

**Private Joint Stock Company
“National Power Company
“Ukrenergo”**

Consolidated Financial Statements and
Independent Auditor’s Report
for the Year Ended 31 December 2022

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	I-VII
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022:	
Consolidated Statement of Financial Position	2
Consolidated Statement of Profit or Loss and Other Comprehensive Income	3
Consolidated Statement of Cash Flows (under direct method)	4
Consolidated Statement of Changes in Equity	5
Notes to the Consolidated Financial Statements	6-103



www.bdo.ua

Тел.: +38 044 393 26 87
Факс: +38 044 393 26 91
E-mail: bdo@bdo.kiev.ua

Tel.: +38 056 370 30 43
Fax: +38 056 370 30 45
e-mail: dnipro@bdo.com.ua

BDO LLC

201-203, Kharkivske Road, 10th floor
Kyiv
Ukraine, 02121

4, Andriya Fabra Str.
Dnipro
Ukraine, 49000

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Management of the Private Joint Stock Company “National Power Company “Ukrenergo”

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of Private Joint Stock Company “National Power Company “Ukrenergo” and its subsidiaries (code EDRPOU is 00100227, address: 25, Symon Petlura Street, Kyiv, 01032, further – the Group), which comprise:

- Consolidated statement of financial position as of 31 December 2022;
- Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022;
- Consolidated statement of changes in equity for the year ended 31 December 2022;
- Consolidated statement of cash flows (under direct method) for the year ended 31 December 2022;
- Notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible impact of the matter described in the “Basis for qualified opinion” section of our report, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2022, its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” dated 16.07.1999 No. 996-XIV in respect of financial statements preparation.

Basis for qualified opinion

Property, plant and equipment

As described in Note 4 to the consolidated financial statements, the Group applies the revaluation model to account for its property, plant and equipment as permitted by paragraph 29 of IAS 16 *Property, Plant and Equipment*, which requires that revaluations should be carried out regularly to ensure that the carrying amount of property, plant and equipment does not differ materially from its fair value at the reporting date. The Group's property, plant and equipment were last revalued as at 31 July 2019.

As at 31 December 2022, the Group assessed the recoverable amount of property, plant and equipment and concluded that the carrying amount of property, plant and equipment carried at revalued amounts does not differ materially from its fair value. Furthermore, in 2022, the carrying amount of the Group's property, plant and equipment was reduced to its recoverable amount as a result of the impairment test.

In our opinion, significant changes in the economic and operating environment and the impact of the hostilities on the Group's operations that have occurred since the date of the last revaluation may indicate that the current fair value of the Group's property, plant and equipment may differ materially from its carrying amount. In the absence of an independent appraisal of the fair value of the Group's property, plant and equipment and the existing restrictions, due to the impact of military operations, on the ability to inspect, verify the condition and existence of property, plant and equipment at the territories temporarily not controlled by Ukraine, we were unable to obtain sufficient and appropriate audit evidence about the effect of this matter on the calculation of the recoverable amount and the value of the Group's property, plant and equipment with a carrying amount of UAH 48 963 223 thousand, the corresponding impact on the revaluation reserve and deferred tax assets/liabilities as at 31 December 2022, and, accordingly, the amount of recognized impairment losses on property, plant and equipment of UAH 4 093 998 thousand and income tax gain/expense for 2022. Therefore, we were unable to determine whether any adjustments to these amounts were necessary in the consolidated financial statements for 2022.

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

Material uncertainty related to going concern

These consolidated financial statements have been prepared on the Group's going concern assumption. It should be noted that the tariffs for the Group's services are set and approved by the regulator and should fully cover all economically reasonable costs to ensure uninterrupted operations. Therefore, given the critical importance of the Group as the only transmission system operator in Ukraine, the state, as the owner, supports and promotes the stable operation of the Group to ensure the security of electricity supply.

However, we draw attention to Note 2 to the consolidated financial statements, which states that from 24th February 2022, the Group's operations and financial performance are negatively affected by the full-scale military invasion of Ukraine by the Russian Federation. The magnitude or timing of further developments or the timing of their cessation are uncertain. These events and conditions, together with the other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern in the event of an adverse development related to the effects of the military aggression on the Group and the country. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group's consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in "Basis for qualified opinion" and "Material uncertainty related to going concern" sections, we have identified the following matters as key audit matters that should be reflected in our report.

Key audit matter

Description of Audit Procedures Performed

1

Recognition of modification of terms of the Group's liabilities of Eurobonds 2028

In 2022, the Group modified the terms of its liabilities of Eurobonds 2028 (the "modification"), which resulted in the postponement of the final maturity date of the Group's bonds with a nominal value of USD 825 million by 24 months to November 2028, and postponed the payment of interest on these liabilities by 24 months from November 2022 to November 2024.

- As of the date of the modification, 11th August 2022, management assessed the change in the contractual terms of the bonds issue in accordance with the requirements of paragraph 3.3.2 of IFRS 9 *Financial Instruments* and concluded that such changes were substantial for this financial liability in terms of qualitative characteristics.
- Taking into account the results of the assessment, the Group's management extinguished the original liability and recognized a new liability at fair value at the date of modification in accordance with the requirements of paragraph 3.3.3 of IFRS 9 *Financial Instruments*.

As a result, on the date of modification, the Group extinguished the original liability of Eurobonds 2028 in the amount of UAH 30,518,450 thousand and recognized a new liability at fair value in the amount of UAH 5,285,625 thousand. Transaction costs in the amount of UAH 19,421 thousand were recognized in finance income as part of the gain from the modification of issued bonds in the amount of UAH 25,213,404 thousand. As a result of the substantial modification, the effective interest rate for Eurobonds 2028 changed from 7.58% to 50.44%.

