National Power Company "Ukrenergo"

Financial Statements
for the Year Ended 31 December 2018

NATIONAL POWER COMPANY "UKRENERGO"

TABLE OF CONTENTS

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, 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 2018 were approved by management on 26 April 2019.

On behalf of management:

V. D. Kudrytskyi,
Acting Director

S. V. Gryn,
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 shareholder 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 2018, 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 on the corresponding figures 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 2018, 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 2017, 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. Our audit opinion on the financial statements for the year ended 31 December 2017 was modified accordingly. Our opinion on the current period's financial statements of the Company is also modified because of the effect of this matter on the comparability of the current year's figures and the corresponding figures.

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 – Operating Environment

We draw your attention to Note 2 to the financial statements, which describes that 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.

PJSC "Deloitte & Touche USC"

26 April 2019

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2018
In Ukrainian Hryvnias and in thousands

	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant, and equipment	6	24,749,622	21,760,939
Intangible assets		111,833	34,073
Prepayments for property, plant, and equipment		581,725	1,038,174
Deferred tax assets	12	142,168	173,938
Non-current trade accounts receivable	7	-	2,309
Other non-current assets		11,168	4,882
Total non-current assets		**25,596,516**	**23,014,315**
Current assets			
Inventories		182,323	134,432
Trade and other accounts receivable	7	213,782	386,041
Prepayments and other current assets		71,819	33,297
Prepaid profit share due to the state budget	9	407,579	407,579
Corporate income taxes prepaid		17,399	183,613
Cash and cash equivalents	8	2,324,418	2,483,444
Total current assets		**3,217,320**	**3,628,406**
Total assets		**28,813,836**	**26,642,721**
Equity and liabilities			
Equity			
Statutory capital	9	1,226,355	1,226,355
Additional paid-in capital	9	190,106	190,106
Retained earnings		10,206,375	7,550,269
Total equity		**11,622,836**	**8,966,730**
Non-current liabilities			
Deferred income	10	855,378	719,798
Payables for property, plant, and equipment and other long-term payables		144,823	18,934
Post-employment and other long-term employee benefit obligations	11	316,709	336,520
Borrowings	13	4,889,841	585,789
Total non-current liabilities		**6,206,751**	**1,661,041**
Current liabilities			
Deferred income	10	16,695	17,598
Borrowings	13	10,067,067	14,311,909
Trade and other accounts payable	14	653,171	1,267,736
Post-employment and other long-term employee benefit obligations	11	17,787	-
Advances received		137,533	110,089
Provision for litigations		-	84,119
VAT and other taxes payable		91,996	223,499
Total current liabilities		**10,984,249**	**16,014,950**
Total liabilities		**17,191,000**	**17,675,991**
Total equity and liabilities		**28,813,836**	**26,642,721**

On behalf of the Company:

V. D. Kudrytskyi,
Acting Director

S. V. Gryn,
Chief Accountant

The accompanying notes on pages from 8 to 43 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 2018
In Ukrainian Hryvnias and in thousands

	Notes	2018	2017
Revenue from electricity transmission and dispatch services	15	6,044,712	8,305,235
Other income	16	328,296	185,750
Staff costs		(2,396,720)	(2,215,836)
Depreciation and amortization		(812,344)	(691,958)
Impairment of property, plant and equipment	6	-	(320,147)
Impairment of trade and other accounts receivable	7	-	(294,665)
Other operating expenses	17	(603,692)	(567,985)
Finance income	18	320,043	340,166
Finance costs	19	(322,729)	(243,115)
Foreign currency exchange gain/(loss), net	20	671,095	(1,865,531)
Profit before income tax		**3,228,661**	**2,631,914**
Income tax expense	12	(625,333)	(569,374)
Profit for the year		**2,603,328**	**2,062,540**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on post-employment and other long-term employee benefit obligations	11	52,778	(49,240)
Deferred income tax benefit	12	-	8,863
Other comprehensive gain/(loss)		**52,778**	**(40,377)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,656,106**	**2,022,163**

On behalf of the Company:

V. D. Kudrytskyi,
Acting Director

S. V. Gryn,
Chief Accountant

The accompanying notes on pages from 8 to 43 form an integral part of these financial statements.

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
In Ukrainian Hryvnias and in thousands

	Statutory capital	Additional paid-in capital	Retained earnings	Total
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 paid to the state budget (Note 9)	-	-	(505,139)	**(505,139)**
Other movement (Note 9)	-	120,000	-	**120,000**
Balance as of 31 December 2017	**1,226,355**	**190,106**	**7,550,269**	**8,966,730**
Profit for the year	-	-	2,603,328	**2,603,328**
Other comprehensive gain	-	-	52,778	**52,778**
Total comprehensive income for the year	**-**	**-**	**2,656,106**	**2,656,106**
Balance as of 31 December 2018	**1,226,355**	**190,106**	**10,206,375**	**11,622,836**

On behalf of the Company:

V. D. Kudrytskyi,
Acting Director

S. V. Gryn,
Chief Accountant

The accompanying notes on pages from 8 to 43 form an integral part of these financial statements.

NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
In Ukrainian Hryvnias and in thousands

	Notes	2018	2017
Operating activities			
Profit before income tax		3,228,661	2,631,914
Adjustments to reconcile profit to net cash generated from operations:			
Depreciation and amortization		811,912	691,958
Impairment of property, plant and equipment	6	-	320,147
Change in provision for litigations		(84,119)	-
Unrealized foreign currency exchange (gain)/loss, net		(671,095)	1,894,745
Amortization of deferred income	10	(16,695)	(19,291)
Post-employment and other long-term employee benefit obligations accrued	11	20,178	(45,633)
Gain on disposal of property, plant, and equipment and intangible assets		(21,052)	(25,390)
Change for allowance for impairment of trade and other accounts receivable	7	(76,673)	294,665
Finance costs	19	322,729	243,115
Finance income	18	(320,043)	(340,166)
Operating profit before changes in working capital		3,193,803	5,646,064
Change in inventories		(47,865)	(78,592)
Change in trade and other accounts receivable		251,241	(161,270)
Change in prepayments and other current assets		(44,808)	(31,950)
Change in advances received		27,444	72,100
Change in trade and other accounts payable		38,736	(138,683)
Change in other taxes payable		(131,503)	32,638
Interest received		320,043	340,166
Post-employment and other long-term employee benefit obligations paid		(11,489)	(11,451)
Cash generated from operations		3,595,602	5,669,022
Interest and commissions paid		(259,935)	(185,737)
Income tax paid		(427,349)	(783,637)
Net cash generated by operating activities		2,908,318	4,699,648
Investing activities			
Acquisition of property, plant, and equipment and intangible assets		(3,848,212)	(3,962,791)
Proceeds from disposal of property, plant, and equipment and intangible assets		131,718	55,153
Net cash used in investing activities		(3,716,494)	(3,907,638)
Financing activities			
Profit share paid to the state budget	9, 24	-	(1,172,372)
Proceeds on loans	24	2,071,911	865,213
Repayment of loans	24	(1,437,631)	(1,285,596)
Net cash used in financing activities		634,280	(1,592,755)
Net change in cash and cash equivalents		**(173,896)**	**(800,745)**
Cash and cash equivalents at the beginning of the year		**2,483,444**	**3,272,616**
Effect of foreign currency exchange differences		14,870	11,573
Cash and cash equivalents at the end of the year	**8**	**2,324,418**	**2,483,444**

On behalf of the Company:

V. D. Kudrytskyi,
Acting Director

S. V. Gryn,
Chief Accountant

The accompanying notes on pages from 8 to 43 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 was subordinated to the Ministry of Energy and Coal Industry of Ukraine that approved the Company's Charter by its Order dated 24 July 2000. Starting February 2019 the control on the Company was passed to the Ministry of Finance of Ukraine. The task of the Ministry of Finance is to accelerate the process of corporatization of Ukrenergo.

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" that envisages certification of the electric energy 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 finalize by the end of 2019. 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 2018 the Company had 11 branches. The Company's Head Office is located at: 25 Simona Petliury Street, Kyiv, Ukraine.

2. OPERATING ENVIRONMENT

General economic conditions

In 2018, the Ukrainian economy proceeded recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% to USD and 8.2% to EUR comparing to previous year averages.

Also Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhanska and Donetska regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union ("EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

In terms of currency regulations, the new currency law was adopted in 2018 and came into force on 7 February 2019. It purports to enable the National Bank of Ukraine ("NBU") to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund ("IMF"), and smooth transition through parliamentary elections, due in October 2019.

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 at the reporting date:

- The Company is being reorganized through transformation into a private joint stock company during 2019 (corporatization).
- As of 31 December 2018, 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 9,752,049 thousand were reclassified to current liabilities as of 31 December 2018 which caused the excess of the Company's current liabilities over current assets in the amount of UAH 7,766,929 thousand (2017: UAH 12,386,544 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 2018 and 2017. Tariff set for the Company by NCREU for 2019 is high enough to sustain profitable activities in 2019. 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 2018 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. Loans were obtained in the form of sub-loans from the Ministry of Finance and are guaranteed by Government of Ukraine (Note 21).
- In 2019, 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 2018 the Company repaid loans per schedule without delays.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards

The following standards and amendments have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2018:

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15: Effective date of IFRS 15. Clarifications to IFRS 15 *Revenue from Contracts with Customers*;
- Amendments to IFRS 2 Share-based Payment – Classification and Measurement of Share-based Payment Transactions;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- Annual Improvements to IFRSs 2014-2016 Cycle.

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities;
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below. The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets and liabilities

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as of 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as of 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The management of the Company reviewed and assessed the Company's existing financial assets as of 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has no significant impact on the Company's financial assets in regards to their classification and measurement.

There were no reclassifications of financial assets, which had any impact on the Company's financial position, profit or loss, other comprehensive income or total comprehensive income for the year.

The application of IFRS 9 did not have any impact on the classification and measurement of the Company's financial liabilities.

The application of the IFRS 9 hedge accounting requirements did not have any impact on the results and financial position of the Company.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The application of the expected credit loss model of IFRS 9 by means of earlier recognition of credit losses has not resulted in any significant additional allowance for expected credit losses in respect of financial assets.

Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Company had previously designated as at fair value through profit or loss (FVTPL) under IAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The application of IFRS 9 had no material impact on the Company's financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Impact of initial application of IFRS 15 Revenue from Contracts with Customers (and the related Clarifications)

In the current year, the Company has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.
The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company's revenue is derived from providing services of dispatch and transmission of electric energy via high voltage lines. The Company previously applied IAS 18 standard for revenue recognition and transfer to IFRS 15 standard did not have significant impact on Company's revenue recognition. Thus, the Company did not apply any adjustments or changes to disclosures that relate to application of IFRS 15.

The adoption of amendments and improvements to other standards did not have any effect on the financial position or performance reported in the financial statements and had not resulted in any changes to the Company's accounting policies and the amounts reported for the current or prior years.

Standards and interpretations in issue not yet effective

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

Standards/Interpretations	Effective for annual accounting period beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019
IFRS 16 *Leases*	1 January 2019
Amendments to IFRSs – 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*: Long-term interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19 *Employee Benefits*: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3 *Business Combinations*: Definition of a Business	1 January 2020
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Material	1 January 2020
IFRS 17 *Insurance Contracts*	1 January 2021

Management is currently evaluating the impact of adoption of IFRS 16 Leases. For other Standards and Interpretations management anticipates that adoption will not have a material effect on the financial statements of the Company in future periods.

The standards below could have an impact on the financial statements of the Company.

IFRS 16 Leases

IFRS 16 introduces a single comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations for the reporting periods beginning on or after 1 January 2019. The date of first application of IFRS 16 for the Company will be 1 January 2019.

The Company is planning to use the lease determination provisions and related interpretations described in IFRS 16 to all leases concluded or modified on or after 1 January 2019, irrespective of whether it acts as a lessor or lessee under the lease contract.

IFRS 16 will change the Company's procedure of accounting for leases that were previously classified as operating under IAS 17.

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"). These financial statements are not prepared to be field with Ukrainian regulators, which establish additional requirements to the financial statements, for which purpose the company prepares a different set of financial statements.

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 IFRS 9 *Financial instruments*.

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 recognised 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 2018	Average exchange rate for 2018	As of 31 December 2017	Average exchange rate for 2017
USD/UAH	27.6883	27.2016	28.0672	26.5947
EUR/UAH	31.7141	32.1341	33.4954	30.0128

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 recognised 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 recognised 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 recognised in profit or loss in the period in which they are incurred.

Finance income comprises interest income on the funds invested. Finance income is recognised 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 recognised as deferred income in the statement of financial position and amortised to profit or loss on a systemic and rational basis over the useful lives of the corresponding assets.

Provisions

Provisions are recognised 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 recognised in other comprehensive income of the period in which they arise. Re-measurement recognised 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 recognised 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 recognised for all taxable temporary differences, and deferred tax assets are generally recognised 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 recognised 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 recognised 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 recognised directly in equity or other comprehensive income.

During the years ended 31 December 2018 and 2017, 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 recognised 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 Companys of property, plant, and equipment are as follows:

Buildings and structures	20-50 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 recognised 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 recognised 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 recognised 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 recognised 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 due 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 has adopted IFRS 9 from 1 January 2018. In accordance with the transitional provisions of IFRS 9, comparative figures were not restated.

Initial recognition of financial instruments.

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

The Company's principal financial instruments comprise cash and cash equivalents, trade accounts receivable, other accounts receivable, borrowings, trade accounts payable and accrued expenses and other accounts payable.

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

Financial assets

Classification and subsequent measurement of financial assets.

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

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income or expense is recognised on an effective interest rate basis for financial instruments.

Impairment of financial assets

The Company recognises a loss allowance for expected credit losses on by cash and cash equivalents, trade accounts payable and other accounts receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company always recognises lifetime ECL for trade accounts receivable and other accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligation

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.
The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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 recognised 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 plus one week, 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.

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 due to the state budget

Obligatory profit share due (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".

Classification and subsequent measurement of financial liabilities.

Financial liabilities are subsequently measured at amortized cost or fair value through profit or loss.

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

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 recognised 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.

Derecognition of financial instruments.

The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets, or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of financial results (statement of comprehensive income).

Contingent liabilities and assets

Contingent liabilities are not recognised 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 recognised 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 recognised 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 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future periods.

(i) Allowance for expected credit loss of trade and other accounts receivable

The allowance for expected credit loss of trade and other accounts receivable is based on the Company's assessment of the expected credit losses of specific customer accounts. If there is deterioration in expected creditworthiness of major customers or actual defaults are higher than the estimates, the actual results could differ from these estimates. As of 31 December 2018 and 2017, the Company's management assessed the receivables for their recoverability, and, based on the results of this estimation, recognised the allowance accrued in the amount of UAH 1,322,908 thousand and UAH 1,399,581 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 recognises 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.

Judgements in application of accounting policy

(i) Classification of Prepaid profit share due to the state budget

As of 31 December 2018 the Company prepaid profit share due 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 due to the state budget accrued in the future periods (Note 9).

