National Power Company "Ukrenergo"

Financial Statements
for the Year Ended 31 December 2017

NATIONAL POWER COMPANY "UKRENERGO"

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NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of National Power Company "Ukrenergo" (the "Company") as of 31 December 2017, and the results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRSs").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Company's financial position and financial performance; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing, and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRSs;
- Maintaining statutory accounting records in compliance with the Ukrainian legislation, accounting standards and IFRSs;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2017 were approved by management on 27 April 2018.

On behalf of management:

V. V. Kovalchuk,
Acting Director

I. B. Bobko,
Chief Accountant

PJSC "Deloitte & Touche USC"
48, 50A, Zhylyanska St.
Kyiv 01033
Ukraine

Tel: +38 (044) 490 9000
Fax: +38 (044) 490 9001
deloitte.ua

INDEPENDENT AUDITOR'S REPORT

To the owner and management of National Power Company "Ukrenergo":

Qualified Opinion

We have audited the financial statements of National Power Company "Ukrenergo" (the "Company"), which comprise the statement of financial position as of 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As discussed in Note 6 to the financial statements, during the year ended 31 December 2017 the Company recognised impairment of property, plant, and equipment relating to Donbas electric power system located in the temporary occupied territories of Donetsk and Luhansk regions. The impairment in the amount of UAH 320,147 thousand was recognised due to limited access to and no sufficient evidence of the existence and the working physical condition of those assets. In our view there were indications of impairment in respect of those assets before 1 January 2016, but impairment loss was not recognised at earlier dates. Had the impairment loss been recognised before this date, net profit of the Company would have increased by UAH 320,147 thousand and impairment loss would have decreased by UAH 320,147 thousand in the year ended 31 December 2017.

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

Emphasis of Matter – Reorganization and Operating Environment

We draw your attention to Note 1 to the financial statements, which describes that the Company has been in the process of reorganisation from the state entity to the private joint stock company fully owned by the state of Ukraine. The reorganisation is aimed to be completed by the end of 2018 with no significant impact on the Company's operations as all rights and obligations will be transferred to the successor legal entity. Our opinion is not modified in respect of this matter.

We draw your attention to Note 2 to the financial statements, which describes that the impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Company. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Deloitte and Touche

28 April 2018

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant, and equipment	6	21,760,939	18,843,695
Intangible assets		34,073	37,052
Prepayments for property, plant, and equipment		1,038,174	822,504
Deferred tax assets	12	173,938	146,480
Non-current trade accounts receivable	7	2,309	15,458
Other non-current assets		4,882	423
Total non-current assets		**23,014,315**	**19,865,612**
Current assets			
Inventories		134,432	55,840
Trade and other accounts receivable	7	386,041	506,287
Prepayments and other current assets		33,297	13,004
Prepaid profit share payable to the state budget	9	407,579	-
Corporate income taxes prepaid		183,613	-
Cash and cash equivalents	8	2,483,444	3,272,616
Total current assets		**3,628,406**	**3,847,747**
Total assets		**26,642,721**	**23,713,359**
Equity and liabilities			
Equity			
Statutory capital	9	1,226,355	1,226,355
Additional paid-in capital	9	190,106	70,106
Retained earnings		7,550,269	6,033,245
Total equity		**8,966,730**	**7,329,706**
Non-current liabilities			
Deferred income	10	719,798	659,797
Payables for property, plant, and equipment		18,934	18,915
Post-employment and other long-term employee benefit obligations	11	336,520	301,319
Loans	13	585,789	128,462
Total non-current liabilities		**1,661,041**	**1,108,493**
Current liabilities			
Deferred income	10	17,598	14,999
Loans	13	14,311,909	13,424,640
Trade and other accounts payable	14	1,267,736	1,123,618
Profit share payable to the state budget	9	-	379,653
Corporate income taxes payable		-	19,281
Advances received		110,089	37,989
Provisions for litigations		84,119	84,119
VAT and other taxes payable		223,499	190,861
Total current liabilities		**16,014,950**	**15,275,160**
Total liabilities		**17,675,991**	**16,383,653**
Total equity and liabilities		**26,642,721**	**23,713,359**

On behalf of the Company:

V. V. Kovalchuk,
Acting Director

I. B. Bobko,
Chief Accountant

The accompanying notes on pages from 8 to 42 form an integral part of these financial statements.

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Revenue from electricity transmission and dispatch services	15	8,305,235	7,245,964
Impairment of trade and other accounts receivable	7	(294,665)	(248,661)
Other income	16	196,129	253,442
Staff costs		(2,215,836)	(1,896,812)
Depreciation and amortization		(691,958)	(583,883)
Impairment of property, plant and equipment	6	(320,147)	-
Other operating expenses	17	(578,364)	(608,545)
Finance income	18	340,166	291,268
Finance costs	19	(243,115)	(117,818)
Foreign currency exchange loss, net	20	(1,865,531)	(1,177,673)
Profit before income tax		**2,631,914**	**3,157,282**
Income tax expense	12	(569,374)	(405,733)
Profit for the year		**2,062,540**	**2,751,549**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss on post-employment and other long-term employee benefit obligations	11	(49,240)	(78,392)
Deferred income tax benefit	12	8,863	14,111
Other comprehensive loss		**(40,377)**	**(64,281)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,022,163**	**2,687,268**

On behalf of the Company:

V. V. Kovalchuk,
Acting Director

L. B. Bobko,
Chief Accountant

The accompanying notes on pages from 8 to 42 form an integral part of these financial statements.

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Statutory capital	Additional paid-in capital	Retained earnings	Total
Balance as of 31 December 2015	**1,225,115**	**70,252**	**4,635,098**	**5,930,465**
Profit for the year	-	-	2,751,549	**2,751,549**
Other comprehensive loss	-	-	(64,281)	**(64,281)**
Total comprehensive income for the year	-	-	**2,687,268**	**2,687,268**
Profit share payable to the state budget (Note 9)	-	-	(1,288,027)	**(1,288,027)**
Other movement	1,240	(146)	(1,094)	-
Balance as of 31 December 2016	**1,226,355**	**70,106**	**6,033,245**	**7,329,706**
Profit for the year	-	-	2,062,540	**2,062,540**
Other comprehensive loss	-	-	(40,377)	**(40,377)**
Total comprehensive income for the year	-	-	**2,022,163**	**2,022,163**
Profit share payable to the state budget (Note 9)	-	-	(505,139)	**(505,139)**
Additional capital share returned from the state budget (Note 9)	-	120,000	-	**120,000**
Balance as of 31 December 2017	**1,226,355**	**190,106**	**7,550,269**	**8,966,730**

On behalf of the Company:

V. V. Kovalchuk,
Acting Director

I. B. Bobko,
Chief Accountant

The accompanying notes on pages from 8 to 42 form an integral part of these financial statements.

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
In Ukrainian Hryvnias and in thousands

	Notes	2017	2016
Operating activities			
Profit before income tax		2,631,914	3,157,282
Adjustments to reconcile profit to net cash generated from operations:			
Depreciation and amortization		691,958	583,883
Impairment of property, plant and equipment		320,147	-
Provisions for litigations		-	84,119
Unrealized foreign currency exchange loss, net		1,894,745	1,234,570
Amortization of deferred income		(19,291)	(14,673)
Post-employment and other long-term employee benefit obligations accrued		(45,633)	8,704
Loss on disposal of property, plant, and equipment and intangible assets		29,763	7,791
Allowance for impairment of trade and other accounts receivable	7	294,665	248,661
Finance costs	19	243,115	117,818
Finance income	18	(340,166)	(291,268)
Operating profit before changes in working capital		5,701,217	5,136,887
Change in inventories		(78,592)	31,782
Change in trade and other accounts receivable		(161,270)	(303,859)
Change in prepayments and other current assets		(31,950)	(4,463)
Change in VAT recoverable and other taxes prepaid		-	57,223
Change in advances received		72,100	23,547
Change in trade and other accounts payable		(138,683)	(51,652)
Change in other taxes payable		32,638	202,985
Interest received		340,166	291,268
Post-employment and other long-term employee benefit obligations paid		(11,451)	(25,756)
Cash generated from operations		5,724,175	5,357,962
Interest and commissions paid		(185,737)	(393,294)
Income taxes paid		(783,637)	(602,203)
Net cash generated by operating activities		4,754,801	4,362,465
Investing activities			
Acquisition of property, plant, and equipment and intangible assets		(3,962,791)	(5,253,390)
Net cash used in investing activities		(3,962,791)	(5,253,390)
Financing activities			
Profit share paid to the state budget	9, 24	(1,172,372)	(892,434)
Proceeds on loans	24	865,213	3,174,282
Repayment of loans	24	(1,285,596)	(1,079,813)
Net cash used in financing activities		(1,592,755)	1,202,035
Net change in cash and cash equivalents		**(800,745)**	**311,110**
Cash and cash equivalents at the beginning of the year		**3,272,616**	**2,929,722**
Effect of foreign currency exchange differences		11,573	31,784
Cash and cash equivalents at the end of the year	8	**2,483,444**	**3,272,616**

On behalf of the Company:

V. V. Kovalchuk,
Acting Director

I. B. Bobko,
Chief Accountant

The accompanying notes on pages from 8 to 42 form an integral part of these financial statements.

