by the Government of Ukraine. These entities and institutions include State Savings Bank of Ukraine, Ukreximbank, Ukrgazbank, OGTSU, tax authorities, heating entities and other entities. In 2021, the Group signed an agreement for compensation of underrecovered gas transmission revenues with OGTSU (Note 8).

In 2020, the Group purchased and sold the state treasury bonds of Ukraine amounting to UAH 34,832 million and UAH 22,563 million, respectively. In 2021, the Group sold the state treasury bonds of Ukraine amounting to UAH 11,423 million.

Percentage of balances of the respective financial statements line items with related parties were as follows:

	31 December 2021	31 December 2020
Compensation of underrecovered gas transmission revenues	100%	-
Consideration receivable under the SPA	100%	100%
Prepaid corporate income tax	100%	100%
Other non-current assets	51%	64%
Trade accounts receivable	29%	32%
Prepayments made and other current assets	99%	96%
Cash and bank balances	87%	98%
Restricted cash	100%	98%
Borrowings	30%	29%
Provisions	11%	16%
Advances received and other current liabilities	44%	38%

Percentage of transactions of the respective financial statements line items with related parties for the period were as follows:

	2021	2020
Revenue	18%	26%
Interest and other income	61%	99%
Purchases	51%	69%
Interest expense	21%	37%

4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

The percentage of purchases is calculated from Financial Statement line item - Purchases (including change in inventory). There were no significant purchases of property, plant and equipment from related parties.

As discussed in Note 1, in January 2021, the Group acquired 100% of the corporate rights in the share capital of "Nadra Yuzivska" LLC pursuant to an acquisition agreement between the Company, and subsidiary of "National Joint Stock Company "Nadra of Ukraine" PJSC, "Ukrainian Geological Science and Production Center". Also as discussed in Note 1, in October 2021, the Company signed an agreement with the Asset Recovery and Management Agency to operate "Donetskoblgaz" JSC for 5 years (Note 13).

Information on transactions with related parties is further disclosed in Note 1, Note 2, Note 7, Note 8 and Note 13.

Pledges. As at 31 December and 31 December 2020, borrowings from related parties (State-owned banks) were secured by property, plant and equipment, inventories and proceeds from future sales (Note 14). As at 31 December 2021 83% pledges related to the borrowings from State-owned banks (31 December 2020: 91%).

Guarantees. Guarantees provided to the Group by the Government of Ukraine as at 31 December 2021 and 31 December 2020 amounted to UAH 2,461 million and UAH 2,783 million, respectively (Note 14).

***Key management remuneration*. **During 2021 key management personnel consisted on average of 5 Executive Board members and 15 directors (2020: 5 Executive Board members and 12 directors). Compensation to the key management personnel included in selling, general and administrative expenses consists of salary and additional current bonuses paid and amounted to UAH 911 million in 2021 (2020: UAH 672 million).

During 2021 the Company also incurred UAH 23 million of expenses on operations of the Supervisory Board (2020: UAH 20 million). This amount includes UAH 19 million in service fees accrued (2020: UAH 18 million), and UAH 4 million in compensation of expenses incurred by the Board members during performance of their duties (2020: UAH 2 million), as well as directors and officers' liability insurance procured and paid by the Company to insure the liability of these officers after their appointment. Fixed service fees of the Supervisory Board members are set in the individual contracts. In addition to the fixed fees the Supervisory Board members are compensated for certain justifiable expenses incurred by the Supervisory Board members during performance of their duties (travel expenses, accommodation, communication etc.) based on principles of prudence, adequacy and timeliness. Compensations are made net of taxes and are based on documents confirming such payments as prescribed by the Ukrainian legislation and provisions of the individual contracts.

5. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

In millions of Ukrainian hryvnias	Drilling assets	Gas and oil upstream	Underground gas storages	Cushion gas	Oil transmission system	Gas and oil refinery	Filling stations	Gas distribution assets	LNG transportation	Other fixed assets	Construction in progress	Total
Net book value at 31 December 2019	**9,066**	**103,486**	**6,769**	**69,240**	**8,181**	**4,390**	**3,912**	**155**	**505**	**5,462**	**29,340**	**240,506**
Cost or valuation	9,411	106,843	6,785	69,240	8,330	4,514	3,974	198	518	9,978	34,666	254,457
Accumulated depreciation and impairment	(345)	(3,357)	(16)	-	(149)	(124)	(62)	(43)	(13)	(4,516)	(5,326)	(13,951)
Additions and transfers	1,921	15,256	218	-	116	227	133	9	26	(429)	(221)	17,256
Disposals	(36)	(128)	-	-	-	(3)	(2)	-	-	(35)	(1,384)	(1,588)
Depreciation charge	(1,412)	(14,751)	(436)	-	(568)	(446)	(239)	(63)	(33)	(477)	-	(18,425)
Impairment	(81)	(11,909)	-	(9,739)	590	(46)	(783)	533	-	(1,421)	(3,759)	(26,615)
Net book value at 31 December 2020	**9,458**	**91,954**	**6,551**	**59,501**	**8,319**	**4,122**	**3,021**	**634**	**498**	**3,100**	**23,976**	**211,134**
Cost or valuation	11,190	122,885	7,284	59,501	8,389	4,735	4,104	697	542	8,763	32,862	260,952
Accumulated depreciation and impairment	(1,732)	(30,931)	(733)	-	(70)	(613)	(1,083)	(63)	(44)	(5,663)	(8,886)	(49,818)
Additions and transfers	686	13,984	384	-	127	263	191	204	21	1,115	783	17,758
Disposals	(45)	(100)	-	-	-	(2)	(4)	(1)	-	(90)	(1,023)	(1,265)
Depreciation charge	(1,427)	(12,320)	(445)	-	(842)	(375)	(229)	(59)	(18)	(415)	-	(16,130)
Revaluation/impairment	3,755	70,135	7,540	221	(194)	587	171	-	-	71	259	82,545
Net book value at 31 December 2021	**12,427**	**163,653**	**14,030**	**59,722**	**7,410**	**4,595**	**3,150**	**778**	**501**	**3,781**	**23,995**	**294,042**
Cost or valuation	12,463	164,579	14,054	59,722	7,479	4,642	3,246	949	562	9,746	32,185	309,627
Accumulated depreciation and impairment	(36)	(926)	(24)	-	(69)	(47)	(96)	(171)	(61)	(5,965)	(8,190)	(15,585)

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group engaged independent appraisers to determine the fair value of its major groups of property, plant and equipment as at 1 October 2021, as at 1 December 2021, and as at 31 December 2021. The fair value was determined in accordance with International Valuation Standards.

Taking into account the nature of the Group's property, plant and equipment, fair value was determined using depreciated replacement cost for specialised assets and using market-based evidence for non-specialised assets. The fair value of main producing properties and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional and economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of available market information for similar property, plant and equipment (published information, catalogues, statistical data etc), and information from industry experts and suppliers (Note 30). The economic impairment test was done using discounted cash flows method. As a result of the economic impairment test, the fair value of property, plant and equipment was significantly adjusted (Note 27).

As a result of this assessment, valuation increase in the amount of UAH 84,593 million in other comprehensive income (2020: valuation decrease in other comprehensive loss UAH 19,461 million) and valuation decrease in value of property, plant and equipment in the amount of UAH 2,048 million in net impairment losses (2020: UAH 7,154 million) as a result of the management came to the conclusion that the recoverable amount of certain cash generating units was different to their carrying amount.

In 2021, the depreciation and depletion expenses of UAH 13,401 million (2020: UAH 16,132 million) were presented in a separate line of the consolidated statement of profit or loss, UAH 2,025 million (2020: UAH 1,929 million) were capitalised in the cost of property, plant and equipment, and UAH 704 million were capitalised in cost of inventories (2020: UAH 364 million).

In 2021, interest accrued of UAH 321 million (2020: UAH 350 million) was capitalised in the cost of property, plant and equipment.

As at 31 December 2021 and 2020, the Group pledged its property, plant and equipment with the carrying amount of UAH 4,430 million and UAH 3,134 million, respectively, to secure its borrowings (Note 14).

6. INTANGIBLE ASSETS

The Group’s intangible assets were as follows:

In millions of Ukrainian hryvnias	31 December 2021 Cost or valuation	31 December 2021 Accumulated depreciation and impairment	31 December 2020 Cost or valuation	31 December 2020 Accumulated depreciation and impairment
Licences for exploration and extraction of oil and natural gas	3,120	(757)	2,399	(597)
Capital investment in intangible assets	546	(135)	502	(115)
Computer software	1,106	(511)	839	(369)
Other licences and special permits	323	(50)	271	(31)
Copyright	215	(73)	174	(46)
Other intangible assets	775	(192)	268	(148)
Total	**6,085**	**(1,718)**	**4,453**	**(1,306)**
Net book value	**4,367**		**3,147**	

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group’s investments in associates and joint ventures were as follows:

In millions of Ukrainian hryvnias	31 December 2021	31 December 2020
Investments in associates	722	767
Investments in joint ventures	-	5
Total	**722**	**772**

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

Details of each of the Group's associates and joint ventures as at 31 December 2021 are as follows:

Name of associate/joint ventures	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest	Additional interest acquired	Share of loss	Net foreign exchange income	Disposal	Carrying amount
"Gaztransit" PJSC	Construction works	Ukraine	40.2%	-	(53)	-	-	714
Other	Miscellaneous	Ukraine	miscellaneous	4	16	-	(17)	8
				4	**(37)**	**-**	**(17)**	**722**

Details of each of the Group's associates and joint ventures as at 31 December 2020 are as follows:

Name of associate/joint ventures	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest	Additional interest acquired	Share of loss	Net foreign exchange loss	Disposal	Carrying amount
"Gaztransit" PJSC	Construction works	Ukraine	40.2%	-	(53)	-	-	767
Other	Miscellaneous	Ukraine	miscellaneous	-	(12)	2	-	5
				-	**(65)**	**2**	**-**	**772**

All of the above associates are accounted for using the equity method in these consolidated financial statements.

8. CONSIDERATION RECEIVABLE UNDER THE SPA AND COMPENSATION OF UNDERRECOVERED GAS TRANSMISSION REVENUE

On 1 January 2020, the current mandate of “Ukrtransgaz” JSC to operate state-owned gas transmission infrastructure was terminated. All of 100% of the participatory rights of “Gas Transmission System Operator of Ukraine” LLC (“GTSOU”) were transferred to “Mahistralny gasoprovody Ukrainy” JSC (“MGU”) under a sale and purchase agreement (“SPA”). As specified in the SPA, the Group was entitled to receive an initial fixed payment in the amount of UAH 3,871 million and regular variable payments for 15 years based on a dynamic component of the SPA’s price calculated in accordance with the formula agreed by the parties. The Group received the initial fixed payment in the amount of UAH 3,851 million in late 2020.

Details of the sale of the subsidiary:

In millions of Ukrainian hryvnias	**2020**
Total consideration receivable	89,707
Net assets associated with disposal group	(98,015)
Loss on disposal of subsidiary	(8,308)

Results from the sale of the subsidiary were recognised through equity, as this transaction is considered as a transaction between entities under common control of the State. Revaluation reserve in the amount of UAH 161,056 related to property, plant and equipment transferred was reclassified from revaluation reserve to retained earnings, that is also reflected in the consolidated statement of changes in equity.

As at 1 January 2020, the remaining consideration receivable under the SPA was recognised as a financial asset at fair value through profit or loss. As at 31 December 2020 the fair value of consideration receivable under the SPA was determined in the amount of UAH 81,058 million. As at 31 December 2020, the Group determined this fair value of future expected cash flows with inputs based on management projections, analyst expectations and industry forecasts. Key inputs that impact the fair value calculation, inter alia, the period and volume of gas transit revenues and Regulated Asset Base tariffs of GTSOU, are unobservable and could be highly subjective.

During preparation of these consolidated financial statements as at 31 December 2021, management reflected on inputs which might reasonably have been expected to have been taken into account in the fair value assessment as at 31 December 2020, namely:

- The ability or otherwise of MGU to fulfill its obligations under the SPA because of the following facts:
  a) no neutrality principle on gas balancing services was introduced in 2021 as was expected before, resulting in significant losses for GTSOU because of unsettled imbalances and unauthorised off-takes from the gas transmission system;
  b) under the SPA, if GTSOU experiences a liquidity shortage, the dynamic component of the SPA due could be directed to cover gas transmission system capital expenditures. Such amounts would generate an interest charge calculated at the weighted average cost of capital (WACC) rate. While, in terms of time value of money alone, it might be indifferent whether to get the dynamic component of SPA’s price now or later with interest, given the substantial capital investments needed for modernisation of gas transmission system according to the 10-year development plan approved by the National Commission for Regulation of Energy and Utilities (“NCREU” or “the Regulator”) in 2020, there was a risk that GTSOU would not be able to generate sufficient cash flows to remit dividends to MGU in order to meet the obligation of the latter to repay the dynamic component of the SPA when it becomes due;

8. CONSIDERATION RECEIVABLE UNDER THE SPA AND COMPANSATION OF UNDERRECOVERED GAS TRANSMISSION REVENUE (Continued)

c) the estimate of any gas transit beyond 2024 is highly subjective and is not evidenced by any documents, that also supports the risk of insufficient cash flows to meet MGU's obligations under the SPA;
d) regulatory restrictions for GTSOU to its profit distribution could affect the amount, timing and certainty of dividend flow from GTSOU to MGU that are the main source for the latter to meet its obligations under the SPA. According to the Regulation of NCREU dated 30 September 2015 No. 2517 and Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, the records of differences between actually obtained revenues related to the provision of gas transmission services and allowed revenues for the transmission system operator (over- and underrecovery of gas transmission revenues in case of positive or negative difference, respectively), shall be aggregated on the regulatory account during the tariff period and hence cannot be remitted as dividend on demand;
e) lack of evidence of the level and timing of compensation of underrecovered gas transmission revenues incorporated in the future expected cash flows for the period 2020-2024 and ability to recover it under the SPA agreement.

The above-stated information was available and should have been considered in the fair value calculation as at 31 December 2020, however, based on the current management's assessment, may not have been appropriately incorporated into the calculation which might have resulted in overstatement of the fair value as at that date.

In January 2021, MGU publicly contested its ability to fulfil the SPA and stated that GTSOU could not make the necessary capital investments according to its 10-year development plan. The same month the Supervisory Board of MGU officially addressed the Cabinet of Ministers of Ukraine (the "CMU") with a request to revise the SPA. This event, while occurring in 2021, was driven by the factors above which existed already in 2020 and thus provided further evidence that MGU might not have been able to fulfil its obligations under the SPA in full as at 31 December 2020.

In April 2021, GTSOU declared a distribution of UAH 3,625 million as dividends to MGU, which was significantly lower compared to its net profit of UAH 20,354 million for 2020 due to regulatory and legal constraints described above. This significantly limited the ability of MGU to meet its obligations under the SPA.

In May 2021, the CMU issued a resolution which instructed the parties to the SPA to limit the consideration under the SPA to its fixed component which was already settled in December 2020 and to develop a revised arrangement. As a result, the dynamic component of the consideration receivable under the SPA was effectively cancelled by the CMU. Therefore, the fair value of the consideration receivable under the SPA was limited to the amount of UAH 3,200 million based on the amount of GTSOU dividends receivable by MGU and potentially available for payment to the Group. As the cancellation of the dynamic component of the consideration receivable under the SPA was approved by the CMU acting in the capacity of the ultimate owner of the Group and MGU, the respective impact is recognised directly in the consolidated statement of changes in equity.

8. CONSIDERATION RECEIVABLE UNDER THE SPA AND COMPANSATION OF UNDERRECOVERED GAS TRANSMISSION REVENUE (Continued)

Management consider that the events and conditions described above support the stance that the fair value amount previously determined as at 31 December 2020 was not recoverable in full. At the same time, management considers that it is impracticable to distinguish information that would have been available when the financial statements as at and for the year ended 31 December 2020 were authorised for issue and which provides additional evidence of circumstances that existed as at 31 December 2020 and information that relates to changes in circumstance after that date and corresponding subsequent changes in fair value. Therefore, the management concluded that it should not make any retrospective adjustments to the fair value of the consideration receivable under the SPA as at 31 December 2020 and instead should recognise any correction of the consideration receivable under the SPA in the consolidated statement of changes in equity for the year ended 31 December 2021. Accordingly, together with the write down of the dynamic component of the consideration receivable under the SPA based on the CMU resolution described above, this resulted in the net change of consideration receivable under the SPA of UAH 77,858 million recognised directly in the consolidated statement of changes in equity.