We paid particular attention to the assessment of management's judgement regarding the qualitative characteristics of the modified instrument that indicate a substantial change, as the assessment process is subjective and involves significant management judgement. The most significant judgements relate to the assessment of the characteristics of the modified instrument compared to the unmodified instrument, which, given the significant change in the fair value of the instrument since the date of issue, has a significant impact on the results of the transaction, the carrying amount of the recognized instruments and profit and loss in 2022.

See Notes 5 and 16 to the consolidated financial statements.

We obtained detailed explanations from management and analyzed the evidence supporting the management's assessment.

Our audit procedures on management's assessment included the following:

- Questioning of the management and other responsible persons regarding the terms of the modification of the liability of Eurobonds 2028;
- Analysis of changes in the offering memorandum, legal documentation of the modification, correspondence with lawyers and other factors affecting the modification terms and search for terms that were not considered in the assessment;
- Critical analysis of management's judgements in relation to the substantial/non-substantial test for changes in the terms of a financial liability;
- Testing management's calculations for the liability modification, including the identification of the fair value of the new instrument, the reliability of the data and the reasonableness of key judgements affecting the calculation.

In addition, we assessed the sufficiency of the disclosures in Notes 5 and 16 to the consolidated financial statements.

Other information

Management of the Group is responsible for other information prepared as at and for the year ended 31 December 2022.

Other information includes:

- Consolidated Management Report for 2022, prepared in accordance with the requirements of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” dated 16.07.1999 No. 996-XIV, as amended;
- Annual Information of the Issuer of Securities for 2022, prepared in accordance with the requirements of the Regulation on Information Disclosure by Securities Issuers, approved by the Decision of the National Securities and Stock Market Commission dated 03.12.2013 No 2826;
- Report on the consolidated financial statements prepared on the basis of IFRS Financial Reporting Taxonomy in a single electronic format (iXBRL) as at and for the year ended 31 December 2022, prepared in accordance with the requirements of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” dated 16.07.1999 No. 996-XIV, as amended.

Our opinion on the Group’s consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

Consolidated Management Report

The Group plans to prepare and publish the Consolidated Management Report for 2022 after the date of publication of this Independent Auditor’s Report. Upon receiving and reviewing of the Consolidated Management Report for 2022, if we conclude that there is a material misstatement, we will further communicate the matter with those charged with governance.

Annual Information of the Issuer of Securities

The Group plans to prepare and publish Annual Information of the Issuer of Securities for 2022 after the date of publication of this Independent Auditor’s Report. Upon receiving and reviewing of the Annual Information of the Issuer of Securities, if we conclude that there is a material misstatement, we will further communicate the matter to those charged with governance.

Report on consolidated financial statements prepared on the basis of the IFRS Financial Reporting Taxonomy in a single electronic format (iXBRL)

The Group plans to prepare and publish Report on consolidated financial statements prepared on the basis of the IFRS Financial Reporting Taxonomy in a single electronic format (iXBRL) for 2022 after the date of publication of this Independent Auditor’s Report. Upon receiving and reviewing of the Report on consolidated financial statements prepared on the basis of the IFRS Financial Reporting Taxonomy in a single electronic format (iXBRL), if we conclude that there is a material misstatement, we will further communicate the matter to those charged with governance.

Responsibility of management and those charged with governance for the consolidated financial statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and the requirements of the Law of Ukraine “On Accounting and Financial Reporting in Ukraine” dated 16.07.1999 No. 996-XIV in respect of financial statements preparation, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the financial reporting process of the Group.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's 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 would cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on the requirements of other laws and regulation

1

The report on meeting the requirements of paragraph 4 of Article 14 of the Law of Ukraine "On Audit of Financial Reporting and Auditing Activity" dated 21.12.2017 No. 2258-VIII on the provision of additional information on the results of the mandatory audit of a public interest entity:

1. BDO LLC was appointed to perform this statutory audit assignment by the Decision of the Supervisory Board Minutes No. 12/2022 dated 21st October 2022. The section "Report on the audit of the consolidated financial statements" of this Independent Auditor's Report discloses information about the scope of the audit and the inherent limitations.
2. The total duration of the statutory audit assignment of the Group's consolidated financial statements by BDO LLC considering the extension of authority, which took place, and reappointments is 3 (three) years. For BDO LLC, this assignment is also the third year of the statutory audit of the Group's consolidated financial statements after the Group was recognized as a public interest entity in accordance with the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated 16.07.1999 No. 996-XIV.
3. In "Basis for qualified opinion" and "Key audit matters" sections of this report we have disclosed the matters that were most relevant to the audit of the consolidated financial statements for the current period and which, in our professional judgment, are worth drawing attention to. These matters have been considered in the context of our audit of the consolidated financial statements as a whole and have been taken into account in forming our opinion thereon, and we do not express a separate opinion on key audit matters. During this statutory audit engagement, we did not identify any matters in respect of our audit estimates, which we consider appropriate to disclose in accordance with the requirements of paragraph 4.3 of Article 14 of the Law "On the Audit of Financial Statements and Auditing Activities" dated 21.12.2017 No. 2258-VIII.
4. In "Material uncertainty related to going concern" section of this report, we have disclosed matters that, in our professional judgment, should also be addressed. These matters were considered as part of our audit of the consolidated financial statements taken as a whole and our opinion is not modified in respect of these matters.
5. The information contained in this Independent Auditor's Report on the audit of the Group's consolidated financial statements was reconciled with the information in the Additional Report to the Supervisory Board dated 21st April 2023.
6. During 2022, BDO LLC provided the following services to the Group:
 - audit of the separate and consolidated financial statements as of 31 December 2021 and for the year then ended; the audit of the special purpose financial statements for the Second Power Transmission Project as of 31 December 2021 and for the year then ended;
 - limited assurance engagement on the Statement of the Renewable Energy Installed Capacity and Renewable Energy Installed Capacity Percentage as of 31 December 2021;

- review of the interim condensed consolidated financial statements in accordance with International Standard on Review Engagements No. 2410 for the 6 months ended 30 June 2022.
- 7. BDO LLC and its Key Audit Partner are independent in relation to the Group according to the requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA's Code) and ethical requirements applied in Ukraine to our audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA's Code. During the audit, we have not identified any additional facts or matters that could affect our independence and which we would like to draw your attention to.
- 8. BDO LLC did not provide the Group with other services prohibited in accordance with the requirements of Article 6 of the Law of Ukraine "On Audit of Financial Reporting and Auditing Activity" dated 21.12.2017 No. 2258-VIII during 2022 and in the period from 1st January 2023, until the date of signing this Independent Auditor's Report.