1. GENERAL INFORMATION

State Enterprise "National Power Company "Ukrenergo" (the "Company") was incorporated as a result of combination of state-owned enterprises "National Dispatcher Center of Ukraine" and State Electric Company "Ukrelektroperedacha" in accordance with the requirements of the Law of Ukraine "On Energy Industry" and the Order of the Ministry of Fuel and Energy of Ukraine dated 15 April 1998. The Company is subordinated to the Ministry of Energy and Coal Industry of Ukraine that approved the Company's Charter by its Order dated 24 July 2000.

The Company's principal activities are represented by providing services of dispatch and transmission of electric energy via high voltage lines and a centralized control over the integrated electric power system of Ukraine. The Company is a natural monopoly in transmitting electric energy via high voltage lines. Tariffs for electricity transmission and dispatching are regulated and approved by the National Commission for Regulation of Energy and Utilities (the "NCREU").

On 13 April 2017 Verkhovna Rada of Ukraine adopted the Law of Ukraine "On the Electricity Market of Ukraine", the passage of which would lay a legal foundation for realization of the separation process, envisages certification of the transmission system operator and monitoring of compliance with requirements regarding separation and independence of the transmission system operator.

To fulfil legislation requirements the Order of the Ministry of Energy and Coal of Ukraine dated 14 June 2017 # 393 "On transformation of the State Enterprise "National Power Company "Ukrenergo" stipulates the reorganization of the Company by transforming it into a private joint stock company 100% of which belongs to the state. The Decree of the Cabinet of Ministers of Ukraine dated 22 November 2017 # 829-r approved the proposal of the Ministry of Energy and Coal Industry for the transformation of the Company into a private joint stock company. This reorganization is in progress and expected to finalise by the end of 2018. There would not be any changes in operation model of the Company as it would continue providing the same services (Note 2).

As of 31 December 2017 the Company consisted of the Head Office and 11 branches. The Company's Head Office is located at: 25 Simona Petliury Street, Kyiv, Ukraine.

2. OPERATING ENVIRONMENT

General economic conditions

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2016-2017, an armed conflict continued in certain parts of Luhanska and Donetska regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity, and volatility of financial markets.

In 2017, annual inflation rate amounted to 13.7% (2016: 12.4%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in real GDP smooth growth of around 2.5% (2016: 2.4%) and stabilization of national currency. From trading perspective, the economy was demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonize its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014-2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 3.5 billion from the IMF in 2018. To receive next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, anti-corruption regulations, and privatization.

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

Going concern and management's plans

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

At the same time the following events and conditions existed as of the reporting date:

- The Company is being reorganized through transformation into a private joint stock company during 2018.
- As of 31 December 2017 the Company breached a number of financial covenants on the main part of its loans (Note 13). As a result the related loan balances in the amount of UAH 14,145,718 thousand were reclassified to current liabilities as of 31 December 2017 which caused the excess of the Company's current liabilities over current assets in the amount of UAH 12,386,544 thousand (2016: UAH 11,427,413 thousand).

Management of the Company believes that preparation of the accompanying financial statements on the going concern basis is appropriate due to the followings:

- In accordance with Article 108 of the Civil Code of Ukraine, the transformation of a legal entity is a change of its organizational and legal form. In case of transformation all property, all rights and obligations of a predecessor legal entity are transferred to a successor legal entity.
  Thus, after the state registration of the cessation of the Company and the state registration of the creation of a private joint-stock company "National Power Company "Ukrenergo", the new legal entity will obtain all rights and obligations of the previous legal entity.
- The Company was profitable during both 2017 and 2016. Tariff set for the Company by NCREU for 2018 is high enough to sustain in profitable activities in 2018. Since the Company is the operator of the electric power system of Ukraine and plays a strategic role in the economy of Ukraine and functioning of the state, management believes that the Government of Ukraine, if required, will support the Company.
- In spite of the failure to comply with specific financial covenants established by loan agreements (Note 13) as of 31 December 2017 and to the date these financial statements were authorized for issue, the Company did not receive any notices on cessation of further funding or notifications with claims of immediate repayment of any loans. Most of the loans are obtained in the form of sub-loans from the Ministry of Finance and are guaranteed by Government of Ukraine (Note 21).
- In 2018, the Company continued to receive financing for modernization of the electric power system of Ukraine through the loans obtained from the Ministry of Finance of Ukraine (Note 25).
- Subsequently to 31 December 2017 the Company repaid loans per schedule without delays (Note 25).

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised International Financial Reporting Standards

The following Standards were adopted by the Company as of 1 January 2017:

- Amendments to IAS 7 *Statement of Cash Flows* – Disclosure Initiative;
- Amendments to IAS 12 *Income Taxes* – Recognition of Deferred Tax Assets for Unrealized Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative

The Company has applied these amendments for the first time in the current year. The amendments require that an entity provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of interest-bearing loans and borrowings, interest accrued and dividends. A reconciliation between the opening and closing balances of these items is provided in Note 24. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 24, the application of these amendments has had no impact on the Company's financial statements.

Amendments to IAS 12 "Income Taxes" – Recognition of deferred tax assets for unrealized losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The Company has applied the amendments to IFRS 12 *Disclosure of Interests in Other Entities* included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Company.

The Company has no interest in other entities therefore the application of these amendments has had no effect on the Company's financial statements.

New and revised IFRSs in issue but not yet effective

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

Standards/Interpretations	Effective for annual periods beginning on or after:
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*, including amendments to IFRS 15	1 January 2018
Clarifications to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018
Interpretation of IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to IAS 40 *Investment property* – Transfers of Investment Property	1 January 2018
Amendments to IFRS 2 *Share-Based Payment* – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018
Interpretation of IFRIC 23 *Uncertainty Over Income Tax Treatments*	1 January 2019
IFRS 16 *Leases*	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
Amendments to IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021

IFRS 9 "Financial Instruments"

The complete Standard was issued in July 2014, including the requirements previously issued and additional amendments, and becomes effective for financial years beginning on or after 1 January 2018. The new Standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and includes a new expected loss impairment model, changes to the classification and measurement requirements of financial assets as well as to hedge accounting.

All financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39. Financial assets measured at amortised cost will be subject to the impairment provisions of IFRS 9. The Company does not apply hedge accounting under IAS 39 and does not intend to apply it under IFRS 9. The Company also expects to apply the simplified approach to recognise lifetime expected credit losses for its accounts receivable for goods, works, services as required or permitted by IFRS 9. In general, the management anticipates that the application of the expected credit loss model of IFRS 9 by means of earlier recognition of credit losses for the respective items will not result in any significant change of the amount of loss allowance recognised for these financial instruments.

IFRS 15 "Revenue from Contracts with Customers"

The new Standard was issued in May 2014 and outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes the current revenue recognition standard IAS 18 *Revenue*. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- 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 entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. The new Standard establishes the principles for the disclosure of useful information in the financial statements about the nature, amount, timing, and uncertainties of revenue and cash flows arising from contracts with customers. The Company has assessed the impacts of transitioning to IFRS 15. Under IFRS 15, the revenue recognition model will change from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. The Company's revenue is derived from providing services of dispatch and transmission of electric energy via high voltage lines. Due to the nature of the Company's operations, apart from providing more extensive disclosures on the Company's revenue transactions, the management does not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Company.

Interpretation of IFRIC 23 "Uncertainty over Income Tax Treatments"

The Interpretation was issued in June 2017, and clarifies the accounting treatment for uncertainties in income taxes. The new Interpretation is to be applied to the determination of taxable results, tax bases, unused tax losses, unused tax credits, and tax rates, when there is uncertainty over income tax treatments under IAS 12 *Income Taxes*, and becomes effective for financial years beginning on or after 1 January 2019. The Company is in the process of performing the impact assessment and does not intend to early apply the new Interpretation.

The Company does not expect an impact on its financial statements from all other Standards, Interpretations, and amendments issued at the reporting date, but not yet to be adopted for these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Basis of preparation

The financial statements have been prepared on the historical cost basis or deemed cost on transition to IFRSs for property, plant and equipment except for post employment benefits, which are measured in according with IAS 19 *Employee Benefits* and financial instruments that are measured at fair value in accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*.

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. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and presentation currency

The functional and presentation currency of the financial statements of the Company is Ukrainian Hryvnia ("UAH"). Transactions in currencies, other than the functional currency of the Company, are treated as transactions in foreign currencies.

Foreign currency transactions

Transactions denominated in currencies, other than the functional currency, are translated into the functional currency using the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair value was determined. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. The exchange rates used in preparing these financial statements were as follows:

Currency	As of 31 December 2017	Average exchange rate for 2017	As of 31 December 2016	Average exchange rate for 2016
USD/UAH	28.0672	26.5947	27.1909	25.5458
EUR/UAH	33.4954	30.0128	28.4226	28.2828

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for transmission and dispatch services provided in the normal course of business, net of estimated customer returns, rebates, and other similar allowances, as well as net of value added tax ("VAT").

Revenue from mentioned services is recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is determined based on the application of the authorized tariffs for electricity transmission as approved by the NCREU.

Expense recognition

Expenditures are recognized as expenses of a certain period simultaneously with the recognition of related revenues. Expenditures that cannot be directly related to the revenues of a certain period are included into the expenses of the period in which they have been incurred.

Finance income and costs

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific loans pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Finance income comprises interest income on the funds invested. Finance income is recognized as it is accrued, taking into account the effective yield on the asset.

