

**Limited Liability Company  
“Gas Transmission System  
Operator of Ukraine”**

**Financial Statements  
and Independent Auditor’s Report  
for the Period from 5 February 2019 (Date of  
Incorporation) to 31 December 2019**

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

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## INDEPENDENT AUDITOR'S REPORT

### To the Owner of Limited Liability Company "Gas Transmission System Operator of Ukraine": Report on the Audit of the financial statements

#### Opinion

We have audited the financial statements of Limited Liability Company "Gas Transmission System Operator of Ukraine" (the "Company"), which comprise the balance sheet (the statement of financial position) as at 31 December 2019, and the statement of profit or loss (the statement of comprehensive income), statement of changes in equity and statement of cash flows for the period from 5 February 2019 (date of incorporation) to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the period from 5 February 2019 to 31 December 2019 in accordance with International Financial Reporting Standards ("IFRSs") and the preparation of the financial statements requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

#### Basis for Opinion

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

#### Emphasis of Matter

We draw your attention to Note 2 to the financial statements, which describes that the impact of the ongoing political and economic situation in Ukraine is unpredictable and may have significant effect on the Ukrainian economy and the operations of the Company. Our opinion is not modified in respect of this matter.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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#### Why the matter was determined to be a key audit matter

##### ***Valuation of assets contributed to the Charter capital***

The Company received certain property, plant and equipment, capital investments in progress, intangible assets, inventory and other assets from JSC "Ukrtransgaz" as a contribution to the Charter capital. The Company initially recognized these assets at fair value as of the date of the contribution.

#### How the matter was addressed in the audit

We obtained understanding of and evaluated the Company's policies, processes, methods, and assumptions used to assess the fair values of assets contributed to the Charter capital.

With the involvement of our valuation experts, we performed the following procedures:

- Evaluating whether the methodology and calculation technique applied are in line with the international valuation standards;

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**Why the matter was determined to be a key audit matter**

Valuation of these assets were made as at 22 November 2019 based on the valuation report of independent professional appraiser.

Determining the fair values of contributed assets is a key audit matter since it requires applying judgement about general market conditions and analyzing market quotes for the same or similar assets. Such analysis includes consideration of items similarity, which also requires high level of judgements.

For more details, please refer to Note 4 "Property, Plant, and Equipment and Capital Investments in Progress", as well as Note 9 "Equity" and Note 23 "Critical Accounting Estimates and Judgments".

**How the matter was addressed in the audit**

- Assessing the accuracy of inputs used in the calculations by tracing them on a sample basis to supporting documents;
- Checking on a sample basis prices used in the calculations to prices of market analogues or actual purchase prices;
- Checking the mathematical accuracy of the calculations and correctness of the amounts recorded and presented in the financial statements;
- Assessing completeness and accuracy of the information disclosed in the financial statements.

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

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein. We describe these matters in our auditor's report, except for the cases when a law or regulation prohibits a public disclosure of a specific matter or, in extremely adverse circumstances, we determine that such a matter should not be addressed in our report, as negative consequences from such a disclosure may predictably outweigh its usefulness for interests of the public.

### **Report on Other Legal Requirements**

We have been appointed as auditor of the Company by the General Meeting of the Owners on 26 December 2019. In view of the previous renewals and reappointments, we conducted audit from 26 December 2019 to the date of this report.

We confirm that the audit opinion is consistent with the additional report to the General Meeting of the Owners, which performs the functions of an audit committee.

We confirm that the prohibited non-audited services referred to ISA or requirements of Article 6, paragraph 4 of Law of Ukraine "On Audit of Financial Statements and Audit Activities" were not provided and that the audit engagement partner and audit firm remains independent of the Company in conducting the audit.

### **Basic Information about Audit Firm**

Name: LLC "DELOITTE & TOUCHE UKRAINIAN SERVICES COMPANY".

Address of registration and location of audit firm: 48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

"Limited Liability Company "Deloitte & Touche Ukrainian Services Company" was enrolled to Sections of "Audit Entities", "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements", and "Audit Entities and Auditors That Have the Right to Conduct Statutory Audits of Financial Statements of Public Interest Entities" of the Register of Auditors and Auditing Entities of the Audit Chamber of Ukraine under #1973".

*LLC "Deloitte & Touche USC"*

Certified Auditor



Sergiy Kulyk

Auditor's Certificate # 007492

Issued by the Audit Chamber of Ukraine on 21 December 2017

on the basis of Resolution of the Audit Chamber of Ukraine # 353/2

Registration Number in the Register of Auditors and Auditing Entities 102254

LLC "Deloitte & Touche Ukrainian Services Company"  
48, 50a Zhylianska Str., Kyiv, 01033, Ukraine

21 April 2020

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)  
AS AT 31 DECEMBER 2019**

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

			CODES		
	Date (year, month, day)	2019	12	31	
Entity:	<b>LLC “Gas Transmission System Operator of Ukraine”</b>	EDRPOU	42795490		
Location:	<b>Ukraine</b>	KOATUU	8038200000		
Legal form of organization:	<b>Limited Liability Company</b>	KOPFG	240		
Type of economic activities:	<b>Pipeline transportation</b>	KVED	49.50		
Average number of employees:	<b>7,788</b>				
Address, phone:	<b>Floor 16, 7 Klovsnyi Uzviz, Kyiv, 01010</b>				
Measuring unit:	<b>UAH thousands without decimals</b>				
Prepared under (mark “v” in the respective box):					
Ukrainian Accounting Standards					
International Financial Reporting Standards			<b>V</b>		

**Balance Sheet (Statement of Financial Position)  
as at 31 December 2019**

Form # 1

DKUD Code

1801001

ASSETS	Line code	Notes	31 December 2019	31 December 2018
1	2	3	4	5
<b>I. Non-current assets</b>				
Intangible assets	1000	4	57,257	-
Historical cost	1001	4	60,233	-
Accumulated amortization	1002	4	(2,976)	-
Capital investments in progress	1005	5	1,139,198	-
Property, plant, and equipment	1010	5	1,029,639	-
Historical cost	1011	5	1,090,550	-
Accumulated depreciation	1012	5	(60,911)	-
Non-current financial investments:				
Accounted under equity method	1030		-	-
Other financial investments	1035		-	-
Non-current accounts receivable	1040		-	-
Deferred tax assets	1045		3,746	-
Other non-current assets	1090	6	67,102	-
<b>Total on Section I</b>	<b>1095</b>		<b>2,296,942</b>	-
<b>II. Current assets</b>				
Inventories	1100	7	862,286	-
Accounts receivable for products, goods, works, services	1125	8	434,020	-
Accounts receivable on settlements:				
On prepayments made	1130	9	13,563	-
With the state budget	1135	9	486,674	-
Including income taxes	1136		11,873	-
Other current accounts receivable	1155	9	3,200	-
Current financial investments	1160		-	-
Cash and cash equivalents	1165	10	423,213	-
Deferred expense	1170		43	-
Other current assets	1190		749	-
<b>Total on Section II</b>	<b>1195</b>		<b>2,223,748</b>	-
<b>TOTAL ASSETS</b>	<b>1300</b>		<b>4,520,690</b>	-

The accompanying notes form an integral part of these financial statements.

LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AS AT 31 DECEMBER 2019 (CONTINUED)

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

EQUITY AND LIABILITIES	Line code	Notes	31 December 2019	31 December 2018
1	2	3	4	5
<b>I. Equity</b>				
Registered (share) capital	1400	11	3,870,886	-
Revaluation reserve	1405		-	-
Additional capital	1410		-	-
Reserve capital	1415		-	-
Accumulated deficit	1420		(132,884)	-
Non-controlling interest	1490		-	-
<b>Total on Section I</b>	<b>1495</b>		<b>3,738,002</b>	-
<b>II. Non-current liabilities</b>				
Deferred tax liabilities	1500		-	-
Long-term borrowings	1510		-	-
Other non-current liabilities	1515		-	-
Non-current provisions	1520	12	78,800	-
<b>Total on Section II</b>	<b>1595</b>		<b>78,800</b>	-
<b>III. Current liabilities</b>				
Short-term borrowings	1600		-	-
Accounts payable on:				
Non-current liabilities	1610		-	-
Goods, works, services	1615		53,878	-
Settlements with the state budget	1620		16,652	-
Including income taxes	1621		-	-
Insurance settlements	1625		13,491	-
Staff costs	1630		70,264	-
Current accounts payable on advances received	1635	13	290,498	-
Current provisions	1660	12	191,562	-
Deferred income	1665		-	-
Other current liabilities	1690		67,543	-
<b>Total on Section III</b>	<b>1695</b>		<b>703,888</b>	-
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1900</b>		<b>4,520,690</b>	-

General Director

S. L. Makogon

Chief Accountant

I. V. Yeshchenko

The accompanying notes form an integral part of these financial statements.

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**STATEMENT OF FINANCIAL RESULTS (STATEMENT OF COMPREHENSIVE INCOME)  
FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO  
31 DECEMBER 2019**

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

			CODES		
		Date (year, month, day)	2019	12	31
Entity:	<b>LLC “Gas Transmission System Operator of Ukraine”</b>	EDRPOU	42795490		
Location:	<b>Ukraine</b>	KOATUU	8038200000		
Legal form of organization:	<b>Limited Liability Company</b>	KOPFG	240		
Type of economic activities:	<b>Pipeline transportation</b>	KVED	49.50		
Average number of employees:	<b>7,788</b>				
Address, phone:	<b>Floor 16, 7 Klovsnyi Uzviz, Kyiv, 01010</b>				
Measuring unit:	<b>UAH thousands without decimals</b>				
Prepared under (mark “v” in the respective box):					
Ukrainian Accounting Standards					
International Financial Reporting Standards			<b>V</b>		

**Statement of Financial Results (Statement of Comprehensive Income)  
for the Period from 5 February 2019 (Date of Incorporation) to 31 December 2019**

Form # 2

DKUD Code

1801003

**I. FINANCIAL RESULTS**

Items	Line code	Notes	2019	2018
1	2	3	4	5
<b>I. Profit/(loss)</b>				
Net revenue on sales of products (goods, works, services)	2000	14	1,654,122	-
Cost of products sold (goods, works, services)	2050	15	(1,391,523)	-
<b>Gross:</b>				
<b>Profit</b>	<b>2090</b>		<b>262,599</b>	-
<b>Loss</b>	<b>2095</b>		-	-
Other operating income	2120		17	-
Administrative expenses	2130	16	(226,987)	-
Distribution costs	2150		-	-
Other operating expense	2180		(40,415)	-
<b>Financial results from operating activities:</b>				
<b>Profit</b>	<b>2190</b>		-	-
<b>Loss</b>	<b>2195</b>		<b>(4,786)</b>	-
Income on equity investments	2200		-	-
Other finance income	2220		4,028	-
Other income	2240		118	-
Finance costs	2250		(1,297)	-
Losses on equity investments	2255		-	-
Other expense	2270		-	-
<b>Financial results from continuing operations before tax:</b>				
<b>Profit</b>	<b>2290</b>		-	-
<b>Loss</b>	<b>2295</b>		<b>(1,937)</b>	-
Income tax expense	2300		(553)	-
<b>Net financial results:</b>				
<b>Profit</b>	<b>2350</b>		-	-
<b>Loss</b>	<b>2355</b>		<b>(2,490)</b>	-

The accompanying notes form an integral part of these financial statements.

LIMITED LIABILITY COMPANY "GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE"

STATEMENT OF FINANCIAL RESULTS (STATEMENT OF COMPREHENSIVE INCOME)  
FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO  
31 DECEMBER 2019 (CONTINUED)

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

II. COMPREHENSIVE INCOME

Items	Line code	Notes	2019	2018
1	2	3	4	5
<i>Items that may not be reclassified subsequently to profit or loss</i>				
Revaluation increase (decrease) in non-current assets	2400		-	-
Revaluation increase (decrease) in financial instruments	2405		-	-
Cumulative foreign exchange differences	2410		-	-
Other comprehensive income (loss)	2445	12	(40,549)	-
<b>Other comprehensive income (loss) before tax</b>	<b>2450</b>		<b>(40,549)</b>	-
Income tax attributable to other comprehensive income	2455		-	-
<b>Other comprehensive income (loss) after tax</b>	<b>2460</b>		<b>(40,549)</b>	-
<b>Comprehensive income (loss) (total of Lines 2350, 2355, and 2460)</b>	<b>2465</b>		<b>(43,039)</b>	-
<b>Net profit (loss) attributable to:</b>				
Participants of the parent	2470		(2,490)	-
Non-controlling interest	2475		-	-
<b>Comprehensive income (loss) attributable to:</b>				
Participants of the parent	2480		(43,039)	-
Non-controlling interest	2485		-	-

III. ELEMENTS OF OPERATING EXPENSE

Items	Line code	2019	2018
1	2	3	4
Materials	2500	42,859	-
Staff costs	2505	1,291,161	-
Social charges	2510	228,980	-
Depreciation and amortization	2515	63,887	-
Other operating expense	2520	32,038	-
<b>Total</b>	<b>2550</b>	<b>1,658,925</b>	-

IV. RATIOS OF EARNINGS PER SHARE

Items	Line code	Notes	2019	2018
1	2	3	4	5
Average annual number of ordinary shares	2600		-	-
Adjusted average annual number of ordinary shares	2605		-	-
Net earnings/(losses) per ordinary share, UAH	2610		-	-
Adjusted net earnings/(losses) per ordinary share, UAH	2615		-	-
Dividends per ordinary share, UAH	2650		-	-

General Director

S. L. Makogon

Chief Accountant

I. V. Yeshchenko

The accompanying notes form an integral part of these financial statements.