Since May 2021, management of the Group has been negotiating to recover the amount of consideration receivable or substitute it with some new instrument. As a result, in September 2021 the following agreement was reached and approved by the Resolution of the CMU:

- addenda to the SPA were developed providing that MGU should pay UAH 3,200 million as a single and final instalment within the SPA. The Group received the payment in full in late 2021;
- "Ukrtransgaz" JSC entered into an agreement with GTSOU on compensation of underrecovered gas transmission revenue, obliging the latter to compensate underrecovered gas transmission revenue for the 2020-2024 regulatory period in the amount of UAH 47,943 million, receivable in instalments, of which UAH 27,000 million were received in October 2021, and the remaining part is receivable in monthly instalments comprising 50% of GTSOU's proceeds from gas transit starting from December 2021. According to this agreement, "Ukrtransgaz" JSC preserves its rights for the compensation of underrecovered gas transmission revenue, which was previously factored into the initial fair value of the compensation receivable under the SPA, if any such compensation is approved for GTSOU for the regulatory periods of 2025-2034.

The receivable was initially recognised as a financial asset at fair value though profit or loss (FVTPL) based on discount rate of 8.77% in the amount of UAH 46,726 million. The increase in the fair value as at 31 December 2021 relates to the change in the discount rate and is presented in the consolidated statement of profit and loss as selling, general and administrative expenses in the amount of UAH 119 million. As at the date of these consolidated financial statements the Group received four monthly installments in the total amount of UAH 3,278 million in 2021 and UAH 4,657 million in 2022.

Management believes that significant support in establishing the agreement between "Ukrtransgaz" JSC and GTSOU on the compensation of underrecovered gas transmission revenue was contributed by the Government of Ukraine, the ultimate owner of both entities, and this support was provided to the Group alongside new strategic directives, issued in September 2021, which specify a key role for the Group in providing security of gas supply in Ukraine, in particular addressing apparent market failures amidst the global gas crisis.

8. CONSIDERATION RECEIVABLE UNDER THE SPA AND COMPANSATION OF UNDERRECOVERED GAS TRANSMISSION REVENUE (Continued)

On this basis the Group recognises the compensation of under recovered gas transmission revenue under the agreement between "Ukrtransgaz" JSC and GTSOU on its initial recognition directly in equity as a contribution from the owner.

9. OTHER NON-CURRENT ASSETS

The Group's other non-current assets were as follows:

In millions of Ukrainian hryvnias	31 December 2021	31 December 2020
Financial assets:		
Accounts receivable for petroleum products	6,729	-
Accounts receivable on product sharing agreement	5,151	5,250
Restructured accounts receivable of gas consumers	1,964	2,146
Other financial assets	238	88
Less: provision for impairment of financial assets	(9,810)	(5,406)
Total financial assets	**4,272**	**2,078**
Non-financial assets:		
Other non-financial assets	3,228	2,283
Less: provision for impairment of non-financial assets	(1,713)	(1,469)
Total non-financial assets	**1,515**	**814**
Total	**5,787**	**2,892**

Accounts receivable for petroleum products. During 2021 the Group signed an agreement with two customers as a result of which the schedule of repayment of the receivable was amendment and prolonged until 2024. As a result the financial asset was modified and respective long term portion of the receivable for petroleum products in the amount of UAH 6,729 million and related provision in the amount of UAH 4,437 million were reclassified from trade accounts receivable to other non-current assets (Note 11).

Accounts receivable on product sharing agreement. The Company entered into a concession agreement for hydrocarbon exploration and development with the Arab Republic of Egypt and Egyptian General Petroleum Corporation ("EGPC") on 13 December 2006. Under the terms of the concession agreement the Company has the right to recover all exploration and development costs incurred in connection with the concession agreement (Note 29). The amount presented in the table above represents such costs claimed by the Group for recovery, and which are expected to be refunded after one year since the reporting date.

9. OTHER NON-CURRENT ASSETS (Continued)

Restructured accounts receivable of gas consumers. In May 2011, the Law of Ukraine "On certain matters on indebtedness for natural gas and electricity consumed" #3319-VI was approved. According to this Law, accounts receivable due from entities supplying natural gas under the regulated tariff that were originated in 2010, were restructured for the period from 1 to 20 years and are stated at amortised cost using effective interest rate which, at the restructuring dates, varied from 14% to 15% per annum.

In November 2016 the Law of Ukraine "On measures to settle the debts for the natural gas consumed by municipal heat generating entities and distribution and water supplying companies" #1730 was adopted. According to this Law, accounts receivable due from municipal heat generating entities and distribution were restructured for 5 years and are stated at amortised cost using effective interest rate which at the restructuring dates varied from 8% to 16% per annum.

During the year ended 31 December 2021, the Company signed amicable agreements with municipal heat generating entities in respect of the restructuring of accounts receivable for gas. These accounts receivable were restructured for the period from 3 to 4 years and recognised at amortised cost using the effective interest rate method which, at the restructuring date, equalled from 6.45% to 8.03%. Loss on initial recognition of these restructured accounts receivable amounted to UAH 428 million and was included in selling, general and administrative expenses (Note 22).

As at 31 December 2021, the carrying value outstanding amount per gas debt restructuring agreements according to this Law included in other non-current assets was UAH 338 million (31 December 2020: UAH 579 million). Fulfilment of gas debt restructuring agreements is guaranteed by municipal executive government bodies representing the particular territorial community as set by the separate guarantee agreement.

Other non-financial assets. As at 31 December 2021 and 2020, included in other non-current assets are research and development expenditures amounting to UAH 1,324 million and UAH 1,080 million, respectively, that were incurred within the concession agreement for oil exploration and development with the EGPC on 13 December 2006, but not yet claimed for recovery (Note 29).

Movements in provision for impairment of non-current assets were as follows:

		2021		**2020**
In millions of Ukrainian hryvnias	**financial assets**	**non-financial assets**	**financial assets**	**non-financial assets**
Balance at 1 January	**5,406**	**1,469**	**3,268**	**1,439**
Provision for impairment recognised during the period	952	244	2,158	582
Reversal of provision for impairment	(1,057)	-	-	-
Other movements	4,509	-	(20)	(552)
Balance at 31 December	**9,810**	**1,713**	**5,406**	**1,469**

9. OTHER NON-CURRENT ASSETS (Continued)

As at 31 December 2021, the amount of UAH 5,151 million (2020: UAH 5,250 million) of provision for impairment of financial assets related to accounts receivable on product sharing agreement, UAH 4,643 million (2020: UAH nil) related to accounts receivable for petroleum products. As at 31 December 2021 and 31 December 2020 provision relates to impaired financial assets.

Other movements in provision for impairment of non-current accounts receivable relate to reclassification of provision between current and non-current accounts receivable.

10. INVENTORIES

The Group's inventories were as follows:

In millions of Ukrainian hryvnias	**31 December 2021**	**31 December 2020**
Natural gas	57,929	30,521
Crude oil	2,885	3,639
Petroleum products	2,466	2,243
Spare parts	1,905	1,964
Raw materials	2,332	1,169
Other	1,493	1,155
Total	**69,010**	**40,691**

Management estimates the necessity of write-down of inventories to their net realisable value taking into consideration indicators of economical and physical obsolescence. In 2021, a write-down adjustment amounting to UAH 652 million was included in purchases, UAH 753 million in selling, general and administrative expenses (Note 22) (2020: UAH 96 million included in selling, general and administrative expenses).

As at 31 December 2021 and 2020, inventories with carrying amount of UAH 24,677 million and UAH 17,323 million, respectively, were pledged as collateral for borrowings (Note 14).

11. TRADE ACCOUNTS RECEIVABLE

The Group's trade accounts receivable were as follows:

In millions of Ukrainian hryvnias	**31 December 2021**	**31 December 2020**
Accounts receivable for natural gas	118,285	86,202
Accounts receivable for gas balancing services	35,793	43,622
Accounts receivable for petroleum products	9,213	12,909
Accounts receivable for crude oil	5,102	6,251
Accounts receivable for gas transportation services	2,480	3,347
Other accounts receivable	2,786	3,244
Less: provision for impairment	(124,165)	(127,446)
Total	**49,494**	**28,129**

As at 31 December 2021, The Group adopted the new methodology for estimation of the expected credit losses ("ECL") of trade accounts receivable for gas. The Group assesses the credit quality of the

11. TRADE ACCOUNTS RECEIVABLE (Continued)

customer and related probability of default ("PD"), considering its financial position, past experience of payments and other factors (Note 30).

The expected credit losses for receivables for gas (other than direct sales for households) as at 31 December 2021 were measured using the individual approach and as at 31 December 2020 - using the portfolio approach as described in Note 30.

The following table provides information about the exposure to credit risk and expected credit losses for trade accounts receivable as at 31 December 2021 and 31 December 2020.

The expected credit losses are estimated using an individual approach:

			31 December 2021		**31 December 2020**	
In millions of Ukrainian hryvnias		**PD**	**Gross carrying amount**	**Provision for impairment**	**Gross carrying amount**	**Provision for impairment**
Accounts receivable from regional gas distribution entities for natural gas	Stage_2	50% - 99%	3,967	(3,172)	-	-
	Stage_3	50% - 100%	46,080	(29,478)	-	-
Accounts receivable from municipal's heating companies for natural gas	Stage_2	0% - 30%	317	(7)	-	-
	Stage_2	30% - 50%	171	(16)	-	-
	Stage_2	50% - 99%	14,994	(1,585)	-	-
	Stage_3	50% - 100%	36,094	(35,036)	-	-
Accounts receivable from other consumers for natural gas	Stage_2	0% - 30%	226	(92)	3,273	(47)
	Stage_2	30% - 50%	3,407	(415)	-	-
	Stage_2	50% - 100%	2,219	(442)	-	-
	Stage_3	30% - 50%	-	-	250	(120)
	Stage_3	50% - 100%	8,129	(7,834)	389	(378)
Accounts receivable for petroleum products	Stage_2	0% - 30%	1,495	(116)	2,904	(749)
	Stage_2	30% - 50%	2,601	(1 219)	-	-
	Stage_2	50% - 99%	12	(9)	11	(8)
	Stage_3	0% - 30%	966	(288)	1	-
	Stage_3	50% - 100%	3,937	(3 632)	9,789	(6,847)
Accounts receivable for crude oil	Stage_2	0% - 30%	60	-	24	-
	Stage_3	50% - 100%	5,042	(5,042)	6,124	(6,124)
Accounts receivable for gas transportation services	Stage_2	0% - 30%	44	(2)	7	-
	Stage_2	50% - 99%	1	(1)	-	-
	Stage_3	0% - 30%	2	-	2	(1)
	Stage_3	50% - 100%	1	(1)	75	(41)
Other accounts receivable	Stage_2	0% - 30%	675	(24)	210	(22)
	Stage_2	30% - 50%	12	(6)	113	(56)
	Stage_2	50% - 99%	-	-	11	(6)
	Stage_3	0% - 30%	248	(87)	189	(51)
	Stage_3	30% - 50%	25	(12)	509	(249)
	Stage_3	50% - 99%	798	(794)	519	(401)
Total			**131,523**	**(89,310)**	**24,400**	**(15,100)**

11. TRADE ACCOUNTS RECEIVABLE (Continued)

The expected credit losses are estimated using a migration matrix:

In millions of Ukrainian hryvnias	days past due	31 December 2021 Expected loss rate	31 December 2021 Gross carrying amount	31 December 2021 Provision for impairment	31 December 2020 Expected loss rate	31 December 2020 Gross carrying amount	31 December 2020 Provision for impairment
Accounts receivable from regional gas distribution entities for natural gas	Not past due	0%	-	-	15%	46	(7)
	1 – 90	0%	-	-	50%	2	(1)
	91 – 180	0%	-	-	100%	913	(912)
	181 – 270	0%	-	-	100%	3,712	(3,711)
	271 – 365	0%	-	-	100%	10,971	(10,970)
	>365	0%	-	-	100%	7,862	(7,862)
Accounts receivable from municipal's heating companies for natural gas	Not past due	0%	-	-	17%	10,658	(1,801)
	1 – 90	0%	-	-	33%	6 582	(2,203)
	91 – 180	0%	-	-	62%	879	(547)
	181 – 270	0%	-	-	72%	2,277	(1,630)
	271 – 365	0%	-	-	89%	5,146	(4,587)
	>365	0%	-	-	100%	20,337	(20,337)
Accounts receivable from other consumers for natural gas	Not past due	2%	1,778	(36)	11%	3,029	(333)
	1 – 90	10%	571	(57)	56%	9	(5)
	91 – 180	27%	75	(20)	69%	32	(22)
	181 – 270	45%	133	(60)	60%	10	(6)
	271 – 365	65%	78	(51)	75%	8	(6)
	>365	100%	46	(46)	100%	9,817	(9,801)
Accounts receivable for gas balancing services	>365	88%	35,793	(31,408)	100%	43,622	(43,576)
Accounts receivable for petroleum products	Not past due	0%	18	-	0%	13	-
	>365	100%	184	(184)	100%	191	(191)
Accounts receivable for crude oil	Not past due	0%	-	-	0%	46	-
	1 – 90	0%	-	-	0%	42	-
	91 – 180	0%	-	-	0%	15	-
Accounts receivable for gas transportation services	Not past due	4%	25	(1)	0%	597	-
	1 – 90	4%	135	(6)	5%	293	(15)
	91 – 180	18%	40	(7)	0%	-	-
	181 – 270	28%	40	(11)	0%	-	-
	271 – 365	54%	13	(7)	0%	-	-
	>365	99%	2,179	(2,162)	100%	2,373	(2,373)
Other accounts receivable	Not past due	0%	197	-	0%	190	-
	1 – 90	0%	10	-	4%	49	(2)
	91 – 180	0%	3	-	67%	3	(2)
	181 – 270	0%	9	-	0%	-	-
	271 – 365	62%	26	(16)	95%	22	(21)
	>365	100%	783	(783)	100%	1,429	(1,425)
Total			**42,136**	**(34,855)**		**131,175**	**(112,346)**

11. TRADE ACCOUNTS RECEIVABLE (Continued)

As at 31 December 2021, trade accounts receivable for natural gas in the amount of UAH 2,130 million were secured by bank guarantees (2020: UAH nil). As at 31 December 2021 trade accounts receivable in the amount of UAH 15,574 million were secured by the direct debit transfer agreement (2020: UAH nil).

Movements in the provision for impairment of trade accounts receivable for the year ended 31 December 2021 were as follows:

In millions of Ukrainian hryvnias	Stage	**Balance at 1 January**	Provision for impairment recognised during the period	Reversal of provision for impairment	Amounts written off during the year as uncollectible	Settlement on acquisition of the subsidiary	Other movements	Transfers between stages	**Balance at 31 December**
Accounts receivable for gas balancing services	Stage_3	43,576	-	(5,031)	(971)	(5,825)	(341)	-	31,408
Accounts receivable from heating entities for natural gas	Stage_2	4,004	1,608	-	-	-	-	(4,004)	1,608
	Stage_3	27,101	33,931	(30,071)	-	-	71	4,004	35,036
Accounts receivable from regional gas supply entities for natural gas	Stage_2	8	3,172	-	-	-	-	(8)	3,172
	Stage_3	23,455	10,579	(1,931)	-	(2,635)	2	8	29,478
Accounts receivable from other consumers for natural gas	Stage_2	385	1,042	-	-	-	-	(385)	1,042
	Stage_3	10,333	-	(2,714)	-	-	7	385	8,011
Accounts receivable for petroleum products	Stage_2	757	1,344	-	-	-	-	(757)	1,344
	Stage_3	7,038	1,031	(285)	-	-	(4,437)	757	4,104
Accounts receivable for crude oil	Stage_3	6,124	-	(1,082)	-	-	-	-	5,042
Accounts receivable for gas transportation services	Stage_2	15	10	-	-	-	-	(15)	10
	Stage_3	2,415	36	(211)	-	(47)	(20)	15	2,188
Other accounts receivable	Stage_2	86	30	-	-	-	-	(86)	30
	Stage_3	2,149	28	(570)	(25)	-	24	86	1,692
Total		**127,446**	**52,811**	**(41,895)**	**(996)**	**(8,507)**	**(4,694)**	**-**	**124,165**

Other movements in provision for impairment of trade accounts receivable relate to reclassification of provision between current and non-current accounts receivable (Note 9).

