Limited Liability Company "Gas Transmission System Operator of Ukraine"

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

LIMITED LIABILITY COMPANY
“Gas Transmission System Operator of Ukraine”

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Independent Auditors' Report

To the Participants 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 (statement of financial position) as at 31 December 2020, the income statement (statement of comprehensive income), the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Ukrainian legislation on 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 Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the 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.

Other Matter

The financial statements of the Company as at 31 December 2019 and for the period from 5 February 2019 (date of incorporation) to 31 December 2019 were audited by other auditors who expressed an unmodified opinion on those statements on 21 April 2020.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Accounting for receipt of the state-owned assets that are used in natural gas transmission activities through main gas pipeline under economic management rights from the Ministry of Finance of Ukraine

Please refer to the Note 21 in the financial statements.

The key audit matter	**How the matter was addressed in our audit**
On 1 January 2020, the Company received state-owned property that is used in natural gas transmission activities through main gas pipeline under economic management rights in accordance with the related agreement concluded with the Ministry of Finance of Ukraine for the non-cancellable period of 15 years. Management has analysed the terms and conditions of the said agreement, circumstances in which the abovementioned property was transferred and status of the Ministry of Finance in relation to the Company and has concluded that the Company controls the rights that have potential to obtain substantially all economic benefits that may flow from this property. Accordingly, the Company recognized these assets within property, plant and equipment including construction in progress and the results of this transaction as equity contribution. Given the magnitude of the effect of this transaction on the Company's financial statements and the level of attention of those charges with governance to this transaction, this matter is deemed a key audit matter.	Among others, our audit procedures included: - reviewing the agreement concluded between the Company and the Ministry of Finance; - with the involvement of our legal specialists reviewing the Ukrainian legislation in force that provides the Company with legal rights to direct the use of the property received and obtain the benefits that may flow from it; - enquiring management in respect of legal rights and other means of ensuring that the Company and no other party, has the present ability to direct the use of the received property and obtain the benefits that may flow from it; - reviewing the Company's Charter and Ukrainian legislation in respect of the Company's formation to analyze the purposes for which the Company was established and for which the state-owned assets were transferred to the Company to conclude whether the transaction shall be viewed as a transaction with the shareholder acting in capacity of the Company's owner; - analysis of the Company's management position in respect of accounting treatment of the transaction on receipt of the property under economic management rights. We also evaluated the completeness of disclosures regarding significant

	management judgment in respect of this transaction in the financial statements.

Assessment of the fair value of property, plant and equipment of the Company as at 1 January 2020	
Please refer to the Notes 4 and 17 in the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Company's management engaged independent appraiser to assess the fair value of the Company's property, plant and equipment as at 1 January 2020 accounted under revaluation model as management believed that carrying amount of its property, plant and equipment materially differed from the fair value. Considering the significant impact of the revaluation of the Company's assets on the financial statements and the inherent uncertainty involved in forecasting and discounting future cash flows that were the basis for the revaluation, we identified this matter as a key audit matter.	We have analysed the accounting basis for revaluation as at 1 January 2020. We involved our valuation specialists to assist us in analysing the assumptions and methodology used to assess fair value of the Company's property, plant and equipment. We analysed the reasonableness of the main assumptions and input data used in the revaluation. In particular, with regard to the expected cash flows, we compared the discount rate, the forecasted sales volumes and tariffs, projections of operating costs and capital investments with factual information of the Company for 2020, external sources, as well as our own estimates developed based on our knowledge of the Company and its industry.

Provision for obligations under the regulations issued by National Energy and Utilities Regulatory Commission (NEURC)	
Please refer to the Notes 9 and 21 in the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2020, the Company recognised the provision for the obligations under the regulations issued by National Energy and Utilities Regulatory Commission for the amount of UAH 9,588,600 thousand. This provision represents the best management estimate of the probable outflow of economic benefits related to the rights of preceding gas transmission system operator for compensation of the adjustment of the	Among others, our audit procedures included: - reviewing the Methodology for determination and calculation of tariffs for natural gas transmission services for entry points and exit points on the basis of long-term incentive regulation approved by the Resolution of NEURC No 2517 on 30 September 2015; - analysing the Company's management position in respect of the right of the

required income that was accounted for upon establishing the tariffs for natural gas transportation activity of the Company. Since assessment whether a liability exists and timing of outflow of economic benefits is inherently uncertain, the amount of the provision recognised is significant to the financial statements and involves significant management judgment, this matter is deemed a key audit matter.	preceding gas transmission system operator to claim part of tariff approved for the Company, including management arguments to defend its position in court. - reviewing the inputs for the management assessment of the amount and timing of potential outflow of economic benefits and challenging the underlying assumptions; - consultation with KPMG legal specialists with regards to probability of outflow of future economic benefits resulting from regulations of NEURC. We also considered whether the Company's disclosures of the application of judgment in estimation of the provision adequately reflected underlying uncertainties.

Revenue recognition from balancing services	
Please refer to the Notes 20 and 21 in the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
In accordance with the Code of the gas transmission system, gas transmission system operator is responsible for regulating an imbalance of the system which is calculated as the difference between the volumes of natural gas entering through the entry points and the volumes of natural gas exiting through the exit points, on the basis of actual data received through the allocation procedure, in the context of transmission service to customers. IFRS 15 *"Revenue from Contracts with Customers"* requires as part of identification of the contract to assess whether it is probable to collect the consideration from customers. Taking into account that balancing services were not settled in a full amount during the reporting period and until the date of this report, recognition of respective revenues requires to make significant judgment in respect of future cash-inflows. IFRS 15 *"Revenue from Contracts with Customers"* also requires that entity recognises revenue in the gross amount of	Among others, our audit procedures included: - Understanding of the sale process for the Company's services and existing revenue arrangements in place. - Reviewing the revenue recognition accounting policy for compliance with IFRS 15 *"Revenue from Contracts with Customers"*. - Analysing typical agreement on natural gas transportation services and assessing the management conclusions in respect of nature of the Company's promise to customers in those agreements and assessing whether the Company controls each specified good or service before that good or service is transferred to the customer. - Reviewing the management judgment in respect of determination whether the Company controls the specified good or service before that good or service is transferred to a customer and in respect of presentation of revenue from particular arrangements either on net or gross basis.

consideration to which it expects to be entitled in exchange for the specified good or service transferred if the entity acts as a principal in the arrangement and controls the specified goods or service before that good or service is transferred to the customer. Management applies judgment to determine whether it acts as an agent or principal in revenue arrangements in respect of balancing services. Based on the above we determined the revenue recognition from balancing services to be a key audit matter.	- Assessing the key judgements made in respect of the revenue recognition criteria per IFRS 15 *"Revenue from Contracts with Customers"* for part of revenues where the Company acts as a principal based on information available from the market. - Challenging the probability of collectability of consideration by analyzing whether during the year the Company collected consideration, to which it was entitled in exchange for the rendered services, as well as understanding the status of litigation over unsettled accounts receivable both for the portfolio of contracts and in certain cases on individual basis.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management Report but does not include the financial statements and our auditors' report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Ukrainian legislation on 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.

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

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

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

We confirm that our auditors’ report is consistent with the additional report to those charged with governance of the Group.

Appointment of the Auditor and Period of Engagement

We were appointed by General Meeting of Participants on 30 December 2020 to audit the financial statements of the Company as at and for the year ended 31 December 2020. Our total uninterrupted period of audit engagements is 1 year, covering the year ended 31 December 2020.

Provision of Non-audit Services

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

In addition, for the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit, which have not been disclosed in the Management Report or in the financial statements of the Company.

Additional Report to Those Charged with Governance

We confirm that our auditors’ report is consistent with the additional report we have provided to Those Charged with Governance of the Company.

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

Original signed by

Dmytro Aleev

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

Deputy Director

JSC KPMG Audit

9 April 2021

Kyiv, Ukraine

LIMITED LIABILITY COMPANY
“GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS AT 31 DECEMBER 2020

		CODES		
	Date (year, month, day)	2020	12	31
Entity: LLC “Gas Transmission System Operator of Ukraine”	EDRPOU	42795490		
Location: Ukraine	KOATUU	8038200000		
Legal form of organization: Limited Liability Company	KOPFG	240		
Type of economic activities: Pipeline transportation	KVED	49.50		

Average number of employees: **10,948**
Address, phone: **03065, Kyiv, Husar Lubomyr Ave., 44**
Unit of measurement**:** UAH thousands without decimals
Prepared under (mark “v” in the respective box):

Ukrainian Accounting Standards	
International Financial Reporting Standards	**V**

Balance Sheet (Statement of Financial Position)
as at 31 December 2020

Form # 1 DKUD Code 1801001

ASSETS	Line code	Notes	31 December 2020	31 December 2019
1	**2**	**3**	**4**	**5**
I. Non-current assets				
Intangible assets	1000		90,223	57,257
Historical cost	1001		115,370	60,233
Accumulated amortization	1002		(25,147)	(2,976)
Constructions in progress	1005	4	3,386,321	1,139,198
Property, plant, and equipment	1010	4	99,063,762	1,029,639
Historical cost	1011	4	105,540,550	1,090,550
Accumulated depreciation	1012	4	(6,476,788)	(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		89,643	67 102
Total non-current assets	**1095**		**102,629,949**	**2,296,942**
II. Current assets				
Inventories	1100	5	17,846,719	862,286
Trade accounts receivable	1125	6	887,446	434,020
Other receivables:				
Prepayments	1130		47,109	13,563
Taxes	1135		1,697	486,674
Including income tax	1136		-	11,873
Receivable for accrued income	1140	7	197,677	-
Other current accounts receivable	1155		78,060	3,200
Current financial investments	1160	7	23,130,984	-
Cash and cash equivalents	1165	7	3,754,413	423,213
Deferred expense	1170		1,019	43
Other current assets	1190		454,281	749
Total current assets	**1195**		**46,399,405**	**2,223,748**
TOTAL ASSETS	**1300**		**149,029,354**	**4,520,690**