Deferred income

Funds received as government grants or financing from other institutions whose primary condition is that the Company should purchase, construct, or otherwise acquire non-current assets are recognized as deferred income in the statement of financial position and transferred to profit or loss on a systemic and rational basis over the useful lives of the related assets. Deferred income is not recognized until there is a reasonable assurance that the Company will comply with the conditions attached to those funds and that they will be received.

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.

Post-employment and other long-term employee benefit obligations

State defined contribution pension plan

The Company pays to the State Pension Fund of Ukraine an amount based on each employee's wages. The Company's costs for these contributions are included in the caption of "Staff Costs" in the statement of profit or loss and other comprehensive income. These amounts are expensed when incurred.

Defined benefit pension obligations

The Company is obliged to compensate the Ukrainian state for pensions that are paid by the state to employees of the Company who worked in a hazardous environment and, therefore, are eligible for early retirement and pensions until the normal retirement age as defined by the statutory regulations.

These defined benefit plans (the "Plans") are not funded and have no Plan assets. Costs relating to the Plans are accrued in these financial statements using the projected unit credit method in respect of the employees entitled to such payments.

The Company's net obligation in respect of the Plans is calculated separately for each Plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is then discounted to determine the present value of the obligation, which is recorded in the statement of financial position. A discount rate is estimated using the effective yield of high-class corporate or government securities with the same maturity as the respective retirement obligation and traded at the world stock markets and is adjusted for an average expected inflation rate.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest income/(expense); and
- Re-measurement.

The Company presents the current service cost in profit or loss in the line item "Staff Costs" of the period in which they arise. Net interest income/(expense) is included in finance costs of the period of origination. Re-measurement that includes actuarial gains and losses is recorded immediately in the statement of financial position, with the respective income or expense recognized in other comprehensive income of the period in which they arise. Re-measurement recognized in other comprehensive income is recorded immediately in retained earnings and will not be reclassified subsequently to profit or loss.

Other employee benefits

Under the Collective Agreement, the Company makes one-time payments on retirement to long-term employees amounting to up to six monthly salaries and other miscellaneous jubilee payments. The amount of payments depends on the employee's service period with the Company. These jubilee benefits represent long-term employee benefit obligations and are not funded.

The Company's net obligation in respect of these benefits is calculated using the same accounting policies as described above for the pension obligations.

Income taxes

Income taxes on the profit or loss for the year comprise the sum of current and deferred taxes.

Current taxes

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit or loss as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred taxes

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes for the period

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity or other comprehensive income, in which case the tax is also recognized directly in equity or other comprehensive income.

During the years ended 31 December 2017 and 2016, the Company was subject to corporate income tax at the rate of 18%.

Property, plant, and equipment

Property, plant, and equipment are carried at their historical cost, less any accumulated depreciation and accumulated impairment losses.

The acquired (constructed) property, plant, and equipment items are carried at historical cost. The historical cost of items of property, plant, and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by management of the Company; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the Company incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than production activity during that period. The cost of self-constructed assets includes the cost of material, direct labor, and an appropriate portion of production overheads.

Depreciable amount is the cost of the item of property, plant, and equipment, less its residual value. The residual value is the estimated amount that the Company would currently obtain from disposal of the item of property, plant, and equipment, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Depreciation is recognized so as to write off the cost or deemed cost (other than properties under construction), less their residual values, over their useful lives, using the straight-line method. The useful lives of property, plant, and equipment items are determined by expertise when the assets are put into operation. The useful lives for the groups of property, plant, and equipment are as follows:

Buildings and structures	30-50 years
Plant and equipment	20-50 years
Office equipment and vehicles	3-8 years

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

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

Construction in progress comprises costs directly related to construction of property, plant, and equipment, including an appropriate allocation of directly attributable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant, and equipment items, commences when the assets are available for use, i.e. when they are in the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company has the right to use the land on which its facilities are located, and pays a land tax as assessed annually based on the total area and use for which the land is zoned. Costs of registration of the rights to land use are capitalized as intangible assets.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalized only when it increases future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized on a straight line basis over the estimated useful lives of intangible assets which are considered not to exceed a period of seven years.

Impairment of tangible and intangible assets

At each reporting date, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value, less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is based on the specific identification principle and includes expenditures incurred in acquiring the inventories and bringing them to their present location and condition.

Prepayments to suppliers

Prepayments to suppliers are stated at their cost, less an allowance for impairment.

Accounts receivable on settlements with the state budget

Accounts receivable on settlements with the state budget (prepaid profit share payable to the state budget, corporate income taxes prepaid, VAT recoverable, and other taxes prepaid) are carried at the actual cost of the amounts paid. Practicality of provisions for receivables impairment is reviewed at each reporting date.

Financial instruments

The Company recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligation of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial asset (liability) and of allocating interest income (expense) over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (payments), including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts, through the expected life of the financial asset (liability), or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Financial assets of the Company are classified as "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other non-current assets, trade and other accounts receivable, cash and cash equivalents) are measured at amortized cost using the effective interest rate method, less any impairment.

Interest income is recognized by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and with banks, deposits with original maturities of less than three months, and cash with banks on special purpose accounts.

Special purpose accounts are accounts through which the Company receives and makes disbursements from loans provided by the International Bank for Reconstruction and Development and the European Investment Bank. These special purpose accounts are allowed to be used exclusively for payments to suppliers of capital construction projects upon approval from the Ministry of Finance of Ukraine. All payments made from special purpose accounts are initiated by the Company and approved by the Ministry of Energy and Coal Industry of Ukraine and Ministry of Finance of Ukraine within the period less than three months.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other accounts receivable, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

De-recognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized loan for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On de-recognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity

The Company is a fully state-owned company. Assets transferred by the Government of Ukraine to support the Company's operations are reflected in the equity as the Company's statutory capital and additional paid-in capital.

Obligatory profit share payable to the state budget

Obligatory profit share payable (dividends) to government authorities is made under the annually adopted Laws of Ukraine "On the State Budget" and is reflected as reduction of retained earnings in the period to which the profit relates.

Financial liabilities

Financial liabilities are classified as "other financial liabilities".

Other financial liabilities

Other financial liabilities (including loans, trade and other accounts payable, and payables for property, plant, and equipment) are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method, with interest expense recognized on an effective yield basis.
The Company's management is of the opinion that the amortized cost of trade and other accounts payable equals to their nominal value due to the short-term nature of this instrument.

De-recognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire. On de-recognition of a financial liability in its entirety, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 4, 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 to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised 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.

(i) Allowance for impairment of trade and other accounts receivable

The allowance for impairment of trade and other accounts receivable is based on the Company's assessment of the collectability of specific customer accounts. If there is deterioration in a major customers' creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. As of 31 December 2017 and 2016, the Company's management assessed the receivables for their recoverability, and, based on the results of this estimation, recognized the provision accrued in the amount of UAH 1,399,581 thousand and UAH 1.128,254 thousand, respectively (Note 7).

(ii) Useful lives of property, plant, and equipment and intangible assets

The estimation of the useful life of an item of property, plant, and equipment and intangible assets is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation and amortization rates. Changes in estimated useful lives are accounted for on a perspective basis.

(iii) Taxation

The Company is subject to income and other taxes. A significant assessment is required in determining the provision for income tax and other taxes due to the complexity of the Ukrainian tax legislation and its varying interpretation by regional and national tax authorities. There are various transactions in relation to which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on the estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that have been initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

According to the Tax Code of Ukraine, the Company is eligible for income tax benefit within the amounts of actual expenditures made on replacement and modernization of its property, plant, and equipment that do not exceed the total annual cost provided by the state investment programs. Management of the Company uses its best estimates and professional judgment to identify the qualifying expenditures for determining the income tax benefit.

(iv) Post-employment and other long-term employee benefit obligations

In determining the ultimate cost of providing post-employment and other long-term employee benefits, management of the Company makes the best estimate of the variables applied that include a number of demographic assumptions about the future characteristics of current and former employees (mortality, both during and after employment, rates of employee turnover, disability, and early retirement, etc.), as well as financial assumptions (discount rates, future salaries, and benefit levels, etc.) (Note 11). Changes in management's estimates may affect the amount of liabilities in the statement of financial position and related accruals in the statement of profit or loss and other comprehensive income.

(v) Impairment of property, plant and equipment

At each reporting date the Company assesses whether there is any indication that the recoverable amount of the Company's property, plant and equipment has declined below the carrying value. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in profit or loss in the period in which the reduction is identified. If conditions change and management determines that the assets' value has increased, the impairment will be fully or partially reversed.

(vi) Classification of current and non-current portion of loans

The Company performs classification of current and non-current portion of loans depending on existence of unconditional right to extend the maturities at least for twelve months from the reporting date. As at 31 December 2017 the Company breached some financial covenants including cross-default provisions on the borrowings obtained from IBRD, EBRD and EIB and classified them as current.

(vii) Classification of prepaid profit share payable to the state budget

As of 31 December 2017 the Company prepaid profit share payable to the state budget in the amount of UAH 407,579 thousand. Management of the Company presented this balance as an asset in statement of financial position expecting that this amount can either be refunded by the state or be utilized against the profit share payable to the state budget accrued in the future periods (Note 25).