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**STATEMENT OF CASH FLOWS**

**FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019**

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

			CODES		
	Date (year, month, day)	2019	12	31	
Entity:	<b>LLC “Gas Transmission System Operator of Ukraine”</b>	EDRPOU	42795490		
Location:	<b>Ukraine</b>	KOATUU	8038200000		
Legal form of organization:	<b>Limited Liability Company</b>	KOPFG	240		
Type of economic activities:	<b>Pipeline transportation</b>	KVED	49.50		
Average number of employees:	<b>7,788</b>				
Address, phone:	<b>Floor 16, 7 Klovskiy Uzviz, Kyiv, 01010</b>				
Measuring unit:	<b>UAH thousands without decimals</b>				
Prepared under (mark “v” in the respective box):					
Ukrainian Accounting Standards					
International Financial Reporting Standards			<b>V</b>		

**Statement of Cash Flows (under Indirect Method)  
for the Period from 5 February 2019 (Date of Incorporation) to 31 December 2019**

Form # 3      DKUD Code      1801006

Items	Line code	2019		2018	
		Inflows	Outflows	Inflows	Outflows
1	2	3	4	5	6
<b>I. Cash flows from operating activities</b>					
Profit (loss) from ordinary activities before tax	3500	-	(1,937)	-	-
<b>Adjustments to:</b>					
Depreciation and amortization of non-current assets	3505	63,887	-	-	-
Loss (gain) on disposal, revaluation, and impairment of property, plant, and equipment		-	-	-	-
Increase (decrease) in provisions	3510	256,401	-	-	-
Loss (gain) on unrealized exchange differences	3515	-	(118)	-	-
Loss (gain) on non-operating activities and other non-cash transactions	3520	-	-	-	-
Loss (gain) on equity investments	3521	-	-	-	-
Finance costs	3540	1,297	-	-	-
Finance income		-	(4,028)	-	-
Decrease (increase) in current assets	3550	-	(237,972)	-	-
Increase (decrease) in current liabilities	3560	484,441	-	-	-
<b>Cash from operating activities</b>	<b>3570</b>	<b>561,971</b>	<b>-</b>	<b>-</b>	<b>-</b>
Income taxes paid	3580	-	(16,172)	-	-
<b>Net cash flows from operating activities</b>	<b>3195</b>	<b>545,799</b>	<b>-</b>	<b>-</b>	<b>-</b>

The accompanying notes form an integral part of these financial statements.

LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO  
31 DECEMBER 2019 (CONTINUED)

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

Items	Line code	2019		2018	
		Inflows	Outflows	Inflows	Outflows
1	2	3	4	5	6
<b>II. Cash flows from investing activities</b>					
<b>Cash inflows from sales of:</b>					
Financial investments	3200	-	-	-	-
Non-current assets	3205	-	-	-	-
Cash inflows from the receipt of:					
Interest	3215	-	-	-	-
Dividends	3220	-	-	-	-
Proceeds on derivatives	3225	-	-	-	-
Other proceeds	3250	-	-	-	-
<b>Cash outflows to purchase of:</b>					
Financial investments	3255	-	-	-	-
Non-current assets	3260		(52,859)	-	-
Payments under derivatives	3270	-	-	-	-
Other payments	3290	-	-	-	-
<b>Net cash flows from investing activities</b>	<b>3295</b>	<b>-</b>	<b>(52,859)</b>	<b>-</b>	<b>-</b>
<b>III. Cash flows from financing activities</b>					
<b>Cash inflows from:</b>					
Equity issued	3300	20,000	-	-	-
Borrowings received	3305	-	-	-	-
Other proceeds	3340	-	-	-	-
<b>Cash outflows to:</b>					
Treasury shares	3345	-	-	-	-
Repayment of borrowings	3350	-	-	-	-
Dividends paid	3355	-	(89,845)	-	-
Interest paid	3360	-	-	-	-
Other payments	3390	-	-	-	-
<b>Net cash flow from financing activities</b>	<b>3395</b>	<b>-</b>	<b>(69,845)</b>	<b>-</b>	<b>-</b>
<b>Net cash flows for the reporting period</b>	<b>3400</b>	<b>423,095</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash balance at the beginning of the year	3405	-	-	-	-
Effect of changes in foreign exchange rates on cash balance	3410	118	-	-	-
Cash balance at the end of the year	3415	423,213	-	-	-

Significant non-cash transactions are disclosed in Note 11.

General Director

S. L. Makogon

Chief Accountant

I. V. Yeshchenko

The accompanying notes form an integral part of these financial statements.

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Entity: LLC “Gas Transmission System Operator of Ukraine”  
 Location: Ukraine  
 Legal form of organization: Limited Liability Company  
 Type of economic activities: Pipeline transportation  
 Average number of employees: 7,788  
 Address, phone: Floor 16, 7 Klovskyi Uzviz, Kyiv, 01010  
 Measuring unit: UAH thousands without decimals  
 Prepared under (mark “v” in the respective box):  
 Ukrainian Accounting Standards  
 International Financial Reporting Standards

Date (year, month, day)  
 EDRPOU  
 KOATUU  
 KOPFG  
 KVED

CODES		
2019	12	31
42795490		
8038200000		
240		
49.50		

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### Statement of Changes in Equity for the Period from 5 February 2019 (Date of Incorporation) to 31 December 2019

Form # 4

DKUD Code

1801005

Items	Line code	Registered (share) capital	Revaluation reserve	Additional capital	Reserve capital	Accumulated deficit	Unpaid capital	Withdrawn capital	Subtotal	Non-controlling interest	Total
1	2	3	4	5	6	7	8	9	10	11	12
Balance as at 5 February 2019 (date of incorporation)	4000	-	-	-	-	-	-	-	-	-	-
<b>Adjustments for:</b>											
Changes in accounting policies	4005	-	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-	-	-
<b>Adjusted balance at the beginning of the period</b>	<b>4095</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net profit (loss) for the reporting period	4100	-	-	-	-	(2,490)	-	-	(2,490)	-	(2,490)
Other comprehensive income for the reporting period	4110	-	-	-	-	(40,549)	-	-	(40,549)	-	(40,549)
<b>Distribution of profits:</b>											
Payments to equity holders (dividends) (Note 11)	4200	-	-	-	-	(89,845)	-	-	(89,845)	-	(89,845)
Charges to reserve capital	4210	-	-	-	-	-	-	-	-	-	-
<b>Contributions of participants:</b>											
Contributions to equity (Note 11)	4240	3,870,886	-	-	-	-	-	-	3,870,886	-	3,870,886
Capital receivable repaid	4245	-	-	-	-	-	-	-	-	-	-
<b>Capital withdrawals:</b>											
Redemption of shares (stakes)	4260	-	-	-	-	-	-	-	-	-	-
Resale of treasury shares (stakes)	4265	-	-	-	-	-	-	-	-	-	-
Cancellation of treasury shares (stakes)	4270	-	-	-	-	-	-	-	-	-	-
Withdrawal of stakes in equity	4275	-	-	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	-	-	-	-	-	-
<b>Total changes in equity</b>	<b>4295</b>	<b>3,870,886</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(132,884)</b>	<b>-</b>	<b>-</b>	<b>3,738,002</b>	<b>-</b>	<b>3,738,002</b>
Balance as at 31 December 2019	4300	3,870,886	-	-	-	(132,884)	-	-	3,738,002	-	3,738,002

General Director

S. L. Makogon

Chief Accountant

I. V. Yeshchenko

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

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#### 1. ORGANIZATION AND ITS OPERATIONS

Limited Liability Company “Gas Transmission System Operator of Ukraine” (hereinafter, LLC “Gas TSO of Ukraine” or the “Company”) was incorporated on 5 February 2019 in pursuance of the requirements on separation (unbundling) of natural gas transportation operations as determined by the Law of Ukraine “On Natural Gas Market” based on the international commitments of Ukraine under the Energy Community Treaty and the Agreement on Association with the EU. The registered address of LLC “Gas TSO of Ukraine” is at: Floor 16, 7 Klovskiy Uzviz, Kyiv, 01010, Ukraine.