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS AT 31 DECEMBER 2020 (CONTINUED)

EQUITY AND LIABILITIES	Line Line	Notes	31 December 2020	31 December 2019
1	2	3	4	5
I. EQUITY				
Charter capital	1400	8	3,870,886	3,870,886
Revaluation surplus	1405		25,959	-
Additional paid-in capital	1410	8	92,570,364	-
Reserve capital	1415		-	-
Retained earnings (accumulated deficit)	1420		20,158,995	(132,884)
Non-controlling interest	1490		-	-
Total equity	**1495**		**116,626,204**	**3,738,002**
II. Non-current liabilities				
Deferred tax liabilities	1500	15	10,269,066	-
Long-term bank loans	1510		-	-
Other non-current liabilities	1515		-	-
Long-term provisions	1520	9	252,809	78,800
Total non-current liabilities	**1595**		**10,521,875**	**78,800**
III. Current liabilities				
Short-term bank loans	1600		-	-
Current accounts payable including:				
Current portion of long-term liabilities	1610		-	-
Trade accounts payable	1615	10	5,004,124	53,878
Tax payables including	1620		2,309,170	16,652
Income tax	1621		2,136,274	-
Social insurance charges payable	1625		23,624	13,491
Salaries payable	1630		114,784	70,264
Advances received	1635	10	4,103,371	290,498
Current provisions	1660	9	10,119,756	191,562
Deferred income	1665		-	-
Other current liabilities	1690		206,446	67,543
Total current liabilities	**1695**		**21,881,275**	**703,888**
TOTAL equity and liabilities	**1900**		**149,029,354**	**4,520,690**

General Director /s/ **S. L. Makogon**

Financial Director /s/ **Y.I. Kulik**

Chief Accountant /s/ **K. V. Paliy**

LIMITED LIABILITY COMPANY
“GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2020

			CODES		
		Date (year, month, day)	2020	12	31
Entity:	**LLC “Gas Transmission System Operator of Ukraine”**	EDRPOU	42795490		
Location:	**Ukraine**	KOATUU	8038200000		
Legal form of organization:	**Limited Liability Company**	KOPFG	240		
Type of economic activities:	**Pipeline transportation**	KVED	49.50		
Average number of employees:	**10,948**				
Address, phone:	**03065, Kyiv, Husar Lubomyr Ave., 44**				

Unit of measurement**:** UAH thousands without decimals
Prepared under (mark “v” in the respective box):

Ukrainian Accounting Standards	
International Financial Reporting Standards	**V**

Income Statement (Statement of Comprehensive Income)
for the year ended 31 December 2020

Form # 2 DKUD Code 1801003

I. FINANCIAL RESULTS

Items	Line code	Notes	2020	2019
1	**2**	**3**	**4**	**5**
I. Profit/(loss)				
Net revenues	2000	11	57,574,713	1,654,122
Cost of sales	2050	12	(21,836,525)	(1,391,523)
Gross:				
Profit	**2090**		**35,738,188**	**262,599**
Loss	**2095**			**-**
Other operating income	2120		349,637	17
Administrative expenses	2130	13	(1,117,985)	(226,987)
Selling expenses	2150		-	-
Other operating expense	2180	14	(11,674,546)	(40,415)
including net change in provision for financial assets impairment	2180 (a)	14	(1,693,752)	-
Results from operating activities:				
Profit	**2190**		**23,295,294**	**-**
Loss	**2195**			**(4,786)**
Share of profit of equity accounted investees	2200		-	-
Other finance income	2220	7	1,661,449	4,028
Other income	2240		59,109	118
Finance costs	2250		(142,037)	(1,297)
Share of loss of equity accounted investees	2255		-	-
Other expense	2270		(30,218)	-
Financial result before tax:				
Profit	**2290**		**24,843,597**	**-**
Loss	**2295**		-	**(1,937)**
Income tax expense	2300		(4,490,047)	(553)
Net financial result:				
Profit	**2350**		**20,353,550**	**-**
Loss	**2355**		-	**(2,490)**

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

II. COMPREHENSIVE INCOME

Items	Line code	Notes	2020	2019
1	2	3	4	5
Items that may not be subsequently reclassified to profit or loss				
Revaluation increase (decrease) on non-current assets	2400		31,657	-
Revaluation increase (decrease) on financial instruments	2405		-	-
Accumulated foreign currency translation differences	2410		-	-
Other comprehensive income (loss)	2445	9	(61,671)	(40,549)
Other comprehensive income (loss) before tax	**2450**		**(30,014)**	**(40,549)**
Income tax related to other comprehensive income	2455		(5,698)	-
Other comprehensive income (loss) after tax	**2460**		**(35,712)**	**(40,549)**
Comprehensive income (loss) (total of Lines 2350, 2355, and 2460)	**2465**		**20,317,838**	**(43,039)**

III. OPERATING EXPENSES

Items	Line code	2020	2019
1	2	3	4
Materials	2500	9,691,790	42,859
Salaries	2505	4,146,511	1,291,161
Social charges	2510	768,373	228,980
Depreciation and amortization	2515	6,459,881	63,887
Other operating expenses	2520	13,562,501	32,038
Total	**2550**	**34,629,056**	**1,658,925**

IV. EARNINGS PER SHARE

Items	Line code	Notes	2020	2019
1	2	3	4	5
Weighted-average annual number of ordinary shares	2600		-	-
Adjusted weighted-average annual number of ordinary shares	2605		-	-
Basic earnings/(loss) per ordinary share, UAH	2610		-	-
Diluted net earnings/(losses) per ordinary share, UAH	2615		-	-
Dividend per ordinary share, UAH	2650		-	-

General Director /s/ **S. L. Makogon**

Financial Director /s/ **Y.I. Kulik**

Chief Accountant /s/ **K. V. Paliy**

LIMITED LIABILITY COMPANY
“GAS TRANSMISSION SYSTEM OPERATOR OF UKRAINE”

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

		CODES		
	Date (year, month, day)	2020	12	31
Entity: LLC “Gas Transmission System Operator of Ukraine”	EDRPOU	42795490		
Location: Ukraine	KOATUU	8038200000		
Legal form of organization: Limited Liability Company	KOPFG	240		
Type of economic activities: Pipeline transportation	KVED	49.50		

Average number of employees: **10,948**
Address, phone: **03065, Kyiv, Husar Lubomyr Ave., 44**
Unit of measurement: UAH thousands without decimals
Prepared under (mark “v” in the respective box):

Ukrainian Accounting Standards	
International Financial Reporting Standards	**V**

Statement of Cash Flows (Indirect Method)
for the year ended 31 December 2020

Form # 3 DKUD Code 1801006

Items	Line	2020		2019	
		Inflows	Outflows	Inflows	Outflows
1	2	3	4	5	6
I. Cash flows from operating activities					
Profit (loss) from operating activities before tax	3500	24,843,597	-	-	(1,937)
Adjustments for:					
Depreciation and amortization of non-current assets	3505	6,459,881	X	63,887	-
Loss (gain) on disposal, revaluation, and impairment of property, plant, and equipment		-	-	-	-
Increase (decrease) in provisions	3510	10,030,358	-	256,401	-
Loss (gain) on unrealized foreign exchange differences	3515	-	(41,593)	-	(118)
Loss (gain) on non-operating activities and other non-cash transactions	3520	1,693,752	-	-	-
Loss (gain) on equity accounted investees	3521	-	-	-	-
Finance costs	3540	142,037	-	1,297	-
Finance income		-	(1,661,450)	-	(4,028)
Decrease (increase) in current assets	3550	-	(19,313,547)	-	(237,972)
Increase (decrease) in current liabilities	3560	8,756,346	-	484,441	-
Cash flows from operating activities	**3570**	**30,909,381**	**-**	**561,971**	**-**
Income taxes paid	3580	X	(5,241,968)	-	(16,172)
Net cash flows from operating activities	**3195**	**25,667,413**	**-**	**545,799**	**-**

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 YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

Items	Line	2020		2019	
		Inflows	Outflows	Inflows	Outflows
1	2	3	4	5	6
II. Cash flows from investing activities					
Proceeds from sales of:					
Financial investments	3200	-	X	-	-
Non-current assets	3205	-	X	-	-
Proceeds from the receipt of:					
Interest	3215	1,463,773	X	-	-
Dividends	3220	-	X	-	-
Proceeds on derivatives	3225	-	X	-	-
Other proceeds	3250	-	X	-	-
Payments for acquisition of:					
Financial investments	3255	X	(23,130,984)	-	-
Non-current assets	3260	X	(710,595)	-	(52,859)
Payments on derivatives	3270	X	-	-	-
Other payments	3290			-	-
Net cash flows from investing activities	**3295**	**-**	**(22,377,806)**	**-**	**(52,859)**
III. Cash flows from financing activities					
Proceeds from:					
Issue of share capital	3300	-	X	20,000	-
Borrowings received	3305	-	X	-	-
Other proceeds	3340	-	X	-	-
Payments:					
Purchase of treasury shares	3345	X	-	-	-
Repayment of borrowings	3350	X	-	-	-
Dividends paid	3355	X	-	-	(89,845)
Interest paid	3360	X	-	-	-
Other payments	3390	X	-	-	-
Net cash flow from financing activities	**3395**	**-**	**-**	**-**	**(69,845)**
Net cash flows for the reporting period	**3400**	**3,289,607**	**-**	**423,095**	**-**
Cash and cash equivalents balance as at the beginning of the year	3405	423,213	X	-	-
Effect of movements in exchange rates on cash and cash equivalents balance	3410	41,593	-	118	-
Cash and cash equivalents **balance as at the end of the year**	**3415**	**3,754,413**	**X**	**423,213**	**-**