6. PROPERTY, PLANT, AND EQUIPMENT

As of 31 December 2017 and 2016, movements in property, plant, and equipment were as follows:

	Buildings and structures	Plant and equipment	Office equipment and vehicles	Construction in progress	Total
Cost or deemed cost					
As of 31 December 2015	**1,289,626**	**7,742,601**	**263,439**	**7,504,837**	**16,800,503**
Additions	45,226	645,261	59,137	4,173,412	**4,923,036**
Internal transfers	59,354	124,038	19,417	(202,809)	-
Disposals	(116)	(6,662)	(12,545)	(952)	**(20,275)**
As of 31 December 2016	**1,394,090**	**8,505,238**	**329,448**	**11,474,488**	**21,703,264**
Additions	165,765	62,615	304,593	3,416,815	**3,949,788**
Internal transfers	3,678,553	326,768	856,326	(4,861,647)	-
Disposals	(15,339)	(9,133)	(3,859)	(2,561)	**(30,892)**
As of 31 December 2017	**5,223,069**	**8,885,488**	**1,486,508**	**10,027,095**	**25,622,160**
Accumulated depreciation and impairment losses					
As of 31 December 2015	**254,932**	**1,882,706**	**163,061**	-	**2,300,699**
Depreciation charges for the year	73,368	474,639	27,013	-	**575,020**
Disposals	(16)	(4,248)	(11,886)	-	**(16,150)**
As of 31 December 2016	**328,284**	**2,353,097**	**178,188**	-	**2,859,569**
Depreciation charges for the year	129,541	479,856	81,171	-	**690,568**
Disposals	(4,636)	(1,989)	(2,438)	-	**(9,063)**
Impairment	52,184	127,048	6,156	134,759	**320,147**
As of 31 December 2017	**505,373**	**2,958,012**	**263,077**	**134,759**	**3,861,221**
Net book value					
As of 31 December 2016	**1,065,806**	**6,152,141**	**151,260**	**11,474,488**	**18,843,695**
As of 31 December 2017	**4,717,696**	**5,927,476**	**1,223,431**	**9,892,336**	**21,760,939**

Capitalized interest

During the year ended 31 December 2017, additions to construction in progress included capitalized interest in the amount of UAH 283,922 thousand (2016: 307,511 thousand).

Fully depreciated property, plant, and equipment

As of 31 December 2017, cost of fully depreciated items of property, plant, and equipment amounted to UAH 845,168 thousand including fully impaired assets (2016: UAH 501,046 thousand).

Impairment of Donbass assets

During 2017 the Company impaired items of property, plant, and equipment with the carrying amount of UAH 320,147 thousand relating to Donbass electric power system located in the temporary occupied territory of Donbass and Lugansk regions. The Company lost control over those assets and was unable to obtain the economic benefits stemming from them.

7. TRADE AND OTHER ACCOUNTS RECEIVABLE

As of 31 December 2017 and 2016, trade and other accounts receivable were as follows:

	31 December 2017	31 December 2016
Non-current:		
Trade receivables due from State Enterprise "Energorynok"	2,309	15,458
Total non-current	**2,309**	**15,458**
Current:		
Trade receivables due from State Enterprise "Energorynok"	1,723,077	1,546,853
Trade and other accounts receivable due from other entities	62,545	87,688
	1,785,622	**1,634,541**
Less: Allowance for impairment of trade receivables due from State Enterprise "Energorynok"	(1,387,255)	(1,109,505)
Less: Allowance for impairment of trade and other receivables due from other entities	(12,326)	(18,749)
	(1,399,581)	**(1,128,254)**
Total current	**386,041**	**506,287**
Total	**388,350**	**521,745**

No credit limits are applied to the Company's customers. The average credit period for the Company's customers did not exceed 30 days. No interest is charged on trade and other accounts receivable. The Company does not require any collateral for trade receivable.

Trade receivables aged more than 30 days after the date of settlement agreed contractually are provided for based on estimated irrecoverable amounts, determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing as of each reporting date.

As of 31 December 2017 and 2016, aging of past due but not impaired trade and other accounts receivable was as follows:

	31 December 2017	31 December 2016
Within three months	2	6,478
From three to six months	100	109
From six to twelve months	3,124	2
More than one year	682	321
Total	**3,908**	**6,910**

As of 31 December 2017, impaired trade and other accounts receivable in the amount of UAH 1,131,642 thousand (2016: UAH 986,903 thousand) had the aging of more than one year.

Movements in the allowance for impairment of trade and other accounts receivable for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Balance at the beginning of the year	**1,128,254**	**879,593**
Charged in the statement of profit or loss	294,665	248,661
Written off	(23,338)	-
Balance at the end of the year	**1,399,581**	**1,128,254**

8. CASH AND CASH EQUIVALENTS

As of 31 December 2017 and 2016, cash and cash equivalents were as follows:

	31 December 2017	31 December 2016
Cash on deposit accounts with banks	1,451,128	1,670,762
Cash on current accounts with banks	777,378	831,482
Cash on special purpose accounts	254,919	770,352
Cash on hand	19	20
Total	**2,483,444**	**3,272,616**

Cash on deposit accounts with banks is represented by UAH-denominated short-term deposits with original maturities of up to three months placed with domestic banks.

9. EQUITY

Statutory capital

The Company is a wholly-owned state enterprise. As of 31 December 2017 the Company's statutory capital amounted to UAH 1,226,355 thousand (2016: UAH 1,226,355 thousand).

Additional paid-in capital

Additional paid-in capital represents the cost of property, plant, and equipment and other assets transferred by the Government of Ukraine to the Company's ownership on a free of charge basis.

For the year ended 31 December 2015, the Company transferred UAH 120,000 thousand from its additional paid-in capital to the State Budget pursuant to the Resolution of the Cabinet of Ministers of Ukraine # 710 dated 24 December 2014 "On Amending the Procedure of Paying to the State Budget of Net Profit (Revenue) Shares by Unitarian Entities and Their Associations" (thereafter – "Resolution"). The decision to transfer a share of its additional capital to the state budget was taken by the Company's management in December 2015. By the decision of the Kyiv Appellate Administrative Court dated On 28 January 2016 the Resolution was recognized as invalid and UAH 120,000 thousand was recovered by the State Tax Authorities of Ukraine by way of prepayment for the profit share payable to the state budget in 2017.

As of 31 December 2017 prepaid profit share payable to the state budget comprised UAH 407,579 thousand (2016: payable of UAH 379,653 thousand).

Retained earnings

Profits available for distribution to the shareholder in respect of any reporting period are determined by reference to the statutory financial statements prepared in accordance with Ukrainian Accounting Standards ("UAS"). The Company may transfer a portion of its statutory profits recognized in accordance with UAS to various reserves for the purposes of financing its capital investments and other programs. Under the Ukrainian legislation, a share of profits payable to the state budget is limited to net profits for the reporting year or any other distributable reserves not exceeding retained earnings as set out in the statutory financial statements in accordance with UAS.

Obligatory profit share payable to the state budget

In accordance with the Budget Code of Ukraine and the Law of Ukraine "On Management of State-owned Properties", the Company, being a state-owned enterprise, was obliged to transfer 75% of its net profits calculated under UAS to the state budget of Ukraine. This percentage rate for the second half of 2017 was decreased to 40% in accordance with the Resolution of the Cabinet of Ministers of Ukraine # 571 dated 4 of July 2017. Additionally in accordance with the Resolution of the Cabinet of Ministers of Ukraine # 138 dated 23 February 2011 "On Approval the Procedure of Paying to the State Budget of Net Profit (Revenue) Shares by Unitarian Entities and Their Associations" (with further changes), the Company, when calculating a portion of its net profit payable to the state budget, has the right to deduct the special purpose funds received as part of the tariffs and intended for realization of investment projects in accordance with the decisions approved by the Cabinet of Ministers of Ukraine as well as repayments of the funds borrowed to finance capital investments in project construction in accordance with the respective resolutions of the Cabinet of Ministers of Ukraine.

For the year ended 31 December 2017 the Company's profit share payable to the state budget was UAH 505,139 thousand (2016: UAH 1,288,027 thousand). For the year ended 31 December 2017 the Company paid to the state budget UAH 1,172,372 thousand (2016: UAH 892,434 thousand).

10. DEFERRED INCOME

Deferred income is mainly represented by funding from the state budget for capital expenditures to complete the construction of new high-voltage lines and reconstruct substations, as well as by similar financing obtained from other financial institutions.

As of 31 December 2017 and 2016, deferred income was as follows:

	31 December 2017	31 December 2016
Non-current deferred income	719,798	659,797
Current deferred income	17,598	14,999
Total	**737,396**	**674,796**

11. POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

State defined contribution plans

Employees of the Company are eligible for obtaining pension benefits from the Government in accordance with the pension legislation of Ukraine. Contributions to the State Pension Fund of Ukraine are carried in the statement of profit or loss and other comprehensive income on the accrual basis. Total amount of contributions to the State Pension Fund of Ukraine recognized in the statement of profit and loss and other comprehensive income for the year ended 31 December 2017 amounted to UAH 341,353 thousand (2016: UAH 300,344 thousand).