6. PROPERTY, PLANT, AND EQUIPMENT

As of 31 December 2018 and 2017, 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 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**
Reclassification	3,605,302	(2,583,137)	(1,022,165)	-	**-**
Additions	87,778	1,144,560	121,608	2,522,479	**3,876,425**
Internal transfers	18,664	724,508	5,015	(748,187)	**-**
Disposals	(110,239)	(15,063)	(47,256)	(5,125)	**(177,683)**
As of 31 December 2018	**8,824,574**	**8,156,356**	**543,710**	**11,796,262**	**29,320,902**
Accumulated depreciation and impairment losses					
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**
Reclassification	1,195,705	(1,207,181)	11,476	-	**-**
Depreciation charges for the year	391,311	376,566	40,424	-	**808,301**
Disposals	(35,687)	(15,007)	(47,548)	-	**(98,242)**
As of 31 December 2018	**2,056,702**	**2,112,390**	**267,429**	**134,759**	**4,571,280**
Net book value					
As of 31 December 2017	**4,717,696**	**5,927,476**	**1,223,431**	**9,892,336**	**21,760,939**
As of 31 December 2018	**6,767,872**	**6,043,966**	**276,281**	**11,661,503**	**24,749,622**

Capitalized interest

During the year ended 31 December 2018, additions to construction in progress included capitalized interest in the amount of UAH 242,911 thousand (2017: 283,922 thousand).

Fully depreciated property, plant, and equipment

As of 31 December 2018, cost of fully depreciated items of property, plant, and equipment amounted to UAH 615,614 thousand including fully impaired assets (2017: UAH 845,168 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.

Reclassification between the groups

As of 1 January 2018 the Company revised classification of certain items of property, plant and equipment to make it more consistent with their nature. As a result, certain transfers were made between buildings and structures, plant and equipment, office equipment and vehicles.

7. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2018	31 December 2017
Non-current:		
Trade receivables due from State Enterprise "Energorynok"	-	2,309
Total non-current	**-**	**2,309**
Current:		
Trade receivables due from State Enterprise "Energorynok"	1,493,878	1,723,077
Trade and other accounts receivable due from other entities	42,812	62,545
	1,536,690	**1,785,622**
Less: Expected credit losses of trade receivables due from State Enterprise "Energorynok"	(1,313,365)	(1,387,255)
Less: Expected credit losses of trade and other receivables due from other entities	(9,543)	(12,326)
	(1,322,908)	**(1,399,581)**
Total current	**213,782**	**386,041**
Total	**213,782**	**388,350**

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 hold any collateral for trade receivables.

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 2018 and 2017, aging of past due but not impaired trade and other accounts receivable was as follows:

	31 December 2018	31 December 2017
Within three months	9	2
From three to six months	-	100
From six to twelve months	430	3,124
More than one year	506	682
Total	**945**	**3,908**

As of 31 December 2018, impaired trade and other accounts receivable in the amount of UAH 1,313,365 thousand (2017: UAH 1,131,642 thousand) had the aging of more than one year.

Movements in expected credit losses of trade and other accounts receivable for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Balance at the beginning of the year	**1,399,581**	**1,128,254**
Charged/(reversed) in the statement of profit or loss	(76,673)	294,665
Written off	-	(23,338)
Balance at the end of the year	**1,322,908**	**1,399,581**

8. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on current accounts with banks	1,036,661	777,378
Cash on deposit accounts with banks	874,461	1,451,128
Cash on special purpose accounts	413,295	254,919
Cash on hand	1	19
Total	**2,324,418**	**2,483,444**

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

9. EQUITY

Statutory capital

The Company is a wholly-owned state enterprise. As of 31 December 2018 the Company's statutory capital amounted to UAH 1,226,355 thousand (2017: 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"). By the decision of the Kyiv Appellate Administrative Court dated On 28 January 2016 the Resolution was recognised as invalid and in 2017 UAH 120,000 thousand was recovered by the State Tax Authorities of Ukraine by increasing the amount of prepayment for the profit share due to the state budget.

Obligatory profit share due 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 40% of its net profits calculated under UAS to the state budget of Ukraine. This percentage rate for the second half of 2018 was increased to 75% . 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 2018 the Company's profit share due to the state budget was nil (2017: UAH 505,139 thousand). For the year ended 31 December 2018 the Company has made no payments of profit share due to the state budget (2017: paid UAH 1,172,372 thousand).

As of 31 December 2018 prepayment for the profit share due to the state budget amounted to UAH 407,579 thousand (2017: UAH 407,579 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 reconstruction of certain assets, as well as by similar financing obtained from the other institutions.

As of 31 December 2018 and 2017, deferred income was as follows:

	31 December 2018	31 December 2017
Non-current deferred income	855,378	719,798
Current deferred income	16,695	17,598
Total	**872,073**	**737,396**

	2018	2017
As of 1 January	**737,396**	**674,796**
Financing obtained	151,372	81,891
Amortised during the year	(16,695)	(19,291)
As of 31 December	**872,073**	**737,396**

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. Total amount of contributions to the State Pension Fund of Ukraine recognised in the statement of profit and loss and other comprehensive income for the year ended 31 December 2018 amounted to UAH 362,188 thousand (2017: UAH 341,353 thousand).

Defined benefit pension plans

The Company is also 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 2018 and 2017, the present value of unfunded post-employment employee benefit obligations was UAH 334,496 thousand and UAH 336,520 thousand, respectively.