11. TRADE ACCOUNTS RECEIVABLE (Continued)

Movements in provision for impairment of trade accounts receivable for the year ended 31 December 2020 were as follows:

In millions of Ukrainian hryvnias	Stage	**Balance at 1 January**	Provision for impairment recognised during the period	Reversal of provision for impairment	Amounts written off during the year as uncollectible	Other movements	Transfers between stages	**Balance at 31 December**
Accounts receivable for gas balancing services	Stage_2	2,449	-	-	-	-	(2,449)	-
	Stage_3	38,801	2,897	(265)	(306)	-	2,449	43,576
Accounts receivable from heating companies for natural gas	Stage_2	1,438	4,004	-	-	-	(1,438)	4,004
	Stage_3	18,757	15,032	(8,137)	-	11	1,438	27,101
Accounts receivable from regional gas distribution entities for natural gas	Stage_2	6	8	-	-	-	(6)	8
	Stage_3	340	26,637	(3,528)	-	-	6	23,455
Accounts receivable from other consumers for natural gas	Stage_2	36	385	-	-	-	(36)	385
	Stage_3	10,253	496	(335)	-	(117)	36	10,333
Accounts receivable for petroleum products	Stage_2	3,839	757	-	-	-	(3,839)	757
	Stage_3	951	4,321	(2,379)	-	306	3,839	7,038
Accounts receivable for crude oil	Stage_3	7,212	-	(1,089)	-	1	-	6,124
Accounts receivable for gas transportation services	Stage_2	63	15	-	-	-	(63)	15
	Stage_3	2,175	359	(132)	-	(50)	63	2,415
Other accounts receivable	Stage_2	56	86	-	-	-	(56)	86
	Stage_3	1,902	323	(472)	-	340	56	2,149
Total		**88,278**	**55,320**	**(16,337)**	**(306)**	**491**	**-**	**127,446**

12. PREPAYMENTS MADE AND OTHER CURRENT ASSETS

The Group's prepayments made and other current assets were as follows:

In millions of Ukrainian hryvnias	31 December 2021	31 December 2020
Financial assets:		
Promissory notes receivable	1,427	1,427
Receivables under assignation agreements in respect of natural gas sales	1,220	1,518
State treasury bonds of Ukraine	-	11,483
Other financial assets	5,621	5,804
Less: Provision for impairment of financial assets	(6,648)	(6,870)
Total financial assets	**1,620**	**13,362**
Non-financial assets:		
VAT recoverable	9,933	3,279
Prepayments to suppliers for materials, works and services	9,226	8,166
Taxes prepaid, other than income tax	5,521	201
Prepayment for gas transit services	2,815	3,614
Prepayments for pipelines construction	1,340	1,342
Prepayments to suppliers for natural gas	164	158
Other non-financial assets	4,379	4,163
Less: Provision for impairment of non-financial assets	(11,440)	(11,644)
Total non-financial assets	21,938	**9,279**
Total	**23,558**	**22,641**

As at 31 December 2021 other financial assets included assets in the amount of UAH 1,703 million (2020: UAH 1,681 million) that related to receivables under the joint operation agreements in respect of the exploration and development of oil and gas fields in Ukraine and are fully reserved; UAH 427 million (2020: UAH 219 million) related to short-term financial aid; remaining balances related to the other financial assets.

As at 31 December 2021 other non-financial assets included receivables in the amount of UAH 975 million (2020: UAH 1,187 million) related to VAT on inventory transferred to the principal for further sale under commission agreements.

As at 31 December 2021, taxes prepaid, other than income tax, included UAH 5,279 million of extraction gas royalty prepayments (31 December 2020: UAH nil million).

12. PREPAYMENTS MADE AND OTHER CURRENT ASSETS (Continued)

Movements in the provision for impairment were as follows:

		2021		**2020**
In millions of Ukrainian hryvnias	**financial assets**	**non-financial assets**	**financial assets**	**non-financial assets**
Balance at 1 January	6,870	11,644	**9,467**	**8,166**
Provision for impairment recognised during the period	381	487	1,946	74
Reversal of provision for impairment	(678)	(44)	(492)	(73)
Amounts written off as uncollectible	(108)	-	(276)	(28)
Other movements	183	(647)	(3,775)	3,505
Balance at 31 December	**6,648**	**11,440**	**6,870**	**11,644**

As at 31 December 2021, UAH 1,703 million (2020: UAH 1,681 million) of the provision for impairment of financial assets related to receivables under the joint operation agreements in respect of the exploration and development of oil and gas fields in Ukraine; UAH 1,427 million (2020: UAH 1,427 million) related to the promissory notes receivable; UAH 881 million (2020: UAH 1,518 million) of the provision for impairment of financial assets related to the receivables under assignation agreements in respect of natural gas sales; remaining balances related to the other financial assets.

As at 31 December 2021, UAH 6,769 million (2020: UAH 6,766 million) of the provision for impairment of non-financial assets related to prepayments to suppliers for materials, works and services; UAH 1,340 million (2020: UAH 1,342 million) related to prepayments for pipelines construction; UAH 481 million (2020: UAH nil) related to VAT on inventory transferred to the principal for further sale under commission agreements; remaining balances related to the other financial assets.

Other movements in the provision for impairment relate to reclassification of the provision between current and non-current accounts receivable.

13. EQUITY

As at 31 December 2021 and 2020, the nominal amount of the Company's registered, issued and fully paid share capital was UAH 190,150 million, comprising 190,150,481 ordinary shares, with a par value of UAH 1,000 per share.

Also, as at 31 December 2021 and 2020, the share capital of the Company was adjusted for the effect of hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" by UAH 4,157 million. Therefore, the total amount of the Company's share capital as at 31 December 2021 and 2020 was UAH 194,307 million.

13. EQUITY (Continued)

Distribution of profits

Profit available for distribution to the shareholders for each reporting period is determined by reference to the Company's standalone financial statements prepared in accordance with International Financial Reporting Standards.

For the year ended 31 December 2020, the obligatory profit amount accrued in current provisions in respect of the portion of net profit of "Ukrnafta" PJSC attributable to the State Budget amounted to UAH 1,921 million, and to other equity holders – UAH 1,921 million.

In 2021, "Ukrnafta" PJSC additionally accrued dividends in respect of net profit for the year ended 31 December 2018 in amount of UAH 966 million attributable to the State Budget and UAH 966 million attributable to other equity holders.

For the year ended 31 December 2021, the obligatory profit amount accrued in advances received and other current liabilities in respect of the portion of net profit of "Ukrnafta" PJSC attributable to the State Budget amounted to UAH 365 million.

As at 31 December 2021, the Company accrued UAH 3,915 million in respect of the obligatory portion of net profit attributable to the State Budget of Ukraine in advances received and other current liabilities. According to the Resolutions of the Cabinet of Ministers of Ukraine #244-r dated 25 March 2022, the basic distribution rate was set at 95% of the Company's net profit for 2021. In March 2022, the Company paid UAH 2,313 million of dividends for 2021 as an advance payment.

"Donetskoblgaz" JSC management

On 1 October 2021, the Company signed an agreement with the Asset Recovery and Management Agency to operate "Donetskoblgaz" JSC for 5 years. The entity distributes natural gas to circa 370 thousand customers in Donetsk region. As a result, the Group received a quorum of 88.18% of the total ordinary voting shares and respective economic interest. The transaction was accounted using the predecessor accounting method.

The assets and liabilities of "Donetskoblgaz" JSC recognised as of 1 October 2021 as a result of obtained control were follows:

In millions of Ukrainian hryvnias	**1 October 2021**
Property, plant and equipment	204
Intangible assets	1
Inventories	35
Trade accounts receivable	188
Prepayments made and other current assets	16
Cash and bank balances	64
Provisions	(15)
Trade accounts payable	(9,052)
Advances received and other current liabilities	(1,119)
Total carrying amount of net liabilities	**(9,678)**
Total carrying amount of net liabilities attributable to owners of the Parent	**(8,534)**
Non-controlling interest	(1,144)
Purchase of subsidiary	-
Net liabilities of owners that became as an intragroup balance	**8,497**
Loss due to acquisition of the subsidiary	**(1,181)**

13. EQUITY (Continued)

Non-controlling interest

Subsidiaries with non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) the accumulated amount of non-controlling interest in the subsidiary; and (iii) total assets, revenues, profit or loss and other comprehensive income of the respective subsidiaries.

The Group has one subsidiary with non-controlling interest that is material to the Group, which is "Ukrnafta" PJSC. The summarised financial information of "Ukrnafta" PJSC (including the impact of consolidation adjustments, but before inter-company eliminations) was as follows as at 31 December 2021 and 31 December 2020.

In millions of Ukrainian hryvnias	"Ukrnafta" PJSC	
	31 December 2021	**31 December 2020**
Non-current assets	31,860	23,507
Current assets	13,337	12,164
Non-current liabilities	(12,210)	(23,864)
Current liabilities	(19,493)	(4,352)
Net assets	**13,494**	**7,455**
Non-controlling interest	**6,747**	**3,727**

In millions of Ukrainian hryvnias	"Ukrnafta" PJSC	
	2021	**2020**
Profit for the period	2,491	4,544
Other comprehensive income/(loss) for the period	7,854	(2,000)
Total comprehensive income	**10,345**	**2,544**
Net profit is attributable to non-controlling interest	**5,173**	**1,272**
Dividends payable to non-controlling interest	**(966)**	**(1,921)**

In millions of Ukrainian hryvnias	"Ukrnafta" PJSC	
	2021	**2020**
Net cash generated by operating activities	4,413	1,002
Net cash used in investing activities	(960)	(994)
Net cash used in financing activities	(7)	(1)
Net increase in cash and cash equivalents	**3,446**	**7**

14. BORROWINGS

The Group's borrowings were as follows:

In millions of Ukrainian hryvnias	31 December 2021	31 December 2020
Non-current		
Eurobonds	32,193	44,453
Bank borrowings	8,019	12,220
Unamortised discount	(58)	(126)
Total non-current portion	*40,154*	*56,547*
Current		
Eurobonds	9,138	-
Bank borrowings	11,033	8,427
Interest accrued	1,265	1,368
Unamortised discount	(5)	-
Total current portion	*21,431*	*9,795*
Total	**61,585**	**66,342**

Eurobonds disclosed in the above table were issued by Kondor Finance plc (a public company with limited liability incorporated in England and Wales) for the purpose of funding a loan to the Company. The Group does not control or exercise significant influence over Kondor Finance plc.

The coupon rate and carrying amount of Eurobonds issued were as follows:

In millions of Ukrainian hryvnias	Coupon rate, %	Date of maturity	Nominal value in millions	Currency	Carrying amount 31 December 2021	Carrying amount 31 December 2020
Issue of July 2019 (Tranche A)	7.125	July 2024	600	Euro	18,524	20,802
Issue of July 2019 (Tranche B)	7.375	July 2022	335	US dollars	9,133	9,457
Issue of November 2019	7.625	November 2026	500	US dollars	13,628	14,124
					41,285	**44,383**

The average effective interest rates and currency denomination of borrowings were as follows:

In millions of Ukrainian hryvnias	31 December 2021 Balance	31 December 2021 % per annum	31 December 2020 Balance	31 December 2020 % per annum
USD	30,381	7.8	32,640	7.6
EUR	20,341	7.5	24,405	7.3
UAH	10,863	11.9	9,297	12.1
Total	**61,585**		**66,342**	

14. BORROWINGS (Continued)

Pledges. The Group’s borrowings were secured by the following pledges:

In millions of Ukrainian hryvnias	**31 December 2021**	**31 December 2020**
Inventories (Note 10)	24,677	17,323
Proceeds from future sales	10,999	14,412
Property, plant and equipment (Note 5)	4,430	3,134
Total	**40,106**	**34,869**

Guarantees. As at 31 December 2021, the Group’s borrowings in the amount of UAH 2,461 million were guaranteed by the State (31 December 2020: UAH 2,783 million).

Reconciliation of financial liabilities from financing activities

In millions of Ukrainian hryvnias	**31 December 2020**	**Cash flows from financing activities**	**Foreign exchange differences**	**Other**	**Interest expense (Note 23)**	**31 December 2021**
Bank borrowings	20,751	(2,585)	(558)	432	1,146	19,186
Eurobonds	45,591	(3,253)	(3,224)	25	3,260	42,399
Total	**66,342**	**(5,838)**	**(3,782)**	**457**	**4,406**	**61,585**

In millions of Ukrainian hryvnias	**31 December 2019**	**Cash flows from financing activities**	**Foreign exchange differences**	**Other**	**Interest expense (Note 23)**	**31 December 2020**
Bank borrowings	24,169	(7,706)	1,403	444	2,441	20,751
Eurobonds	36,493	(3,174)	9,077	22	3,173	45,591
Total	**60,662**	**(10,880)**	**10,480**	**466**	**5,614**	**66,342**

Compliance with borrowing terms. Under the terms and conditions of the credit agreements with the banks and the loan agreements for the bond issues, the Group should comply with certain financial and non-financial covenants, the breach of which may result in the requirement of early repayment of borrowings. The Group's management reviewed compliance with these covenants during the reporting period and as at the reporting date and concluded that no breach of covenants occurred. Assessment of some of the covenants’ terms required judgement. Where additional clarification was felt necessary the Group also obtained the bank's confirmation that there was no non-compliance as of 31 December 2021.

To eliminate inconsistencies and provide additional clarification in April 2022 the Company signed an addendum to a loan agreement with a state-owned bank that aligned debt/EBITDA ratio with that in the eurobond loan agreement.

15. PROVISIONS

Movements in provisions for the years ended 31 December 2021 and 2020 were as follows:

In millions of Ukrainian hryvnias	Provisions for litigations	Employee benefit obligations	Decommissio-ning provision	Provision for fines and penalties	Portion of net profit attributable to the State Budget of Ukraine and other equity holders (Note 13)	Other provisions	Total
Balance at 31 December 2019	**12,604**	**7,965**	**5,440**	**19,253**	**6,697**	**1,470**	**53,429**
Provision for dividends payable to the State Budget and other equity holders (Note 13)	-	-	-	-	3,842	-	3,842
(Reversed)/Charged during the year	3,419	2,747	(1)	(791)	-	779	6,153
Unwinding of discount	-	492	362	-	-	-	854
Used or paid during the year	(13,433)	(2,438)	(106)	(16,820)	(6,697)	(185)	(39,679)
Remeasurements	-	(717)	(453)	-	-	-	(1,170)
Balance at 31 December 2020	**2,590**	**8,049**	**5,242**	**1,642**	**3,842**	**2,064**	**23,429**
Non-current	-	4,671	5,182	-	-	-	9,853
Current	2,590	3,378	60	1,642	3,842	2,064	13,576
Provision for dividends payable to the State Budget and other equity holders (Note 13)	-	-	-	-	(3,842)	-	(3,842)
Charged/(reversed) during the year	212	2,155	-	(305)	-	5,579	7,641
Unwinding of discount	-	520	306	-	-	-	826
Used or paid during the year	(272)	(2,194)	(2)	-	-	(142)	(2,610)
Remeasurements	-	(1,229)	(1,123)	-	-	-	(2,352)
Balance at 31 December 2021	**2,530**	**7,301**	**4,423**	**1,337**	**-**	**7,501**	**23,092**
Non-current	-	3,675	4,340	-	-	-	8,015
Current	2,530	3,626	83	1,337	-	7,501	15,077

15. PROVISIONS (Continued)

Provisions for litigations

The Group is involved in a number of litigations both as a plaintiff and as a defendant. Provision for litigations represents management assessment of the probable outflow of the Group's resources arising from an adverse outcome of the court and arbitration procedures.