Defined benefit pension plans

In addition, the Company is obliged to compensate to the State Pension Fund of Ukraine the amounts of pensions provided to certain groups of former employees who worked in a hazardous environment as defined by the statutory regulations and, therefore, are eligible for early retirement and pensions before the normal retirement age. These additional contributions are reimbursed by the Company in accordance with monthly calculations of actual compensations provided by the State Pension Fund of Ukraine. Furthermore, the Company includes into its defined benefit obligations onetime payments to long-service employees upon their retirement and other jubilee payments.

As of 31 December 2017 and 2016, the present value of unfunded post-employment employee benefit obligations was UAH 336,520 thousand and UAH 301,319 thousand, respectively.

Reconciliation of the present value of post-employment and other long-term employee benefit obligation balances for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Balance at the beginning of the year	**301,319**	**207,768**
Current service cost	21,600	21,779
Interest expense (Note 19)	43,045	32,211
Gain on changes in past service cost (Note 16)	(67,233)	(13,075)
Actuarial loss recognized in other comprehensive income	49,240	78,392
Benefits paid during the year	(11,451)	(25,756)
Balance at the end of the year	**336,520**	**301,319**

Amounts recognized in the statement of profit or loss and other comprehensive income in respect of these defined benefit pension plans were as follows:

	2017	2016
Interest expense (Note 19)	43,045	32,211
Current service cost	21,600	21,779
Gain on retirement benefit obligations due to changes in legislation	(67,234)	(13,075)
Total	**(2,589)**	**40,915**

During the year ended 31 December 2017, the Company included in other comprehensive income the actuarial gain in the amount of UAH 49,240 thousand that were primarily driven by changes in actuarial assumptions and pension legislation (2016: gain in the amount of UAH 78,392 thousand).

Main assumptions used for actuarial assessment as of 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
Discount rate	12.50%	15.0%
Expected salary growth rate	12.46%	8.46%

To determine the discount rate, management use market yields on high quality corporate bonds as of the end of the reporting period adjusted for the estimated effects of the difference in duration. The salary growth rate is based on management's expectations regarding future payroll growth.

12. INCOME TAXES

The Company's profit is subject to corporate income tax. During the years ended 31 December 2017 and 2016, the Company's profit was subject to corporate income tax in Ukraine at the rate of 18%.

Components of income tax expense of the Company for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Current income tax	587,970	652,388
Deferred income tax benefit	(18,596)	(246,655)
Total income tax expense	**569,374**	**405,733**

Profit before income tax multiplied by the statutory income tax rate and income tax expense for the years ended 31 December 2017 and 2016 can be reconciled as follows:

	2017	2016
Profit before income tax	**2,631,914**	**3,157,282**
Income tax expense at the statutory income tax rate of 18% for 2017 and 2016	473,745	568,311
Effect of non-deductible expense in determining taxable profit	95,629	37,133
Effect of changes in tax legislation	-	(199,711)
Total income tax expense	**569,374**	**405,733**

As of 31 December 2017 and 2016, deferred tax assets and liabilities related to the following:

	31 December 2017	31 December 2016
Trade and other accounts receivable	288,696	200,335
Provisions	15,141	15,141
Tax losses carried forward	-	81,865
Post-employment and other long-term employee benefit obligations	60,574	54,237
Trade and other accounts payable	4,300	24,954
Deferred tax assets	**368,711**	**376,532**
Property, plant, and equipment and intangible assets	(162,429)	(188,599)
Loans	(32,344)	(41,454)
Deferred tax liability	**(194,773)**	**(230,053)**
Net deferred tax assets	**173,938**	**146,480**

Movements in deferred income taxes for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Net deferred tax assets/(liabilities) as of the beginning of the year	**146,479**	**(114,286)**
Deferred income tax benefit for the year recognized in profit or loss	18,596	246,655
Deferred income tax benefit for the year recognized in other comprehensive income	8,863	14,111
Net deferred tax assets as of the end of the year	**173,938**	**146,480**

13. LOANS

As of 31 December 2017 and 2016, the loans measured at amortized cost were as follows:

	Currency	31 December 2017	31 December 2016
Ministry of Finance of Ukraine, # 48680-UA	USD	4,181,736	4,310,539
Ministry of Finance of Ukraine, # 37598	EUR	3,042,685	2,873,470
Ministry of Finance of Ukraine, # 40147-UA	EUR	2,940,524	2,595,160
Ministry of Finance of Ukraine, # 24668-UA	EUR	1,993,267	1,746,074
Ministry of Finance of Ukraine, # 15010-03/75	EUR	1,987,506	1,677,655
European Bank for Reconstruction and Development, # 33896	EUR	47,519	118,263
Ministry of Finance of Ukraine, # 15010-03/77	EUR	227,309	100,275
Ministry of Finance of Ukraine, # 8462-UA	USD	352,364	22,262
Ministry of Finance of Ukraine, # TF017661	USD	6,116	5,925
Interest accrued		118,672	103,479
Less: non-current portion*		585,789	128,462
Total current		**14,311,909**	**13,424,640**

* Without reference to the classification effect of loans into current liabilities due to the failure to comply with the covenants non-current portion as of 31 December 2017 would be UAH 14,731,507 thousand (2016: UAH 13,449,624 thousand).

As of 31 December 2017 and 2016, the effective interest rates calculated based on the basic variable interest rates of the loans were as follows:

	31 December 2017	31 December 2016
Ministry of Finance of Ukraine, # 48680-UA	3.31%	3.19%
Ministry of Finance of Ukraine, # 37598	4.17%	4.20%
Ministry of Finance of Ukraine, # 40147-UA	3.69%	3.75%
Ministry of Finance of Ukraine, # 24668-UA	2.71%	2.74%
Ministry of Finance of Ukraine, # 15010-03/75	2.55%	2.60%
European Bank for Reconstruction and Development, # 33896	3.71%	3.71%
Ministry of Finance of Ukraine, # 15010-03/77	2.85%	2.85%
Ministry of Finance of Ukraine, # 8462-UA	4.48%	3.31%
Ministry of Finance of Ukraine, # TF017661	2.87%	2.81%

Ministry of Finance of Ukraine, loan # 48680-UA

In 2007, the long-term loan agreement # 48680-UA for the total amount of USD 200,000 thousand was concluded between the Government of Ukraine and the International Bank for Reconstruction and Development (the "IBRD") to implement the Power Transmission Project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 23 August 2007. The interest rate of the loan is a floating interest rate based on LIBOR plus a variable spread, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. As of 31 December 2017, the undrawn balance under the loan amounted to USD 6,178 thousand or UAH 173,399 thousand (2016: USD 6,178 thousand or UAH 167,691 thousand). The loan is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 March 2013 to 15 September 2027.

According to the terms of the IBRD loan agreement, the Company, inter alia, should comply with the following specified ratios:

a) Ratio of debt servicing coverage (calculated as operating cash flows, plus interest paid, less capital expenditures, to the total amount of loans repayments, plus interest paid for the year) should be not less than 1.50;
b) Ratio of current assets to current liabilities should be maintained at the level of not less than 1.20.

As of 31 December 2017, the Company maintained the ratios at the following levels (without reference to the classification effect of this and other loans as current due to the failure to comply with the ratios): ratio of debt servicing coverage at the level of 0.72 (2016: (0.34)), ratio of current assets to current liabilities at the level of 1.94 (2016: 1.74).

Correspondingly, as of 31 December 2017 and 2016, the Company failed to comply with the ratios of debt servicing coverage. According to the general terms and conditions of the loan agreement with the IBRD, in the event of a non-compliance with any of the terms and conditions thereunder, including the covenants, the IBRD may suspend further disbursements of the loan and/or require that the Company repay in full the outstanding amounts. As of 31 December 2017 and 2016, the Company's management classified this loan as current due to the failure to comply with the terms of the loan agreement.

Ministry of Finance of Ukraine, loan # 37598

In 2008, long-term loan agreement # 37598 for the total amount of EUR 150,000 thousand was concluded between the Government of Ukraine and the EBRD to implement Rivnenska AES-Kyivska high voltage line construction project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 7 December 2007. The interest rate of this loan is a floating interest rate based on EURIBOR+1.00%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Company is charged a commission of 0.50% applied to the undrawn balance of the loan. As of 31 December 2017, the undrawn balance under the loan amounted to EUR 4,179 thousand or UAH 139,987 thousand (2016: EUR 9,375 thousand or UAH 266,451 thousand). The loan is repayable in equal semi-annual instalments starting from 15 May 2011 to 15 November 2022.

As of 31 December 2017 and 2016, management classified this loan as current because the EBRD loan facilities have cross-default provision.

Ministry of Finance of Ukraine, loan # 40147-UA

In 2010, long-term loan agreement # 40147 for the total amount of EUR 175,000 thousand was concluded between the Government of Ukraine and EBRD to implement Zaporizka AES-Kakhovska high voltage line construction project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 19 October 2010. The interest rate of this loan is a floating interest rate based on EURIBOR+1.00%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Company is charged a commission of 0.50% applied to the undrawn balance of the loan. As of 31 December 2017, the undrawn balance under the loan amounted to EUR 59,593 thousand or UAH 1,996,086 thousand (2016: EUR 65,499 thousand or UAH 1,861,649 thousand). The loan is repayable in equal semi-annual instalments starting from 20 April 2014 to 20 October 2025.

As of 31 December 2017 and 2016, management classified this loan as current because the EBRD loan facilities have cross-default provision.