General Director /s/ **S. L. Makogon**

Financial Director /s/ **Y.I. Kulik**

Chief Accountant /s/ **K. V. Paliy**

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 YEAR ENDED 31 DECEMBER 2020

	CODES		
Date (year, month, day)	2020	12	31
EDRPOU	42795490		
KOATUU	8038200000		

Entity: **LLC "Gas Transmission System Operator of Ukraine"**
Location: **Ukraine**
Unit of measurement: UAH thousands without decimals
Prepared under (mark "v" in the respective box):

Ukrainian Accounting Standards	
International Financial Reporting Standards	**V**

Statement of Changes in Equity
for the year ended 31 December 2020

Form # 4 DKUD Code 1801005

Items	Line code	Share capital	Revaluation surplus	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10
Balance as at 1 December 2020	**4000**	**3,870,886**	**-**	**-**	**-**	**(132,884)**	**-**	**-**	**3,738,002**
Net profit for the reporting period	**4100**	**-**	**-**	**-**	**-**	20,353,550	**-**	**-**	20,353,550
Other comprehensive income (loss) for the reporting period	**4110**	-	25,959	-	-	(61,671)	-	-	(35,712)
Distribution of profits: Payments to equity holders (dividends) (Note 8)	4200	-	-	-	-	-	-	-	-
Participants contributions: Contributions to share capital	4240	-	-	-	-	-	-	-	-
Repayment of capital obligations	4245	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other changes in equity (Note 8):	4290	-	-	92,570,364	-	-	-	-	92,570,364
Total changes in equity	**4295**	-	25,959	92,570,364	-	20,291,879	-	-	112,888,202
Balance as at 31 December 2020	**4300**	**3,870,886**	**25,959**	**92,570,364**	**-**	**20,158,995**	**-**	**-**	**116,626,204**

General Director /s/ **S. L. Makogon**

Financial Director /s/ **Y.I. Kulik**

Chief Accountant /s/ **K. V. Paliy**

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 YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	CODES		
Date (year, month, day)	2020	12	31
EDRPOU	42795490		
KOATUU	8038200000		

Entity: **LLC “Gas Transmission System Operator of Ukraine”**
Location: **Ukraine**
Unit of measurement: UAH thousands without decimals
Prepared under (mark “v” in the respective box):

Ukrainian Accounting Standards	
International Financial Reporting Standards	**V**

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	Share capital	Revaluation surplus	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Capital withdrawals	Total
1	2	3	4	5	6	7	8	9	10
Balance as at 5 February 2019 (date of incorporation)	**4000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net loss for the reporting period	**4100**	**-**	**-**	**-**	**-**	**(2,490)**	**-**	**-**	**(2,490)**
Other comprehensive income (loss) for the reporting period	**4110**	**-**	**-**	**-**	**-**	**(40,549)**	**-**	**-**	**(40,549)**
Distribution of profits:									
Payments to equity holders (dividends) (Note 8)	4200	-	-	-	-	(89,845)	-	-	(89,845)
Contributions of participants:									
Contributions to share capital (Note 8)	4240	3,870,886	-	-	-	-	-	-	3,870,886
Repayment of capital obligations	4245	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	-	-	-	-
Total changes in equity	**4295**	**3,870,886**	**-**	**-**	**-**	**(132,884)**	**-**	**-**	**3,738,002**
Balance as at 31 December 2019	**4300**	**3,870,886**	**-**	**-**	**-**	**(132,884)**	**-**	**-**	**3,738,002**

General Director /s/ **S. L. Makogon**

Financial Director /s/ **Y.I. Kulik**

Chief Accountant /s/ **K. V. Paliy**

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

1. ORGANIZATION AND ITS OPERATIONS

Limited Liability Company “Gas Transmission System Operator of Ukraine” (LLC “Gas TSO of Ukraine” or the “Company”) was incorporated on 5 February 2019 to meet the requirements to separate (unbundle) the natural gas transportation operations as determined by the Law of Ukraine “On Natural Gas Market” under the international commitments of Ukraine under the Energy Community Treaty and the Ukraine-European Union Association Agreement. The registered address of LLC “Gas TSO of Ukraine” is: 03065, Kyiv, Husar Lubomyr Ave., 44.

LLC “Gas TSO of Ukraine” is a limited liability company by its legal form. As at 31 December 2020, the sole owner of LLC “Gas TSO of Ukraine” is Joint-Stock Company “Mahistralni Gazoprovody Ukrainy” (JSC “Mahistralni Gazoprovody Ukrainy”, the Participant), which, in turn, is directly controlled by the Ministry of Finance of Ukraine. As at 31 December 2019, Joint Stock Company “Ukrtransgaz” (JSC “Ukrtransgaz”) was the founder and the sole participant of LLC “Gas TSO of Ukraine”.

The main activities of LLC “Gas TSO of Ukraine” include natural gas transportation services, access to the Gas Transmission System of Ukraine, gas transmission system management, including capacity allocation, as well as scheduling, balancing, accounting for natural gas, interaction and exchange of information on cross-border gas pipelines and interstate connections. The Company’s client base includes 899 enterprises.

Other Company’s activities include:

- operation, reconstruction and service maintenance of magistral gas pipelines and facilities on them;
- diagnostics, evaluation and certification of main and auxiliary equipment;
- design and construction of gas pipelines;
- research, development and design work in gas transportation area;
- foreign economic activity.

The Company’s objective is to meet market needs in products, works and services of the Company, the development, raise of competitiveness, safety, reliability and guarantee of non-discriminatory access to services and consumer`s rights protection, effective management of the Company's assets, etc.

LLC “Gas TSO of Ukraine” is included in the consolidated register of natural monopolies of the Antimonopoly Committee of Ukraine as a natural monopoly that provides transportation of natural gas to its consumers in Ukraine and the European Union.

The Ukraine's gas transportation system (GTS) is one of the world's largest gas transportation systems. It performs two main functions: the supply of natural gas to domestic consumers, as well as the transit of natural gas through Ukraine to the countries of Western and Central Europe, with an annual capacity of 146 billion cubic meters.

The main component of the gas transmission system of Ukraine is a network of magistral gas pipelines and gas pipeline-branches, which is the integrated technological complex that operates in continuous working mode. The total length of the magistral gas pipelines is 33,079 kilometers, and the Gas Transmission System of Ukraine includes 1,389 gas distribution stations and 57 compressor stations.

1. ORGANIZATION AND ITS OPERATIONS (CONTINUED)

In accordance with international commitments of Ukraine, the gas transportation activities were unbundled from the activities of natural gas production and supply. The unbundling of gas transportation activities took place under the model of independent system operator (ISO model), which was envisaged by Resolution #840 of the Cabinet of Ministers of Ukraine “On Unbundling of Natural Gas Transmission Activity and Enabling Activity of Transmission System Operator” dated 18 September 2019 (“Action Plan”).

According to the Action Plan:

- In 4th quarter 2019, JSC Ukrtransgaz made a contribution in the form of its own non-current (including intangible assets) and current tangible assets used in the process of natural gas transportation by magistral pipelines to the share capital of the Company.
- On 1 January 2020, the Ministry of Finance transferred to the Company property under economic management rights (to carry the natural gas transportation activity) for non-cancellable period of 15 years (Notes 4, 8, 21).
- contracts for the purchase of goods, works and services that are necessary to ensure the continuous operation of the gas transmission system were transferred from JSC "Ukrtransgaz" to LLC “Gas TSO of Ukraine”.

On 1 January 2020, under the contract for purchase and sale of the stake in the charter capital ("the SPA"), 100% of the Company’s charter capital were transferred to JSC “Mahistralni Gazoprovody Ukrainy”, approved by Order no. 1086-r dated 15 November 2019.

LLC “Gas Transmission System Operator of Ukraine” obtained approval of the certification from the Secretariat of the Energy Community, and the final resolution on certification and licensing the gas transportation was approved by the National Energy and Utilities Regulatory Commission 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.

As at 31 December 2020 the Company includes 13 linear production units of the magistral gas pipelines (2019: 20), and operating repair division, the production facilities of which are located in all regions of Ukraine and a representative office of the Company in Slovak Republic.

These financial statements were authorized for issue on behalf of the Company on 9 April 2021.

2. OPERATING ENVIRONMENT

During 2020, the Ukrainian economy demonstrated signs of recession as consequences of the spread of the COVID-19 pandemic in Ukraine. In 2020, the inflation rate in Ukraine increased to 5% comparing to 4.1% in 2019, whereas GDP decline was at the estimated level of 4.4% (after its growth by 3.6% in 2019).

In April 2019, the National Bank of Ukraine (the "NBU") initiated a range of measures on releasing the restrictions in its monetary policies and also gradually decreased its discount rate for the first time during two recent years, from 18.0% in April 2019 to 6% in June 2020.

Business environment

The Company's performance depends on the natural gas production and imports. In 2020, the natural gas production amounted to 19.7 billion cubic meters, which is 2% less than in the previous year. As the Ukrainian market lacks its own natural gas production to meet domestic demand, a significant share of it is imported. Supply of imported gas to Ukraine increased by 12% in 2020 compared to 2019 and amounted to 15.9 billion cubic meters.

Since 2011, the Russian Federation has been actively pursuing a policy of diversifying gas supply routes to Europe. This policy has been reflected by the construction of:

- Nord Stream (gas pipeline through the Baltic Sea to Germany; construction lasted from 2010 to 2012);
- Turkish Stream (gas pipeline through the Black Sea to the European part of Turkey; construction lasted from 2017 to 2019, its operation began on 1 January 2020);
- Nord Stream 2 (gas pipeline, which is an extension of Nord Stream; construction began in 2018, its operation was scheduled to commence on 1 January 2020. Due to the postponement of agreements with the parties and, as a consequence, the schedule of construction, the launch of the pipeline was postponed).