In 2020 several court decisions resulted in final approval of the Settlement Agreement between Misen Enterprises AB, "Karpatygaz" LLC and the Group. As a result, in 2020 the Group accrued and used the respective provision of UAH 1,337 million (Note 25).

Employee benefit obligations

The Group companies have certain obligations to its employees according to the collective agreements.

Current provisions for employee benefits include provision for performance bonus in the amount of UAH 2,987 million as at 31 December 2021 (31 December 2020: UAH 2,794 million).

Non-current and partially current provisions for employee benefits include lump sum benefits payable upon retirement and post-retirement benefit programmes totalling to UAH 4,314 million as at 31 December 2021 (31 December 2020: UAH 5,255 million). These benefit plans are not funded, and there are no plan assets.

The amounts recognised in the income statement and in other comprehensive income were as follows:

In millions of Ukrainian hryvnias	2021	2020
Current service cost	203	322
Past service cost	22	125
Interest expense	520	492
Remeasurement of the defined benefit obligation (for long-term benefits only)	(4)	8
Total amount recognised in profit or loss	**741**	**947**
Remeasurements of the defined benefit obligation recognised in other comprehensive income	(1,229)	(717)
Total amount recognised in other comprehensive income	**(1,229)**	**(717)**

Changes in the present value of the defined benefit obligation were as follows:

In millions of Ukrainian hryvnias	2021	2020
As at 1 January	**5,255**	**5,495**
Current service cost	203	322
Past service cost	22	125
Interest expense	520	492
Benefit payments	(453)	(470)
Remeasurements of the defined benefit obligation resulting from:		
- changes in financial assumptions	(1,344)	(460)
- experience adjustments	156	(240)
- changes in demographic assumptions	(45)	(9)
As at 31 December	**4,314**	**5,255**

15. PROVISIONS (Continued)

The principal actuarial assumptions used were as follows:

	2021	2020
Nominal discount rate, %	14.8-14.9	9.6-10.0
Long-term inflation, %	4.8-7.6	4.8
Nominal salary increase rate, %	4.8-33.0	4.8-15.0
Staff turnover ratio, %	2.0-8.8	1.5-10.0

The sensitivity of the non-current employee benefit obligations to changes in the principal assumptions is as follows:

	2021	2020
Nominal discount rate increase/decrease by 1%, %	(5.99)/6.74	(7.81)/9.04
Nominal salary increase/decrease by 1%, %	4.13/(3.78)	5.29/(4.73)
Staff turnover increase/decrease by 1%, %	(1.73)/1.93	(1.97)/2.53

The sensitivity analysis presented above may not be representative of the actual change in the non-current employee benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the employee benefit obligations was calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the obligation recognised in the consolidated statement of financial position.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Decommissioning provision

In accordance with the legislation requirements, the Group is obliged to restore land that underwent changes in the relief structure, environmental state of soils and parent rocks, as well as hydrological regime due to drilling, geological survey, constructing and other works. The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties.

The principal assumptions used for determining the amount of the provision for decommissioning of non-current assets were as follows:

	2021	2020
Discount rate before tax, %	14.9	9.7-9.8
Long-term inflation rate, %	4.8-5.5	4.8-5.4

As at 31 December 2021 and 2020, the Group revised calculation of provisions for decommissioning of non-current assets to reflect its current best estimate. As a result, there was a decrease in the amount of the provision, which is mainly related to the increase of the discount rate.

Provision for fines and penalties

As at 31 December 2020, the provision includes fines and penalties accrued a result of non-payment and late payment of subsoil royalty, income tax and VAT by "Ukrnafta" PJSC. The Group accrued the provision for fines, penalties and late payment interest in respect of such tax liabilities.

15. PROVISIONS (Continued)

In 2020, the Group used the provision of UAH 16,820 million and settled its fines and penalties to the State Budget (Note 2). As at 31 December 2021 the provision balance of UAH 1,337 million (2020: UAH 1,642 million) relates to fines and penalties accrued by "Ukrnafta" PJSC.

Provision for net profit attributable to the State Budget of Ukraine and other equity holders

In June 2021 the profit share of "Ukrnafta" PJSC for the year ended 31 December 2020 was approved and the Group reclassified the provision in amount of UAH 3,842 million to the advances received and other current liabilities. 50% of the amount attributable to Group was recognised as the profit share payable to the State Budget, the other 50% of the amount was recognised as the profit share payable to non-controlling shareholders of "Ukrnafta" PJSC (Note 13).

Other provisions

In 2021 the movement in other provisions includes the revaluation of the provision for commercial gas of third parties held in the custody of the Group that remained on temporarily occupied territories of Ukraine in 2014, in the amount of UAH 5,732 million, which is due to rising market prices for gas.

16. OTHER NON-CURRENT LIABILITIES

In millions of Ukrainian hryvnias	2021	2020
Liabilities for purchase of property, plant and equipment	2,556	3,237
Long-term lease liability	689	117
Total	**3,245**	**3,354**

For the year ended 31 December 2021, the average discount rates of the lease liability are 18,2% (2020: 17,9%) for UAH denominated lease agreements and 4.9% for USD-denominated lease agreements.

17. TRADE ACCOUNTS PAYABLE

In millions of Ukrainian hryvnias	2021	2020
Accounts payable for gas balancing services	6,019	44
Accounts payable for natural gas	2,143	865
Accounts payable for petroleum products	234	72
Accounts payable for gas transportation services	145	286
Accounts payable for crude oil	-	109
Accounts payable for oil transportation services	-	169
Other accounts payable	2,316	2,040
Total	**10,857**	**3,585**

As at 31 December 2021 other accounts payable included accounts payable under the joint activity agreement with EGPC in the amount of UAH 814 million (2020: UAH 652 million); accounts payable for construction and repair of fixed assets to third parties in the amount of UAH 292 million (2020: UAH 207 million); remaining balances related to accounts payable for other materials, works and services rendered.

18. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

The Group’s advances received and other current liabilities were as follows:

In millions of Ukrainian hryvnias	31 December 2021	31 December 2020
Financial liabilities:		
Profit share and dividends payable to non-controlling shareholders of "Ukrnafta" PJSC	3,305	427
Profit share and dividends payable to the State Budget	7,167	-
Liabilities for purchase of property, plant and equipment	2,604	2,286
Lease liability	123	31
Other current financial liabilities	1,782	1,813
Total financial liabilities	*14,981*	*4,557*
Non-financial liabilities:		
VAT payable	2,060	3,826
Taxes payable other than income tax	1,900	2,552
Recognised liabilities for unused vacations	1,299	747
Wages, salaries and related social charges payable	466	514
Recognised liabilities for litigations	157	177
Other non-financial current liabilities	990	61
Advances for gas transit organisation services	2,603	2,673
Advances for natural gas	2,029	3,324
Advances for petroleum products	556	173
Advances for oil transportation	347	284
Advances received for geophysical surveys	176	177
Other advances received	225	1,212
Total non-financial liabilities	*12,808*	*15,720*
Total	**27,789**	**20,277**

As at 31 December 2021, liabilities for purchase of property, plant and equipment included current portion of long term liabilities for purchase of property, plant and equipment in the amount of UAH 795 million (2020: UAH 5 million).

As at 31 December 2021, taxes payable other than income tax included UAH 1,600 million of subsoil royalty payable (31 December 2020: UAH 2,387 million).

19. REVENUE

In millions of Ukrainian hryvnias	2021	2020
Gas	136,889	75,171
Petroleum products	35,919	25,900
Gas transit organisation services	32,720	46,724
Oil transit and transportation	3,951	3,753
Gas storage	1,580	2,864
Oil and gas condensate	1,506	876
Repair and construction services	920	777
Gas distribution services	717	352
Other	3,182	2,817
Total	**217,384**	**159,234**

20. PRODUCTION AND MANUFACTURING EXPENSES

In millions of Ukrainian hryvnias	2021	2020
Subsoil royalty and other taxes other than on income	57,272	25,924
Staff costs and related social charges	8,502	7,596
Transportation of oil and natural gas	3,139	3,130
Materials	3,440	2,007
Crude oil processing services	2,550	3,022
Repair and maintenance costs	1,911	2,605
Utilities	1,763	1,541
Other	3,444	2,397
Total	**82,021**	**48,222**

During the year ended 31 December 2021, Subsoil royalty and other taxes other than on income included UAH 51,270 million of subsoil royalty (31 December 2020: UAH 20,543 million). Subsoil royalty and rent tax are calculated with reference to the volume of crude oil, gas condensate or natural gas produced, and the volume of crude oil transportation. Subsoil royalty on gas produced is calculated with reference to gas import prices.

21. PURCHASES

In millions of Ukrainian hryvnias	2021	2020
Gas	28,128	16,706
Gas transit organisation services	31,980	44,858
Oil and petroleum products	2,849	2,813
Other	278	181
Total	**63,235**	**64,558**

Purchases of gas, oil and petroleum products reflect the costs related to the acquisition of inventories and the effects of the changes therein, and include associated costs incurred in conversion into finished or intermediate products.

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In millions of Ukrainian hryvnias	2021	2020
Staff costs and related social charges	8,491	8,149
Change in provisions for litigations and other provisions	5,887	624
Non-refundable VAT	2,432	4,747
Loss on disposal of assets	783	442
Write-off of inventories to net realisable value	753	96
Professional fees	712	948
Fines and penalties paid	658	775
Change in the fair value of financial instruments	609	321
Loss on initial recognition of financial instruments at amortised cost	502	9
Contributions to trade unions	471	281
Transportation costs	464	509
Legal costs	337	400
Charity and social infrastructure	257	788
Fines and penalties received	(958)	(566)
(Income)/loss from the sale of inventories and other current assets	(90)	1,821
Other income	(1,627)	(1,128)
Other expenses	2,500	3,124
Total	**22,181**	**21,340**

In addition to the audit fees related to the compulsory audit as included in the professional fees are fees for other services performed by the Group's auditor in 2021 amounting to UAH 14 million (2020: UAH 10 million).

23. FINANCE COSTS

In millions of Ukrainian hryvnias	2021	2020
Interest expense	4,406	5,614
Unwinding of discount	1,064	1,011
Other	144	113
Total	**5,614**	**6,738**

24. INCOME TAX

The components of income tax expense from continuing operations for the years ended 31 December were as follows:

In millions of Ukrainian hryvnias	**2021**	**2020**
Current tax expense	10,018	4,789
Deferred tax (benefit)/expense	(2,727)	171
Income tax expenses	**7,291**	**4,960**

The Group is subject to taxation in Ukraine. In 2021 and 2020, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18%.

Reconciliation between the expected and the actual taxation charge is provided below:

In millions of Ukrainian hryvnias	**2021**	**2020**
Profit/(loss) before income tax	**19,314**	**(14,042)**
Income tax expense/(benefit) at statutory rate of 18%	**3,477**	**(2,528)**
Effect of changes in tax legislation	-	344
Tax effect of items not deductible or taxable for taxation purposes:		
- Non-deductible expenses	1,302	3,892
- Non-taxable income	(553)	(933)
Change in unrecognised deferred tax asset	3,065	4,185
Income tax expenses	**7,291**	**4,960**

The Parent and its subsidiaries are separate taxpayers and, therefore, their deferred tax assets and liabilities are presented on an individual basis. The deferred tax liabilities and assets reflected in the consolidated statement of financial position after appropriate set off are as follows:

In millions of Ukrainian hryvnias	**31 December 2020**	**31 December 2020**
Deferred tax assets	5,668	7,685
Deferred tax liabilities	(23,701)	(12,910)
Net deferred tax liability	**(18,033)**	**(5,225)**

24. INCOME TAX (Continued)

Net deferred tax liabilities as at 31 December 2021 related to the following:

In millions of Ukrainian hryvnias	31 December 2020	Recognised in profit or loss	Recognised in other compre-hensive income	31 December 2021
Property, plant and equipment	(12,219)	1,577	(15,227)	(25,869)
Trade accounts receivable	2,242	165	-	2,407
Advances received and other current liabilities	64	92	-	156
Provisions	1,907	1,231	(308)	2,830
Inventories	715	819	-	1,534
Prepayments made and other current assets	166	84	-	250
Other non-current assets	82	(63)	-	19
Unused tax losses	1,818	(1,178)	-	640
Net deferred tax liability	**(5,225)**	**2,727**	**(15,535)**	**(18,033)**

Net deferred tax liabilities as at 31 December 2020 related to the following:

In millions of Ukrainian hryvnias	31 December 2019	Recognised in profit or loss	Recognised in other compre-hensive income	31 December 2020
Property, plant and equipment	(18,932)	3,141	3,572	(12,219)
Trade accounts receivable	916	1,326	-	2,242
Advances received and other current liabilities	58	6	-	64
Provisions	7,403	(5,289)	(207)	1,907
Inventories	1,452	(737)	-	715
Prepayments made and other current assets	659	(493)	-	166
Other non-current assets	18	64	-	82
Unused tax losses	7	1,811	-	1,818
Net deferred tax liability	**(8,419)**	**(171)**	**3,365**	**(5,225)**

24. INCOME TAX (Continued)

As at 31 December 2021 and 2020, unrecognised deductible temporary differences and unused tax losses are as follows:

In millions of Ukrainian hryvnias	31 December 2021	31 December 2020
Provisions	1,045	1,027
Trade accounts receivable, prepayments made, other non-current and current assets	157,742	148,556
Inventories	7,423	7,423
Tax losses carried forward	9,158	1,334
Total	**175,368**	**158,340**

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Tax legislation. Ukraine's tax environment is characterised by complexity in tax administration and arbitrary interpretation of tax laws and regulations by tax authorities, which, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws may lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material.

Management believes that the Group was in compliance with all requirements of the effective tax legislation. In the ordinary course of business, the Group is engaged in transactions that may be interpreted differently by the Group and tax authorities. Where the risk of outflow of financial resources associated with this is deemed to be probable and the amount can be measured with sufficient reliability, the Group provides for those liabilities. Where management of the Group estimates the risk of financial resources outflow as possible, the Group makes a disclosure of these contingent liabilities.

As at 31 December 2021, management estimated possible tax exposures in the total amount of UAH 9,563 million (31 December 2010: UAH 15,472 million).

Management believes that it is not likely that any significant settlement will arise from the above cases and, therefore, the Group's consolidated financial statements do not include any amount of provision in this respect.

The Group conducts transactions with its subsidiaries. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated, however, management believes that it should not be significant.

The Group exports refinery products and transportation services, performs intercompany transactions and is involved in transactions with related parties, which may potentially be in the scope of the new Ukrainian transfer pricing ("TP") regulations. The Group's companies submitted the controlled transaction report for the year ended 31 December 2020 to the required deadline. The report on controlled transactions for the year ended 31 December 2021 will be prepared by the Group's companies by 1 October 2022.

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Management believes that the Group is in compliance with TP requirements. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules may be subject to various interpretations, the impact of challenge of the Group's companies transfer pricing positions by the tax authorities cannot be reliably estimated.

Claim against the Russian Federation regarding assets in Crimea. In October 2016, the Group initiated arbitration proceedings against the Russian Federation seeking compensation for the losses caused by unlawful expropriation of the Group's assets in Crimea by the Russian Federation. These arbitration proceedings were initiated under the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on mutual encouragement and protection of investments.

On 15 September 2017, the Group submitted the Statement of Claim to the Tribunal under the auspices of the Permanent Court of Arbitration in The Hague. The claim amount will be estimated following the Tribunals' Partial Final Award.

On 22 February 2019, the Tribunal issued the Partial Final Award on jurisdiction and responsibility in favour of the Group. The Tribunal acknowledged its jurisdiction over the claims and ruled that the Russian Federation is responsible for violation of the particular articles of the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on mutual encouragement and protection of investments, including the article on prohibition of expropriation.

On 27 June 2019, Naftogaz submitted its Memorial on Quantum to the Tribunal under the auspices of the Permanent Court of Arbitration in The Hague regarding the amount of compensation for the assets that were unlawfully expropriated by the Russian Federation in Crimea. Russia submitted its Counter-Memorial on Quantum in December 2019.

On 14 February 2020, the Group submitted its Reply Memorial on Quantum, responding to Russia's Counter-Memorial on Quantum. In its Reply Memorial, Naftogaz further substantiates its claim for compensation for its assets unlawfully expropriated by the Russian Federation in Crimea in March 2014 – valued at approximately USD 5 billion, plus interest (for a total of more than USD 9 billion).