By its legal form, LLC “Gas TSO of Ukraine” is a limited liability company. As at 31 December 2019, Joint Stock Company “Ukrtransgaz” (JSC “Ukrtransgaz”, “the Participant”) was the founder and the sole participant of LLC “Gas TSO of Ukraine”.

In 2019, primary activities of LLC “Gas TSO of Ukraine” related to rendering services to JSC “Ukrtransgaz”, in particular, a range of organization and technical measures on planning, preparing, arranging, controlling, and accounting for all types of operations, maintenance, and repairs of production facilities aimed at ensuring safe and effective operation of main gas pipeline facilities and collecting data on the parameters of facilities’ operations.

In accordance with international commitments of Ukraine, the gas transportation activities should be unbundled from the activities of natural gas production and supply. Resolution of the Cabinet of Ministers of Ukraine “On Unbundling of Natural Gas Transmission Activity and Enabling Activity of Transmission System Operator” # 840 dated 18 September 2019 (the “Action Plan”) envisaged that unbundling should be performed by using the model of Independent System Operator (“ISO Model”).

According to the Action Plan, in Quarter 4 2019, the Participant made a contribution in the form of its own assets used in the process of natural gas transportation operations via main gas pipelines to the charter capital of the Company that, at the moment, was its 100% subsidiary and, according to the Action Plan, should be separated on 1 January 2020.

On 1 January 2020, in accordance with the sale/purchase agreement of interest in the charter capital, a 100% interest in the charter capital of the Company was transferred to JSC “MAHISTRALNI GAZOPROVODY UKRAINY” on the terms of installment payments for the period of 15 years and the determined dynamic price calculated on the basis of the formula agreed by the Parties. In addition, on 1 January 2020, the Company purchased the natural gas required for the system operation.

According to the Action Plan, LLC “Gas Transmission System Operator of Ukraine” applied for certification as GTS operator and obtained the certification approval from the Energy Community Secretariat. A final decision on the certification and issuing a license on natural gas transportation was adopted by the NCREU on 24 December 2019. Correspondingly, LLC “Gas Transmission System Operator of Ukraine” has become a full-fledged independent operator of the gas transmission system of Ukraine effective from 1 January 2020.

Included in the Company were twenty line operation sections of the main gas pipelines and operating and repair division, the production facilities of which were located in all regions of Ukraine, and a representative office of the Company in Slovak Republic.

These financial statements were authorized for issue on 21 April 2020. Management report to these financial statements for the period from 5 February 2019 (date of incorporation) to 31 December 2019 is included in the consolidated management report of Naftogaz Group.

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

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## 2. OPERATING ENVIRONMENT

During 2019, the Ukrainian economy demonstrated signs of stabilization after several years of political and economic tension. In 2019, the inflation rate in Ukraine decreased year on year to 4.1% (compared to 9.8% in 2018), whereas GDP growth was assessed at the estimated level of 3.6% (after the growth of 3.3% in 2018).

After several years of drop in the exchange rate, UAH demonstrated stabilization and strengthened by around 5% against USD and by 11% against EUR comparing to previous year averages. Key factors that helped strengthen UAH were a successful launch of the IMF program in late 2018, stable revenues of agricultural product exporters, limited UAH liquidity, and a persistently high rate of currency proceeds from public debt securities.

Effective from April 2019, the National Bank of Ukraine (the “NBU”) commenced a cycle of measures on weakening restrictions in its monetary policies and also decreased its discount rate for the first time during two recent years, from 18.0% in April 2019 to 10.0% in March 2020, which is supported by a stable outlook with regards to decrease in inflation.

In December 2018, the IMF Board of Directors approved a stand-by assistance (“SBA”) 14-month program for Ukraine in the total amount of USD 3.9 billion. Ukraine already received USD 2 billion from the IMF and the EU, as well as USD 750 million of loan guarantees from the World Bank. The IMF program’s approval significantly increases the ability of Ukraine to meet its foreign currency obligations in 2020 and, thus, will support the financial and macroeconomic stability in the country. At the same time, the IMF will decide on further tranches depending on Ukraine’s success in achieving the terms and conditions of the Memorandum on Economic and Political Cooperation to be fulfilled in the course of the SBA program’s implementation.

A significant amount of public debt is scheduled for repayment in 2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, trends for decline in industrial manufacturing identified in the second half of 2019 may continue in 2020.

During March-April 2019, Ukraine passed through the presidential election, followed by the extraordinary parliamentary election in July 2019. A degree of uncertainty regarding the future direction of reforms in 2020 remains at a very high level.

In addition, on 16 January 2020, the Verkhovna Rada of Ukraine passed the Law “On Amending Certain Legislative Acts Aimed at Improving Tax Administration and Removing Technical and Logical Inconsistencies in the Tax Legislation” # 465-IX and the Law “On Amending the Tax Code of Ukraine Aimed at Improving Tax Administration and Removing Technical and Logical Inconsistencies in the Tax Legislation” # 466-IX. These Laws introduce changes in tax and financial reporting in Ukraine. The Law # 465-IX was signed by the President of Ukraine and came into effect on 27 February 2020. The Law # 466-IX was transferred for signature of the President. The Company is currently analyzing the impact of those Laws on submitting financial and tax reports in future periods.

Despite certain improvements in 2019, a final resolution and ongoing effects of the political and economic situation are difficult to predict, but they may have further material effects on the Ukrainian economy and the Company’s business.

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

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In addition to that, starting from early 2020, a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization (the “WHO”) in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving, it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to, such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Company’s business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

#### **Government regulation of the Company’s operations**

Oil and gas industry operations are of critical importance to Ukraine due to a range of reasons that include economic, strategic, and national security aspects.

Government regulation of the natural gas market in Ukraine is exercised by the Cabinet of Ministers of Ukraine and the National Commission for Regulation of Energy and Utilities (the “NCREU”). The NCREU approves tariffs for transportation services via main and distribution gas pipelines in the territory of Ukraine, tariffs for the services of storing, pumping in, and withdrawing gas from underground gas storage facilities. The NCREU also approves procedures on setting tariffs for transportation, distribution, and storage of natural gas and is responsible for protection of consumer rights in the sphere of setting tariffs, security of supplies, and quality of services.

In addition, the Law of Ukraine “On Natural Gas Market” # 329-VIII dated 9 April 2015 created prerequisites for a new natural gas market model built on the principles of free fair competition and aimed at ensuring a high level protection of consumers’ rights and interests and ability to integrate with natural gas markets of the Energy Community countries, including through creating regional natural gas markets.

### **3. RELATED PARTY BALANCES AND TRANSACTIONS**

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 operating decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Related party transactions may be held on the terms that are not necessarily available for non-related parties.

#### **Transactions with state-controlled entities**

The Company conducts significant transactions with the entities controlled, those under common control, or exposed to a significant influence from the Government of Ukraine.

For the period from 5 February 2019 (date of incorporation) to 31 December 2019, 100% of the Company’s revenue was generated from transactions with JSC “Ukrtransgaz”, the entity under common control from the Government of Ukraine and the Company’s founder. As at 31 December 2019, outstanding receivables relating to those transactions amounted to 100% of the total balance of accounts receivable for products, goods, works, services.