2

Report on the requirements of the NSSMC's decision dated 22.07.2021 No. 555 "On Approval of the Requirements for Information Related to the Audit or Review of Financial Statements of Participants in Capital Markets and Organized Commodity Markets Supervised by the NSSMC"

The consolidated financial statements of the Group were audited in accordance with the agreement No. UE/8A dated 18 January 2021, Amendment No. 8 dated 01 November 2022 and Amendment No. 9 dated 12 April 2023, for the period from 21 November 2022 to the date of this report. The Group is a public interest entity in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" dated 16.07.1999 No. 996-XIV. The Group is not a controller/participant of a non-banking financial group.

Information about the ultimate beneficial owner and ownership structure

In our opinion, the information disclosed in Note 1 to the consolidated financial statements is consistent with the information on the ultimate beneficial owner and ownership structure of the Group as disclosed in the Unified State Register of Legal Entities, Individual Entrepreneurs and Public Formations.

Information about the Company's parent and subsidiaries

As disclosed in Note 1 to the consolidated financial statements, as at the beginning of the reporting period, the Group consists of NPC "Ukrenergo" and subsidiary Ukrenergo Digital Solutions LLC, at the end of the reporting period the Group consists of NPC "Ukrenergo" and subsidiaries Ukrenergo Digital Solutions LLC and EUkrenergo, the sole owner of which is the Company.

Summary of the Revision Committee's review

The Revision Committee establishment is not provided for in the Company's Charter.

The audit was performed under the supervision of the Key Audit Partner Alexander Mykolaiovych Nikolaenko.

Key Audit Partner

Registration Number in the Register of Auditors and Audit Entities: 2868

Kyiv, 27 April 2023

Limited liability company BDO. EDRPOU code is: 20197074. Registration Number in the Register of Auditors and Audit Entities: 2868. Legal address: 4, Andriia Fabra Street, Dnipro, 49070 Tel. 044-393-26-87.

BDO LLC is included in the Register of auditors and audit entities in section 4 "Audit entities that have right to perform statutory audits of financial statements of public interest entities". Link to the Register: <https://www.apu.com.ua/subjekty-audytorskoi-dijalnosti-jaki-majut-pravo-provodyty-obovjzkovyj-audit-finansovoi-zvitnosti-pidpryemstv-shho-stanovljat-susilnyj-interes/>



A. M. Nikolaenko.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Private Joint Stock Company "National Power Company "Ukrenergo" and its subsidiaries ("the Group") as of 31 December 2022, and the results of its operations, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS"), and the requirements to financial statements preparation under the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

In preparing the consolidated 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Group's financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2022 were approved by management on 27 April 2023.

On behalf of management:

V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands

	Notes	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	7	48,963,223	55,513,278
Intangible assets	8	864,961	698,351
Deferred tax assets	30	3,482,715	1,821,749
Other non-current assets		45,618	49,107
Total non-current assets		53,356,517	58,082,485
Current assets			
Inventories		466,812	286,493
Trade accounts receivable	9	31,410,900	16,373,605
Prepayments	10	736,800	818,607
Other accounts receivable		102,670	80,097
Prepaid income tax		22,946	36
Taxes receivable, other than income tax	11	2,903,963	2,995,823
Loans receivable	12	2,104,503	-
Prepaid expenses		68,033	66,391
Cash and cash equivalents	13	4,732,828	10,355,609
Other current assets	14	2,081,904	3,547,168
Total current assets		44,631,359	34,523,829
TOTAL ASSETS		97,987,876	92,606,314
EQUITY			
Share capital	15	37,160,209	37,160,209
Corporatization effect	15	(35,933,854)	(35,933,854)
Revaluation reserve	15	24,033,949	25,657,936
Reserve capital	15	100,262	100,262
Accumulated deficit		(22,787,250)	(17,001,582)
Translation reserve		7,593	-
TOTAL EQUITY		2,580,909	9,982,971
LIABILITIES			
Non-current liabilities			
Loans and borrowings	16	34,518,342	40,472,987
Retirement benefit obligations	17	510,725	707,002
Special purpose funding	18	1,509,634	1,548,965
Other non-current liabilities		35,790	178,576
Total non-current liabilities		36,574,491	42,907,530
Current liabilities			
Loans and borrowings	16	8,986,984	7,934,238
Trade accounts payable	19	47,299,334	27,688,173
Advances received	20	443,397	2,930,235
Other accounts payable		120,855	122,285
Income tax payable		-	697
Taxes payable, other than income tax		15,060	20,304
Provisions	21	561,102	600,515
Deferred income	18	54,243	47,169
Other current liabilities	22	1,351,501	372,197
Total current liabilities		58,832,476	39,715,813
TOTAL LIABILITIES		95,406,967	82,623,343
TOTAL LIABILITIES AND EQUITY		97,987,876	92,606,314

On behalf of management:

V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands

	Notes	2022	2021
Revenue	23	82,330,513	71,089,001
Cost of sales	24	(80,871,674)	(70,143,583)
Gross profit		1,458,839	945,418
Other operating income	25	623,142	1,772,977
Administrative expenses	26	(809,280)	(901,825)
Other operating expenses	27	(1,943,589)	(1,112,878)
Impairment of financial assets, net		(10,509,598)	584,637
Impairment of property, plant and equipment and intangible assets, net	7, 8	(4,093,998)	-
Operating (loss)/profit		(15,274,484)	1,288,329
Finance income	28	25,823,184	209,794
Finance costs	29	(5,086,970)	(1,805,047)
Foreign exchange (loss)/gain, net		(12,875,076)	481,432
(Loss)/profit before tax		(7,413,346)	174,508
Income tax benefit/(expense)	30	1,316,222	(45,476)
(LOSS)/PROFIT FOR THE PERIOD		(6,097,124)	129,032
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss, net of income tax:</i>			
Decrease in revaluation reserve as a result of impairment of property, plant and equipment		(1,619,008)	-
Remeasurement of defined benefit obligation	17	306,477	22,011
<i>Items that may be reclassified subsequently to profit or loss, net of income tax:</i>			
Cumulative translation difference on retranslation to Group's presentation currency		7,593	-
Other comprehensive loss for the period		(1,304,938)	22,011
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(7,402,062)	151,043

On behalf of management:

V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022
In Ukrainian Hryvnias and in thousands**

	Share capital	Corporatization effect	Revaluation reserve	Reserve capital	Accumulated deficit	Translation reserve	Total equity
Balance at 1 January 2021	37,160,209	(35,933,854)	25,668,547	93,205	(17,029,143)	-	9,958,964
Profit for the period	-	-	-	-	129,032	-	129,032
Other comprehensive income for the period	-	-	-	-	22,011	-	22,011
Total comprehensive income for the period	-	-	-	-	151,043	-	151,043
Realised revaluation reserve	-	-	(10,611)	-	10,611	-	-
Provision for dividends (Note 21)	-	-	-	-	(127,036)	-	(127,036)
Charges to reserve capital (Note 15)	-	-	-	7,057	(7,057)	-	-
Balance at 31 December 2021	37,160,209	(35,933,854)	25,657,936	100,262	(17,001,582)	-	9,982,971
Loss for the period	-	-	-	-	(6,097,124)	-	(6,097,124)
Other comprehensive loss for the period	-	-	(1,619,008)	-	306,477	7,593	(1,304,938)
Total comprehensive loss for the period	-	-	(1,619,008)	-	(5,790,647)	7,593	(7,402,062)
Realised revaluation reserve	-	-	(4,979)	-	4,979	-	-
Balance at 31 December 2022	37,160,209	(35,933,854)	24,033,949	100,262	(22,787,250)	7,593	2,580,909

On behalf of management:

V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

CONSOLIDATED STATEMENT OF CASH FLOWS (UNDER DIRECT METHOD) FOR THE YEAR ENDED 31 DECEMBER 2022 *In Ukrainian Hryvnias and in thousands*

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows from:			
Revenue		62,370,218	70,774,619
Return of taxes and duties		-	20,000
Special purpose funding		18,914	61,135
Advances from buyers and customers		3,181,137	9,104,317
Prepayments returned		1,336	626
Interest on current accounts with banking institutions		497,323	161,247
Forfeits (fines, penalties) from counterparties		116,702	216,918
Operating leases		3,567	1,492
Other proceeds		1,302,520	542,058
Cash outflows to:			
Goods (works, services)		(60,246,074)	(84,225,905)
Staff costs		(2,545,837)	(2,340,905)
Social charges		(644,814)	(587,414)
Liabilities on taxes and duties:		(1,565,080)	(842,052)
Income taxes		(24,549)	(10,752)
Value added tax		(847,880)	(198,700)
Other taxes and duties		(692,651)	(632,600)
Prepayments		(2,082,722)	(1,991,964)
Return of advances		(2,531,340)	(2,609,000)
Other expenses		(1,261,035)	(1,638,531)
Net cash flows used in operating activities		(3,385,185)	(13,353,359)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from loans repayment	12	6,807	-
Loans provided	12	(2,499,974)	-
Purchases of property, plant and equipment and intangible assets		(1,508,536)	(2,173,665)
Net cash flows used in investing activities		(4,001,703)	(2,173,665)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	34	8,332,655	26,689,546
Repayment of loans and borrowings	34	(3,575,731)	(2,207,885)
Dividends paid	34	(127,036)	-
Interest paid	34	(3,337,615)	(1,564,555)
Other payments	34	(4,617)	(5,302)
Net cash flow from financing activities		1,287,656	22,911,804
Net (decrease)/increase in cash and cash equivalents		(6,099,232)	7,384,780
Cash and cash equivalents at the beginning of the period	13	10,355,609	2,966,702
Effect of exchange rates change on cash and cash equivalents		476,451	4,127
Cash and cash equivalents at the end of the period	13	4,732,828	10,355,609
NON-CASH TRANSACTIONS			
	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Payments to acquire property, plant, and equipment and intangible assets by a lending bank	34	1,346,180	1,440,621
Repayment of trade accounts payable to SE "Guaranteed buyer" for PSO RES directly by a lending bank	34	-	5,000,000

On behalf of management:

V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

1. THE ORGANISATION AND ITS OPERATIONS

Creation and change of the Group's shareholder

State Enterprise "National Energy Company "Ukrenergo" was established by the order of the Ministry of Energy of Ukraine dated 15 April 1998 No.54 on the basis of the state enterprise "National Dispatch Center of Electricity of Ukraine" with the merger of the reorganized state enterprise "State Electric Company "Ukrelectroperedacha".

Private Joint Stock Company "National Power Company "Ukrenergo" (hereinafter - NPC "Ukrenergo", the "Company") is a legal entity incorporated as a joint stock company with 100% shares fixed in state ownership due to reorganization through the transformation of the State Enterprise "National Power Company "Ukrenergo" in a Private Joint Stock Company in accordance with the order of the Cabinet of Ministers of Ukraine dated 22 November 2017 No.829-r "On Approval of the Transformation of the State Enterprise National Power Company Ukrenergo into the Private Joint Stock Company".

By the Decree of the Cabinet of Ministers of Ukraine dated 14 November 2018 No.1001-r integral property complex of the state enterprise "National Energy Company "Ukrenergo" was transferred from the Ministry of Energy and Coal Industry of Ukraine to the Ministry of Finance of Ukraine.