The total capacity of Turkish and Nord Stream 2 is 86.5 billion cubic meters. In 2020, the Russian Federation transported 55.9 billion cubic meters through Ukraine.

On 30 December 2019, NJSC "Naftogaz of Ukraine" and Gazprom signed an agreement on the transit of natural gas for a period of 5 years with the extension option thereof for another 10 years.

Due to a notable decline in the amounts of the Russian transit, the Company has significant underutilized capacity at interstate connection points in Western Ukraine, so from 1 January 2020, a short-hall service was introduced, which provides access to customers in Poland, Hungary, Slovakia and Romania through the Ukrainian GTS.

The main idea of the short-hall service is as follows: if capacity at interstate connection points is not booked at standard rates, the Company may offer a short-hall service for certain pairs of points that are relatively close to each other.

2. OPERATING ENVIRONMENT (CONTINUED)

Impact of COVID-19

At the end of 2019, the first news on COVID-19 (coronavirus) appeared in China. In early 2020, the virus spread around the world and its negative impact was gaining momentum. The global spread of COVID-19 created significant volatility, uncertainty and economic decline during 2020. The virus has spread to more than 200 countries and continues to have an impact on the economic situation and the healthcare sector. The pandemic has had a large-scale negative impact on the global economy and there is considerable uncertainty as to how COVID-19 will continue to spread, as well as the extent and duration of government and other measures to slow the spread of the virus, such as quarantine, lock down, business suspension and suspension of government activities. The government and local authorities have also developed a step-by-step quarantine policy.

Management regularly monitors the impact of COVID-19, namely its potential impact on financial condition, operations results, cash flows, impairment of assets, and solvency of counterparties. As at the date of these financial statements were authorized for issuance, COVID-19 impact on the Company's operations was not significant.

The ultimate impact of COVID-19 will depend on future events, including, among other things, the final geographical spread and severity of the virus, the effects of government and other measures to prevent the spread of the virus, the development of effective treatments, the duration of the outbreak, and actions taken by government agencies, customers, suppliers and other third parties, the availability of labor, as well as timing and scope of the return to the normal economic and operational conditions. Management keeps on working to identify, manage and mitigate the effects of the COVID-19 pandemic on the Company's results; however, there are factors beyond management awareness and control, including the duration and severity of the outbreak, any similar outbreaks, and further governmental and regulatory action.

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.

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 state via the Cabinet of Ministers of Ukraine and the National Energy and Utilities Regulatory Commission (the "NEURC"). The NEURC approves tariffs for transportation services via magistral and distribution pipelines on the territory of Ukraine, tariffs for the services of storing, pumping in, and withdrawing gas from underground gas storage facilities. The NEURC also approves procedures on setting tariffs for transportation, distribution, and storage of natural gas and is responsible for protection of consumer rights in the area of setting tariffs, safety of supplies, and quality of services.

Legal regulation of natural gas transportation is carried out by the Gas Transmission System Code, approved by the resolution of the NEURC no. 2493 dated 30 September 2015 (amended).

2. OPERATING ENVIRONMENT (CONTINUED)

Following the provisions of the Gas Transmission System Code, access to natural gas transportation services is provided exclusively based on a transportation contract. Standard contract for the transportation of natural gas, is approved by the resolution of the NEURC, dated 30 September 2015, no. 2497, registered with the Ministry of Justice of Ukraine on 6 November 2015 under no. 381383/27828

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 by creating regional natural gas markets.

Starting from 1 March 2019, the gas market of Ukraine switched to daily balancing, fulfilling the obligations undertaken by the Government under the Association Agreement with the European Union.

The Resolution of the NEURC # 3013 dated 24 December 2019 sets tariffs for natural gas transportation services for entry and exit points for the regulatory period from 2020 to 2024.

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. 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.

As noted in Note 1, the ultimate owner of the Company is the Ministry of Finance of Ukraine and, accordingly, all enterprises and institutions that are controlled by the state or are significantly influenced by the state are considered to be the related parties under common control.

Transactions with state-controlled entities

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

The Company had the following balances with related parties:

	31 December 2020	31 December 2019
Cash and cash equivalents	100%	100%
Current financial investment, receivables for accrued interest (Note 7)	100%	-
Trade accounts receivable	66%	100%
including due from companies of NJSC "Naftogaz of Ukraine" Group	17%	100%
Current liabilities	74%	34%
Provisions	92%	-

3. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Transactions with related parties are as follows:

	2020	2019
Net revenues	89%	100%
Including to companies of NJSC "Naftogaz of Ukraine" Group	85%	100%
Interest income on bank deposits	100%	100%
Other operating expenses	92%	0%

The natural gas supplies in 2020 amounted to UAH 20,576,486 thousand (2019: nil), 91% of which presented by transactions with companies of NJSC "Naftogaz of Ukraine" Group. During the reporting period, the Company purchased gas storage services for the amount of UAH 392,005 thousand (2019: nil), of which 100% pertains to services purchased from NJSC "Naftogaz of Ukraine" Group companies.

Transactions with the Parent company

In 2020, the Company granted the interest-free refundable financial aid in amount of UAH 35,169 thousand to JSC "Mahistralni Gazoprovody Ukrainy", which is under common control of the Government of Ukraine and is the direct owner of the Company in 2020. As at 31 December 2020, this debt is not settled and amounts to 45% (2019: nil) of the total other receivables balance.

Key management remuneration

Key management personnel are individuals that have the authority and responsibility for planning, directing and controlling the activities of the Company.

In 2020, key management remuneration included in administrative expenses comprised payroll and additional short-term benefits and amounted to UAH 134,243 thousand (2019: UAH 52,350 thousand).

4. PROPERTY, PLANT, AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Movements in property, plant, and equipment and construction in progress for the period from 5 February (date of incorporation) to 31 December 2019 and for the year ended 31 December 2020 were as follows:

thousands of UAH	Buildings and constructions	Machinery and equipment	Vehicles	Other	Total property, plant, and equipment	Construction in progress	Total
Net book value as at 5 February 2019	-	-	-	-	-	-	-
Additions and transfers	7,617	466,226	408,454	208,253	1,090,550	1,139,198	2 229 748
Depreciation	(146)	(8,348)	(8,237)	(44,180)	(60,911)	-	(60 911)
Net book value as at 31 December 2019	**7,471**	**457,878**	**400,217**	**164,073**	**1,029,639**	**1,139,198**	**2,168,837**
Cost	*7,617*	*466,226*	*408,454*	*208,253*	*1,090,550*	*1,139,198*	*2,229,748*
Accumulated depreciation and impairment losses	*(146)*	*(8,348)*	*(8,237)*	*(44,180)*	*(60,911)*	-	*(60,911)*
Assets received under economic management rights at revalued amount	76,750,726	26,840,498	5,221	3,385	103,599,830	2,137,715	105,737,545
Other additions and transfers	300,268	475,422	77,211	8,225	861,126	109,408	970,534
Revaluation	138	(868)	7,964	3,697	10,931	-	10,931
Disposals	-	(8)	-	(47)	(55)	-	(55)
Depreciation charge	(3,036,276)	(3,255,529)	(97,996)	(47,908)	(6,437,709)	-	(6,437,709)
Net book value as at 31 December 2020	**74,022,327**	**24,517,393**	**392,617**	**131,425**	**99,063,762**	**3,386,321**	**102,450,083**
Cost or revalued amount	*77,058,603*	*27,772,922*	*490,613*	*218,412*	*105,540,550*	*3,386,321*	*108,926,871*
Accumulated depreciation and impairment losses	*(3,036,276)*	*(3,255,529)*	*(97,996)*	*(86,987)*	*(6,476,788)*	-	*(6,476,788)*

4. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS (CONTINUED)

The Company’s assets are represented by assets owned by the Company and state-owned property. State-owned property is represented by assets that directly facilitate transportation of natural gas by magistral pipelines.

On 1 January 2020, the Company received property for non-cancellable period of 15 years in accordance with an agreement on the transfer of state-owned assets under economic management rights,. Management judgments in respect of the accounting treatment of these assets acquisition from the Ministry of Finance of Ukraine for natural gas transportation activities are disclosed in Note 21.

The Company performed a revaluation as at 1 January 2020, as the value of property, plant and equipment at which it was received under the Action Plan for natural gas transportation differed significantly from its fair value as at the date when the assets were received (Note 17).

During the period from 5 February 2019 (date of incorporation) to 31 December 2019, property, plant, and equipment and construction in progress amounting to UAH 1,090,550 thousand and UAH 1,086,339 thousand, respectively, were contributed to the Company`s charter capital (Note 8) by the founder.

Depreciation in the amount of UAH 6,414,623 thousand was charged to the cost of revenue (2019: UAH 51,834 thousand), UAH 2,198 thousand was charged to other operating expenses (2019: nil) and UAH 20,879 thousand was charged to administrative expenses (2019: UAH 8,355 thousand).

The Company analyzed the changes in key ratios and inputs used in the discounted cash flow model as at 1 January 2020 (Note 21) over 2020 and concluded that revaluation of property, plant and equipment as at 31 December 2020 is not required.

The key assumptions as to the revaluation and interrelation between unobservable key inputs and fair value measurements are disclosed in Note 17.

5. INVENTORIES

The Company’s inventories were as follows:

thousands of UAH	**31 December 2020**	**31 December 2019**
Natural gas	16,578,883	-
Raw materials and supplies	730,079	478,428
Spare parts	357,602	239,428
Other	180,155	144,430
Total	**17,846,719**	**862,286**

On 1 January 2020, the Company purchased 912 049 million cubic meters of natural gas in amount of UAH 5,436,176 thousand including VAT necessary for the operation of the gas transmission system from JSC “Ukrtransgaz”, subject to installment payment for 2 years at 14% p.a. interest rate. The corresponding debt was repaid to the supplier ahead of schedule in 2020.