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

Accounts payable to the entities controlled, those under common control, or exposed to a significant influence from the Government of Ukraine as at 31 December 2019 comprised:

- Accounts payable on goods, works, services – about 40%;
- Current accounts payable on advances received – about 35%;
- Financial guarantee at balancing the system – about 27%.

As at 31 December 2019, 100% of cash and cash equivalents were placed with the bank controlled, those under common control, or exposed to a significant influence from the Government of Ukraine.

#### Remuneration to key management personnel

During the period from 5 February 2019 (date of incorporation) to 31 December 2019, key management personnel of the Company consisted of 12 persons. During the period from 5 February 2019 (date of incorporation) to 31 December 2019, remuneration to key management personnel included in administrative expenses comprised payroll and additional current bonuses and amounted to UAH 66,259 thousand.

#### 4. INTANGIBLE ASSETS

Movements in intangible assets for the period from 5 February 2019 (date of incorporation) to 31 December 2019 were as follows:

	<b>Licenses and technical documents</b>	<b>Software</b>	<b>Total</b>
<b>Net book value as at 5 February 2019 (date of incorporation)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Additions	264	59,969	60,233
Disposals	-	-	-
Amortization charges	(241)	(2,735)	(2,976)
<b>Net book value as at 31 December 2019</b>	<b>23</b>	<b>57,234</b>	<b>57,257</b>
<i>Cost</i>	<i>264</i>	<i>59,969</i>	<i>60,233</i>
<i>Accumulated amortization and allowance for impairment</i>	<i>(241)</i>	<i>(2,735)</i>	<i>(2,976)</i>

During the period from 5 February 2019 (date of incorporation) to 31 December 2019, intangible assets with the cost of UAH 60,233 thousand were contributed by the founder to the Company’s charter capital.

LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

5. PROPERTY, PLANT, AND EQUIPMENT AND CAPITAL INVESTMENTS IN PROGRESS

Movements in property, plant, and equipment and capital investments in progress for the period from 5 February (date of incorporation) to 31 December 2019 were as follows:

	<u>Buildings and constructions</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Other fixed assets</u>	<u>Total property, plant, and equipment</u>	<u>Capital investments in progress</u>	<u>Total</u>
<b>Net book value as at 5 February 2019 (date of incorporation)</b>	-	-	-	-	-	-	-
Additions and transfers	7,617	466,226	408,454	208,253	1,090,550	1,139,198	2,229,748
Depreciation charges	(146)	(8,348)	(8,237)	(44,180)	(60,911)	-	(60,911)
<b>Net book value as at 31 December 2019</b>	<b><u>7,471</u></b>	<b><u>457,878</u></b>	<b><u>400,217</u></b>	<b><u>164,073</u></b>	<b><u>1,029,639</u></b>	<b><u>1,139,198</u></b>	<b><u>2,168,837</u></b>
<i>Cost</i>	<i>7,617</i>	<i>466,226</i>	<i>408,454</i>	<i>208,253</i>	<i>1,090,550</i>	<i>1,139,198</i>	<i>2,229,748</i>
<i>Accumulated depreciation and allowance for impairment</i>	<i>(146)</i>	<i>(8,348)</i>	<i>(8,237)</i>	<i>(44,180)</i>	<i>(60,911)</i>	<i>-</i>	<i>(60,911)</i>

During the period from 5 February 2019 (date of incorporation) to 31 December 2019, property, plant, and equipment and capital investments in progress with the cost of UAH 1,090,550 thousand and UAH 1,086,339 thousand, respectively, were contributed by the founder to the Company’s charter capital.

Depreciation charges in the amount of UAH 51,834 thousand were included in cost of products sold (goods, works, services) and the amount of UAH 8,355 thousand – in administrative expenses.

Had the Company’s property, plant and equipment been measured at historical cost, their carrying amounts as at 31 December 2019 would have been equal to the actual carrying amounts presented in this Note.

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO  
31 DECEMBER 2019**

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

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**6. OTHER NON-CURRENT ASSETS**

As at 31 December 2019, included in other non-current assets were the emergency supplies of materials and spare parts in the amount of UAH 67,102 thousand.

**7. INVENTORIES**

The Company’s inventories were as follows:

	<b>31 December 2019</b>
Raw materials and supplies	478,428
Spare parts	239,428
Other	144,430
<b>Total</b>	<b>862,286</b>

**8. ACCOUNTS RECEIVABLE FOR PRODUCTS, GOODS, WORKS, SERVICES**

Trade accounts receivable were represented by the amounts due from JSC “Ukrtransgaz” for rendering the services on ensuring operations of main gas pipeline facilities (Note 14).

Contractual credit period is 20 calendar days. During this period, no interest is charged on outstanding accounts receivable. The Company consistently provides for losses on receivables for products, goods, works, services in the amount that is equal to expected credit losses for the whole life of those instruments. The Company has no experience of default or delayed payments from JSC “Ukrtransgaz”, correspondingly, as at 31 December 2019, no allowance for expected credit losses was accrued.

**9. ACCOUNTS RECEIVABLE ON PREPAYMENTS MADE, SETTLEMENTS WITH THE STATE  
BUDGET AND OTHER ACCOUNTS RECEIVABLE**

	<b>31 December 2019</b>
Value added tax recoverable	474,801
Advances to suppliers on goods, works, services	13,563
Income taxes prepaid	11,873
Other accounts receivable	3,200
<b>Total</b>	<b>503,437</b>

The contribution of assets to the Company’s charter capital (Note 11) generated value added tax recoverable in the amount of UAH 641,814 thousand. The Company is planning to recover VAT by offsetting it against VAT liabilities arising in the Company’s normal course of business during 2020.

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019**

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

**10. CASH AND CASH EQUIVALENTS**

As at 31 December 2019 cash and cash equivalents were presented by cash on the current accounts in the bank that is under common control of the government of Ukraine.

**11. EQUITY**

As at 31 December 2019, authorized and fully paid charter capital of the Company amounted to UAH 3,870,886 thousand. The following assets were contributed to the charter capital during the period from 5 February 2019 (date of incorporation) to 31 December 2019:

Property, plant and equipment	1,090,550
Capital investment in progress	1,086,339
Intangible assets	60,233
Other non-current assets	67,102
Inventory	904,848
Cash and cash equivalents	20,000
VAT recoverable generated on contribution of assets to charter capital	641,814
<b>Total</b>	<b><u>3,870,886</u></b>

Profits of each reporting period distributable to the participant are determined based on the data of the financial statements prepared under International Financial Reporting Standards. In accordance with the participant’s decision, for the period from 5 February 2019 (date of incorporation) to 31 December 2019, dividends were accrued and paid to JSC “Ukrtransgaz”, as the sole participant of the Company, in the amount of UAH 89,845 thousand.