On 29 July 2019 the Ministry of Finance of Ukraine approved Order No.321 on the Company's transformation into Private Joint Stock Company. The Company's shares are not listed on international or national stock exchanges.

The Decree of the Cabinet of Ministers of Ukraine date 28 July 2021 No.833-r "Certain issues of management of state property" approved the transfer of management of corporate rights owned by the state in share capital of the Company from the Ministry of Finance of Ukraine to the Ministry of Energy of Ukraine, and authorized the Ministry of Energy of Ukraine as body of management of state property, which was assigned to the Company by the right of operational management. On 16 September 2021, the state, represented by the Ministry of Energy of Ukraine, became the owner of 100% of the Company's shares.

Main activities and structure of the Group

NPC "Ukrenergo" Group (hereinafter – the "Group") consists of the Company and subsidiaries "Ukrenergo Digital Solutions" LLC and EUkrenergo, the sole owner of which is the Company. "Ukrenergo Digital Solutions" LLC was founded in 2020 and is engaged in development of special purpose software for transmission system operator. EUkrenergo was founded in 2022 in Belgium for the settlement of cross-border electricity flows with neighboring European countries and to represent the Company in ENTSO-E and other European institutions on a regular basis.

NPC "Ukrenergo", which is a natural monopoly in electricity transmitting via high voltage lines, operates 107 substations (110-750 kV) and over 21,800 km of main and interstate power lines (excluding 34 substations and a number of power lines located on temporarily occupied territories of Donbass and Crimea).

The Group's Head Office is located at: 25 Symona Petliury Street, Kyiv, Ukraine.

The principal activities of the Group are dispatch (operational and technological) control of the Integrated Power System of Ukraine (hereinafter – the "IPS"), electricity transmission via high voltage lines from generation to distribution networks, acting as administrator of commercial accounting and administrator of settlements in the electricity market of Ukraine (energy sales and purchases on the balancing market), and others. In addition, the Group was assigned with public service obligation to increase the share of energy generation from alternative energy sources.

Tariffs for electricity transmission and dispatch (operational and technological) control services are regulated and approved by the National Energy and Utilities Regulatory Commission (the "NEURC").

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The Company was built on a regional basis and combined four territorial administrations: Northern, Southern, Eastern and Western. The Company also has a separate division "Construction and Repair", which provides power equipment repairing, implementation of certain projects under investment program projects by its own staff, and other.

The Group also has assets located at temporarily occupied territories of Autonomous Republic of Crimea (Crimean ES, Dzhankoi Main Power Grids (MPG), Feodosiya MPG, Simferopol MPG, Health Complex "Semidviryia", Boarding House "Energetik" and SD "Pivdenienergoprom"), Donetsk and Lugansk region (Chaikinski MPG and Luhansk MPG). The Group lost control over these assets and cannot obtain economic benefits from them. Respectively, these assets were fully impaired in previous years. In 2020 the arbitral tribunal began to consider the case of the illegal seizure by the Russian Federation of the Group's infrastructure facilities on territory of Autonomous Republic of Crimea (Note 32).

As a result of Russia's full-scale military invasion of Ukraine, which began on 24 February 2022, an additional part of the Group's assets is located in temporarily uncontrolled territory. More information is disclosed in Note 2.

Integration into ENTSO-E

At the end of 2021, the Group applied for observer-membership in ENTSO-E. This became possible after the NEURC certified NPC "Ukrenergo" as the European-style transmission system operator according to the ISO model. The integration of IPS of Ukraine into the European continental network ENTSO-E is a strategic goal of the Group and a project of national importance for Ukraine, enshrined in the Energy Strategy of Ukraine until 2035 and in the Association Agreement between Ukraine and the EU.

On 24 February 2022 the Group disconnected the Ukrainian power system from the networks of Russia and Belarus to conduct an isolated operation test. On the same day, the Russian army launched a full-scale military invasion of Ukraine (Note 2). However, despite active hostilities, the Group successfully tested the power system in isolation for three days, and after its completion, Ukraine refused to resume parallel work with the power systems of Russia and Belarus. Instead, the Group applied for accelerated synchronization with the European energy system.

On 11 March 2022 ENTSO-E decided to fully synchronize the power systems of Ukraine and Moldova with the energy network of continental Europe ENTSO-E. Physical operations to connect power systems were conducted on 16 March 2022.

On 26 April 2022 NPC "Ukrenergo" received the status of an "observer-member" in ENTSO-E.

From 30 March 2022, the export of electricity from Ukraine to Poland was resumed (available capacity - 210 MW), and in May 2022 - to Moldova (600 MW).

In 2022, the Group and the Polish transmission system operator PSE S.A. have begun restoration of the interstate power transmission line between Ukraine and Poland. The commissioning of the restored interconnector can increase the physical capacity for exporting Ukrainian electricity to Poland by almost 1,000 MW.

On 7 June 2022 transmission system operators in Continental Europe gave a positive response to the Group's request to resume electricity exports from Ukraine. On 27 June 2022 transmission system operators of Continental Europe ENTSO-E confirmed that the Group, together with the operators of Romania, Slovakia and Hungary, fulfilled all the necessary technical prerequisites.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Six technical prerequisites fulfilled by the Group, Ukrainian energy companies and TSOs of neighboring countries for the resumption of electricity trade with the EU after synchronization with the ENTSO-E energy system are necessary to ensure compliance with the key priorities and principles of ENTSO-E:

- reconfiguration of equipment at power plants to increase the ability to dampen power system power fluctuations, including adjustment of stabilizers at TPPs, HPPs and adjustment of excitation systems at NPPs;
- implementation of a daily coordinated security assessment, including IT security measures, to timely identify operational security risks and make decisions about the necessary actions to eliminate them;
- full compliance with ENTSO-E requirements when planning cross-border electricity flows and coordinated planning of operations within the framework of ENTSO-E;
- integration into the mechanism of financial settlement of cross-border unintentional deviations of technical flows (FSkar mechanism);
- connection to the "Special Alarm System" for real-time monitoring of electricity flows along cross-border lines and exchange of this data with other European TSOs;
- establishment of a proper procedure for synchronous operation between the ENTSO-E power system and the Ukrainian-Moldovan electric network in case of low damping fluctuations.