Ministry of Finance of Ukraine, loan # 24668-UA

In 2008, long-term loan agreement # 24668-UA for the total amount of EUR 150,000 thousand was concluded between the Government of Ukraine and European Investment Bank ("EIB") to implement Rivnenska AES-Kyivska high voltage line construction project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 8 October 2008. The interest rate of this loan is a floating interest rate based on EURIBOR+0.55%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Company is charged a commission of 0.10% applied to the undrawn balance of the loan. As of 31 December 2017, the undrawn balance under the loan amounted to EUR 85,550 thousand or UAH 2,865,534 thousand (2016: EUR 85,550 thousand or UAH 2,431,554 thousand). The first tranche under this loan was received by the Company in 2012. Each loan tranche is repayable in equal semi-annual instalments within the 12 year period and starting from the third year the loan tranche was received. The final maturity date under this loan is 20 August 2034.

As of 31 December 2017 and 2016, management classified this loan as current because the EIB loan facilities have cross-default provision.

Ministry of Finance of Ukraine, loan # 15010-03/75

In 2011, long-term loan agreement # 15010-03/75 for the total amount of EUR 175,000 thousand was concluded between the Government of Ukraine and the EIB to implement Zaporizka AES-Kakhovska high voltage line construction project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 2 July 2012. The interest rate of this loan is a floating interest rate based on EURIBOR+0.70%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Company is charged a commission of 0.10% applied to the undrawn balance of the loan. As of 31 December 2017, the undrawn balance under the loan amounted to EUR 115,000 thousand or UAH 3,851,974 thousand (2016: EUR 115,000 thousand or UAH 3,268,599 thousand).

As of 31 December 2017 and 2016, management classified this loan as current because the EIB loan facilities have cross-default provision.

European Bank for Reconstruction and Development, loan # 33896

In 2005, the long-term loan agreement # 33896 for the total amount of EUR 25,755 thousand was concluded between the Company and the European Bank for Reconstruction and Development (the "EBRD") to implement the Odesa High Voltage Grid Upgrade Project. The interest rate of this loan is a floating interest rate based on EURIBOR+1.00%, plus a margin of 1.00% payable to the Ministry of Finance of Ukraine. In addition, the Company is charged a commission of 0.50% applied to the undrawn balance of the loan. As of 31 December 2017 and 2016, the loan facilities were used in full. The loan is repayable in equal semi-annual instalments until 17 May 2018.

The EBRD loan is secured by the guarantee issued by the Government of Ukraine represented by the Ministry of Finance of Ukraine. The Company pledged to the Ministry of Finance of Ukraine as a collateral certain items of its property, plant, and equipment located in the territory of Crimea. As of 31 December 2017 and 2016, such property, plant, and equipment were fully impaired due to the loss of control over those assets.

According to the terms of the EBRD loan agreement, the Company, inter alia, should comply with the following specified ratios:

a) Ratio of debt servicing coverage (calculated as operating cash flows, plus interest paid, less capital expenditures, divided by the total amount of loan repayments, plus interest paid for the year) should be not less than 1.30;
b) Ratio of current assets to current liabilities should be maintained at the level of not less than 1.10; and
c) Ratio of long-term debt to the equity should be maintained at the level of not more than 2.00.

As of 31 December 2017, the Company maintained the ratios at the following levels (without reference to the classification effect of this and other loans as current due to the failure to comply with the ratios): ratio of debt servicing coverage at the level of 0.72 (2016: (0.34)), ratio of current assets to current liabilities at the level of 1.94 (2016: 1.74), ratio of long-term debt to the equity at the level of 1.64 (2016: 11.04).

Correspondingly, as of 31 December 2017 and 2016, the Company failed to comply with the ratio of debt servicing coverage. According to the general terms and conditions of the loan agreement, in the event of the failure to comply with financial covenants thereunder, the EBRD may suspend further disbursements under the loan and/or require that the Company repay in full the outstanding amounts. As of 31 December 2017 and 2016, management classified this loan as current due to the failure to comply with the specific terms of the loan agreement.

The Company has also obtained a range of loans from the Ministry of Finance of Ukraine under sub-loan agreements. These loans are secured by guarantees of the Government of Ukraine.

Ministry of Finance of Ukraine, loan # 15010-03/77

In 2011, long-term loan agreement # 15010-03/77 for the total amount of EUR 65,500 thousand was concluded between the Government of Ukraine and Kreditanstalt für Wiederaufbau Bank (Germany) to implement the Electricity Transmission Efficiency Improvement Project (substation modernization). The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 10 July 2012. The first part of the loan amounting to EUR 40,500 thousand has a fixed interest rate of 0.75 %. The second part of the loan amounting to EUR 25,000 thousand has a floating interest rate based on EURIBOR+1.15%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Company is charged a commission of 0.25% applied to the undrawn balance of the loan. As of 31 December 2017, the undrawn balance under the loan amounted to EUR 58,619 thousand or UAH 1,963,473 thousand (2016: EUR 61,875 thousand or UAH 1,758,640 thousand).

Ministry of Finance of Ukraine, loan # 8462-UA

In 2015, long-term loan agreement # 8462-UA for the total amount of USD 330,000 thousand was concluded between the Government of Ukraine and IBRD to implement the Second Power Transmission Project. In accordance with the sub-loan agreement between the Company and the Ministry of Finance of Ukraine concluded on 10 February 2015, the sub-lender re-credited a portion of funds in the amount of USD 327,494 thousand. The interest rate of the loan is a floating interest rate based on LIBOR, plus a variable spread. In addition, the Company is charged a commission of 0.25% for the undrawn loan amount and a margin of 2.00% payable to the Ministry of Finance of Ukraine. As of 31 December 2017, the undrawn balance under the loan amounted to USD 311,944 thousand or UAH 8,775,393 thousand (2016: USD 326,675 thousand or UAH 8,882,574 thousand). The loan is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 January 2020 to 15 January 2032.

Ministry of Finance of Ukraine, loan # TF017661

In 2015, long-term loan agreement # TF017661 for the total amount of USD 48,425 thousand was concluded between the Government of Ukraine and IBRD to implement the Second Power Transmission Project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 23 May 2015. The interest rate of the loan is a floating interest rate based on LIBOR, plus a variable spread. As of 31 December 2017, the undrawn balance under the loan amounted to USD 48,207 thousand or UAH 1,353,037 thousand (2016: USD 48,207 thousand or UAH 1,310,792 thousand). The loan is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 January 2025 to 15 July 2034.

For the purpose of fulfilment of the obligations per agreements # 8462-UA and # TF017661 the Company shall produce, for each of the fiscal years after year ending on fiscal year 2015, funds from internal sources equivalent to not less than 25% of the annual average of the Company's capital expenditures incurred, or expected to be incurred, for that year, the previous fiscal year and the next five following fiscal years.

Ministry of Finance of Ukraine, loan # 27406

In 2016, long-term loan agreement # 27406 for the amount not higher than totally EUR 150,000 thousand was concluded between the Government of Ukraine and Kreditanstalt für Wiederaufbau Bank (Germany) to implement the Rehabilitation of Substations in the Eastern Part of Ukraine Project. The sub-loan agreement between the Company and the Ministry of Finance of Ukraine was concluded on 21 March 2017. The loan is repayable in accordance with the settlement schedule specified in the agreement to 30 December 2031. The interest rate of the loan is a fixed interest rate of 3,97%. During 2017 there were no withdrawals for this loan, therefore only the commission for undrawn amount was paid. Company additionally paid one-time commission for the amount of EUR 750 thousand. In addition, the Company will be charged a margin of 2.00% payable to the Ministry of Finance of Ukraine.

As of 31 December 2017 and 2016, interest rates on the Company's loans were approximately equal to prevailing rates of return for financial instruments that have substantially the same terms and conditions, remaining periods to repayment of the principal, as well as currencies.

The following table details the Company's remaining contractual maturities also taking into account effect of breaching of covenants for its long-term loans as of 31 December 2017 and 2016. On all loan facility balances at the relevant dates, the Company had no unconditional right to extend the maturities at least for twelve months from the reporting date. As a result, the loans are presented in the table below in the category of "due within twelve months" with the future interest payments and undrawn facility commission payments under those loans for the next year. The table has been drawn up based on the undiscounted cash flows of the loans and includes both interest and principal cash flows.

	31 December 2017	31 December 2016
Due within twelve months	14,777,645	13,979,920
Due after twelve months	673,050	131,228
Total cash flows	**15,450,695**	**14,111,148**

As of 31 December 2017 and 2016 and until the date these financial statements were authorized for issue, the Company did not receive any notices about cease of further financing or any notices with a demand for immediate repayment of any of the loans mentioned above.

14. TRADE AND OTHER ACCOUNTS PAYABLE

As of 31 December 2017 and 2016, trade and other accounts payable were as follows:

	31 December 2017	31 December 2016
Liability for the acquisition of the property, plant, and equipment	973,582	846,471
Settlements with employees and related charges	92,959	25,474
Payables for maintenance of the property, plant, and equipment	82,157	64,640
Accrual for unused vacation	67,282	71,197
Payables for services	25,378	40,033
Payables for materials and supplies	9,962	21,109
Other	16,416	54,694
Total	**1,267,736**	**1,123,618**

The average credit period on purchases of equipment and services is from is 6 to 8 months.