Reconciliation of the present value of post-employment and other long-term employee benefit obligation balances for the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Balance at the beginning of the year	**336,520**	**301,319**
Current service cost	20,178	21,600
Interest expense (Note 19)	42,065	43,045
Gain on changes in past service cost (Note 16)	-	(67,233)
Actuarial (gain)/loss recognised in other comprehensive income	(52,778)	49,240
Benefits paid during the year	(11,489)	(11,451)
Balance at the end of the year	**334,496**	**336,520**

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

	2018	2017
Interest expense (Note 19)	42,065	43,045
Current service cost	20,178	21,600
Gain on retirement benefit obligations due to changes in legislation	-	(67,234)
Total	**62,243**	**(2,589)**

During the year ended 31 December 2018, the Company included in other comprehensive income the actuarial gain in the amount of UAH 52,778 thousand that were primarily driven by changes in actuarial assumptions (2017: loss in the amount of UAH 49,240 thousand).

Main assumptions used for actuarial assessment as of 31 December 2018 and 2017 were as follows:

	31 December 2018	31 December 2017
Discount rate	15.00%	12.50%
Expected salary growth rate	11.2%	12.46%
Staff turnover	4.5%	4.5%

Life expectancy was determined by reference to the data published by State Statistics Service of Ukraine for 2016.

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 2018 and 2017, 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 2018 and 2017 were as follows:

	2018	2017
Current income tax	593,563	587,970
Deferred income tax benefit/(expence)	31,770	(18,596)
Total income tax expense	**625,333**	**569,374**

Profit before income tax multiplied by the statutory income tax rate and income tax expense for the years ended 31 December 2018 and 2017 can be reconciled as follows:

	2018	2017
Profit before income tax	**3,228,661**	**2,631,914**
Income tax expense at the statutory income tax rate of 18% for 2018 and 2017	581,159	473,745
Effect of non-deductible expense in determining taxable profit	44,174	95,629
income tax expense	**625,333**	**569,374**

As of 31 December 2018 and 2017, deferred tax assets and liabilities related to the following:

	31 December 2018	31 December 2017
Trade and other accounts receivable	259,198	288,696
Post-employment and other long-term employee benefit obligations	35,561	60,574
Provisions for litigations	-	15,141
Trade and other accounts payable	-	4,300
Deferred tax assets	**294,759**	**368,711**
Property, plant, and equipment and intangible assets	(152,591)	(162,429)
Loans	-	(32,344)
Deferred tax liability	**(152,591)**	**(194,773)**
Net deferred tax assets	**142,168**	**173,938**

Movements in deferred income taxes for the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Net deferred tax assets/(liabilities) as of the beginning of the year	**173,938**	**146,479**
Deferred income tax (loss)/benefit for the year recognised in profit or loss	(31,770)	18,596
Deferred income tax benefit for the year recognised in other comprehensive income	-	8,863
Net deferred tax assets as of the end of the year	**142,168**	**173,938**

13. BORROWINGS

As of 31 December 2018 and 2017, the borrowings measured at amortized cost were as follows:

	Currency	31 December 2018	31 December 2017
Ministry of Finance of Ukraine, # 4868-UA	USD	3,706,005	4,181,736
Ministry of Finance of Ukraine, # 37598	EUR	2,347,537	3,042,685
Ministry of Finance of Ukraine, # 40147-UA	EUR	2,877,196	2,940,524
Ministry of Finance of Ukraine, # 24668-UA	EUR	2,840,199	1,993,267
Ministry of Finance of Ukraine, # FIN 31.143 SEPARIS №20090117	EUR	1,902,848	1,987,506
European Bank for Reconstruction and Development, # 33896	EUR	-	47,519
Ministry of Finance of Ukraine, # 2006 66 537	EUR	322,411	227,309
Ministry of Finance of Ukraine, # 8462-UA	USD	815,277	352,364
Ministry of Finance of Ukraine, # TF017661	USD	6,034	6,116
Interest accrued		139,401	118,672
Less: non-current portion*		4,889,841	585,789
Total current		**10,067,067**	**14,311,909**

* Without reference to the classification effect of borrowings into current liabilities due to the failure to comply with the covenants non-current portion as of 31 December 2018 would be UAH 14,817,507 thousand (2017: UAH 14,731,501 thousand).

As of 31 December 2018 and 2017, the effective interest rates calculated based on the basic variable interest rates of the borrowings were as follows:

	31 December 2018	31 December 2017
Ministry of Finance of Ukraine, # 4868-UA	4.92%	3.31%
Ministry of Finance of Ukraine, # 37598	2.80%	4.17%
Ministry of Finance of Ukraine, # 40147-UA	2.80%	3.69%
Ministry of Finance of Ukraine, # 24668-UA	2.59%	2.71%
Ministry of Finance of Ukraine, # FIN 31.143 SEPARIS №20090117	2.50%	2.55%
European Bank for Reconstruction and Development, # 33896	1.73%	3.71%
Ministry of Finance of Ukraine, # 2006 66 537	2.79%	2.85%
Ministry of Finance of Ukraine, # 8462-UA	5.27%	4.48%
Ministry of Finance of Ukraine, # TF017661	2.79%	2.87%

Ministry of Finance of Ukraine, borrowing # 4868-UA

In 2007, the long-term loan agreement # 4868-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 2018, the undrawn balance under the loan amounted to USD 6,178 thousand or UAH 171,058 thousand (2017: USD 6,178 thousand or UAH 173,399 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 2018, 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 0.13 (2017: 0.72), ratio of current assets to current liabilities at the level of 3.51 (2017: 1.94).