5. INVENTORIES (CONTINUED)

The Company presents the natural gas necessary for the operation of the gas transportation system as inventories, as it believes that such presentation is appropriate given that the gas remaining in the pipeline is not fixed, but is constantly replaced and accordingly consumed during the transportation services.

Management estimates that natural gas recognized at 31 December 2020 will be used for production and technological needs and to meet daily balancing needs within 12 months from the reporting date, thus natural gas was presented within the current assets.

6. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable of the Company are as follows:

thousands of UAH	**31 December 2020**	**31 December 2019**
Trade receivables for balancing the gas transportation system	1,979,153	-
Trade receivables for the natural gas transportation	602,045	-
Other trade receivables	-	434,020
Less: allowance for impairment	(1,693,752)	-
Total	**887,446**	**434,020**

As at 31 December 2019, other trade accounts receivable were represented by the amount due from JSC “Ukrtransgaz” for rendering the services of operation support of magistral gas pipeline facilities.

The Company performs assessment of allowance for impairment of trade accounts receivable in amount equal to expected credit losses for the whole period of financial instruments. The movement in the impairment allowance of the trade receivables is presented as follows:

thousands of UAH	**2020**	**2019**
Balance as at 1 January	**-**	**-**
Allowance for impairment accrued during the year	4,559,841	-
Reversal of allowance	(2,866,089)	-
Amounts written off during year	-	-
Balance as at 31 December	**1,693,752**	**-**

Impairment provision, the major part of which relates to the trade account receivables for balancing the gas transportation system and amounts to UAH 1,463,741 thousand is recognized in other operating expenses.

6. TRADE ACCOUNTS RECEIVABLE (CONTINUED)

The analysis of trade accounts receivable credit quality as at 31 December 2020 by the credit risk categories is presented as follows:

thousands of UAH	Trade accounts receivable	Provision for impairment
Customers with high credit risk	1,483,271	(1,443,073)
Customers with medium credit risk	437,956	(239,142)
Customers with low credit risk	659,971	(11,537)
Total	**2,581,198**	**(1,693,752)**

The Company classifies its customers by the credit risk categories depending on the percentage of not settled receivables over the year ended 31 December 2020.

As at 31 December 2019, the Company has no experience of default or payments delays, correspondingly, no allowance for expected credit losses was accrued.

7. CASH AND CASH EQUIVALENTS, CURRENT FINANCIAL INVESTMENTS AND RECEIVABLES FOR ACCRUED INCOME

At 31 December 2020, the current financial investments include deposits with an initial term of 3 months and up to 12 months for a total amount of UAH 23,130,984 thousand, which are placed within Ukrainian banks: Ukreximbank (nearly 44%), Ukrgasbank (nearly 45%) and the State Savings Bank of Ukraine (nearly 11%).

Interest income on these deposits for 2020 comprised UAH 1,269,914 thousand and was recognized within financial income. Receivables for accrued interest comprised UAH 197,677 thousand as at 31 December 2020.

As at 31 December 2020, cash and cash equivalents with balances exceeded 10% of the total balance were placed within Ukrgasbank (about 73%) and Ukreximbank (about 27%) (2019: 100% - within Ukrgasbank).

Deposits and cash and cash equivalents are held in banks having rating "B-" as determined by Fitch rating agency or its equivalent. Balances of cash and cash equivalents on bank accounts and deposits are neither impaired nor past due.

8. 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 for the period from 5 February 2019 (date of Incorporation) to 31 December 2019:

Property, plant and equipment	1,090,550
Construction in progress	1,086,339
Intangible assets	60,233
Other non-current assets	67,102
Inventories	904,848
Cash and cash equivalents	20,000
Value added tax receivable originated due to the assets contribution to equity	641,814
Total	**3,870,886**

As at 31 December 2020, the Company's sole participant is JSC "Mahistralni Gazoprovody Ukrainy."

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 2020 the Company did not declare any dividends (2019: dividends distribution in the amount of UAH 89,845 thousand was declared).

The Company's additional paid-in capital consists of assets received to conduct natural gas transportation activities (Note 21) carried at fair value as at the date of receipt of these assets, net of income tax effect.

The Company did not accrue provision for dividends distribution, according to Article 21 of the Law of Ukraine "On the State Budget of Ukraine for 2020", and Article 11 of the Law of Ukraine "On Management of State Property", as management believes that JSC "Mahistralni Gazoprovody Ukrainy" will decide on the distribution of dividends until 1 May 2021, and the provisions of Article 11 of the Law of Ukraine "On Management of State Property" are not applicable to the Company. If the Company's judgments appear to be incorrect, the Company will be obliged to pay dividends to the State Budget of Ukraine, as defined by the above laws.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This is achieved with efficient cash management, constant monitoring of the Company`s revenue, profit and investments plans mainly financed by the Company's operating cash flows. With these measures the Company aims to provide stable operation of the gas transportation system of Ukraine.

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

The Company is not subject to any externally imposed capital requirements.

9. LONG-TERM AND CURRENT PROVISIONS

Information on provisions is as follows:

thousands of UAH	Provision for employees benefits (pension)	Provision for unused vacation	Provision for remuneration	Provisions for litigations	Other provisions	Total
Balance as at 5 February 2019 (date of incorporation)	**-**	**-**	**-**	**-**	**-**	**-**
Long-term portion	-	-	-	-	-	-
Short-term portion	-	-	-	-	-	-
Accrued for the year	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
Balance as at 31 December 2019	**134,302**	**75,568**	**60,492**	**-**	**-**	**270,362**
Long-term portion	*78,800*	-	-	-	-	*78,800*
Short-term portion	*55,502*	*75,568*	*60,492*	-	-	*191,562*
Accrued/(reversed) for the year	220,718	267,489	696,780	88,441	9,588,600	10,862,028
Unwinding of discount	10,175	-	-	-	-	10,175
Used or paid during the period	(50,982)	(179,875)	(600,813)	-	-	(831,670)
Changes in estimates	61,671	-	-	-	-	61,671
Balance as at 31 December 2020	**375,884**	**163,181**	**156,459**	**88,441**	**9,588,600**	**10,372,565**
Long-term portion	*252,809*	-	-	-		*252,809*
Short-term portion	*123,075*	*163,181*	*156,459*	*88,441*	*9,588,600*	*10,119,756*

9. LONG-TERM AND CURRENT PROVISIONS (CONTINUED)

Long-term provision of employees benefits

The Company has certain obligations to its employees, stipulated by the terms of collective agreements. Those benefits include one-off benefits at the time of retirement and post-retirement benefit plans. These employee benefit plans are not funded and do not have plan assets.

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

thousands of UAH	**2020**	**2019**
Nominal discount rate, %	9.86%	9.35%
Nominal salary growth rate, %	10.00% for 2021, 5% for 2022-2024, 16% for 2025, 9.86% later on	13.00% for 2020, 16% for 20212024, 9.35% after 2024
Turnover rate, %	0.69%	1.22%

The effect of key assumptions on the defined benefit obligations is as follows:

thousands of UAH	**2020**	**2019**
Increase/decrease in discount rate by 1%	(5.3%)/6.13%	(4.24%)/4.88%
Increase/decrease in salary by 1%	6.04%/(5.33%)	4.69%/(4.16%)
Increase/decrease in turnover rate by 1%	(5.59%)/4.34%	(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.

Net interest expense in the amount of UAH 10,346 thousand was included in finance costs (2019: UAH 1,297 thousand).

The cost of services in the reporting period, attributed in 2020 to salaries expenses and social related charges expenses include: cost of revenue of UAH 206,156 thousand (2019: UAH 104,895 thousand), administrative expenses of UAH 14,489 thousand (2019: UAH 5,073 thousand) and other operating expenses of UAH 74 thousand (2019: UAH 27 thousand).

As at 31 December 2020, the weighted average period of the Company's obligations is 5.16 years (2019: 4.1 years).

9. LONG-TERM AND CURRENT PROVISIONS (CONTINUED)

Other provisions

In accordance with the Methodology for Determining and Calculating Tariffs for Natural Gas Transportation Services for Entry and Exit Points on the basis of multi-year incentive regulation, approved by the National Energy and Utilities Regulatory Commission (No. 2517 of 30 September 2015), in case of adjusting the required income for the regulatory periods preceding the change of licensee when determining tariffs for natural gas transportation services of a new licensee, if such adjustment leads to an increase in the projected income to be received by the new licensee, the previous licensee is entitled to reimbursement of such required income adjustment .

As at 31 December 2020, the Company recognized a provision for the obligations under regulations issued by National Energy and Utilities Regulatory Commission in the amount of UAH 9,588,600 thousand (2019: nil).

10. TRADE ACCOUNT PAYABLES AND ADVANCES RECEIVED

As described in Note 1, from 1 January 2020 the Company commenced operations on natural gas transportation via magistral gas pipelines. According to the terms and conditions of the natural gas transportation contract, services of access to the capacity at entry and exit points are rendered on 100% prepayment terms in the amount of volume ordered for the period of gas month paid five business days in advance before the beginning of the gas month in which the access to the volumes is going to be provided, except for the entity bearing special responsibilities for the supply of natural gas, within the framework of its execution of such special responsibilities and the operators of the gas distribution systems.

Accordingly, as at 31 December 2020, the Company received advances under natural gas transportation agreements in the amount of UAH 4,103,230 thousand (2019: UAH 290,498 thousand). Contract liabilities as at 31 December 2019 were recognized as revenue in 2020.

As at 31 December 2020, current trade accounts payables are represented mainly by payables for natural gas, which amounted to UAH 4,303,189 thousand (2019: nil).