An arbitration award on the amount of appropriate compensation is expected no earlier than the late 2022.

Legal proceedings. In the normal course of business, the Group is subject to claims. Where the risk of outflow of financial resources associated with such claims is assumed as probable, a respective liability is recognised as a component of provision for litigations (Note 15). Where management estimates the risk of outflow of financial resources associated with such claims as possible, or the amount of outflow cannot be measured reliably, no provision is recognised, and the respective amount is disclosed in the consolidated financial statements.

Management believes that it has provided for all material losses in these consolidated financial statements.

In March 2021, the Antimonopoly Committee of Ukraine claimed "Ukrnafta" PJSC for fines in the amount of UAH 2,368 million for the violation of the Law of Ukraine "On Protection of Economic Competition" during previous years. "Ukrnafta" PJSC claimed the decision of the Antimonopoly Committee in July 2021. There were no court decisions on this case by the date of these consolidated financial statements.

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Legal proceedings with “Ukrnafta” PJSC. The Company is involved in disputes with “Ukrnafta” PJSC, a subsidiary of the Group, in respect of recovering the volumes of gas and revenue from sales of this gas, in respect of the commitment to sign natural gas supply contracts, in respect of finding the natural gas storage contracts appropriately concluded and in respect of the obligation to refrain from hindering disposal of property.

The Resolution of the Cabinet of Ministers of Ukraine No.1729 “On providing the natural gas to consumers”, effective in the periods before 2016, envisaged that natural gas produced in Ukraine would be sold to Naftogaz in order to enable the latter to meet the needs of households. The Company suggested signing contracts with “Ukrnafta” PJSC for sales and purchase of gas at regulated prices approved at the time by the NCREU, however “Ukrnafta” PJSC declined as it believed that regulation of the gas price for such sales of gas was not justified. In addition, “Ukrnafta” PJSC did not sign a gas storage contract with “Ukrtransgaz” JSC during this period.

As a result of the use of gas held in the Unified Gas Transportation System and the lack of formal business contracts for storage and sales of this natural gas during 2007-2013, each of Naftogaz, “Ukrnafta” PJSC, “Ukrtransgaz” PJSC and non-controlling shareholders of “Ukrnafta” PJSC have initiated a large number of court proceedings in the Ukrainian courts and international arbitration proceedings, some of which remain pending to date. At the same time, “Ukrnafta” PJSC makes claims of a similar nature to different jurisdictions that may lead to duplicating its requests to return assets.

In March 2018, “Ukrnafta” PJSC filed a claim before the Commercial court against Naftogaz seeking recovery of gas in the total volume of 8.039 bcm. The case was postponed during 2018 and renewed upon request of “Ukrnafta” PJSC in April 2021 claiming 8.039 bcm of gas from Naftogaz with an estimated value of UAH 71.4 billion.

In June 2021, “Ukrnafta” PJSC increased its claim to 10.1 bcm of natural gas and in August 2021 “Ukrnafta” PJSC reduced its claim to recovery of about 9.067 bcm of natural gas produced during 2007-2013. In addition, “Ukrnafta” PJSC claims recovery of revenues that have been or potentially could have been received from sales of 10.1 bcm of natural gas. In December 2021, the Commercial Court in Kyiv City closed the preparatory proceedings and assigned the case for trial. On 15 February 2022, the last hearing on the merits took place where the court began examining the evidence.

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

There is a wide range of possible outcomes with inherent high uncertainty and therefore the possible amount of the outflows of resources cannot be estimated accurately as at the date of these consolidated financial statements at 31 December 2021 and 31 December 2020. This dispute would have no impact on the Group's performance other than allocation of profit and net assets between non-controlling interests and owners of the Parent. The amount of non-controlling interest in "Ukrnafta" PJSC in these consolidated financial statements is based on the value of its assets related to this dispute at historical cost of gas production of "Ukrnafta" PJSC, which was previously incorporated in "Ukrnafta" PJSC financial statements in the amount of UAH 3.2 billion unadjusted for any possible impact of this dispute.

Possible re-arrangement of interest in "Ukrnafta" PJSC

In 2021, the parties were contemplating a re-arrangement of their interest in "Ukrnafta" PJSC. As part of the re-arrangement parties would have to come to an agreement on mutual claims. The re-arrangement would not only include the agreement on the claims but also a split of the assets, and settlement of prepayments made by Naftogaz for future deliveries of gas, and certain other assets and liabilities of "Ukrnafta" PJSC. However, since the beginning of military aggression against Ukraine, the parties were prompted to suspend the re-arrangement.

The arbitration proceedings commenced before the Stockholm Chamber of Commerce Arbitration

These proceedings were initiated by three Cyprus companies that are non-controlling shareholders of "Ukrnafta" PJSC against the State of Ukraine, claiming that Ukraine allegedly breached its obligations to protect non-controlling shareholders' investments by causing or allowing the Group to appropriate gas without making payment for it. The Request for Arbitration was submitted in June 2015. In February 2021 the Tribunal ruled that it did not have jurisdiction to hear the substantive claims of the non-controlling shareholders of "Ukrnafta" PJSC.

The arbitration proceedings commenced before the London Court of International Arbitration

These proceedings were initiated by the non-controlling shareholders of the "Ukrnafta" PJSC against Naftogaz in respect of (i) a declaratory award holding that the non-controlling shareholders' rights under the shareholders' agreement ("SHA") are valid and subsisting, (ii) a final injunction restraining Naftogaz from breaching its obligations pursuant to the SHA, and (iii) damages in relation to the alleged misappropriation by Naftogaz and Ukrtransgaz JSC in breach of the SHA and of a number of provisions of the Civil Code of Ukraine. Claims were initiated in 2015. The Tribunal issued its Partial Final Award on 26 April 2018, recognising its jurisdiction over the dispute, considering certain provisions of SHA as contradicting the applicable Ukrainian legislation, and declaring that the SHA is valid and subsisting. Naftogaz has recently made an application to file a counterclaim.

The Group and a party of the terminated joint operations agreement have disputes in respect of volumes of natural gas and liquids produced under this agreement. Management assesses its contingent liabilities under such disputes at the level of UAH 1,154 million (2020: UAH 606 million). Management cannot reliably estimate an amount of actual losses in respect of this obligation, if any.

Management believes that it has provided for all material losses in these consolidated financial statements.

25. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Possible transfer of the Company’s equity interest in the subsidiaries to the State. In 1998, upon creation of the Company, the Government of Ukraine contributed shares of joint stock companies to the share capital of the Company, including “Long-Distance Pipelines “Druzhba” JSC and “Prydniprovskyi Long-Distance Pipeline” JSC (that were subsequently contributed to “Ukrtransnafta” JSC share capital), “Ukrspetstransgaz” SE, “Chornomornaftogaz” SE, “Ukrnafta” OJSC, and fifty four regional gas distribution entities. The Government of Ukraine may decide to transfer shares (stakes) or ownership or control over all or part of the Company’s equity interest in those joint stock companies and/or companies, and those actions could have a material adverse effect on the Company’s operations.

State property not subject to privatisation. In 1998, the Company entered into an agreement “On use of the State owned property not subject to privatisation” (“Agreement”) with the State Property Fund of Ukraine, and assumed operational control over oil and gas transportation and storage systems. The Agreement was signed for one year, and its term is prolonged automatically for one year, unless terminated by notice from either party, and is binding on the legal successor of each party. Historically, the agreement has been prolonged automatically, as neither party initiated its termination. As the State property not subject to privatisation forms an essential part of the Group’s business, the future operations and financial performance of the Group depends on the prolongation of the Agreement. The Group’s management believes that the Group will continue to operate this property in the foreseeable future.

Pursuant to the Agreement, the Company is required, inter alia, to handle oil and gas transmission and distribution pipelines owned by the State of Ukraine, keep the state property in proper operational condition, and transfer 50% share of profits received from using those assets to the State. The amount of such transfer could be reduced by the amount of capital investments in those assets. The Agreement does not define a mechanism of such calculations, and historically there were no payments from the Company to the State in respect of using such assets. The Company believes that had the mechanism for calculating the state share in profits from using the assets been determined by the State, the capital investments performed by the Company would be greater, and no payment in favour of the State would occur. Accordingly, no liability for such payment was recognised in these consolidated financial statements.

As described in Note 8, on 1 January 2020 current obligations of the Group to operate state-owned gas transmission infrastructure were terminated. On 1 January 2020, the Ministry of Finance of Ukraine transferred state-owned assets related to the gas transmission system to the new transmission system operator under the long-term economic management agreement.

Capital commitments. Capital commitments for purchase of property, plant and equipment, and exploration and development of oil and gas fields comprise UAH 4,866 million as at 31 December 2021 (31 December 2020: UAH 3,868 million).

26. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), concentration risk (Note 3), credit risk and liquidity risk. According to its risk management policy the Group identifies, assesses and develops actions to minimise the potential adverse effects on the Group's financial performance for those risks.

Major categories of financial instruments were as follows:

Financial assets at amortised cost:

In millions of Ukrainian hryvnias	**Note**	**31 December 2021**	**31 December 2020**
Other non-current assets	9	4,272	2,078
Trade accounts receivable	11	49,494	28,129
Other current financial assets	12	1,620	1,879
Cash and bank balances		30,540	37,106
Restricted cash		4,293	659
Total financial assets at amortised cost		**90,219**	**69,851**

Financial assets at fair value:

In millions of Ukrainian hryvnias	**Note**	**31 December 2021**	**31 December 2020**
Compensation of underrecovered gas transmission revenues	8	16,567	-
Consideration receivable under the SPA	8	-	81,058
State treasury bonds of Ukraine	12	-	11,483
Total financial assets at fair value		**16,567**	**92,541**

Financial liabilities at amortised cost:

In millions of Ukrainian hryvnias	**Note**	**31 December 2021**	**31 December 2020**
Borrowings	14	(61,585)	(66,342)
Trade accounts payable		(10,857)	(3,585)
Advances received and other current liabilities	18	(14,981)	(4,557)
Other long-term liabilities		(3,245)	(3,354)
Total financial liabilities		**(90,668)**	**(77,838)**

Market risk. The Group is exposed to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities, and (c) assets and liabilities that are exposed to other price risk.

Currency risk. The Group operates within Ukraine and its exposure to foreign currency risk is determined mainly by purchases of natural gas from foreign suppliers, which are denominated in USD and EUR. The Group also receives borrowings in foreign currencies. The Group does not hedge its foreign currency positions.

26. FINANCIAL RISK MANAGEMENT (Continued)

The Group's exposure to foreign currency risk is as follows, based on carrying amounts of respective currency assets and liabilities:

In millions of Ukrainian hryvnias	31 December 2021			31 December 2020		
	USD	**EUR**	**Others**	**USD**	**EUR**	**Others**
Restricted cash	3,885	-	-	584	50	-
Cash and bank balances	3,269	9,932	11	21,770	7,687	28
Trade accounts receivable	347	-	-	967	243	-
Prepayments made and other current assets	68	27	-	8,501	-	-
Borrowings	(30,381)	(20,341)	-	(32,640)	(24,405)	-
Trade accounts payable	(87)	(29)	-	(640)	(52)	-
Advances received and other current liabilities	(1,033)	(154)	-	(370)	(181)	-
Other long-term liabilities	(2,550)	-	-	(3,235)	-	-
Net (short)/long currency position	**(26,482)**	**(10,565)**	**11**	**(5,063)**	**(16,658)**	**28**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the reporting date, with all other variables held constant.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group's entities.

	At 31 December 2021		At 31 December 2020	
In millions of Ukrainian hryvnias	**Impact on profit or loss before income tax**	**Impact on equity net income tax**	**Impact on profit or loss before income tax**	**Impact on equity net income tax**
USD strengthening by 10%	(2,648)	(2,171)	(506)	(415)
USD weakening by 10%	2,648	2,171	506	415
EUR strengthening by 10%	(1,056)	(866)	(1,666)	(1,366)
EUR weakening by 10%	1,056	866	1,666	1,366

Interest rate risk. The Group normally has no significant interest bearing assets, and its income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk exposure arises from borrowings at variable interest rates. Borrowings at fixed rate expose the Group to the fair value interest rate risk.

The Group attracts borrowings at both fixed and floating interest rates. As at 31 December 2021 around 1% of the Group's borrowings were provided at floating rates (31 December 2020: 1%). The risk of increase in market interest rates is monitored by the Treasury Department of the Company. The key objective of managing interest rate risk is to get financing at a minimum cost, and match the liquidity needs with the proceeds from borrowings.

The borrowing activities are reviewed on an annual basis. Long-term investing activities and associated funding are considered separately and are subject to the Government of Ukraine approval. The maturity dates of financial liabilities are further disclosed in this Note.

26. FINANCIAL RISK MANAGEMENT (Continued)

Other price risk. The Group determines other price risk as the risk of possible future losses as a result of the price volatility in purchase and sale transactions. Both volatility in gas prices at the European gas hubs that impacts gas purchase prices, and gas sale and supply to customers at prices under the fixed price contracts (Note 2), expose the Group to the price risk. To manage this risk and offset its negative impact on the Group’s financial position, the Group limits the volumes sold at the fixed price and purchases natural gas to fulfil these contracts from the Group’s own gas producer at the fixed price. In gas supply for groups of customers at floating prices, the price risk is not considered to be significant. As at 31 December 2021 and 2020, the Group does not have significant financial instruments exposed to the price risk.

Credit risk. The Group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group’s policy is that the customers that wish to pay on credit terms are subject to the solvency check and provision of security for future payments. Significant outstanding balances are also reviewed on an ongoing basis. The Group makes a provision for impairment that represents its estimate of expected losses in respect of trade accounts receivable. The main component of this provision relates to specific individually significant exposures.

During 2021, the Cabinet of Ministers of Ukraine issued a Resolution approving amendments to the SPA (Note 8), which resulted in a decrease in receivable under the SPA by UAH 77,858 million and recognition of receivables under the agreement on the compensation of underrecovered gas transmission revenue with the fair value of UAH 16,567 million as at 31 December 2021.

The maximum exposure to credit risk as at 31 December 2021, which consists of financial assets at amortized cost and financial assets at fair value, is UAH 106,786 million (31 December 2020: UAH 162,392 million).

The following table presents credit quality analysis for cash and cash equivalents and cash collateral for participation in the State procurement procedures as at 31 December based on Fitch ratings:

	31 December 2021		**31 December 2020**	
In millions of Ukrainian hryvnias	**Cash and bank balances**	**Restricted cash**	**Cash and bank balances**	**Restricted Cash**
A+ rating	41	-	-	-
A rating	-	-	58	-
B+ rating	-	-	1	-
B rating	26,532	4,289	36,421	645
B- rating	10	-	37	-
No rating	3,957	4	589	14
Total	**30,540**	**4,293**	**37,106**	**659**

Cash and cash equivalents are represented by bank balances on current accounts placed with Ukrainian and other foreign banks. The restricted cash is cash placed for bank guarantees issued for purchase of gas.

As at 31 December 2020, the Group’s financial assets included State treasury bonds of Ukraine in the amount of UAH 11,483 million with Fitch’s B credit rating, applicable to Ukraine.

26. FINANCIAL RISK MANAGEMENT (Continued)

The Group does not hold any collateral as a security for its credit risks related to financial assets, except for guarantees received in respect of restructured accounts receivable of gas consumers within the scope of the Law of Ukraine “On measures to settle the debts for the natural gas consumed by municipal heat generating entities and distribution and water supplying companies” #1730 (Note 2). Such collateral as at 31 December 2021 amounted to UAH 815 million (31 December 2020: UAH 986 million).

Liquidity risk. Prudent liquidity management implies maintaining sufficient cash and the availability of funding to meet existing obligations as they fall due. The Group’s objective is to maintain a balance between the continuity of funding and the use of flexible credit terms provided by suppliers and banks. Prepayments are commonly used to manage both liquidity and credit risks. The Group analyses ageing of its assets and maturity of its liabilities and plans liquidity depending on their expected repayment. The Group has capital construction programmes which are funded both through the cash flows generated from the operations and borrowed funds. Borrowed funds are also used to finance the Group’s working capital needs.