Correspondingly, as of 31 December 2018 and 2017, 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 2018 and 2017, 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, borrowing # 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 2018, the undrawn balance under the loan amounted to EUR 4,178 thousand or UAH 132,497 thousand (2017: EUR 4,179 thousand or UAH 139,987 thousand). The loan is repayable in equal semi-annual instalments starting from 15 May 2011 to 15 November 2022.

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 1.20;
b) Ratio of current assets to current liabilities should be maintained at the level of not less than 1.10; and
c) Ratio of Debt to EBITDA should be maintained at the level of not more than 3.00.

As of 31 December 2018, 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 0.13 (2017: 0.72), ratio of current assets to current liabilities at the level of 3.51 (2017: 1.94), ratio of Debt to EBITDA 3.45 (2017: 4.36).

Correspondingly, as of 31 December 2018 and 2017, the Company failed to comply with the ratios of debt servicing coverage and ratio of Debt to EBITDA. 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 2018 and 2017, management classified this loan as current due to the failure to comply with the specific terms of the loan agreement.

Ministry of Finance of Ukraine, borrowing # 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 18 November 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 2018, the undrawn balance under the loan amounted to EUR 47,353 thousand or UAH 1,501,758 thousand (2017: EUR 59,593 thousand or UAH 1,996,086 thousand). The loan is repayable in equal semi-annual instalments starting from 20 April 2014 to 20 October 2025.

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 1.20;
b) Ratio of current assets to current liabilities should be maintained at the level of not less than 1.10; and
c) Ratio of Debt to EBITDA should be maintained at the level of not more than 3.00.

As of 31 December 2018, 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 0.13 (2017: 0.72), ratio of current assets to current liabilities at the level of 3.51 (2017: 1.94), ratio of Debt to EBITDA 3.45 (2017: 4.36).

Correspondingly, as of 31 December 2018 and 2017, the Company failed to comply with the ratios of debt servicing coverage and ratio of Debt to EBITDA. 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 2018 and 2017, management classified this loan as current due to the failure to comply with the specific terms of the loan agreement.

Ministry of Finance of Ukraine, borrowing # 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+0.787%, 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 2018, the undrawn balance under the loan amounted to EUR 52,550 thousand or UAH 1,666,578 thousand (2017: EUR 85,550 thousand or UAH 2,865,534 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.

Ministry of Finance of Ukraine, borrowing # FIN 31.143 SEPARIS №20090117

In 2011, long-term loan agreement # FIN 31.143 SEPARIS №20090117 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 2018, the undrawn balance under the loan amounted to EUR 115,000 thousand or UAH 3,647,126 thousand (2017: EUR 115,000 thousand or UAH 3,851,974 thousand).

European Bank for Reconstruction and Development, borrowing # 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 2018 and 2017, the loan facilities were used in full. The loan was fully repaid on 16 May 2018.

Ministry of Finance of Ukraine, borrowing # 2006 66 537

In 2011, long-term loan agreement # 2006 66 537 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 2018, the undrawn balance under the loan amounted to EUR 55,334 thousand or UAH 1,754,875 thousand (2017: EUR 58,619 thousand or UAH 1,963,473 thousand).

Ministry of Finance of Ukraine, borrowing # 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 25 May 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 2018, the undrawn balance under the loan amounted to USD 298,049 thousand or UAH 8,252,456 thousand (2017: USD 311,944 thousand or UAH 8,775,393 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, borrowing # 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 25 May 2015. The interest rate of the loan is a floating interest rate based on LIBOR, plus a variable spread. As of 31 December 2018, the undrawn balance under the loan amounted to USD 48,207 thousand or UAH 1,334,768 thousand (2017: USD 48,207 thousand or UAH 1,353,037 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 ("self-financing ratio").

As of 31 December 2018 the Company failed to comply with this obligation as self-financing ratio was equal to -11% (51% in 2017). According to the general terms and conditions of the loan agreement, in the event of the failure to comply with financial covenants thereunder, the IBRD may suspend further disbursements under the loan and/or require that the Company repay in full the outstanding amounts. As of 31 December 2018, management classified this loan as current due to the failure to comply with the specific terms of the loan agreement.

Ministry of Finance of Ukraine, borrowing # 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 2018 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 on 26 April 2017. In addition, the Company will be charged a margin of 2.00% payable to the Ministry of Finance of Ukraine.

As of 31 December 2018 and 2017, 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 2018 and 2017. 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 2018	**31 December 2017**
Due within twelve months	10,104,992	14,777,645
Due after twelve months	5,193,983	673,050
Total cash flows	**15,298,975**	**15,450,695**

As of 31 December 2018 and 2017 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 borrowings mentioned above.