As a result, transmission system operators of continental Europe ENTSO-E are gradually increasing the available volume of interstate crossings for the export/import of electricity between Ukraine and ENTSO-E:

- From 30 June 2022 - the total volume of available crossing with ENTSO-E was 100 MW;
- From 30 July 2022 – increased to 250 MW;
- From 5 September 2022 – increased by 50 MW to 300 MW during daytime and evening hours. At night - it remains at the level of 250 MW;
- From 23 September 2022 – increased by 50 MW at night. Thus, it is 300 MW throughout the day.

Starting from 10 October 2022, Russia begins massive missile attacks on the energy infrastructure of Ukraine, which forced Ukraine to suspend electricity exports from 11 October 2022 in order to stabilize its own energy system. It is worth noting that the synchronization of the energy system of Ukraine with the power grid of continental Europe ENTSO-E significantly increases the reliability of the energy system of Ukraine due to the ability to receive timely help from Europe in case of emergency shutdowns of power plants, import European electricity and reduce the number of disconnected consumers. And if necessary and if there is a surplus of generating capacity, Ukraine can provide emergency assistance to European energy systems and export electricity.

In order to cover the shortage of electrical energy that arose in the energy system of Ukraine due to significant damage to the infrastructure as a result of Russian missile attacks, the Cabinet of Ministers of Ukraine by Resolution No. 1 dated 3 January 2023 approved the Regulation on the peculiarities of the import of electrical energy during the autumn-winter period of 2022/23 in the conditions of the legal regime of martial law in Ukraine.

On 1 January 2023, Ukraine began importing electricity from the EU. Initially, the permitted volume of imports was 700 MW to Ukraine and Moldova. On 27 March 2023, the transmission system operators (TSOs) of continental Europe agreed to increase the maximum capacity for the exchange of electricity in the direction of imports from continental Europe to Ukraine/Moldova from 700 MW to 850 MW at any time.

From 11 April 2023, in accordance with the decision of the Ministry of Energy of Ukraine, Ukraine resumes the export of electricity in conditions of surplus of generating capacity. This became possible due to the fact that from the mid of February 2023, the Ukrainian energy system works without consumer restrictions, with a capacity reserve. The opening of electricity export will allow to attract additional financial resources for the necessary reconstruction of the destroyed and damaged energy infrastructure. The maximum capacity for electricity export to Europe is 400 MW.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

At the same time, from 29 March 2023, a new agreement on multilateral emergency assistance to the Group from ENTSO-E in the event of significant disruptions in electricity production or transmission will enter into force. The new voluntary agreement allows the Group to request multilateral emergency assistance from the relevant TSOs of continental Europe ENTSO-E in the event of serious problems in the production or transmission of electricity, or in the event of sudden significant imbalances between production and consumption in Ukraine. Although emergency assistance under this Agreement does not provide ongoing support, it allows the Group to request assistance in unforeseen situations, such as attacks on the Group's energy infrastructure.

The consolidated financial statements of the Group for the year ended 31 December 2022 were approved by the Management Board on 27 April 2023.

2. OPERATING ENVIRONMENT

The economic situation in the world

The pace of global economic growth remains weak. The main reasons for this are disrupted supply chains, increased inflationary pressure, the war in Ukraine and weak production in China. Lack of production resources and high inflationary pressure restrained world trade in goods. The decline in global economic activity at the end of 2022 deepened due to a decrease in output in both industrial activities and the service sector. Moreover, a drop in activity was observed in almost all sectors, which witnessed the worst quarter since the global financial crisis, except for the initial period of the pandemic. Important reasons for this were geopolitical uncertainty, especially as a result of Russia's invasion of Ukraine, and the strengthening of global financial conditions.

Export restrictions, primarily food, fodder and fertilizers, have a negative effect on world trade. The number of such restrictions has increased since mid-October 2022. After growing by 3.5% in 2022 thanks to high activity at the start of the year and some trade pick-up due to the opening of the "grain corridor" and the change in China's zero-tolerance policy for COVID-19, world trade in goods is expected to grow by only 1% in 2023. This will be due to the global recession in the first half of the year, the consequences of the war in Ukraine, still quite high energy prices and consumer inflation, tightening of monetary policy by leading central banks.

Global inflation continued to rise: inflationary pressures caused by the post-winter recovery amid persistent supply chain disruptions were prolonged by shocks from Russia's invasion of Ukraine and another wave of the pandemic in China. The latter mainly manifested themselves due to the increase in world prices for energy and food. Moreover, the increase in energy prices accounted for almost half of the 12-month increase in inflation in developed countries, while the main contribution to inflation in developing countries was provided by the increase in food prices, including due to the greater vulnerability of the food systems of these countries to the consequences of Russia's aggression against Ukraine. Global inflation is expected to remain high until the end of this year and decline further due to tighter monetary policy by most central banks.

Operating environment of Ukraine

The Ukrainian economy demonstrated sustained growth for a number of years until 2020, amid overall macroeconomics stabilisation supported by structural reforms, a rise in domestic investment, a revival in household consumption, an increase in industrial production and construction activity, as well as an improved environment on external markets. In 1Q-3Q 2020 the Ukrainian economy contracted amid a decrease in industrial output and lockdown measures introduced in early 2020 to contain the spread of the COVID-19 pandemic. The easing of restrictive anti-pandemic measures spurred an economic recovery in the second half of the year and together with other factors led to a 3.4% real GDP growth in 2021.