15. REVENUE FROM ELECTRICITY TRANSMISSION AND DISPATCH SERVICES

Revenue from electricity transmission and dispatch services for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Revenue from State Enterprise "Energorynok"	8,022,345	7,057,128
Other revenue	282,890	188,836
Total	**8,305,235**	**7,245,964**

16. OTHER INCOME

Other income for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Gain on changes in long-term retirement benefit obligations due to changes in legislation (Note 11)	67,233	13,075
Income from sales of scrap metal	35,769	24,748
Fines and penalties	15,869	1,080
Write-off of debt (debt forgiveness)	10,829	1,135
Income from other services	10,677	25,471
Income from rental services	3,261	7,567
Income from previously written off cash balance that was compensated from State Budget	-	98,270
Other income	52,491	82,096
Total	**196,129**	**253,442**

17. OTHER OPERATING EXPENSE

Other operating expense for the years ended 31 December 2017 and 2016 was as follows:

	2017	2016
Repairs and maintenance	429,497	339,800
Other taxes	32,458	29,350
Social expenses	32,202	33,124
Research and development expenses	30,856	23,537
Consulting and other services	15,461	14,587
Fines and penalties	6,987	51,148
Rental expense	6,232	6,285
Bank charges	5,825	1,949
Communication services	3,787	9,439
Provisions for litigations	-	84,119
Other expense	15,059	15,207
Total	**578,364**	**608,545**

18. FINANCE INCOME

Finance income for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Interest income from deposit accounts with banks	205,068	152,439
Interest income from current accounts with banks	135,098	138,829
Total	**340,166**	**291,268**

19. FINANCE COSTS

Finance costs for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Interest expense on loans	483,992	393,118
Interest capitalized	(283,922)	(307,511)
Interest expense on post-employment and other long-term employee benefit obligations (Note 11)	43,045	32,211
Total	**243,115**	**117,818**

20. FOREIGN CURRENCY EXCHANGE LOSS, NET

Foreign currency exchange loss, net for the years ended 31 December 2017 and 2016 were as follows:

	2017	2016
Foreign currency exchange gain	(281,785)	(1,383,946)
Foreign currency exchange loss	2,147,316	2,561,619
Total	**1,865,531**	**1,177,673**

21. RELATED PARTIES

Related parties are represented by entities that are under control or significant influence of the Company, as well as entities and individuals that, directly or indirectly, exercise control over the Company or significantly influence its activities, as well as close members of the family of such individuals.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions, and amounts as transactions between unrelated parties.

The party with an ultimate control over the Company is the Government of Ukraine represented by the Ministry of Energy and Coal Industry of Ukraine (the Company's shareholder). The Company's related parties include key management personnel and their close family members, as well as state-owned entities and institutions with which the Company had operations during the year: State Enterprise "Energorynok", State Enterprise "Ukrinterenergo", JSC "State Savings Bank of Ukraine", JSC "The State Export-Import Bank of Ukraine", JSC "Ukrgazbank", PJSC "Privatbank", the Ministry of Finance of Ukraine, and other entities.

For the years ended 31 December 2017 and 2016, key management personnel received the following remuneration, which was included in staff costs:

	2017	2016
Short-term employee benefits	54,251	77,898

Key management personnel is represented by individuals who are authorized and responsible, directly or indirectly, for planning, managing, and controlling the Company's activities. Key management personnel includes the Company's Director, his deputies and directors by functions, directors of structural units and their first deputy directors, and the Company's Chief Accountant.

As of 31 December 2017 and 2016, the Company had the following outstanding balances with its major related parties, the state-controlled entities:

	31 December 2017	31 December 2016
Assets		
Non-current assets		
Trade receivables from State Enterprise "Energorynok" (Note 7)	2,309	15,458
Current assets		
Trade receivables from State Enterprise "Energorynok" (Note 7)	335,822	437,348
Trade receivables from State Enterprise "Ukrinterenergo"	8,600	4,033
Cash and cash equivalents placed with JSC "Ukgazbank"	720,290	620,010
Cash and cash equivalents placed with JSC "State Savings Bank of Ukraine"	467,479	914,767
Cash and cash equivalents placed with JSC "The State Export-Import Bank of Ukraine"	277,160	1,086,021
Cash on special purpose accounts placed with JSC "The State Export-Import Bank of Ukraine"	254,951	770,352
Cash and cash equivalents placed with PJSC "Privatbank"	1,134	21
Liabilities		
Loans from the Ministry of Finance of Ukraine (Note 13)	14,850,079	13,434,839

During the years ended 31 December 2017 and 2016, the Company entered into the following transactions with its major related parties, as represented by the state-controlled entities:

	2017	2016
Revenue from State Enterprise "Energorynok" (Note 15)	8,022,345	7,057,128
Revenue from State Enterprise "Ukrinterenergo"	109,126	17,880
Charge of additional allowance for impairment of trade receivables due from State Enterprise "Energorynok" (Note 7)	(277,750)	(240,970)
Interest income from deposit accounts placed with JSC "State Savings Bank of Ukraine"	127,161	108,017
Interest income from current accounts placed with JSC "State Savings Bank of Ukraine"	44,656	31,202
Interest income from current accounts placed with JSC "Ukgazbank"	41,913	24,759
Interest income from deposit accounts placed with JSC "Ukgazbank"	40,532	38,536
Interest income from current accounts placed with PJSC "Privatbank"	33,119	-
Interest income from current accounts placed with JSC "The State Export-Import Bank of Ukraine"	30,671	21,071
Finance costs for the loans obtained from the Ministry of Finance of Ukraine	(483,121)	(408,612)

As of 31 December 2017 the Government of Ukraine provided guarantees for the loans obtained from the Ministry of Finance of Ukraine under sub-loan agreements in the total amount of UAH 15,030,082 thousand (2016: UAH 13,553,102 thousand) (Note 13).

22. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation

Ukrainian legislation and regulations regarding taxation and customs continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations and inconsistent enforcement by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual.

Management believes that its interpretation of the relevant legislation is appropriate and that the the Company has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. However, due to different interpretations of certain provisions of the Tax Code of Ukraine, the Company's management estimates the contingent tax liabilities (regarding VAT and income taxes) and pertinent penalties as of 31 December 2017 to amount to UAH 3,679 thousand (2016: UAH 219,331 thousand).

Legal issues

In the ordinary course of business, the Company is subject to legal actions and complaints. Management of the Company believes that the ultimate liability, if any, arising from such legal actions or complaints will not have a material effect on the financial position or results of future operations of the Company. Except for the amounts already provided for as litigation provisions there were no material claims against the Company as of 31 December 2017 and 2016, and the Company did not impose any material claims against other entities.

Capital expenditure commitments

As of 31 December 2017, the Company had contractual capital expenditure commitments for the purchase of property, plant, and equipment in the amount of UAH 7,542,543 thousand (2016: UAH 7,163,097 thousand).

Investment program

In accordance with Resolution of the NCREU # 563 dated 4 May 2006, a part of the tariff calculated for the Company for its transmission and dispatch services includes a component allocated to fund the Company's investment program which is directed at replacement and modernization of its property, plant, and equipment. For the year ended 31 December 2017, the total amount under the investment program was UAH 4,511,923 thousand (2016: UAH 7,469,030 thousand). In 2017, for the purposes intended by the investment program, the Company effectively used UAH 2,751,419 thousand (2016: UAH 5,027,167 thousand).

In the event of failure to implement the investment program in full, the NCREU, according to Resolution # 1456 dated 26 December 2003, has the right to make deductions from the Company's future earnings by reducing the investment component in the tariff applied by the Company in subsequent periods by the total amount for which the program has not been previously fulfilled.

It is estimated that for the year ending 31 December 2018 the Company is to make total expenditures in the amount of UAH 2,607,139 thousand under its investment program.

Social commitments

The Company makes contributions to mandatory and voluntary social programs. The social assets, as well as local social programs, give benefits to the community at large and are not normally restricted to the Company's employees.

Insurance

The Company does not have full coverage for its plant facilities, business interruption, or third party liability for property or environmental damage arising from accidents on the Company's property or relating to its operations. In the absence of insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Environmental contingency

The Company and its predecessor entities have operated in the energy industry in Ukraine for many years. The normal activities of the Company may result in damage to the environment. The enforcement of environmental regulation in Ukraine is evolving and the enforcement stance of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. If obligations are determined, they would be recognized immediately. If no current or future benefit is discernible, the related costs would be expensed. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination would be capitalized. Potential liabilities, which might arise as a result of stricter enforcement of the existing regulations, civil litigation, or changes in the legislation or regulation, cannot be reliably estimated.

In the current enforcement climate under the existing legislation, management believes that there are no significant liabilities for environmental damage that require accrual in the financial statements. The Company did not have any environmental accruals as of 31 December 2017 and 2016.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of 31 December 2017 and 2016, financial instruments of the Company were as follows:

	31 December 2017	31 December 2016
Financial assets		
Non-current trade receivables	2,309	15,458
Other non-current assets	12,080	423
Trade and other accounts receivable	386,041	506,287
Cash and cash equivalents	2,483,472	3,272,616
Total financial assets	**2,883,902**	**3,794,784**
Financial liabilities		
Payables for property, plant, and equipment	18,934	18,915
Loans	14,897,698	13,544,227
Trade and other accounts payable	1,267,736	1,123,618
Total financial liabilities	**16,184,368**	**14,686,760**

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosure* and IFRS 13 *Fair Value Measurement*. 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. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement or disclosure purposes in these financial statements is determined on such a basis.