The following table analyses the Group’s financial liabilities by relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows of principal and interest payments.

The maturity analysis of financial liabilities as at 31 December 2021 was as follows:

In millions of Ukrainian hryvnias	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Borrowings	7,725	18,032	5,401	44,106	-	75,264
Trade accounts payable	10,857	-	-	-	-	10,857
Advances received and other current liabilities	14,981	-	-	-	-	14,981
Other long-term liabilities	-	-	1,604	1,924	100	3,628
Total	**33,563**	**18,032**	**7,005**	**46,030**	**100**	**104,730**

The maturity analysis of financial liabilities as at 31 December 2020 was as follows:

In millions of Ukrainian hryvnias	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Borrowings	7,147	6,478	17,653	37,282	15,295	83,855
Trade accounts payable	3,585	-	-	-	-	3,585
Advances received and other current liabilities	4,557	-	-	-	-	4,557
Other long-term liabilities	-	-	871	3,035	-	3,906
Total	**15,289**	**6,478**	**18,524**	**40,317**	**15,295**	**95,903**

26. FINANCIAL RISK MANAGEMENT (Continued)

Gearing ratio. Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital plus net debt under management. Net debt is calculated as total borrowings (current and non-current as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital under management equals total equity as shown in the consolidated statement of financial position.

The gearing ratio at the end of the reporting period was as following:

In millions of Ukrainian hryvnias	**31 December 2021**	**31 December 2020**
Total borrowings (Note 14)	61,585	66,342
Less: cash and cash equivalents	(30,540)	(37,106)
Total Net Debt	**31,045**	**29,236**
Total Equity	**358,994**	**314,281**
Gearing ratio, %	**8.0**	**8.5**

The Group has certain external capital requirements imposed by the borrowing arrangements. As at 31 December 2021 and 31 December 2020 the Group complied with these requirements.

27. FAIR VALUE

International Financial Reporting Standards defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management used all available market information in estimating the fair value. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument or pay in the transfer of liabilities.

27. FAIR VALUE (Continued)

Fair value of property, plant and equipment

Property, plant and equipment are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these assets are determined (in particular, the valuation techniques and inputs used):

Assets	Fair value hierarchy	Valuation techniques and key inputs
Property, plant and equipment	3	The Group engages professional independent appraisers to determine the fair value of its property, plant and equipment by using a replacement cost method for the majority of groups. The fair value is determined as the cost of construction of these items at current prices less the economic obsolescence and physical tear and wear to date. The main parameter used in this valuation technique are current prices on construction. For items for which there are market comparables (mainly buildings), the sales comparison method is used, the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.
	2	For the items for which there are market comparables (mainly buildings), the sales comparison method is used, the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.

The following table summarises property, plant and equipment recognised at fair value after initial recognition using a fair value hierarchy:

31 December 2021

In millions of Ukrainian hryvnias	Level 2	Level 3	Total
Property, plant and equipment	4,384	261,882	266,266
Total	**4,384**	**261,882**	**266,266**

31 December 2020

In millions of Ukrainian hryvnias	Level 2	Level 3	Total
Property, plant and equipment	4,219	179,839	184,058
Total	**4,219**	**179,839**	**184,058**

27. FAIR VALUE (Continued)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2021:

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Gas storages	Underground gas storages equipment Cushion gas	Depreciated replacement cost method using the income approach for economic obsolescence determination	Date of implementing incentive tariffs	Tariffs are expected to be set based on "costs+" methodology taking into account the necessary operating costs and capital expenditure in accordance with the effective Methodology for Determination and Estimation of Tariffs for the Services of Storing (Pumping in, Withdrawing) Natural Gas for Gas Storage Facilities with Regulated Access. RAB (Regulatory Asset Base) tariff become effective in 2032 for storage services	The later incentive tariffs are implemented, the lower is fair value
			Optimisation coefficient which represents the effectiveness of utilisation of gas underground storages	An optimisation coefficient is used to estimate the regulated asset base for adoption of incentive pricing. As at 31 December 2020, it approximated 72%.	The higher is coefficient, the higher is fair value.
			Rate of return under RAB for storage services	The required rate of return on the regulated asset base is equal to the Company's weighted average cost of capital at 14.77%	The higher is the rate of return, the higher is fair value
			Nominal weighted average cost of capital for cash flows	The weighted average cost of capital for cash flows is 14.77%	The higher is the weighted average cost of capital , the lower is fair value
			Forecasted gas price at the incentive tariffs transition date	To determine the regulated asset base for cushion gas at the incentive tariffs adoption date, management uses the forecasted price of UAH 13,569 for 1 thousand cubic metres.	The higher is the price, the higher is fair value

27. FAIR VALUE (Continued)

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Gas extraction assets	Gas and oil upstream	Depreciated replacement cost method using the income approach for economic obsolescence determination	Natural gas selling price	The sale price of natural gas until 31 May 2022 is UAH 6,034 per thousand cubic meters. The forecast price for natural gas from 1 June 2022 - consensus forecasts of analysts and appraiser in a range from UAH 14,131 per thousand cubic meters to UAH 10,769 per thousand cubic meters during 2022 - 2027. Starting from 2028, the forecast price for natural gas is growing steadily by 5% annually.	The higher is the selling price, the higher is the fair value
			Long-term forecast of royalty rates (estimated for selling price)	Natural gas and crude oil deposits at depths up to 5,000 m – 29%, over 5,000 m – 14% Oil and gas condensate deposits at depths up to 5,000 m – 31%, over 5,000 m – 16%	The higher is the rate, the lower is the fair value
			Nominal weighted average cost of capital for UAH denominated cash flows	16.97%-21.10%	The higher is the weighted average cost of capital, the lower is the fair value
			Proved developed reserves as assessed by the independent appraiser	1 – 68.386 mcm (remaining gas reserves depending on the field)	The higher is the volume, the higher is the fair value
Oil extraction assets	Gas and oil upstream Gas and oil refinery Filling stations	Depreciated replacement cost method using the income approach for economic obsolescence determination	Crude oil selling price	The forecast price for crude oil - consensus forecasts of analysts and appraiser in a range from UAH 1,886 per barrel to UAH 1,986 per barrel during 2022 - 2026. Starting from 2027 the forecast price crude oil is growing steadily by 5% annually to UAH 3,770 per barrel in 2039.	The higher is the market price, the higher is the fair value
			Long-term forecast of royalty rates (estimated for selling price)	Natural gas and crude oil deposits at depths up to 5000 m – 29%, over 5000 m – 14%. Oil and gas condensate deposits at depths up to 5000 m – 31%, over 5000 m – 16%	The higher is the rate, the lower is the fair value

27. FAIR VALUE (Continued)

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
			Oil processing discount (tolling)	31.6%	The higher is the processing discount, the lower is the fair value
			Nominal weighted average cost of capital for UAH denominated cash flows	17.5%	The higher is the weighted average cost of capital, the lower is the fair value
			Proved developed reserves as assessed by the independent appraiser	1 – 2 558.7 thousand of ton (remaining oil reserves depending on the field)	The higher is the volume, the higher is the fair value
Oil transmission system and storages	Oil transmission system	Depreciated replacement cost method using the income approach for economic obsolescence determination	Transit volumes	12.7-13.0 million tons	The higher is the volumes, the higher is the fair value
			Applicable tariffs	8.6-9.98 euro per ton	The higher is the tariff, the higher is the fair value
			Nominal WACC for UAH-denominated cash flows	18.56%	The higher is the weighted average cost of capital, the lower is the fair value

Unlike the assumptions used in appraisals of property, plant and equipment performed in prior periods, as at 31 December 2021, management has no plans for business optimisation and related closure of certain underground storage facilities in 5 years starting from 2025. As such the discounted cash flow model includes the proceeds from potential disposal of cushion gas withdrawn from the storage facilities only upon winding up the operations.

27. FAIR VALUE (Continued)

The valuation technique, inputs used in the fair value measurement for level 3 measurements and related sensitivity to reasonably possible changes in those inputs are as follows at 31 December 2020:

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Gas storages	Underground gas storages equipment Cushion gas	Depreciated replacement cost method using the income approach for economic obsolescence determination	Average profitability of gas pumping	77%	The higher is the average profitability of gas pumping, the higher is the fair value
			Natural gas selling price	Market price forecast is based on forward price for TTF hub gas prices. Forecast Hub + prices are calculated as follows: TTF gas hub forecast plus spread between TTF and VTP hub (Slovakia) gas prices plus entry fee to the GTS of Ukraine.	The higher is the selling price, the higher is the fair value
			Nominal WACC for cash flows	14.35	The higher is the weighted average cost of capital, the lower is the fair value
			Date of introduction of the system of stimulating tariff formation	The RAB-based tariff for storage services is expected from 2030	The later the incentive pricing is introduced, the lower is the fair value
			Estimated average period of cushion gas withdrawal	5 years starting from 2025	The longer is the period, the lower is the fair value
Gas extraction assets	Gas and oil upstream	Depreciated replacement cost method using the income approach for economic obsolescence determination	Natural gas selling price	Market price forecast is based on regression analysis of historical NBP and TTF hub gas prices. The results were applied to the consensus forecast of the NBP hub price and applied to the TTF hub price forecast. Forecast Hub + prices are calculated as follows: TTF gas hub forecast plus spread between TTF and VTP hub (Slovakia) gas prices plus entry fee to the GTS of Ukraine.	The higher is the selling price, the higher is the fair value

27. FAIR VALUE (Continued)

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
			Long-term forecast of royalty rates (estimated for selling price)	Natural gas and crude oil deposits at depths up to 5,000 m – 29%, over 5,000 m – 14% Oil and gas condensate deposits at depths up to 5,000 m – 31%, over 5,000 m – 16%	The higher is the rate, the lower is the fair value
			Nominal weighted average cost of capital for UAH denominated cash flows	15.96%-17.93%	The higher is the weighted average cost of capital, the lower is the fair value
			Proved developed reserves as assessed by the independent appraiser	1 – 47.681 mcm (remaining gas reserves depending on the field)	The higher is the volume, the higher is the fair value
Oil transmission system and storages	Oil transmission system	Depreciated replacement cost method using the income approach for economic obsolescence determination	Cumulative factor of physical and functional depreciations	0.28-0.80	The higher is the factor, the lower is the fair value
			Transit volumes	12.0-13.4 million tonnes	The higher is the volumes, the higher is the fair value
			Applicable tariffs	EUR 8.6-11.6 per tonne	The higher is the tariff, the higher is the fair value
			Nominal WACC for UAH-denominated cash flows	12.54%	The higher is the weighted average cost of capital, the lower is the fair value

27. FAIR VALUE (Continued)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Management believes that carrying amounts of financial assets and liabilities do not differ significantly from their fair values as at 31 December 2021 and 2020 except as disclosed below:

	31 December 2021		31 December 2020	
In millions of Ukrainian hryvnias	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Eurobonds (net of unamortised discount)	41,285	40,491	44,383	48,456

The following table provides information about how the fair value of financial assets and financial liabilities was determined (in particular, the valuation techniques and inputs used):

Financial liabilities	**Fair value hierarchy**	**Valuation techniques and key inputs**
Eurobonds	1	Fair value of Eurobonds is measured at quoted prices in active markets with implied yields of 10.8%-11.6% p.a

Fair value of consideration receivable under the SPA

As described in Note 8, on 1 January 2020 100% of the participatory rights of “Gas Transmission System Operator of Ukraine” LLC were transferred to “Mahistralny gasoprovody Ukrainy” JSC under the SPA and on terms of the initial payment and regular payments for 15 years and establishment of a dynamic price calculated in accordance with the formula agreed by the parties. The fair value of variable consideration was recognised as a financial asset at fair value though profit or loss (FVTPL).

The following tables provides information about how the fair value of variable consideration is determined (in particular, the valuation techniques and inputs used):

Assets	**Fair value hierarchy**	**Valuation techniques and key inputs**
Consideration receivable	3	The Group determines the fair value of the future expected cash flows. The inputs are based on management projections, analyst expectations, and industry forecasts. The estimates are based on a discount rate of 11.74%

27. FAIR VALUE (Continued)

Inputs used for determination of variable consideration fair value as at 31 December 2020 were as follows:

Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Discounted cash flow model	Period when transit revenues are received	2020-2034	The longer the period of income generation from transit, the higher the fair value
	Applicable transit volumes	65 bcm p.a in 2020 and 40 bcm p.a in the next four years (based on a Transportation Organisation Agreement between Naftogaz and Gazprom). From 2024 – 40 bcm p.a (based on management expectations).	The higher the volumes, the higher the fair value
	Regulated Asset Base tariffs	The RAB-based (Regulatory Asset Base) tariffs for gas transportation services were used for the regulatory period 2020-2024. From 2024 and onwards RAB tariffs for transportation services were calculated based on the long-term incentive tariffs and management expectations on key parameters.	The lower the RAB, the lower the fair value
	Nominal WACC for USD-denominated cash flows	11.74%	The higher the weighted average cost of capital, the lower the fair value

There were no changes in valuation techniques during the period. There were no transfers between Level 2 and Level 3 during the period.

Fair value of the compensation of underrecovered gas transmission revenue

The following tables provides information about how the fair value of compensation of underrecovered gas transmission revenue is determined (in particular, the valuation techniques and inputs used):

Assets	Fair value hierarchy	Valuation techniques and key inputs
Compensation of underrecovered gas transmission revenue	3	The Group determines the fair value of the future expected cash flows. The inputs are based on management projections, analyst expectations, and industry forecasts. The estimates are based on a discount rate of 8.77%

As described in Note 8, the fair value of underrecovered gas transmission revenue was recognised as a financial asset at fair value though profit or loss (FVTPL) based on the discount rate of 8.77%. The change in the fair value as at 31 December 2021 in the amount of UAH 119 million relates to the change in the interest rate of 12.15%. As at 31 December 2021, the fair value of receivables under the Agreement amounted to UAH 16,567 million.

27. FAIR VALUE (Continued)

Information used for determining the fair value of receivables under the agreement on the compensation of underrecovered gas transmission revenue as at 31 December 2021 was as follows:

Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Model of discounted cash flows	Discount rate	8.77% at the date of initial recognition and 12.15% at the reporting date	The higher is the discount rate, the lower is the fair value

28. SUBSEQUENT EVENTS

As discussed in Note 2, on 24 February 2022, the Russian Federation launched a full-scale military invasion of Ukraine. The broad security concerns became challenging for the further stable development of economical and finance segments in Ukraine, and the operating environment remains risky and with high level of uncertainties since then.

PSO obligations. As discussed in Note 2, consequently to the military aggression of the Russian Federation, in March 2022 the Cabinet of Ministers of Ukraine issued its Resolution imposing public service obligations on the Group.

Dividends paid. As discussed in Note 13, in March 2022, the Company has made an advance transfer of dividends amounting to UAH 2,313 million to the State Budget. According to the Resolution of the Cabinet of Ministers of Ukraine #244-r dated 25 March 2022, the basic distribution rate was set at 95% of the Company's net profit for 2021.

Compensation of underrecovered gas transmission revenues. In 2022, the Group received a payment of UAH 4,657 million from OGTSU (Note 8) in accordance with the agreement on compensation of the underrecovered gas transmission revenues.

Loan repayment and borrowing. Subsequent to 31 December 2021 and up to the date of these consolidated financial statements, the Group obtained borrowings in the amount of UAH 13,368 million and repaid loans amounting to UAH 268 million.

Other subsequent events are also disclosed in Note 2.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Basis of preparation of consolidated financial statements. These consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment that are measured at revalued amounts at the end of each reporting period and certain financial instruments measured at fair value as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

These policies have been consistently applied to all periods presented, unless otherwise stated.

In accordance with p.5 Article 12-1 of the Law of Ukraine on Accounting and Reporting in Ukraine, all mandatory IFRS reporters should prepare and submit their financial statements based on the taxonomy of financial statements under IFRS in a single electronic format (referred to as "iXBRL"). As of the date of issuing these consolidated financial statements, the 2021 UA XBRL IFRS taxonomy has not been published yet and the process for submitting 2021 financial statements in the single electronic format has not been initiated yet by the National Securities and Stock Market Commission. Management of the Group is planning to prepare the iXBRL report and submit it during 2022.