Starting in the end of 2021 news around the potential escalation of the conflict between Russia and Ukraine emerged. This conflict started in 2014 with the annexation of Crimea and subsequent loss of control by Ukraine over certain parts of the Donetsk and Luhansk regions due to actions of illegal armed formations largely backed by the Russian Federation. It has impacted the electricity transmission operations of the Group located in this part of Ukraine.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

On 24 February 2022, Russia launched a full-scale military invasion of Ukraine. As a response, Ukraine declared martial law which is still in place as of the date of signing of these consolidated financial statements as active conflict is still ongoing in certain towns and cities of Eastern and Southern parts of Ukraine along the frontline, some cities in these regions remain temporarily occupied while Russia conducts sporadic indiscriminate bombardments of Ukrainian territory.

On 30 September 2022 Russia declared its annexation of the Donetsk, Luhansk, Zaporizhzhia and Kherson regions of Ukraine into the Russian Federation. Ukraine does not recognize the legality of the annexation and will use all available legal and other means to reverse it. On 12 October 2022, as part of Eleventh Emergency Special Session of the United Nations General Assembly regarding the aggression of Russian Federation against Ukraine, the General Assembly, with 143 member States voted in favour, adopted the resolution "Territorial integrity of Ukraine: defending the principles of the Charter of the United Nations". A resolution calls on all states, the UN and international organisations not to recognize any of Russia's annexation claim and demands the immediate reversal of its annexation declaration.

During September-November 2022 Ukrainian forces performed counteroffensives on the southern and eastern directions of the frontline, as a result of which substantial part of Kharkiv region, part of Donetsk, Luhansk and Kherson regions (including Kherson city itself) were liberated. From the end of November 2022 until the date of approval of this consolidated financial statement, there were no significant changes to the front line and hostilities zones.

The outcome and the timing of the resolution of this conflict cannot be predicted with the sufficient degree of certainty. Challenges Ukraine is facing due to the war hamper the sustainability and further development of its economy and financial sector. The operating environment thus remains challenging.

The impact on the people of Ukraine has been profound as the war provoked a massive migration to safer areas within the country and outside of it.

The damage to Ukraine's assets and physical infrastructure has been extensive. As a result of military actions the Black Sea ports in Ukraine suspended their operations being blocked or occupied by Russia while limited railway capacity with Western countries has been unable to replace seaborne throughput. This has prevented most seaborne imports and exports. On 22 July 2022, the representatives of Ukraine, Türkiye and UN Secretary-General signed in Istanbul the Initiative on the Safe Transportation of Grain and Foodstuffs from Ukrainian Ports, which allowed only for exports of grain and related food products from the ports of Odesa, Chornomorsk and Pivdennyi.

While Ukraine's economy has gradually adjusted to the wartime needs, attacks on the country's electricity network undermined a potential recovery. As a result of the invasion, Ukraine's GDP declined by 30.3% in 2022 (2021: increase by 3.4%). Still, the economy contracted in 2022 by less than initially expected, as the UN-brokered Black Sea Grain deal and the return of nearly 4 million migrants helped to support economic activity in the third quarter. Proven adaptability of the private sector, which explored new logistic routes and reoriented supply to the wartime needs, also aided growth. While Ukraine's economy has gradually adjusted to the new conditions, attacks on the power infrastructure starting in October 2022 damaged the country's power grid significantly, thereby exacerbating production constraints for the key sectors. Significant production disruptions and rolling electricity blackouts led to a 31.4% year-on-year (YoY) contraction in the fourth quarter of 2022, while imposing additional external pressure by limiting export capacity and increasing demand for energy-related imports. Ukraine's economic outlook will depend on the evolution of the war and the country's ability to adjust to continued fighting. Currently, GDP is expected to grow by only 0.3% in 2023 as a recovery in domestic services and war-related industries is projected to be mostly offset by a 15 percent decline in agricultural output and continued low-level stagnation of metals and mining production.

Consumer prices grew by 26.6% YoY in 2022 (2021: 10.0%). War-related supply shocks drove inflation during 2022. Inflation was predominantly driven by supply-side factors, including higher production costs related to logistical and energy disruptions and higher global commodity prices. Mitigating factors include the introduction of an exchange rate peg to the US dollar by the National Bank of Ukraine (NBU), thus providing for a nominal anchor, and unchanged energy tariffs.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Ukraine's external trade deficit broadened significantly in 2022 and was financed through large inflows of international aid. Ukraine recorded a current account surplus of 5.7% of GDP in 2022, with foreign grant inflows compensating for a rapidly growing trade deficit. The trade deficit grew to 16% of GDP, as annual exports declined by 30% compared to 2021 while imports only contracted by 4%. The export contraction was led by metals and minerals exports, which declined by 63% and 48%, respectively.

An increase in inflation in Ukraine towards the end of 2021 led the National Bank of Ukraine ("NBU") to continue monetary tightening and increase its key policy rate to 10%, effective from 20 January 2022. After the commencement of the Russian invasion, the NBU abandoned its inflation targeting policy. Effective from 3 June 2022, the NBU increased its key policy rate to 25%, though in time of war the monetary transmission mechanism remains weakened as structural imbalances in the economy caused by war-related disruptions in production, logistic and financial chains impact the inflation significantly more than the policy rate.

On 24 February 2022, in order to stabilise the Ukrainian financial system during the war, the NBU fixed the official hryvnia exchange at UAH 29.25 per USD 1 (as compared to UAH 27.28 per USD 1 as at 31 December 2021) then from 21 July 2022 re-fixed the hryvnia exchange rate at UAH 36.57 per USD 1.

From the start of the war the Ukrainian budget experiences a deficit, which is financed by international financial assistance, national borrowings, and direct deficit monetisation by the NBU as a measure of last resort. Since the beginning of the full-scale invasion by Russia and till 31 December 2022, the total amount of funds received by Ukraine from international partners amounted to USD 32.1 billion (UAH 1,076 billion), out of which 45% were in the grant format. As a result, gross international reserves rose to USD 28.5 billion by the end of 2022, more than at the start of a full-scale war. International support is crucially important for Ukraine's ability to continue fighting against the aggression and funding the budget deficit and on-going debt repayments.