11. NET REVENUES

As described in Note 1, on 1 January 2020 the Company commenced operations on natural gas transportation via magistral gas pipelines.

Net revenues for the years ended 31 December are as follows:

thousands of UAH	**2020**	**2019**
Natural gas transportation services	53,472,936	-
Balancing gas transportation system services	4,101,777	-
Other services	-	1,654,122
Total	**57,574,713**	**1,654,122**

11. NET REVENUES (CONTINUED)

The revenue from balancing services is represented by the revenue from balancing actions undertaken by the Company under agreements with customers in cases where the volumes of the natural gas taken off through exit points exceed the volumes of the natural gas received through entry points within the gas transmission system as a whole. As described in Note 21, the Company applies significant judgment in determining whether it acts as an agent or principal when recognizing revenue from the balancing services.

On 30 December 2019 the Company concluded an agreement with NJSC "Naftogaz of Ukraine" on natural gas transportation for provision the gas transit from the Russian Federation via the territory of Ukraine. The Company commenced rendering the services under the said agreement from 1 January 2020. In 2020 about 77% of net revenue from the sale of services related to NJSC "Naftogaz of Ukraine".

In 2019 revenue from other services is represented by income from JSC "Ukrtransgaz" for rendering a complex of organizational-technical services on planning, preparing, arranging, controlling and accounting for all types of operation, technical maintenance and repairs of production facilities aimed to provide a safe and effective operation of gas transportation system facilities and other related services. The agreement on rendering the above services was signed for the period up to 1 January 2020.

12. COST OF SALES

Cost of sales for the years ended 31 December is as follows:

thousands of UAH	2020	2019
Cost of purchased natural gas	8,922,531	-
Depreciation, depletion and amortization	6,412,184	54,367
Salaries and social related charges	3,872,129	1,276,005
Repairs and maintenance services under contractors	1,248,707	-
Other	1,380,974	61,151
Total	**21,836,525**	**1,391,523**

13. ADMINISTRATIVE EXPENSES

Administrative expenses of LLC "Gas TSO of Ukraine" incurred in 2020 and 2019 are represented mainly by salaries and social related charges expenses in amount of UAH 948,727 thousand and UAH 209,874 thousand, respectively.

14. OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December are as follows:

thousands of UAH	2020	2019
Net movements in provisions for litigations and other provisions (Note 9)	9,677,222	-
Net increase/(decrease) in provision for impairment of trade receivables (Note 6)	1,693,752	-
Other	303,572	40,415
Total	**11,674,546**	**40,415**

15. INCOME TAXES

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

thousands of UAH	**2020**	**2019**
Current income tax expense	7,390,115	4,299
Deferred tax benefit	(2,900,068)	(3,746)
Income tax expense	**4,490,047**	**553**

The Company pays taxes in Ukraine. In 2020 and 2019, corporate income tax in Ukraine was levied on taxable income net of deductible expenses at a rate of 18%.

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

thousands of UAH	**2020**	**2019**
Profit before tax	24,843,597	(1,937)
Income tax expense/(benefit) at applicable tax rate of 18%	4,471,848	(349)
Tax effect of items which are not deductible for taxation purposes:		
Tax non-deductible expenses (permanent differences)	18,199	902
Income tax expense	**4,490,047**	**553**

Deferred tax liabilities as at 31 December 2020 are as follows:

thousands of UAH	**31 December 2019**	**Recognized in profit or loss**	**Recognized in additional paid-in capital**	**Recognized in other comprehensive income**	**31 December 2020**
Property, plant and equipment	3,746	853,325	(13,167,182)	(5,698)	(12,315,809)
Trade accounts receivable	-	304,876	-	-	304,876
Provisions	-	1,741,867	-	-	1,741,867
Net deferred tax asset /(liability)	**3,746**	**2,900,068**	**(13,167,182)**	**(5,698)**	**(10,269,066)**

As at 31 December 2019, net deferred tax assets in the amount of UAH 3,746 thousand were represented mainly by temporary differences that arose from differences between the useful lives of property, plant and equipment and intangible assets in tax and financial accounting.

As at 31 December 2020 and 2019, the Company had no unrecognized temporary differences that reduced the taxable profit and unused tax losses.

16. CONTINGENCIES, CONTRACTUAL COMMITMENTS AND OPERATING RISKS

Tax legislation

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 2020 potential impact of the transactions that might be interpreted differently by the Company and tax authorities was UAH 754,558 thousand (31 December 2019: nil).

Legal proceedings

The Company is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on the financial condition or results of operations.

Litigation in the Antimonopoly Committee of Ukraine

The State Commissioner of the Antimonopoly Committee of Ukraine is considering a case of violation by LLC “Gas TSO of Ukraine” of the law on protection of economic competition in the form of abusing the monopoly (dominant) position in the market of natural gas transportation services using the gas transmission system, including by changing the marginal prices of sale and purchase of the natural gas in February 2020 for each gas day of the previous period in January 2020. For this violation, the law envisages a fine of up to 10% of revenue from sales of goods, works and services for the last reporting year.

Management believes that the operational risks associated with the case in the Antimonopoly Committee of Ukraine are insignificant as the Company was not able, by virtue of the applicable laws, to determine or in any way influence the formation of prices for negative/positive daily imbalances in conditions of the state regulation, because the marginal purchase/sale prices for natural gas are set independently of LLC “Gas TSO of Ukraine”, by using the mandatory rules established by public authorities as disclosed in Note 1.

Capital contractual commitments

As at 31 December 2020, significant contractual commitments to purchase non-current assets amounted to UAH 2,374,277 thousand (31 December 2019: UAH 51,200 thousand).

17. FAIR VALUE

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

International Financial Reporting Standards determine fair value as the price that would be received from sales of an asset or paid to transfer a liability in a 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.

Fair value of property, plant and equipment

The Company's property, plant and equipment are measured at fair value based on Level 3 of the fair value hierarchy (inputs are not observable for the asset subject to valuation).

The Company engages professional independent appraisers to determine the fair value of its property, plant and equipment using the replacement cost method for most groups. Fair value is defined as the original cost of construction of these facilities at current prices, less economic impairment and physical depreciation on the relevant date. The main parameter used in this valuation technique is the current cost of construction.

17. FAIR VALUE (CONTINUED)

For the items where there are market analogues (mainly buildings), the sales comparison is used, according to which market prices of the comparable properties in the immediate proximity are adjusted taking into account the differences in the main parameters (such as real estate area). The main parameter used in this valuation technique is the price per square meter of a property.

The Company's property, plant and equipment have been measured using the depreciated replacement cost method using the discounted cash flow method to determine economic impairment as at 1 January 2020. Based on the analysis of discounted cash flows, the depreciated replacement cost was reduced to the fair value.

Information on the inputs used to measure the value of property, plant and equipment as at 1 January 2020 is presented below:

Unobservable inputs	Range of unobservable inputs	Interrelationships between unobservable key inputs and fair value measurement
Availability of gas transit after 2024.	The gas transit contract will be extended after 2024.	If the gas transit contract is not extended after 2024, the fair value will be lower.
The rate of return on the regulatory base of assets	13.5% for 2020-2024, 12.57% after 2024	The higher is the rate, the higher the fair value.
Nominal weighted-average cost of capital for cash flows denominated in US dollars	12.57%	The higher the weighted average cost of capital, the lower the fair value

In the discounted cash flows model the estimated tariff for 2020-2034 includes the adjustment of the required income for the regulatory periods preceding the change of the licensee, which leads to an increase in the projected income of the new licensee and, according to management assessments as at 1 January 2020, was taken into account by the NEURC when setting tariffs for natural gas transportation services for entry and exit points for the regulatory period from 2020 to 2024. The Company's management expects this adjustment will be taken into account when calculating the tariff for 2025-2034, as it believes that the exclusion of the adjustment from the tariff will bring the tariff significantly below market level and will not comply with the regulatory regulations and incentive principles. A decrease in the adjustment of the required income upon approving tariffs for regulatory periods after 2024 by 1% will lead to a decrease in the fair value of property, plant and equipment as at 1 January 2020 by UAH 264 million. An increase in the amount of the adjustment of the required income will have the same but opposite effect.

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 approximate their fair values as at 31 December 2020 and 2019. Financial assets measured at amortized cost are categorized into Level 2 of the fair value hierarchy. Fair values of the instruments categorized into Level 2 were assessed using the discounted cash flow method. In 2020 and 2019, there were no financial instruments measured at amortized cost but for which the fair value at Level 3 is disclosed.

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

18. 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 risks described below. This note presents information about the exposure to each of these risks, the objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included in respective notes to these financial statements.

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

The Company's General Participants Meeting oversees how management monitors compliance with risk management policies and procedures and review the adequacy of the risk management framework in relation to such risks.

Major categories of financial instruments were as follows:

thousands of UAH	**Note**	**31 December 2020**	**31 December 2019**
Trade accounts receivable	6	887,446	434,020
Other accounts receivable		78,060	3,200
Cash and cash equivalents	7	3,754,413	423,213
Current financial investments	7	23,130,984	-
Receivable for accrued income	7	197,677	-
Total financial assets		**28,048,580**	**860,433**
Trade account payables	10	5,004,124	53,878
Financial guarantees on balancing services		206,446	43,520
Total financial liabilities		**5,210,570**	**121,421**

Foreign currency risk

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

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company's dependence on the currency risk is presented by the book value of the relevant assets and liabilities in US dollars and euros as follows:

	31 December 2020		31 December 2019	
	USD	**Euro**	**USD**	**euro**
Trade accounts receivable	201,287	14,837	-	-
Current financial investments	1,130,984	-	-	-
Cash and cash equivalents	43,440	2,077	300	-
Net currency position	**1,174,424**	**16,914**	**300**	**-**

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 constant.