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Company's functional currency and the Group's presentation currency. All amounts presented in the consolidated financial statements are presented in UAH, rounded to the nearest million, unless otherwise stated.

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency, using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses, resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognised in the consolidated statement of profit or loss. Translation at year end does not apply to non-monetary items including equity investments.

As at 31 December, the exchange rates used for translating foreign currency balances were:

In Ukrainian hryvnias	2021	2020
USD 1.00	27.28	28.27
EUR 1.00	30.92	34.74

The average exchange rates for the year ended 31 December were:

In Ukrainian hryvnias	2021	2020
USD 1.00	27.28	26.96
EUR 1.00	32.30	30.79

During 2021 and 2020 in Ukraine there were certain restriction in respect of transactions with foreign currency, imposed by the National Bank of Ukraine. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, UAH is not freely convertible outside Ukraine.

Basis for consolidation. Subsidiaries are those companies over which the Group has control. The Group controls an entity when the Group has power over the investee; is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to use its power to affect its returns. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intercompany transactions, balances and unrealised gains or losses on transactions between the Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more elements of control listed above.

When the Group has a majority of the voting rights of an investee, it still considers whether the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally and, thus, has the power over the investee.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits", respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payments" at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation can be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 “Financial Instruments”, or IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combination with the entities under common control are accounted under the acquisition method as described above or under the predecessor accounting method.

Goodwill. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Transactions with non-controlling interests. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, the retained interest in the entity is remeasured to its fair value, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest in an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Investments in associates. Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting. The Group’s investment in associate includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution of gains and losses arising on investments in associates is recognised in the consolidated statement of profit or loss.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in joint ventures. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group recognises its interest in the joint venture using the equity method applied as described above in the paragraph *Investments in associate*s.

Interests in joint operations. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Concession agreement (product sharing agreement). The Company entered into a concession agreement for oil exploration and development ("Concession Agreement") with the Arab Republic of Egypt and the Egyptian General Petroleum Corporation ("EGPC") on 13 December 2006.

The Concession Agreement includes the following conditions:

- Subject to the auditing provisions under the Concession Agreement, the Company shall recover on a quarterly basis all exploration and development costs to the extent and out of 25% of all petroleum produced and saved from all production areas and not used in petroleum operations ("Cost Recovery"). Petroleum products under the Concession Agreement include crude oil or gas and liquefied petroleum gas ("LPG").
- Remaining 75% of the petroleum produced are shared by the Company and EGPC depending on the volume of production and the product type (crude oil or gas and LPG). The Company's share varies from 15% to 19%.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- EGPC shall become the owner of all the Company’s assets acquired and owned within the Concession Agreement, which were charged to Cost Recovery by the Company in connection with the operations carried out by the Company: land shall become the property of EGPC as soon as it is purchased; title to fixed and movable assets shall be transferred automatically and gradually from the Company to EGPC as they become subject to the Cost Recovery.

The development period under the Concession Agreement is limited to maximum 25 years from the date of commercial oil discovery or from the date of first gas deliveries, started in 2010.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. Segments whose revenue, results or assets are ten percent or more of all the segments are reported separately. Segments falling below this threshold can be reported separately at management decision.

Property, plant and equipment. The Group uses the revaluation model to measure property, plant and equipment, except for other fixed assets and construction in progress which is carried at cost. Fair value was based on valuations made by external independent appraisers. The frequence of revaluation depends on the movements in the fair values of the assets being revalued. There Group uses the “net” approach of adjusting the carrying amount of an asset upon revaluation and eliminates accumulated depreciation against the carrying amount of the asset and then revalues the net carrying amount. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Cost of acquired and self-constructed qualifying assets includes borrowing costs.

Any increase in the carrying amounts resulting from revaluations are credited to revaluation reserve in equity through other comprehensive income. Decreases that offset previously recognised increases of the same asset are charged against revaluation reserve in equity through other comprehensive income; all other decreases are charged to the consolidated statement of profit or loss. To the extent that an impairment loss on the same revalued asset was previously recognised in the consolidated statement of profit or loss, a reversal of that impairment loss is also recognised in the consolidated statement of profit or loss.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being derecognised. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred. Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to be received from the continued use of the asset. Gains and losses on disposal determined by comparing proceeds with the carrying amount of property, plant and equipment are recognised in the consolidated statement of profit or loss. When revalued assets are sold or disposed of, the amounts included in the revaluation reserve are transferred to retained earnings.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment includes cushion gas required to be held in the storage facilities for the operating activities of the Group's subsidiary in the gas storage segment.

Cushion gas is the gas intended for maintaining pressure in underground storage facilities of the Group and protecting them from flooding. Cushion gas is revalued when there is an indication that its carrying amount as of the reporting date is materially different from its fair value.

Construction in progress includes also prepayments for property, plant and equipment.

Exploration expenses. Exploration expenses comprise the costs associated with unproved reserves. These include geological and geophysical costs for the identification and investigation of areas with possible oil and gas reserves and administrative, legal and consulting costs in connection with exploration. They also include all impairments on exploration wells where no proved reserves could be demonstrated.

Research and development expenses. Research and development ("R&D") expenses include all direct and indirect materials, personnel and external service costs incurred in connection with the focused search for new development techniques and significant improvements in products, services and processes and in connection with research activities. Expenditures related to research activities are shown as R&D expenses in the period in which they are incurred. Development costs are capitalised if the recognition criteria according to IAS 38 "Intangible Assets" are met.

Exploration and evaluation assets. Oil and gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting.

Expenditures at the exploration stage of hydrocarbon reserves exploration and evaluation, including the economic and technical feasibility studies for exploratory field development and advisory services, are expensed as incurred.

Expenses directly related to obtaining special rights to extraction of mineral resource reserves are capitalised in cost of licences for exploration and recognised as intangible assets from the date of special rights. Subsequently, the relevant assets are accounted for as required by IAS 38 "Intangible Assets".

Expenses arising at the stage of field development, including costs of drilling and trenching, leases and depreciation of property, plant, and equipment, are capitalised in construction in progress as exploration and evaluation assets. The assets created are reviewed for impairment on an annual basis. In case the exploratory drilling does not give a result, or it is probable that the expenses incurred will not generate revenue, the asset is partially or fully written off against expenses of the period.

In the event a decision is taken on further development of the field and from the date of putting into operation of the first producing well, the Group classifies the capitalised exploration and evaluation costs related to this well as oil and gas extraction assets within property, plant, and equipment in the consolidated statement of financial position.

Depreciation and depletion. Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis to allocate costs of individual assets except their residual value over their estimated useful lives. Depreciation commences on the date of acquisition or, in respect of self-constructed assets, from the time an asset is completed and ready for use.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hydrocarbon extraction wells are depleted using a unit-of-production method over the life of proved developed hydrocarbons reserves. Specialised drilling tools and other fixed assets used to perform any work on the well are depleted using a unit-of-production method based on the relevant output standard established by the Group.

Other property, plant and equipment items are depreciated on a straight-line basis over their expected useful lives. The useful lives of the Group's other property, plant and equipment items are as follows:

	Useful lives in years
Drilling assets	2-60
Gas and oil upstream	2-60
Underground gas storages	2-60
Oil transmission system	2-60
Gas and oil refinery	2-60
Filling stations	2-60
Gas distribution assets	2-60
LNG transportation	2-60
Other fixed assets	3-30

Construction in progress and cushion gas are not depreciated.

Intangible assets. Intangible assets have definite useful lives and primarily include licences for exploration and extraction and capitalised computer software. Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring it to use. Intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Intangible assets are amortised on a straight-line basis to allocate costs of individual assets over their estimated useful lives.

Leases. According to IFRS 16, the Group records assets in the form of the right–of-use and lease liability in the consolidated statement of financial position and measures them at the present value of future lease payments that are not made at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The Group records depreciation of assets in the form of the right-of-use and interest on lease liability in the consolidated statement of profit or loss. The total amount of cash paid to principal is presented within financial activities in the consolidated statement of cash flows and interest is presented within financing activities.

In respect of short-term leases (12 months or less) and leases of low value assets (such as personal laptops and office furniture), the Group records lease payments as an operating expense on a straight-line basis over the term of the lease in accordance with the requirements of IFRS 16.

Leases in lessor accounting in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised as income in the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Decommissioning liabilities. The Group's assessment of the decommissioning liabilities is based on the estimated future costs expected to be incurred in respect of the decommissioning and site restoration, adjusted for the effect of the projected inflation for the upcoming periods and discounted using interest rates applicable to the provision. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired, and corresponding obligation is recognised. Changes in the measurement of the existing decommissioning liability, that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate used for measurement, are recognised in the consolidated statement of profit or loss or, to the extent of any revaluation balance existence in respect of the related asset, in other comprehensive income or loss. Provisions for decommissioning activities are evaluated and re-estimated annually, and are included in the consolidated financial statements at each reporting date at their expected present value, using discount rates which reflect the economic environment in which the Group operates.

Interest expense related to the provision is included in finance costs in profit or loss.

Impairment of non-financial assets. Assets are reviewed for impairment when events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets that have incurred impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments. The Group's principal financial instruments comprise borrowings, cash and bank balances, trade accounts receivables and trade accounts payables, state treasury bonds, consideration receivable under the SPA and compensation of underrecovered gas transmission revenues (Note 8).

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date on which the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date.

Classification and subsequent measurement of financial assets. Financial assets are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value through profit or loss at the end of subsequent accounting periods.

Amortised cost is calculated using the effective interest method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The Group uses practical expedient according to which the amortised cost of financial assets with a maturity of less than one year, less any estimated credit losses, are assumed to be their face values.

Impairment of financial assets. The Group accounts for expected credit losses ("ECL") and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The Group applies simplified approach for impairment of trade and lease receivables. The approach is built as a three stage model for impairment, based on changes in credit quality since initial recognition.

A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the financial instrument is transferred to Stage 2 but it is not considered to be credit-impaired, and the allowance is based on a lifetime ECL of the financial instruments (Note 30). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL

The carrying amount of the asset is reduced through the provision, and the amount of respective loss is recognised in the consolidated statement of profit or loss and included in net movement in the provision for financial assets line. When receivables are uncollectible, they are written off against the provision account for receivables. Subsequent recovery of amounts previously written off are credited to the consolidated statement of profit or loss.

Classification and subsequent measurement of financial liabilities. Financial liabilities are subsequently measured at amortised cost or fair value through profit or loss ("FVTPL").

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial instruments. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax losses carried forward will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories includes an appropriate share of production overheads based on normal operating capacity. The cost of inventories is determined on the first in first out basis for all inventories except for natural gas, oil and petroleum products. Weighted average cost formula is used for natural gas, oil and petroleum products. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade accounts receivable. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Prepayments made and other current assets. Prepayments are carried at cost excluding VAT less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset that will itself be classified as non-current upon initial recognition.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the Group recognises provision for impairment in respect of such prepayment made and a corresponding impairment loss is recognised in the consolidated statement of profit or loss.

Promissory notes. Some purchases may be settled by promissory notes or bills of exchange, which are negotiable debt instruments. Purchases settled by promissory notes are recognised based on management’s estimate of the fair value to be given up in such settlements. The fair value is determined with reference to observable market information.

State treasury bonds. The State treasury bonds are initially measured at fair value attributable to acquisition of such financial assets. The State treasury bonds are subsequently measured at fair value through profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest rate method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for the period from three to twelve months after the reporting date are included in other current assets. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends and mandatory budget contribution of profit share. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the current year net profit. If dividends are not declared the mandatory budget contribution of profit share is recognised as a liability in the amount of minimum required level as per Ukrainian legislation.

Value added tax (“VAT”). In Ukraine VAT is levied at two rates: 20% on sales and imports of goods, works and services within the country, and 0% on the export of goods and limited list of services (e.g. international transportation). A taxpayer’s VAT liability equals the total amount of VAT accrued within a reporting period, and arises on the earlier of the date of shipping goods or rendering services to a customer or the date of receiving payment from the customer. A VAT input is the amount that a taxpayer is entitled to offset against its VAT liability in a reporting period. Rights to

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VAT input arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received or services are rendered. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT, except provision for impairment of prepayments made.

Borrowings. Borrowings include bank borrowings and bonds. Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Bank overdrafts are included into borrowings line item in the consolidated statement of financial position.

Borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in consolidated statement of profit or loss in the period in which they are incurred.

Trade accounts payable. Trade accounts payable are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Advances received. Advances received are carried at amounts originally received excluding VAT. Amounts of advances received are expected to be realised through the revenue received from usual activities of the Group.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made. 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 on any provision is presented in the consolidated statement of profit or loss net of any reimbursement. If the effect of 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 provision due to the passage of time is recognised as a finance cost.

Other liabilities. Other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost using the effective interest method. Other non-financial liabilities are measured at cost.

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.

A contingent liability is 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

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reasonably estimated. Contingent liabilities are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

Revenue recognition. The Group recognises revenue when or as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Revenue from the sale of gas which is transported through gas transmission system is recognised when the gas has been delivered to the customer at delivery point. Revenue from sale of petroleum products is recognised when the title passes to the customer. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue gross versus net presentation. When the Group acts as a principal, revenue, production costs and purchases are reported on a gross basis. If the Group sells goods or services as an agent, revenue is recorded on a net basis, representing the margin/commission earned. Whether the Group is considered to be a principal or an agent in a transaction depends on the analysis of both legal form and substance of the agreement the Group enters in.

Recognition of expenses. Expenses are recorded on an accrual basis. Costs incurred in process of production, storage, distribution and transportation of hydrocarbons are classified as Production and Manufacturing Expenses. Purchases include cost of gas transit organisation services, cost of gas and other similar expenses.

Compensation for performing public service obligations. As described in Note 2, the Company is eligible for compensation for performing public service obligations. Management consider such compensation as the government assistance and accounts for it as a government grant related to income.

The Company recognised the government assistance when there was reasonable assurance that the assistance would be received, and all attached conditions would be complied with, as permitted by IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

The Company presents the compensation for performing public service obligations as a separate line on the face of the consolidated profit or loss statement.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on deposits and current accounts, gain or loss on origination of financial instruments, unwinding of interest of the pension obligation and provisions.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Employee benefits: Defined Contributions Plan. The Group makes statutory unified social contributions to the Pension Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the consolidated statement of profit or loss.

Employee benefits: Defined Benefit Plan. The Group provides lump sum benefits, payments on reaching certain age, and other benefits as prescribed by the collective agreement. The liability

29. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the consolidated statement of profit or loss.

Consolidated Statement of Financial Position. In 2021 the Group changed its presentation of the consolidated statement of financial position. The reason for such change was to better reflect the significant assets and align the Group's presentation with other leading companies within the Group's industry. As a result, the following key material changes to Consolidated Statement of Financial Position were made:

- The new separate item 'Intangible assets' was introduced, in which amounts were reclassified from the item 'Other non-current assets'.

The effect of the retrospective change in the presentation on the consolidated statement of financial position as at 31 December 2020 was as follows:

In millions of Ukrainian hryvnias	31 December 2020, as previously reported	Effect of change in presentation	31 December 2020, as restated
Intangible assets	-	3,147	3,147
Other non-current assets	6,039	(3,147)	2,892

The Group changed its presentation of segment information for the year ended 31 December 2021 as described in Note 3.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Critical judgements in applying accounting policies. The following are the critical judgements, apart from those involving estimations, that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Gas transit. As discussed in Note 3, at the end of 2019, the Company and "Gazprom" JSC signed an agreement on organising gas transit through the territory of Ukraine. In its turn, Naftogaz signed an agreement on gas transmission services from "Gas Transmission System Operator of Ukraine" LLC. The Company is considered to be a principal in this transaction based on the following criteria:

- it is a primarily responsible party for fulfilling the promise to provide the specified service;
- it bears the risk of price change for transmission services through the territory of Ukraine.

State property not subject to privatisation. As disclosed in Note 25, in 1998, the Company entered into an agreement "On use of the State-owned property not subject to privatisation" ("Agreement") with the State Property Fund of Ukraine and assumed control of the oil and gas transportation and storage systems. Management believes that terms and conditions of the agreement give the Group control over the defined properties and, therefore, these properties meet the definition of an asset, namely an item of property, plant and equipment in accordance with the IAS 16 definition. As such, the properties received for management are carried on the Group's balance sheet at fair value as part of Property, plant and equipment.