**12. PROVISIONS**

Movements in provisions for the period from 5 February 2019 (date of incorporation) to 31 December 2019 were as follows:

	<b>Allowance for non-current employee benefit obligations</b>	<b>Provision for unused vacations</b>	<b>Bonuses for annual performance</b>	<b>Total</b>
<b>Balance as at 5 February 2019 (date of incorporation)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Charged during the period	109,995	85,914	60,492	256,401
Unwinding of discount	1,297	-	-	1,297
Used or paid during the period	(17,539)	(10,346)	-	(27,885)
Changes in estimates	40,549	-	-	40,549
<b>Balance as at 31 December 2019</b>	<b><u>134,302</u></b>	<b><u>75,568</u></b>	<b><u>60,492</u></b>	<b><u>270,362</u></b>
<i>Non-current</i>	78,800	-	-	78,800
<i>Current</i>	55,502	75,568	60,492	191,562

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019**

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

**Allowance for non-current employee benefit obligations**

In accordance with the effective legislation of Ukraine, the Company has a legal obligation to pay preferential pensions to the employees engaged or those who had worked in hazardous working conditions. In addition, according to the terms and conditions of the Collective Agreement, the Company is obliged to pay lump sums and periodical allowances to employees when they retire or achieve certain ages. These employee benefit plans are not funded and do not have plan assets.

	<u>2019</u>
<b>Benefits paid</b>	<u><b>(17,539)</b></u>
Service cost:	
Reporting period service cost	78,661
Past period service cost and changes in calculations	31,334
Net interest expense	<u>1,297</u>
<b>Total components recognized in profit or loss</b>	<u><b>111,292</b></u>
Components of actuarial losses:	
Changes in demographic assumptions	487
Changes in financial assumptions	12,726
Experience based adjustments	<u>27,336</u>
<b>Total components recognized in other comprehensive income</b>	<u><b>40,549</b></u>
<b>Total</b>	<u><b>134,302</b></u>

Key actuarial assumptions used for the employee benefit obligation calculation were as follows:

	<u>2019</u>
Nominal discount rate, %	9.35%
Nominal salary growth rate, %	13.00% for 2020, 16% for 2021–2024, 9.35% after 2024
Turnover rate, %	1.22%

The effect of key assumptions on the defined benefit plan was as follows:

	<u>2019</u>
Increase/decrease in discount rate by 1%	(4.24%)/4.88%
Increase/decrease in salary by 1%	4.69%/(4.16%)
Increase/decrease in turnover rate by 1%	(4.63%)/5.30%

The above sensitivity analysis may not represent actual changes under the defined benefit pension plan, since it is unlikely that changes in assumptions will occur separately from each other, and some assumptions may be interrelated. In addition, the above sensitivity analysis includes present cost of benefit obligations calculated using the projected unit method as at the end of the reporting period, which corresponds to that used in calculating the liability recognized in the statement of financial position.

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

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Net interest expense in the amount of UAH 1,297 thousand was included in finance costs. Current and past period service cost in the amount of UAH 104,895 thousand, UAH 5,073 thousand, and UAH 27 thousand was included in cost of products sold (goods, works, services), administrative expenses, and other operating expense, respectively.

#### 13. CURRENT ACCOUNTS PAYABLE ON ADVANCES RECEIVED

Current accounts payable of the Company on advances received were as follows:

	<b>31 December 2019</b>
Advances on natural gas transportation	290,498
<b>Total advances received</b>	<b>290,498</b>

As described in Note 1, effective from 1 January 2020, the Company commenced operations on natural gas transportation via main gas pipelines. According to the terms and conditions of the natural gas transportation contract, services of access to the volumes at entry and exit points are rendered on 100% prepayment terms in the amount of ordered volume for the period of gas month by five business days before the beginning of the gas month in which the access to the volumes is going to be provided. Correspondingly, the Company received advances on the services of natural gas transportation.

#### 14. NET REVENUE ON SALES OF PRODUCTS (GOODS, WORKS, SERVICES)

Net revenue on products sold (goods, works, services) is represented by the revenues generated from JSC “Ukrtransgaz” on rendering a range of organization and technical measures on planning, preparing, arranging, controlling, and accounting for all types of operations, maintenance, and repairs of production facilities aimed at ensuring safe and effective operation of main gas pipeline facilities and other related services.

The agreement on rendering the above services was signed for the period up to 1 January 2020. As described in Note 1, effective from 1 January 2020, the Company commenced operations on natural gas transportation via main gas pipelines.

On 30 December 2019, an agreement was concluded between the Company and NJSC “Naftogaz of Ukraine” on natural gas transportation for ensuring the gas transit via the territory of Ukraine. The Company commenced rendering the services under the said agreement effective from 1 January 2020.

#### 15. COST OF PRODUCTS SOLD (GOODS, WORKS, SERVICES)

	<b>2019</b>
Staff costs and related social charges	1,276,005
Depreciation and amortization	54,367
Material supplies	42,041
Other	19,110
<b>Total</b>	<b>1,391,523</b>

# LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM 5 FEBRUARY 2019 (DATE OF INCORPORATION) TO 31 DECEMBER 2019

*In Ukrainian Hryvnias and in thousands, unless otherwise indicated*

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#### 16. ADMINISTRATIVE EXPENSES

	<u>2019</u>
Staff costs and related social charges	210,002
Depreciation and amortization	8,763
Other	<u>8,222</u>
<b>Total</b>	<b><u><u>226,987</u></u></b>

#### 17. CONTINGENCIES AND CONTRACTUAL COMMITMENTS AND OPERATING RISKS

##### **Taxation**

Ukraine’s tax environment is characterized by complexity in tax administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on taxpayers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigations, which, consequently, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Management believes that the Company has complied with all requirements of the effective tax legislation.

In the course of regular business activities, the Company enters into transactions that may be treated by tax authorities contrary to the way they are interpreted by the Company. In the event a probability of outflow of financial resources related to such transactions is high, and its amount can be reliably measured, the Company accrues a provision for such obligations. When the Company’s management estimates an outflow of finance resources as possible, the Company discloses contingent liabilities.

Management of the Company estimated that, as at 31 December 2019, there was no potential impact of the transactions that might be interpreted differently by the Company and tax authorities.

##### **Capital contractual commitments**

Material contractual commitments on the purchase of intangible assets amounted to UAH 51,200 thousand as at 31 December 2019.

#### 18. FAIR VALUE

International Financial Reporting Standards determine 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 were determined by the Company by using the available market information, if any, and relevant valuation techniques. However, to determine the estimated fair values, professional judgments are essential for interpreting the market information. Management used all available market information to assess the fair value. The estimates presented herein do not necessarily represent the amounts that the Company would realize in the market exchange from sales of its full holding in a particular instrument or pay in the course of liabilities transfer.

**LIMITED LIABILITY COMPANY “GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”**

**NOTES TO THE FINANCIAL STATEMENTS**

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**Financial instruments that are not measured at fair value in the statement of financial position (but fair value disclosures are required)**

The Company’s management believes that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximated their fair values as at 31 December 2019.

During the reporting period, there were no transfers between the levels of fair value measurement.

**19. FINANCIAL RISK MANAGEMENT**

The main risks related to the Company’s financial instruments include credit risk, foreign currency risk, concentration risk, and liquidity risk. The Company reviews and agrees its risk management policies in respect of those risks as described below.