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

	As at 31 December 2020		As at 31 December 2019	
thousands of UAH	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
Appreciation of US dollar by 10%	96,303	96,303	20	20
Weakening of US dollar by 10%	(96,303)	(96,303)	(20)	(20)
Appreciation of euro by 10%	1,387	1,387	-	-
Weakening of euro by 10%	(1,387)	(1,387)	-	-

Concentration risk

The Company has a significant risk of concentration in respect of revenues from gas transportation, natural gas purchases, as well as trade receivables and payables with the companies of the NJSC Naftogaz Ukrainy Group (Note 3).

The concentration risk inherent to cash and cash equivalents and current financial investments is disclosed in Note 7.

Credit risk

The Company is exposed to credit risk, which represents the risk that a party to a financial instrument will default on its obligations resulting in financial loss for the other party. Exposure to credit risk arises because of the Company`s sales of services on credit terms and other transactions with counterparties giving rise to financial assets. According to the Company's policies 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.

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

When monitoring credit risk, management estimates the probability of repayment of trade receivables based on the analysis of individual accounts and customers. Factors taken into account include the analysis of trade receivables by contractual maturities, as well as the financial condition and history of repayment of the debt by the customer. Changes in estimates of probability collection can affect the recognized impairment losses.

The allowance for impairment of cash and cash equivalents and current financial investments is assessed based on 12-month ECLs. The Company believes that its cash and cash equivalents and current financial investments are exposed to low credit risk given their short-term maturities and credit ratings of the banks where such balances are held.

Maximum credit risk exposure amounted to UAH 28,048,580 thousand as at 31 December 2020 (2019: UAH 860,433 thousand).

The NEURC adopted Resolution no. 2086 dated 13 November 2020, which excluded from the Gas System Code the provision that the gas transmission system operator accepts financial security in the form of a bank guarantee issued by a systemically important bank in exchange for the right not to accept financial surety issued by a bank that has not fulfilled its obligation under the bank guarantee. Removing the “systemically important banks” criterion and imposing restrictions for the list in no way solves the issue of fulfillment of the monetary obligation by the guarantor bank, and also deprives the gas transmission system operator of the right to apply non-discriminatory risk management measures.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 2020 and 2019, all financial liabilities of the Company had maturities up to three months.

19. SUBSEQUENT EVENTS

Law No.3176 enacted in 2021 amended the Law of Ukraine "On Public Procurement” which allows the Company, JSC “Ukrtransgaz” and gas distribution systems operators to purchase natural gas on commodity exchanges.

19. SUBSEQUENT EVENTS (CONTINUED)

Also, in January 2021, due to significant demand for capacities allowing gas exports from Ukraine to Poland, an auction was held for the allocation of daily capacity, which ended with an auction premium for the Company of more than 4%. The bidding took place on the GSA auction platform, all free capacities were allocated. According to the GTS Code and European rules, access to capacity at interstate connection points is provided in accordance with the results of auctions, which is the most transparent and competitive way of capacity allocation. For the first time, due to the excess of demand over the available capacity of the gas pipeline connection, the auction took place in conditions of competition between customers of transportation services. According to the results of the auction, the LLC “GTS Operator of Ukraine” received an auction premium for the first time. These additional funds will be used to develop Ukraine's gas transportation system in accordance with the law.

In February 2021, the NEURC approved Resolution No. 235, which obliges the Company to balance the gas transmission system in the period February - March 2021, considering settlement of daily imbalances of gas distribution system operators through the purchase of natural gas on the basis of natural gas procurement contracts concluded in accordance with the Law of Ukraine "On Public Procurement" and off-takes of own natural gas from gas storage facilities. For the period from 1 January 2021, according to the operating data, till the date that these financial statements were authorized for issuance, natural gas in volume of 1,431 million cubic meters had been used to regulate the daily imbalances of gas distribution system operators.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the requirements of the Ukrainian legislation on financial reporting.

Basis of preparation

These financial statements have been prepared on the historical cost basis, except for property plant and equipment carried at revalued cost less accumulated depreciation and subsequently accumulated impairment losses and assets contributed to the charter capital that were measured at fair values by JSC “Ukrtransgaz” at the date of contribution to the Company’s charter capital.

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.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

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 profit or loss. 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:

In Ukrainian Hryvnias	**2020**	**2019**
USD 1.00	28.27	23.69
EUR 1.00	34.74	26.42

Average exchange rates for the period from 5 February 2019 (date of incorporation) to 31 December 2019 and for the year ended 31 December 2020 were as follows:

In Ukrainian Hryvnias	**2020**	**2019**
USD 1.00	26.96	25.85
EUR 1.00	30.79	28.95

Property, plant and equipment

The Company uses a revaluation model to measure its property, plant, and equipment, other than construction in progress that is measured at cost. The frequency of revaluations depends on the changes 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.

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 profit or loss. To the extent that revaluation decrease on the same revalued asset was previously recognized in profit or loss, a reversal of that revaluation is also recognized in profit or loss.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 expenses are charged to profit or loss during the reporting 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 profit or loss. The amounts included in revaluation reserves are transferred to retained earnings on the sale of revalued assets.

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

Depreciation and amortization

Depreciation and amortization are accounted on a straight-line basis to allocate costs of individual assets less its residual value 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 useful lives of the Company's property, plant, and equipment are as follows:

	Useful lives, years
Buildings and constructions	10-59
Machinery and equipment	5-58
Vehicles	5-12
Other	1-58

As at 31 December 2020 and 2019, management estimates that the residual value of property, plant and equipment is insignificant, as the expected costs of dismantling property, plant and equipment exceed the expected economic benefits from the sale of property, plant and equipment at the end of its useful life.

Residual value, useful lives 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.

Intangible assets

Intangible assets have defined 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.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Lease

The Company applies IFRS 16 *Leases* (IFRS 16) to account for its lease contracts. As a result, the Company, as a lessee, has to recognize right-of-use assets at the beginning of the lease representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Furthermore, the Company is obliged to recognize amortization charges on right-of-use assets and interest expenses attributable to lease liabilities.

The Company uses the optional exemptions for short-term leases and leases of low value items. The Company has no significant non-cancellable leases, and most leases are of short-term nature. Leases under such agreements are operating leases and leased assets are not recognized in the Company's statement of financial position. Respective lease expenses are recognized on a straight-line basis over the term of lease agreements.

Additionally, lease payments related to municipal land lease agreements are not included in the determination of the lease liability in accordance with IFRS 16.

Impairment of non-financial assets

Assets are reviewed for impairment indicators 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 that case the impairment loss is treated as a decrease of revaluation reserve.

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 to the extent that the 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. The reversal of impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount. In that case the reversal of impairment loss is treated as a revaluation increase.

Financial instruments

Initial recognition of financial instruments

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

The Company's main financial instruments comprise cash and balances on banks accounts, trade accounts receivable, payable and financial guarantees on balancing services.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Classification and subsequent measurement of financial assets

Financial assets are subsequently measured at amortized cost or fair value. At the same time, investments in debt instruments held under a business model that is intended to collect cash flows under contracts and which have cash flows under contracts that consist solely of the principal repayment and principal interest payments are usually measured at amortized cost at the end of subsequent reporting periods.

Amortized cost is estimated using the effective interest method and it 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 equal to their nominal values.

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.

Income tax

Income tax has 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 profit or loss, unless it relates to transactions that are recognized, 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 the tax authorities for the current and prior periods.

Deferred income tax is recognized using the balance liability`s 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 effective or substantively effective 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.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 distribution expenses.

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 profit or loss.

Cash and cash equivalents

Cash and cash equivalents of the Company include cash on hand and cash in banks and deposits with original maturities is three months or less. Cash and cash equivalents are carried at amortized cost using the effective interest method. Balances restricted for use are eliminated from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted for exchange or use to settle a liability within three to twelve months from the reporting date are recognized in other current assets. Balances restricted for exchange or use to settle a liability within at least twelve months from the reporting date are presented in other non-current assets.

Dividends

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

Value added tax (VAT)

The Company pays value added tax at rates set based on the taxable base as follows:

- 20% on the supply of goods, works and services in the customs territory of Ukraine and on import to the customs territory of Ukraine;
- 0% on the export of goods and limited list of services (e.g. international transportation).

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

VAT liabilities arise on the earlier of the two following dates: the date of delivery of the goods to the customer or the date of receipt of payment from the customer. The taxpayer has the right to reduce the VAT liability in the reporting period by the amount of the received VAT tax credit. The right to the VAT credit arises on the basis of a duly executed tax invoice, registered in the Uniform Register of Tax Invoices, which is issued on the principle of the first event (payment to the supplier or receipt of goods, works, services).

VAT amounts are recognized in the statement of financial position separately as an asset (VAT on purchase transactions) or liability (VAT on sales transactions). Where provision has been made for impairment of receivables, the impairment loss is recorded including VAT.

Trade account payables

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 (contract liabilities)

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 operating 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 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 recognized as a finance cost.

Other current 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.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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 has determined that under a typical natural gas transportation contract, the Company has two performance obligations, which are represented by an obligation to provide transportation services and obligation to provide balancing services. 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.

Revenue from natural gas transportation services

The natural gas transportation services are represented by provision of an access to the reserved capacities at certain entry and points into/from the gas transmission system at the request of the Company's customers (clients) for a certain period. The Company has established that this performance obligation is a stand-ready obligation, since the actual volume and timing of services within the volumes and terms specified in the contract are determined at the discretion of the client. If the customer has not used the reserved capacity within the period specified in the contract, the customer loses the right to use this capacity, but is not released from the obligation to pay for it.

Revenue from services is recognized in the reporting period in which the services were rendered. Revenue from sale of gas transportation services is recognized over time. The Company recognizes revenue from the provision of transportation services on a straight-line basis during the period for which the specified capacity has been reserved. Management believes that such an revenue recognition pattern is appropriate because the Company efforts and resources are spent evenly over the period of the contract fulfillment.