As no readily available market exists for a large part of the Company's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2017 and 2016, the Company used the following assumptions in assessing the fair value of each class of its financial instruments:

- Fair values of current trade and other accounts receivable, cash and cash equivalents, trade and other accounts payable, payables for property, plant, and equipment are equal to their carrying amounts due to the short-term nature of the relevant instruments.
- As of 31 December 2017 and 2016, the Company calculated effective interest rates for loans based on the basic variable interest rates and estimated lives and maturities of loans. Calculated effective interest rates as of the reporting dates corresponded to the market rates for similar instruments, thus, the fair values of such financial instruments were equal to their carrying amounts.

Categories of the fair value hierarchy as of 31 December 2017 were as follows:

	Fair value hierarchy as of 31 December 2017			
	Level 1	Level 2	Level 3	Total
Loans	-	-	14,897,698	**14,897,698**
Total	-	-	**14,897,698**	**14,897,698**

Categories of the fair value hierarchy as of 31 December 2016 were as follows:

	Fair value hierarchy as of 31 December 2016			
	Level 1	Level 2	Level 3	Total
Loans	-	-	13,544,227	13,544,227
Total	-	-	13,544,227	13,544,227

24. RISK MANAGEMENT

Capital risk management

The Company's objectives when managing the capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to the shareholder and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Capital risk management primarily relates to the compliance with the Ukrainian legislation and regulations issued by the NCREU, the national electric power regulatory body.

The Company's activities expose it to a variety of financial risks, including the effects of changes in tariffs, changes in foreign currency exchange rates, changes in interest rates, and collectability of receivables. The Company does not have a risk policy in place to hedge its financial exposures.

Risk of changes in tariffs

Risk of changes in tariffs is the risk that the Company's current or future earnings will be adversely impacted in the event the NCREU reduces tariffs for transmission and dispatch services. The NCREU has the power to review tariffs on a regular basis in the event the Company does not comply with the requirements of its operating license, regulations of the NCREU, or other regulatory requirements; as well as in the event the Company does not fulfill its investment program to the extent that all the funds accumulated by the investment component in the tariff are used up.

The Company manages this risk by adhering its activities to and by ensuring full compliance with all regulatory requirements, as well as by undertaking adequate measures as to the fulfillment of the investment program.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Company on a timely basis, leading to financial losses to the Company. As of 31 December 2017 and 2016, the maximum exposure of credit risk was represented by the carrying amounts of financial assets, net of impairment losses on such assets, and comprised the following:

	31 December 2017	31 December 2016
Non-current trade receivables	2,309	15,458
Other non-current assets	12,080	423
Trade and other accounts receivable	386,041	506,287
Cash and cash equivalents	2,483,472	3,272,616
Total	2,883,902	3,794,784

The Company derives almost all of its revenues from providing transmission and dispatch services to State Enterprise "Energorynok". The Company is not fully able to manage its credit risk exposure as the nature, terms, and timing of settlements for dispatch and transmission services are determined by the NCREU. The summary below shows sales and outstanding balances of accounts receivables with the major customers at the respective reporting dates:

	2017		2016	
	Sales	Outstanding balance as of 31 December, net of allowance	Sales	Outstanding balance as of 31 December, net of allowance
State Enterprise "Energorynok"	8,022,345	340,440	7,057,128	452,806
State Enterprise "Ukrinterenergo"	109,126	8,600	17,880	4,033
Total	**8,131,471**	**349,040**	**7,075,008**	**456,839**

For the year ended 31 December 2017, the Company recognized impairment loss on trade accounts receivable from State Enterprise "Energorynok" in the amount of UAH 277,750 thousand (2016: UAH 240,970 thousand). Cash on special purpose accounts is placed in the banks that approved by the Ministry of Finance of Ukraine.

The Company does not require any collateral to secure its financial assets and does not set any credit limits to its customers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they are due. The Company manages liquidity risk by complying with the financial discipline in accordance with the financial plan which is approved annually. The key source of financing is receipts from operating activities of the Company. In case of any liquidity problems, the level of receipts is regulated by increasing tariffs for electricity transmission by the NCREU through introduced changes in the Company's financial plan.

As of 31 December 2017, the Company recognized loans in the amount of UAH 14,311,909 thousand (2016: UAH 13,424,640 thousand) within current liabilities mainly due to its failure to comply with the financial covenants stipulated by the loan agreements (Note 13).

As of 31 December 2017, the Company had undrawn balances under the loan facilities in the amount of UAH 21,098,883 thousand (2016: UAH 19,947,950 thousand). Funds under those loans may be used only for capital construction purposes and are not allowed to be used for current operating needs.

Summaries of the maturity profile of the Company's financial liabilities as of 31 December 2017 and 2016 based on contractual payments are presented in Notes 13.

Interest rate risk

Interest rate risk is the risk that changes in floating interest rates will adversely impact the financial performance of the Company. The Company primarily borrows on a variable interest rate basis. The primary sources of the Company's funds are the loans provided by IBRD, EBRD, and other international financial institutions at variable interest rates similar to the equivalent loans, as well as loans tied to EURIBOR and LIBOR.

The table below details the Company's sensitivity to increase of floating rates by 1%. The analysis was applied to interest bearing loans based on the assumption that the amount of liability outstanding as of the reporting date was outstanding for the whole year.

	LIBOR, EURIBOR – impact	
	2017	2016
Loss	142,857	136,710

The effect of interest rate sensitivity on equity is equal to that on profit or loss.

Foreign currency risk

Foreign currency risk is the risk that the financial performance of the Company will be adversely impacted by changes in foreign exchange rates to which the Company is exposed. Transmission and dispatch services are provided by the Company on the internal market of Ukraine at the prices fixed in UAH.

The Company obtains loans denominated in foreign currencies, as well as enters into agreements on the import of equipment in foreign currencies (USD and EUR). The Company does not use any derivatives to manage its foreign currency risk exposure.Carrying amounts of the Company's foreign currency denominated monetary assets and liabilities as of the reporting dates were as follows:

	USD		EUR	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Assets				
Cash and cash equivalents	225,456	216	30,122	768,822
Liabilities				
Loans	(4,602,426)	(4,338,726)	(10,295,272)	(9,205,501)
Trade and other accounts payable	(19,848)	(19,228)	(1,047,802)	(698,271)
Net position	**(4,396,818)**	**(4,357,738)**	**(11,312,952)**	**(9,134,950)**

The following table details the Company's sensitivity to a 10% strengthening and weakening of UAH against USD and EUR in respect to the transaction balances as of 31 December 2017 and 2016. These sensitivity levels represent management's assessment at the reporting dates of reasonably possible changes in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period ends for a 10% change in foreign currency rates. A positive number below indicates an increase in profit where UAH strengthens by 10% against the relevant currency, for the years ended 31 December 2017 and 2016, respectively, and a negative number below indicate an increase in loss where UAH weakens by 10% against the relevant currencies.

	2017		2016	
	USD – impact	EUR – impact	USD – impact	EUR – impact
Profit at strengthening by 10%	439,682	1,131,295	435,774	913,495
Loss at weakening by 10%	(439,682)	(1,131,295)	(435,774)	(913,495)

Reconciliation of liabilities arising from financing activities

The table below details main changes in the Company's liabilities arising from financing activities, including cash and non-cash changes. Liabilities arising from financing activities are obligations in respect of which cash flows were or future cash flows will be classified in the Company's consolidated statement of cash flows as cash flows from financing activities.

	Loans	Profit share payable to the state budget	Total
As of 1 January	**13,553,102**	**379,653**	**13,932,755**
Cash proceeds	865,213		**865,213**
Accrual of Profit share payable to the state budget		505,139	**505,139**
Additional capital share return from the state budget (non-cash transaction)	-	(120,000)	**(120,000)**
Cash payments	(1,285,596)	(1,172,371)	**(2,457,967)**
Interest expense	483,992	-	**483,992**
Interest paid	(469,659)	-	**(469,659)**
Translation difference expense, net	1,750,646	-	**1,750,646**
As of 31 December	**14,897,698**	**(407,579)**	**14,490,119**

25. SUBSEQUENT EVENTS

Subsequent to 31 December 2017 the Company received cash under the following loans:

- Loan from the Ministry of Finance of Ukraine, loan # 40147-UA in the amount of UAH 211,173 thousand;
- Loan from the Ministry of Finance of Ukraine # 8462-UA in the amount of UAH 23,131 thousand.

Subsequent to 31 December 2017 the Company made repayments of the principal amounts on the following loans:

- Loan from the Ministry of Finance of Ukraine, loan # 40147-UA in the amount of UAH 192,609 thousand;
- Loan from the Ministry of Finance of Ukraine, loan # 48680-UA in the amount of UAH 141,964 thousand;
- Loan from the Ministry of Finance of Ukraine, loan # 24668-UA in the amount of UAH 34,300 thousand.

Subsequent to 31 December 2017 the Company utilized UAH 50,987 thousand of prepaid profit share payable to the state budget as of 31 December 2017 in the amount of UAH 407,579 thousand.

26. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by Mr. V. V. Kovalchuk, the Company's Acting Director, and by Mr. I. B. Bobko, Chief Accountant of the Company, on 27 April 2018.