Major categories of financial instruments were as follows:

	<b>Notes</b>	<b>31 December 2019</b>
Accounts receivable on products, goods, works, services	8	434,020
Other current accounts receivable	9	3,200
Cash and cash equivalents	10	<u>423,213</u>
<b>Total financial assets</b>		<b><u>860,433</u></b>
Current payables on goods, works, services		53,878
Financial guarantee on balancing services		<u>43,520</u>
<b>Total financial liabilities</b>		<b><u>97,398</u></b>

Financial guarantee on balancing services is recorded in the Line “Other Current Liabilities”.

In accordance with the Code of Gas Transmission System, the Company, alongside with nominations granted for January 2020, received from gas transportation customers in 2019 financial guarantees in the amount of UAH 43,520 thousand on payment for the services of balancing natural gas volumes.

**Foreign currency risk**

The Company operates within Ukraine, and its exposure to foreign currency risk is determined by the foreign currency denominated cash on the current accounts in the bank.

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The Company’s exposure to foreign currency risk was presented, based on the carrying amounts of respective USD denominated assets and liabilities, as follows:

	<b>31 December 2019</b>
	<b>USD</b>
Cash and cash equivalents	7,106
<b>Net currency position</b>	<b>7,106</b>

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

The exposure was calculated only for monetary balances denominated in foreign currencies, other than the functional currency of the Company.

	<b>As at 31 December 2019</b>	
	<b>Impact on profit or loss</b>	<b>Impact on equity</b>
USD strengthening by 10%	583	583
USD weakening by 10%	(583)	(583)

### **Concentration risk**

The Company is exposed to a significant concentration risk in respect of 100% revenue generated in 2019 from one customer and trade accounts receivable from JSC “Ukrtransgaz” (Note 3). Also, as at 31 December 2019, cash and bank balances were placed with JSC “Ukrzazbank” which, in turn, was under common control from the Government of Ukraine.

### **Credit risk**

The Company is exposed to credit risk, which relates to the risk that a certain party to a financial instrument will default on its obligation resulting in financial loss for the other party. Exposure to credit risk arises because of the Company’s sales of products on credit terms and other transactions with counterparties giving rise to financial assets. The Company’s policies are that the customers that wish to pay on credit terms are subject to the solvency review. Significant outstanding balances are also reviewed on an ongoing basis.

The Company creates an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Maximum credit risk exposure as at 31 December 2019 amounted to UAH 860,433 thousand.

### **Liquidity risk**

Prudent liquidity management implies maintaining sufficient cash and available funding to meet the existing obligations as they fall due. The Company analyzes maturity profile of its assets and maturity of its liabilities and plans liquidity depending on their expected repayment.

As at 31 December 2019, all financial liabilities of the Company had maturities up to three months.

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#### 20. EVENTS AFTER THE REPORTING PERIOD

Based on the agreement on the transfer (on the right of commercial management) of state-owned properties used in the process of operations on natural gas transportation via main gas pipelines properties concluded between the Ministry of Finance of Ukraine and the Company, the state-owned properties used in the process of operations on natural gas transportation via main gas pipelines were transferred on 1 January 2020 into the Company’s management irrevocably for the period of 15 years on the right of commercial management.

On 1 January 2020, the transaction of sale/purchase in respect of 100% interest in the Company’s charter capital was held between JSC “Ukrtransgaz” and JSC “MAHISTRALNI GAZOPROVODY UKRAINY” on the suspensive condition of the transfer of rights to the interest in the charter capital and on the terms of installment payments for the period of 15 years.

On 1 January 2020, the Company purchased natural gas from JSC “Ukrtransgaz” in the volume of 912.049 million cubic meters with the total cost of UAH 5,436,176 thousand, including VAT, with repayment in installments for the period of two years. Respective payables to the supplier were prematurely repaid before the date of these financial statements issuance.

Effective from 1 January 2020, an agreement concluded between the Company and NJSC “Naftogaz of Ukraine” on natural gas transportation for providing the gas transit via the territory of Ukraine came into force.

#### 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

##### Basis of preparation

These financial statements have been prepared on the historical cost basis, except for assets contributed to the charter capital that were measured at fair values by JSC “Ukrtransgaz” prior to contribution into the Company’s charter capital as well as at the end of the reporting period, 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.

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 indicated.

In preparing these financial statements, the Company used financial reporting forms as determined by Ukrainian Accounting Standards.

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#### Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment, in which the Company operates (the “functional currency”). The financial statements are presented in Ukrainian Hryvnias (“UAH”), which is the Company’s functional currency. All amounts stated in the financial statements are presented in UAH rounded to the nearest thousand, unless otherwise indicated.

Transactions denominated in currencies, other than the 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 translation of foreign currency denominated monetary assets and liabilities at the year-end are recognized in the statement of financial results (statement of comprehensive income). Translation at the 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 as follows:

<i>In Ukrainian Hryvnias</i>	<u>2019</u>
USD 1.00	23.69
EUR 1.00	26.42

Average exchange rates for the period from 5 February 2019 (date of incorporation) to 31 December 2019 were as follows:

<i>In Ukrainian Hryvnias</i>	<u>2019</u>
USD 1.00	25.85
EUR 1.00	28.95

During the period from 5 February 2019 (date of incorporation) to 31 December 2019, currency restrictions imposed by the National Bank of Ukraine were enacted in Ukraine (Note 2). Foreign currencies are freely convertible at the exchange rates close to the ones established by the National Bank of Ukraine. At present, UAH is not freely convertible outside of Ukraine.

#### Property, plant, and equipment

The Company uses a revaluation model to measure its property, plant, and equipment, other than construction in progress and other property plant and equipment that are measured at cost. Fair value was based on valuations by independent qualified appraisers. The frequency of revaluations depends on the movements in the fair values of the assets being revalued such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Subsequent additions to property, plant, and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. Cost of self-constructed assets includes the cost of materials, direct labor, and an appropriate portion of production overheads. Cost of acquired and self-constructed qualifying assets includes borrowing costs.

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Any revaluation increase in the carrying amounts is recognized in revaluation reserve in equity through other comprehensive income. Decreases that offset previously recognized increases of the same asset are charged against revaluation reserve in equity through other comprehensive income, while all other decreases are charged to the statement of financial results (statement of comprehensive income). To the extent that revaluation decrease on the same revalued asset was previously recognized in the statement of financial results (statement of comprehensive income), a reversal of that revaluation is also recognized in the statement of financial results (statement of comprehensive income).

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of financial results (statement of comprehensive income) during the financial period in which they are incurred. Property, plant, and equipment are derecognized upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposal determined by comparing proceeds with carrying amount of property, plant, and equipment are recognized in the statement of financial results (statement of comprehensive income). On the sale of revalued assets, the amounts included in revaluation reserves are transferred to retained earnings.

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

**Depreciation and amortization**

Depreciation and amortization are on a straight-line basis to allocate costs of individual assets except their residual values over their estimated useful lives. Depreciation and amortization commence on the date of acquisition or, in respect of self-constructed assets, from the time an asset is completed and ready for use.

The typical useful lives of the Company’s property, plant, and equipment are as follows:

	<u>Useful lives, years</u>
Buildings and structures	10–80
Machinery and equipment	5–35
Vehicles	5–25
Other fixed assets	5–50

The residual value, the useful life, and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for as a change in an accounting estimate.

Gain or loss arising on the disposal or retirement of an item of property, plant, and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Construction in progress is not depreciated.