14. TRADE AND OTHER ACCOUNTS PAYABLE

	31 December 2018	31 December 2017
Liability for the acquisition of the property, plant, and equipment	380,681	973,582
Accrual for unused vacation	185,867	67,282
Payables for materials and supplies	36,930	9,962
Settlements with employees and related charges	-	92,959
Payables for services	22,005	25,378
Payables for maintenance of the property, plant, and equipment	4,966	82,157
Other	22,722	16,416
Total	**653,171**	**1,267,736**

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

	2018	2017
Revenue from State Enterprise "Energorynok"	5,394,311	8,022,345
Other revenue	650,401	282,890
Total	**6,044,712**	**8,305,235**

16. OTHER INCOME

	2018	2017
Income from repayment of impaired debts	76,545	-
Capitalization of materials after disposal	77,869	13,548
Gain on disposal of property, plant, and equipment and intangible assets	21,052	25,390
Gain on retirement benefit obligations due to changes in legislation (Note 11)	-	67,232
Other	152,830	79,580
Total	**328,296**	**185,750**

17. OTHER OPERATING EXPENSES

	2018	2017
Maintenance costs	296,405	407,667
Security services	68,908	11,451
Social-related costs	45,538	32,202
Other taxes	36,869	32,458
Other expenses	155,972	84,207
Total	**603,692**	**567,985**

18. FINANCE INCOME

	2018	2017
Interest income from deposit accounts with banks	204,948	205,068
Interest income from current accounts with banks	115,095	135,098
Total	**320,043**	**340,166**

19. FINANCE COSTS

	2018	2017
Interest expense on loans	523,575	483,992
Interest capitalized (Note 6)	(242,911)	(283,922)
Interest expense on post-employment and other long-term employee benefit obligations (Note 11)	42,065	43,045
Total	**322,729**	**243,115**

20. FOREIGN CURRENCY EXCHANGE (GAIN)/LOSS, NET

	2018	2017
Foreign currency exchange gain	(1,975,630)	(281,785)
Foreign currency exchange loss	1,304,535	2,147,316
Total	**(671,095)**	**1,865,531**

21. RELATED PARTIES

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

Related 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 2018 and 2017, key management personnel received the following remuneration, which was included in staff costs:

	2018	2017
Short-term employee benefits	68,496	54,251

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 2018 and 2017, the Company had the following outstanding balances with its major related parties, the state-controlled entities:

	31 December 2018	31 December 2017
Assets		
Trade receivables from State Enterprise "Energorynok" (Note 7)	180,513	338,131
Trade receivables from State Enterprise "Ukrinterenergo"	3,598	8,600
Cash and cash equivalents placed with JSC "Ukgazbank"	1,299,451	720,290
Cash on special purpose accounts placed with JSC "The State Export-Import Bank of Ukraine"	413,295	254,951
Cash and cash equivalents placed with JSC "State Savings Bank of Ukraine"	124,117	467,479
Cash and cash equivalents placed with JSC "The State Export-Import Bank of Ukraine"	64,151	277,160
Cash and cash equivalents placed with PJSC "Privatbank"	446	1,134
Liabilities		
Loans from the Ministry of Finance of Ukraine (Note 13)	14,956,908	14,850,079

During the years ended 31 December 2018 and 2017, the Company entered into the following transactions with its major related parties, as represented by the state-controlled entities:

	2018	2017
Revenue from State Enterprise "Energorynok" (Note 15)	5,394,311	8,022,345
Revenue from State Enterprise "Ukrinterenergo"	36,013	109,126
Other income from paid previously impaired trade receivables due from State Enterprise "Energorynok" (Note 7, 16)	76,545	-
Charge of additional allowance for impairment of trade receivables due from State Enterprise "Energorynok" (Note 7)	-	(277,750)
Interest income from deposit accounts placed with JSC "Ukgazbank"	97,222	40,532
Interest income from current accounts placed with JSC "The State Export-Import Bank of Ukraine"	76,382	30,671
Interest income from current accounts placed with JSC "State Savings Bank of Ukraine"	21,883	44,656
Interest income from deposit accounts placed with JSC "State Savings Bank of Ukraine"	12,368	127,161
Interest income from current accounts placed with JSC "Ukgazbank"	7,580	41,913
Interest income from current accounts placed with PJSC "Privatbank"	-	33,119
Finance costs for the loans obtained from the Ministry of Finance of Ukraine (not taken into account effect of capitalization)	(523,294)	(483,121)

As of 31 December 2018, 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 14,956,908 thousand (2017: UAH 15,030,082 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 Company has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

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 2018 and 2017, and the Company did not impose any material claims against other entities.

Capital commitments

As of 31 December 2018, the Company had contractual capital commitments for the purchase of property, plant, and equipment in the amount of UAH 6,487,309 thousand (2017: UAH 7,542,543 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 for replacement and modernization of its property, plant, and equipment. In 2018, for the purposes intended by the investment program, the Company effectively used UAH 2,758,418 thousand (2017: UAH 2,751,419 thousand).