Revenue recognition. As part of its operating activity the Group supplies gas to different customers, including municipal heatines entities. The financial condition of these entities and the legislative framework these customers work in presumes that the source to finance their cost of production includes not only tariff revenues but also other subsidies and compensation mechanisms as presumed by the Ukrainian legislation. The management of the Group believes that the municipal heatines entities have enough sources of income to conclude that it is probable for the Group to collect consideration under sale agreements in full amount. Therefore, management concluded that the criteria for revenue recognition are met when the gas is delivered to customer.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets (Note 11). Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of both individual accounts and portfolios of clients with similar characteristics. Factors taken into consideration include an aging analysis of trade and other receivables with reference to the payment history, expected events that could materially impact future payments, credit terms allowed to customers, and available market information regarding the counterparty's ability to pay. Expected credit losses for trade receivables for gas are measured using an individual and portfolio approaches (Note 11).

The Group distinguishes between the following portfolios of clients with trade receivables for gas:

- Regional gas supply entities, represented by gas supply entities that buy gas for further reselling to different groups of customers, and a balancing group (Note 2),

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- Heat generating entities, represented by municipal and other heat and electricity generating entities and industrial entities that buy gas for heat and electricity production both under and outside PSO. PSO was abolished for this portfolio of clients on 21 May 2021, and in May 2021 the Group concluded 3-year agreements for natural gas supply for heat generating entities with a fixed price for the first year of supply (Note 2),
- Household consumers (Note 2),
- Other entities, mainly represented by industrial entities that buy gas for different purposes outside PSO.

Each group of customers has its own selling price setting procedure and its own economic characteristics, such as products delivered to the end customers, their credit risks etc.

As at 31 December 2020, the Group accrued a provision for impairment of accounts receivable for gas sold to regional gas supply entities in full amount, as expected credit losses for these entities are estimated at 100%. Such estimate was done by management because there were no settlements of outstanding debts for gas.

As at 31 December 2020, the expected credit losses for heating entities were estimated using a migration matrix of aging of gas receivables and past default experience of the debtors.

Based on the migration matrix approach, default rates for trade accounts receivable of heating entities not past due and trade accounts receivable past due up to 90 days were estimated at 17% and 33%, respectively, as at 31 December 2020 compared to the historical level of underpayments at 40%.

Management believes that the following factors might reasonably have been expected to have been considered in estimating expected credit losses for heating entities as at 31 December 2020:

(a) Tariffs for heat and other utilities generated by this group of customers are regulated, these tariffs are insufficient to cover their costs and there have been no working arrangements with the Government to compensate for such negative differences between actual tariffs and their economically justifiable level.

(b) Regulations introduced in 2020-2021 limited ability of heating entities to raise their tariffs and to ensure a higher collection rate.
In particular, on 17 March 2020, as part of the COVID-19 measures introduced by the Law of Ukraine No. 540-IX heating entities were forbidden to cease supply of heat and other utilities or apply any penalties or interest in case of non-payment by the customers.
On 9 February 2021, the government, local authorities, NCREU and Naftogaz signed a memorandum according to which (i) tariffs for heat and hot water were not to be increased until the end of the 2020-2021 heating season; (ii) heating entities were guaranteed to receive gas for heat production for the needs of the households until the end of 2020-2021 heating season; and (iii) heating entities were provided with a deferral of payment for gas purchased for heat and electricity production for the needs of households in January-April 2021 up to 30 September 2021 on their request. The amounts deferred relate to the difference between the gas market price and gas prices included in the tariff for heat.

(c) Historically, heating entities have never been able to collect payments for heat and other utilities from their end customers in full.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Under such conditions, heating entities had limited funds to pay for gas supplies, which resulted in accumulation of their debts. There is a risk that heat tariffs will not fully reflect their current costs in the foreseeable future, which will not allow settling both current and overdue receivables for gas supplies.

According to the migration matrix approach, provisioning for outstanding debts is exercised during a longer period comparing to individual assessment.

Considering all of the above, in 2021 management concluded that the default rate applied by the Group was underestimated. At the same time, management considers that it is impracticable to distinguish information that would have been available when the financial statements as at and for the year ended 31 December 2020 were authorised for issue and which provides additional evidence of circumstances that existed as at 31 December 2020 and the information that relates to changes in circumstance after that date and corresponding subsequent changes in expected credit losses.

Therefore, management concluded that it should not make any retrospective adjustments to the provision for accounts receivable and instead recognised a reassessment of provision for this group of customers in the first quarter of 2021.

As at 31 December 2021, the Group adopted the new methodology for estimation of the expected credit losses ("ECL") of trade accounts receivable for gas. ECL is measured by the Group as the product of the following credit risk parameters: Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD").

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period. Considering specifics of Ukrainian gas market, EAD is heavily dependent on the Government financing programmes aimed at settlement of debts caused by state regulation of the gas market. Thus, management assessment of potential volumes and probability of state financing is the key and essential element of EAD and, consequently, ECL calculation.

PD is an estimate of the likelihood of default to occur over a given time period. The Group assesses the credit quality of the customer and related PD, considering its financial position, past experience of payments and other factors. The Group's credit risk exposure is monitored and analysed on a case-by-case basis at each reporting date.

The Group also used supportable forward-looking information for measurement of ECL, primarily from its own macro-economic forecasting model. To consider forward-looking macroeconomic information in measuring ECL, the Group analyses sensitivity of default levels to macroeconomic, political and regulatory factors. The Group uses PDs by counterparty group and overall portfolio for this analysis.

The Group assesses the following key terms of the natural gas supply contracts giving rise to receivables from the counterparty to the Group entities:

- duration of the contract;
- conditions of supply;
- payment conditions (procedure and timing of payment, existence and length of any grace period;
- existence and type of security under the contract (no security, bank guarantee or contractual direct debit from the counterparty's settlement account).

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The Group also classifies counterparties between counterparty groups for an analysis of credit risk. Counterparty groups are defined in accordance with the Group internal policies.

LGD is an estimate of the loss arising on default and varies by type of the counterparty and the availability of collateral or other credit support. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive after a default event.

According to the methodology, accounts receivable are allocated to three stages of impairment based on credit risk attributed to a customer. A financial instrument that is not impaired on initial recognition for which credit risk has not increased significantly since initial recognition has a credit loss provision measured based on a 12-month ECL (Stage 1). If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2, but it is not yet deemed to be credit-impaired and the amount of provision is based on a lifetime ECL. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and the amount of provision is based on a lifetime ECL. The event of default is defined as an event giving rise to objective evidence of impairment for an asset and/or liability becoming more than 90 days overdue.

The expected losses are not discounted to present value at the end of the reporting period.

The credit risk components used in estimation of the ECL are estimated on an annual basis as at 30 September of each reporting year before a start of a new heating season.

During an assessment of the provision for this client portfolio as at 31 December 2021, management considered possible settlements under the Anti-Crisis Law, that sets out the mechanism of settlements for regional gas supply and distribution entities similar to that for municipal heat generating entities as described below.

As described in Note 2, in December 2021 the Group collected UAH 22 billion of overdue receivables from heat generating entities under the Anti-Crisis Law. The Company is a key market player of the energy market in Ukraine, and management believes that the mechanism of debt settlement between the gas market participants implied in the Anti-Crisis Law can be seen as an opportunity for the Group to ensure settlements of overdue debts accumulated by the regional gas distribution entities, thus helping the Group to maintain its functions in future. Consequently, the Group considers that settlement with the regional gas distribution entities is likely to occur, and considers such settlement in assessing the provision for the accounts receivable as at 31 December 2021.

As a result, for the outstanding trade receivables for gas sold to the regional gas supply and distribution entities, management developed two scenarios. One scenario suggests that regional gas supply and distribution entities are not able to pay off their debts for gas in full.

Therefore, in accordance with this scenario, management expected the 100% provision as at 31 December 2021 for receivables accumulated before 1 January 2021. Management applies judgment that the probability that the first scenario will realise in 2022 is at the level of 75%.

In the second scenario management considered possible settlements under the Anti-Crisis Law. The Anti-Crisis Law envisages, inter alia, receiving compensation by the regional gas supply and distribution entities, and further settlement of their outstanding debts to the Group. The estimated amount of the total compensation to be provided to the regional gas supply and distribution entities approximates to UAH 76 billion as per preliminary information based on estimates of such regional gas supply and distribution entities: UAH 44.1 billion relate to compensation attributable to periods prior to 1 January 2021 and is already covered by the adopted Anti-Crisis Law; and UAH 31.9 billion relate to

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

compensation attributable to periods after that date and require separate regulations to be adopted in 2022.

Management expects that UAH 44.1 billion out of this total compensation could be used in 2022 to settle outstanding receivables to the Group (UAH 41.0 billion excluding intragroup eliminations), accumulated up to the 1 January 2021. The Anti-Crisis Law prescribes that verification of the amounts to be compensated should be completed before any settlements occur. Considering uncertainty regarding the period of the verification completion, management applies judgment to the probability of the second scenario realisation assuming settlements under the Anti-Crisis Law to occur in 2022 at the level of 25% for the receivables accumulated before 1 January 2021.

Should the management estimate on the probability of the second scenario be lower/higher by 10%, the Group would be required to charge or reverse UAH 4,098 million to the provision.

As a result of applying the weighted average scenarios, management recognised UAH 10,246 million of reversal of the provision for receivables from regional gas supply and distribution companies for natural gas for the year ended 31 December 2021. As for compensation to the regional gas supply entities attributable to periods after 1 January 2021, given the uncertainties related to the changes implemented to the Anti-Crisis Law in respect of these debts, management believes the likelihood of the settlements to occur in 2022 at 5% and, therefore, decided not to reverse any of the provisions recorded previously for trade receivables from the regional gas supply entities accumulated after 1 January 2021.

Expected credit losses for gas receivables are estimated using an individual and portfolio approaches (Note 11). For trade accounts receivables other than for gas, the Group estimates the likelihood of the collection of accounts receivable based on an analysis of both portfolios of clients with similar characteristics.

Employee benefit obligations. The Group assesses post-employment and other employee benefit obligations using the projected unit credit method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. The present value of the pension obligations depends on a number of factors determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and expected salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Since there are no long-term, high quality corporate or government bonds issued in Ukrainian hryvnias, significant judgement is needed in assessing an appropriate discount rate. Key assumptions are presented in Note 14.

Decommissioning costs. The decommissioning provision represents the present value of the decommissioning costs relating to oil and gas properties, which are expected to be incurred in the future (Note 15). These provisions were recognised, based on the Group's internal estimates.

Main estimates include future market prices for the necessary decommissioning costs, and are based on market conditions and factors. Additional uncertainties relate to the timing of the decommissioning costs, which depends on depletion of the fields, future oil and gas prices and as a result, the expected point of time, when there are no further economic benefits in the production.

Changes in these estimates can lead to the material changes in the provisions recognised in the consolidated statement of financial position.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Depletion of oil and gas assets. Oil and gas assets are depleted using a unit-of-production method. The cost of the wells is amortised based on the proved volumes of available reserves, estimated in accordance with the standards of the Petroleum Resource Management System (PRMS) prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE). The estimation of hydrocarbons reserves is carried out in general on the field. Respectively, all wells of the field are depreciated based on the total volume of a specific type of hydrocarbons extracted from field for the period and the balances of the hydrocarbons reserves available at the beginning of the period. Changes in the estimates regarding the volumes of total proved reserves, either to downward or upward, can result in the change of depreciation and depletion expenses.

Estimation of oil and gas reserves. Reserves are the quantities of oil and gas which are anticipated to be commercially recovered from known accumulations from a given date forward under defined conditions. Proved and probable reserves used in the depletion rate calculation are determined using the estimates of known oil and gas reserves, recovery factors, operating conditions, future oil and gas prices and government regulations. The latest assessment of gas reserves was performed as at 1 January 2021, and the latest assessment of oil reserves was performed as at 30 September 2019. Reserves estimates involve some degree of uncertainty, and their estimates are revised as additional geologic and engineering data becomes available or as economic conditions change. Accordingly, depletion rates and discounted cash flows for revaluation and impairment of property, plant and equipment may be also revised.

Revaluation and impairment of property, plant and equipment. Management performs an assessment whether carrying amounts of property, plant and equipment accounted for under the revaluation model, differ materially from their fair values (Note 27). Such assessment is performed on an annual basis, and involves an analysis of prices, price indices, changes in technology, foreign exchange rates and other relevant factors. In case such assessment identifies that carrying amounts of items of property, plant and equipment differ materially from their fair values, management engages independent appraisers to perform property, plant and equipment revaluation.

The Group engaged independent appraisers to determine the fair value of its major groups of property, plant and equipment as at 01 October 2021 and 31 December 2021, as at 1 December 2021. Major assumptions used in estimating the recoverable amount include judgments regarding the gas, oil, condensate and petroleum products sale prices, discount rates and other factors as presented in Note 27. Management has determined the discount rate by using the after tax rate that reflects current market investment rates with similar risk levels. To project sale prices, the Group has used consensus forecasts of analytical agencies.
Numerical values of key judgments of the Group’s management reflect their estimation of future business trends; they are based on both internal and external sources of the Group.

In making the assessment for general impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Indicators of potential impairment include an analysis of market conditions, asset utilisation and the ability to utilise the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater than the recoverable amount.

30. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Useful lives of other property, plant and equipment. The Group's property, plant and equipment, except oil and gas assets are depreciated using the straight-line method over their estimated useful lives, which are based on management's business plans and operational estimates.

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group. Any change in estimated useful life or residual value is recorded on a prospective basis from the date of the change.

Inventory valuation. Inventory are stated at lower of cost or net realisable value. In assessing the net realisable value of its inventories, management bases its estimates on various assumptions including current market prices. At each reporting date, the Group evaluates its inventories for excess quantities and obsolescence and, if necessary, records an allowance to reduce inventories for obsolete and slow-moving goods. This allowance requires assumptions related to future inventories use. These assumptions are based on inventories ageing and projected demand. Any changes in the estimates may impact the amount of the allowances for inventory that may be required.

Measurement of the fair value of receivables under the agreement on the compensation of underrecovered gas transmission revenue. As at 31 December 2021, the Group has significant receivables under the agreement on the compensation of underrecovered gas transmission revenue, which are carried at fair value through profit and loss (Note 8). Management measured the fair value of receivables as total discounted cash flows expected to be received by the Company under this agreement as the compensation of underrecovered gas transmission revenue for the regulatory period 2020-2024 (Note 27).

31. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of new and revised International Financial Reporting Standards. The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2021:

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
Covid-19-Related Rent Concessions – Amendments to IFRS 16 "Leases" (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The amendment is to be applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.	1 June 2020
Interest rate benchmark (IBOR) reform: IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts", IFRS 16 "Leases": Amendments regarding replacement issues in the context of the IBOR reform	1 January 2021

31. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (Continued)

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

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures": the amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture	To be determined
Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.	1 April 2021
Proceeds before intended use, Onerous contracts – Cost of Fulfilling a Contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced when the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management. The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies	1 January 2022

31. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (Continued)

Standards/Interpretations	**Effective for annual accounting periods beginning on or after**
that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.	
The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.	
Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.	
IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have adopted this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have adopted the same IFRS 1 exemption.	
The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.	
Amendments to IFRS 17 "Insurance Contracts" and IFRS 4 "Insurance Contracts" include clarifications intended to ease implementation of IFRS 17 and to simplify some requirements of the standard and transition	1 January 2023
IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors": Amendments regarding the definition of accounting estimates	1 January 2023
IAS 1 "Presentation of Financial Statements": Amendments to require companies to disclose their material accounting policy information rather than their significant accounting policies.	
Amendments to IAS 1 "Presentation of Financial Statements": Amendments regarding the classification of liabilities	1 January 2023
IAS 12 "Income Taxes"; Amendments to specify how to account for deferred tax on transactions such as leases and decommissioning obligations	1 January 2023

Management anticipates that adoption of new standards and interpretations in future periods will not have a material effect on the consolidated financial statements of the Group in future periods.