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#### **Intangible assets**

Intangible assets have finite useful lives and primarily include capitalized expenses on computer software. Acquired computer software is capitalized based on the costs incurred to acquire and bring them to use. Intangible assets are carried at cost, less accumulated amortization 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.

#### **Impairment of non-financial assets**

Assets are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount, by which the assets carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, less costs 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 units). Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is recognized 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 recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in 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**

##### **Initial recognition of financial instruments**

Financial assets and financial liabilities are initially measured at fair value.

The Company's principal financial instruments comprise cash and balances with banks, and accounts receivable, payable and financial guarantee on balancing services.

##### **Classification and subsequent measurement of financial assets**

Financial assets are subsequently measured at amortized 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 cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent reporting periods.

Amortized cost is calculated using the effective interest rate method and is determined net of any impairment losses.

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

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#### **Charter capital**

The charter capital is represented by the amount of the assets contributed to the charter capital of the Company and was measured at their fair value at the contribution date.

#### **Impairment of financial assets**

The Company applies a simplified approach to recognize lifetime expected credit losses for its financial assets, as permitted by IFRS 9 “Financial Instruments”. The Company accounts for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company assesses the expected credit losses on accounts receivable on a collective basis. The expected credit losses are estimated using a migration matrix by reference to past default experience of the debtor and an analysis of the debtor’s current position.

The carrying amount of the asset is reduced through the allowance, and the amount of respective loss is recognized in the statement of financial results (statement of comprehensive income). When receivables are uncollectible, they are written off against the provision account for receivables. Subsequent recovery of the amounts previously written off is credited to the statement of financial results (statement of comprehensive income).

#### **Classification and subsequent measurement of financial liabilities**

Financial liabilities are subsequently measured at amortized 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 amortized cost using the effective interest rate 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 amortized cost of a financial liability.

#### **De-recognition of financial instruments**

The Company derecognizes financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired, or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets, or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained 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 Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, cancelled, or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the statement of financial results (statement of comprehensive income).

#### **Income taxes**

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

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Current tax is the amount expected to be paid to or recovered from the tax authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is recognized using the balance sheet liability method for tax loss 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 loss carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax losses carried forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

#### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes expenditures incurred on acquiring the inventories, production, or conversion costs, and other costs incurred in bringing them to their present location and condition. Costs of inventories are determined on a first-in-first-out (“FIFO”) basis for all inventories, except for gas, whose cost is determined by using a weighted average cost method. Net realizable value represents the estimated selling price in the ordinary course of business, less costs of completion and costs necessary to make the sale.

#### **Trade accounts receivable**

Trade and other accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment.

#### **Prepayments made and other current assets**

Prepayments are carried at cost net of VAT, less allowance for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset, which 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 Company recognizes a provision for impairment in respect of such a prepayment made and a corresponding impairment loss is recognized in the statement of financial results (statement of comprehensive income).

#### **Cash and cash equivalents**

Cash and cash equivalents of the Company include cash on hand and cash with banks and deposits with original maturities of three months or less.

#### **Dividends**

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date, proposed or declared after the reporting date but before the financial statements are authorized for issue.

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#### **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 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 recognized in the 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 allowance for impairment of prepayments made.

#### **Current payables on goods, works, services**

Trade accounts payable are recognized and initially measured in accordance with the policies for financial instruments mentioned above. Subsequently, instruments with fixed maturities are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

#### **Advances received**

Advances received are carried at the amounts originally received, net of VAT. Amounts of the advances received are expected to be realized through the revenue received from ordinary activities of the Company.

#### **Provisions**

Provisions are recognized when the Company 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 can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

The expense on any provision is presented in the statement of financial results (statement of comprehensive income), 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 recognized as a finance cost.

#### **Other liabilities**

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

#### **Contingent assets and liabilities**

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

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

#### **Revenue recognition**

The Company applies IFRS 15 “Revenue from Contracts with Customers”. In accordance with IFRS 15, revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration, to which the Company expects to be entitled in exchange for those goods or services. A 5-step approach to revenue recognition is used by the Company:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the Company satisfies a performance obligation.

The Company recognizes 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. The Company provides fixed fee services based on an agreed monthly rate. Revenue from the rendering of services is recognized in the accounting period in which the services were rendered.

#### **Expense recognition**

Expenses are recorded on an accrual basis. Cost of products sold comprises the purchase price, transportation costs, commissions relating to supply agreements, and other related expenses.

#### **Employee benefits: defined contribution plans**

The Company makes statutory unified social contributions to the State 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 staff costs in the statement of financial results (statement of comprehensive income).

During the period from 5 February 2019 (date of incorporation) to 31 December 2019, the Company recognized statutory unified social contributions paid to the State Pension Fund of Ukraine in the amount of UAH 212,158 thousand.

#### **Employee benefits: defined benefit plans**

The Company provides lump sum benefits, payments upon reaching a certain age and other benefits as prescribed by the Collective Agreement. The liability recognized in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligations at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method.

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.

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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 cost is recognized immediately in the statement of financial results (statement of comprehensive income).

#### **Finance income and costs**

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

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

## **22. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

In the application of the Company’s accounting policies, management is required to make judgments, 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 relevant. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

#### **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.

#### ***Employee benefit obligations***

Management 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. Present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining net value (income) for pensions include a discount rate and expected salary growth rates. Any changes in those assumptions will affect the carrying amount of pension obligations. Since there are no long-term, high quality corporate or government bonds issued in UAH, a significant judgment is needed to assess an appropriate discount rate. Key assumptions are presented in Note 12.

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#### 23. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

##### Adoption of new or revised International Financial Reporting Standards

The following Standards and Interpretations have been adopted by the Company for the period from 5 February 2019 (date of incorporation) to 31 December 2019:

- IFRS 16 “Leases”;
- Interpretation of IFRS IC 23 “Uncertainty over Income Tax Treatments”;
- Annual Improvements to IFRS 2015–2017 Cycle;
- Amendments to IFRS 9 “Financial Instruments” – Prepayment features with negative compensation;
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Long-term shares in associates and joint ventures;
- Amendments to IAS 19 “Employee Benefits” – Plan amendment, curtailment, or settlement.

Other than the changes related to application of the new Standard of IFRS 16 “Leases” (“IFRS 16”), as described below, the adoption of amendments to Standards have not had any effect on the financial position or performance reported in the financial statements and has not resulted in any changes to the Company’s accounting policies and the amounts reported for the current period.

The Company has used the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. The adoption of IFRS 16 has not had a significant impact on the Company’s financial position and/or its financial performance.

##### *New and revised IFRS in issue but not yet effective*

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

<b>Standards</b>	<b>Effective for annual accounting periods beginning on or after:</b>
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 “Business Combinations” – Definition of business	1 January 2020
Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates, and Errors” – Definition of material	1 January 2020
Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, and IFRS 7 “Financial Instruments: Disclosures” – Interest Rate Benchmark Reform	1 January 2020
IFRS 17 “Insurance Contracts”	1 January 2023
Amendments to IAS 1 “Presentation of Financial Statements” – Classification of liabilities as current and non-current	1 January 2022
Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined

Management believes that adoption of the above Standards and Interpretations in future periods will not have a significant impact on the Company’s financial statements.