As described in Note 1, the Company provides the natural gas transportation services at the tariffs approved by the NEURC. Natural gas transportation services are provided on full prepayment basis.

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Revenue from balancing services

Commercial balancing services is the activity of the gas transportation system operator, which implies determining and elimination of the imbalance that arises in connection with the difference between the volumes of natural gas received through entry points and the volumes of natural gas off-taken through the exit points by the transportation services clients based on the data obtained in the allocation procedure.

In the event when the volumes of natural gas extracted through the exit points exceed the volumes of natural gas received through the entry points within the gas transmission system as a whole, the Company performs balancing actions, which assume physical natural gas volume replenishment in the gas transmission system out of own natural gas. The gas transmission system operator shall perform balancing actions solely in order to maintain the normal level of functioning of the gas transmission system in the event of non-compliance by transportation service client with their confirmed reserved capacities of the gas transmission system.

Balancing services are recognized in the amount of imbalances that have not been balanced by customers of natural gas transportation services, at marginal prices calculated in accordance with the GTS Code. Balancing services are payable within 5 days from the date of invoicing and are provided on a post payment basis. Revenue from balancing services are recognized when the Company eliminates the natural gas imbalance, which has not been balanced by the customers of the natural gas transportation services.

Commercial balancing services are reported in the Company's financial statements on a net basis, as they represent pass-through arrangements over gas volumes received through entry points and volumes of natural gas taken through exit points between customers of transportation services.

Financing component

The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. So, as a practical expedient, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Expense recognition

Expenses are recognised on an accrual basis. Cost of revenue 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 salaries expenses in profit or loss.

During 2020, the Company recognized statutory unified social contributions paid to the State Pension Fund of Ukraine in the amount of UAH 623,338 thousand (2019: UAH 212,158 thousand).

20. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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.

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 profit or loss.

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 issuance 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 respective asset.

Foreign currency

Current transactions in foreign currencies are translated to the functional currency of the Company at exchange rates effective at the opening of the transactions days. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the reporting period, adjusted for effective interest (if any) and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the date of the transaction for current transactions, and at the end of the reporting period for monetary items in the balance sheet.

Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rate as at the date of the transaction.

21. 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.

21. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

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.

Judgment in respect of accounting treatment of the receipt of the state-owned assets that are used in natural gas transmission activities through main gas pipeline under economic management rights as a transaction with a shareholder acting on behalf of the owner with recognition of the underlying assets in property, plant and equipment. As stated in Notes 4 and 8, in accordance with the agreement on transferring of the state-owned assets under economic management rights used to provide the natural gas transportation services by magistral gas pipelines ("the Agreement"), the Company received the assets for non-cancellable period of 15 years, unless otherwise period is specified by law. The Agreement stipulates the obligation to return the property by the Company in case of expiration of the Agreement. At the same time, the Law of Ukraine "On the Natural Gas Market" prohibits alienation of state-owned properties used by the gas transportation system operator in the process of natural gas transportation activities, as well as the transfer of such facilities to management, including concession, lease, economic management, to the share capital of other legal entities, unless such transfer is carried out solely for the purpose of unbundling of natural gas transportation activities.

As at 1 January 2020, the process of unbundling of natural gas transportation activities is completed, and therefore, management believes that further transfer of state property used for the natural gas transportation activities by main gas pipelines, given the above provision of the law and taking into account the specifics of operation gas transmission system, is not possible. Based on the above, management believes that by substance relationship between the Company and the State envisages right to use the facilities for an indefinite period and to obtain economic benefits from the use of assets. Based on these considerations, the Company presented state-owned assets under economic management rights as part of its plant, property and equipment and construction in progress in its financial statements.

Having analyzed the circumstances under which the above property was obtained and the status of the Ministry of Finance of Ukraine as the body authorized to manage the state-owned property subject to transfer, the Company's management concluded that this transaction should be recognized as a transaction with shareholder acting on behalf of the owner, based on the following facts and assumptions:

- Being owner of 100% stake in JSC "Mahistralni Gazoprovody Ukrainy", the Ministry of Finance is the owner of corporate rights in the Company.
- The assets were transferred to carry out the charter activities of the Company. The major line of business is natural gas transportation and provision of the related services.
- The transfer of the assets was envisaged by the "Action Plan" as a necessary step for the unbundling and independence of the gas transmission system operator.
- The assets were assigned to the Company free of charge based on the economic management rights. The option to obtain these assets on such terms was not available to a wide range of entities. According to part 1 of article 21 of the Law of Ukraine "On the Natural Gas Market", the operator of the gas transmission system, which is state-owned and not subject to privatization, can only be an entity, 100% of corporate rights in the authorized capital of which belong to the state or to an entity, 100% of corporate rights in the authorized capital of which belong to the state.

21. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

As of the date of these financial statements are authorized for issuance, there are no officially approved plans to withdraw assets or appoint another operator.

Based on these considerations, the Company recognized the result of the transaction on acquisition of state-owned property used for natural gas transportation activities by main gas pipelines under economic management rights, as part of the Company’s equity.

Revaluation of property, plant and equipment. As noted in Note 20, the Company applies the revaluation model to its property, plant and equipment. At each reporting date, the Company reviews the carrying amounts of these assets to determine whether they significantly differ from their fair values. The last independent valuation of the fair value of the Company’s property, plant and equipment was performed as at 1 January 2020 (Note 4). The key assumptions as to the revaluation and interrelationships between unobservable key inputs and fair value measurement are disclosed in Note 17.
The Company believes that the carrying amounts of property, plant and equipment as at the reporting date did not differ from their fair values.
Revenue recognition. Starting from 1 January 2020, the Company, as the operator of the gas transportation system, is responsible for settlement of the imbalance of the system caused by the difference between the volumes of natural gas received through entry points and the volumes of natural gas extracted through the exit points. The volume of balancing services is calculated as the difference between the volumes of gas supplied at entry points and extracted at exit points based on the actual data on gas transportation according to the allocation, determined based on the customer orders under the natural gas transportation contracts.

The Company provides the balancing service in accordance with the requirements of the Code of the gas transportation system and the terms of contracts with customers of transportation services and recognizes revenue from the provision of these services, because:

- According to the Gas Transmission System Code, the balancing service does not require confirmation from the customer of natural gas transportation services and is provided by the gas transmission system operator unilaterally on a monthly basis, if such customer has committed an imbalance.

- The price of the service is determined by the Company on the basis of data on unresolved negative imbalance of the customer and the base price of gas, which consists of the purchase price of natural gas and transportation and storage costs, if the costs associated with providing balancing services can be measured reliably.

- The Company believes that there is a significant likelihood of obtaining economic benefits based on the fact that the Company receives proceeds from offsets with counterparties using joint protocol decisions between the Company, customers of transport services and the State Treasury Service, or on the basis of positive court decisions on the vast majority of debt, for which there are no settlements under joint protocol decisions.

The Company applies significant judgment in determining whether it acts as an agent or principal when recognizing revenue from the balancing services. The Company’s management believes that the Company acts as a principal, performing the balancing actions when undertaking physical balancing, because: (a) it is the Company who is ultimately responsible for the integrity of Ukraine's gas transmission system, and the physical balancing in the situation when its customers fail to comply with their confirmed booked natural gas transportation volumes is important for maintaining the normal functioning of the gas transmission system;

21. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) the Company itself determines the parameters (pressure, temperature, and volume) of the natural gas supplied into the entry points during physical balancing; (c) the Company itself determines the point of entry to which natural gas is supplied to cover the shortage of gas in the system; (d) the Company is not limited in the suppliers selection when undertaking the physical balancing; and (e) the Company controls natural gas until the negative imbalance of the customer of transport services is eliminated. The revenues and expenses from the commercial balancing services are reported on a net basis, as they represent pass-through arrangements over gas volumes received through entry points and volumes of natural gas taken through exit points between customers of transportation services.

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.

As the Company does not have sufficient historical experience as regards to repayment of receivables, the loss rates for 2020 are calculated in accordance with the percentage of settlements of such receivables.

The Company accrues a 100% impairment reserve on receivables that are overdue for more than 365 days, on receivables from a counterparty that has initiated bankruptcy, liquidation or financial reorganization, and on receivables from counterparties that are located in the temporary occupied territories of Ukraine. Changes in estimates for collection probability can affect the impairment losses recognized.

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 profit or loss.

Employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the projected credit unit 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. The main assumptions and sensitivity of post-employment benefits to key assumptions are disclosed in Note 9.

Other provisions. The amount of other provisions is the best management estimate of probable outflow of economic benefits associated with the rights of the previous gas transmission system operator to claim compensation of the required income, which resulted in an increase in the Company's projected income when setting tariffs for natural gas transportation services. The Company's management believes that the level of adjustment of required income for the regulatory periods preceding the change of the licensee, which was taken into account when setting tariffs for natural gas transportation by the National Energy and Utilities Regulatory Commission decision no. 3013 for the regulatory period 2020-2024, is distributed evenly among years; is of a fixed nature and does not depend on the volume of the transportation of natural gas services provided. Should the adjustment of the required revenue accrued by the Company in 2020 as part of transportation services provided exceed the average annual adjustment of the required income for 2020-2024, the Company may be required to recognize additional expense in respect of this provision.

22. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

At the date that these financial statements are authorised for issue, the following Standards and Interpretations, as well as amendments to the Standards were issued but not yet effective:

Standards	**Effective for annual accounting periods beginning on or after:**
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2021
Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 7 *Financial Instruments: Disclosures*, IFRS 16 *Leases: Interest Rate Benchmark Reform*	1 January 2021
Amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts - Cost of Fulfillment of Contract	1 January 2021
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IAS 16 *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2021
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. The Company did not undertake an early transition to the new and amended Standards in preparing these financial statements.