In the event of failure to implement the investment program in full, the NCREUhas 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 expected that during 2019 the Company will allocated UAH 6,152,920 thousand to 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 recognised 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.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of 31 December 2018 and 2017, financial instruments of the Company were as follows:

	31 December 2018	31 December 2017
Financial assets		
Non-current trade receivables	-	2,309
Other non-current assets	11,168	4,882
Trade and other accounts receivable	213,782	386,041
Cash and cash equivalents	2,324,418	2,483,444
Total financial assets	**2,549,368**	**2,876,676**
Financial liabilities		
Payables for property, plant, and equipment and other long-term payables	144,823	18,934
Borrowings	14,956,908	14,897,698
Trade and other accounts payable	467,304	1,107,495
Total financial liabilities	**15,569,035**	**16,024,127**

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 2018 and 2017, 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 2018 and 2017, 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 2018 were as follows:

	Fair value hierarchy as of 31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Borrowings	-	-	14,956,908	**14,956,908**
Total	**-**	**-**	**14,956,908**	**14,956,908**

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**
Borrowings	-	-	14,897,698	**14,897,698**
Total	**-**	**-**	**14,897,698**	**14,897,698**

24. RISK MANAGEMENT

Capital risk management

The Company considers borrowings, share capital and retained earnings as its main funding sources. The main objective in managing the Company's capital is to maintain reasonable solvency and ratios of capital adequacy to ensure the Company's ability to continue as a going concern. The Company monitors its capital using a gearing ratio calculated as the ratio of net liabilities to share capital and net debt. The Company includes in calculation of net liabilities interest-bearing borrowings, net of cash and short-term deposits.

The Company's policies towards capital management are aimed at ensuring and supporting the optimal capital structure in order to mitigate general capital costs and ensure flexibility required for the Company's access to capital markets.

	31 December 2018	**31 December 2017**
Borrowings	14,956,908	14,897,698
Less: Cash and cash equivalents	(2,324,418)	(2,483,444)
Net debt	**12,632,490**	**12,414,254**
Equity	11,622,836	8,966,730
Equity and net debt	**24,255,326**	**21,380,984**
Gearing ratio	**0.52**	**0.58**

Market risks

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 2018 and 2017, 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 2018	31 December 2017
Non-current trade receivables	-	2,309
Other non-current assets	11,168	4,882
Trade and other accounts receivable	213,782	386,041
Cash and cash equivalents	2,324,418	2,483,444
Total	**2,549,368**	**2,876,676**

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:

	2018		2017	
	Sales	Outstanding balance as of 31 December, net of allowance	Sales	Outstanding balance as of 31 December, net of allowance
State Enterprise "Energorynok"	5,394,311	180,513	8,022,345	340,440
State Enterprise "Ukrinterenergo"	36,013	3,598	109,126	8,600
Total	**5,430,324**	**184,111**	**8,131,471**	**349,040**

For the year ended 31 December 2018, the Company has recognised no impairment loss on trade accounts receivable from State Enterprise "Energorynok" (2017: recognised amount of UAH 277,750 thousand). Cash on special purpose accounts is placed in the banks that are 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.

As at 31 December 2018 and 2017 the credit risk on cash and cash equivalents is limited because the Company placed almost all of its funds in state-owned banks rated by Fitch in the range from CCC to B-.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle all liabilities as they fall 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 2018, the Company recognised loans in the amount of UAH 9,891,450 thousand (2017: UAH 14,311,909 thousand) within current liabilities mainly due to its failure to comply with the financial covenants stipulated by the loan agreements (Note 13). This led to a deficit of working capital in the amount of 7,766,929 (Note 2).

Maturity profile of the Company's financial liabilities as of 31 December 2018 and 2017 based on contractual payments is presented in Note 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 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	
	2018	**2017**
Loss	136,738	142,857

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's loans are denominated in foreign currencies, as well as certain agreements on the import of equipment. 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 2018	31 December 2017	31 December 2018	31 December 2017
Assets				
Cash and cash equivalents	175,398	225,456	239,054	30,122
Liabilities				
Borrowings	(4,605,684)	(4,602,426)	(10,351,223)	(10,295,272)
Trade and other accounts payable	(49,656)	(19,848)	(9,206)	(1,047,802)
Net position	**(4,479,942)**	**(4,396,818)**	**(10,121,375)**	**(11,312,952)**

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 2018 and 2017. These sensitivity levels represent management's assessment at the reporting dates of reasonably possible changes in foreign exchange rates.

	2018		2017	
	USD – impact	EUR – impact	USD – impact	EUR – impact
Profit at strengthening by 10%	447,994	1,012,138	439,682	1,131,295
Loss at weakening by 10%	(447,994)	(1,012,138)	(439,682)	(1,131,295)

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 statement of cash flows as cash flows from financing activities.

	Borrowings
As of 1 January	**14,897,698**
Cash proceeds	2,071,911
Cash payments	(1,437,631)
Interest expense	523,575
Interest paid	(502,846)
Translation difference expense, net	(595,799)
As of 31 December	**14,956,908**

25. SUBSEQUENT EVENTS

Subsequent to 31 December 2018 the Company received borrowing from the Ministry of Finance of Ukraine # 40147-UA in additional amount of UAH 156,828 thousand.

26. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by Mr. V. D. Kudrytskyi, the Company's Acting Director, and by Mrs. S. V. Gryn, Chief Accountant of the Company, on 26 April 2019.