In July 2022, the Cabinet of Ministers of Ukraine instructed the Ministry of Finance of Ukraine to approach the owners of Eurobonds of Ukraine and negotiate a 24-month deferral of payments on the foreign debt. This is stated in the Resolution of the Cabinet of Ministers of Ukraine No.805 dated 19 July 2022.

On 10 August 2022, negotiations with the holders of bonds of external state loans and state derivatives (GDP-warrants) ended with the successful introduction of changes to the conditions for issuing all bonds of external state loans and state derivatives of Ukraine, as well as Eurobonds guaranteed by the state. Due to the changes made, the maturity dates of all 13 series of sovereign Eurobonds will be extended by 2 years, and the coupon payments due in the next two years will be postponed until the end of the 2-year period, and interest at the appropriate contractual rate will be accrued on the deferred income until the end grace period.

As noted in Note 16, investors also supported the Group's proposal to amend certain terms of Eurobonds 2028 to postpone payments, as a result of which their credit rating was also upgraded in line with Ukraine's sovereign rating.

At the end of 2022, Russia began a broad aerial bombardment campaign using cruise missiles and unmanned aerial vehicles aimed at Ukraine's electricity production and transmission facilities. During the week starting 21 November 2022, the Russian attack resulted in blackouts across the country and many major cities and towns without water supply.

Stabilization of the situation and further economic growth depends on the results of Russia's invasion of Ukraine and the success of the Ukrainian government in implementing new reforms and recovery strategies after the cessation of hostilities, cooperation with international partners, from whom Ukraine receives an unprecedented level of political, economic and military support.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Government regulation of electric power market

Tariff regulation of the Group's operating activities

The tariff for electricity transmission services and the tariff for dispatch (operational and technological) control services of the Integrated Power System of Ukraine for the Group are set by the National Energy and Utilities Regulatory Commission (the "NEURC").

According to resolutions of the NEURC, tariffs for electricity transmission services in 2021-2022 were as follows:

Year	Period	Tariff, UAH/MWh	Date and number of the NEURC resolution
2021	January - March	293.93	09.12.2020 No.2353
2021	April - October	293.93	10.03.2021 No.434
2021	November - December	293.93	27.10.2021 No.1865
2022	January - December	345.64	01.12.2021 No.2454
2023	January - March	380.28	21.12.2022 No.1788
2023	April - June	430.25	21.12.2022 No.1788
2023	July - December	485.10	21.12.2022 No.1788

According to resolutions of the NEURC, tariffs for dispatch (operational and technological) control services in 2021-2022 were as follows:

Year	Period	Tariff, UAH/MWh	Date and number of the NEURC resolution
2021	January - July	39.41	09.12.2020 No.2354
2021	August - October	39.41	13.07.2021 No.1121
2021	November - December	39.41	20.10.2021 No.1823
2022	From 1 January 2022	62.13	01.12.2021 No.2455
2023	January - March	68.28	21.12.2022 No.1789
2023	April - June	80.87	21.12.2022 No.1789
2023	July - December	95.54	21.12.2022 No.1789

Performing of public service obligation

According to Article 62 of the Law, in order to ensure the general economic interest in the electricity sector of Ukraine, necessary to meet the interests of citizens, society, and the state, and to ensure the sustainable long-term development of the electricity sector and competitiveness of Ukraine's national economy, on market participants may have been imposed special obligations to ensure public interests in the functioning of the electricity market (hereinafter - public service obligation, PSO). The Law also stipulates that the Cabinet of Ministers of Ukraine may impose other PSO on market participants.

According to Article 33 of the Law, the transmission system operator performs public service obligations in the electricity market. In accordance with Article 62 of the Law, the Group is imposed with the following PSO:

- Public service obligation to increase the share of electricity production from alternative energy sources for the duration of the "green" tariff, the term of support for producers of electricity from alternative energy sources, which according to the results of the auction became eligible for support. This PSO is also imposed on the State Enterprise "Guaranteed Buyer" (hereinafter - the Guaranteed Buyer) and universal service providers (hereinafter - USP).
- Public service obligation to improve the efficiency of combined heat and power generation until 1 July 2024, which is also imposed on producers who carry out combined heat and power generation at thermal power plants, and the decision on which was made by the Cabinet of Ministers of Ukraine in accordance with the Law.

As of the date of these consolidated financial statements, the Group has not performed any public service obligation to improve the efficiency of combined heat and power generation.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

In accordance with Article 65 of the Law, in order to cover the reasonable expenses of the Guaranteed Buyer for performing public service obligation for the purchase of electricity at a "green" tariff and at an auction price, the Guaranteed Buyer provides the transmission system operator with a service to ensure an increase in the share of electricity production from alternative sources. Such a service is provided by the Guaranteed Buyer during the term of validity of the "green" tariff and the term of validity of support for producers who, as a result of the auction, have acquired the right to such support, in accordance with the standard contract for the provision of services to ensure an increase in the share of electricity production from alternative energy sources, the form of which is approved by the NEURC.

The cost of the service to ensure an increase in the share of electricity production from alternative sources, which is provided by the Guaranteed Buyer, is determined in the corresponding period as:

- the difference between the cost of electricity purchased at the "green" tariff, taking into account the surcharge thereto, and its cost when sold on the day-ahead market and the intra-day market and by bilateral agreements;
- the difference between the cost of electricity purchased at the auction price, taking into account the surcharge thereto, and its cost when sold on the day-ahead market and the intra-day market and by bilateral agreements;
- expenses related to the settlement of imbalances of electricity of producers and consumers who are part of the balancing group of the Guaranteed Buyer;
- expenses stipulated in the Guaranteed Buyer's budget for its activities.

The cost of the service to ensure an increase in the share of electricity production from alternative sources is calculated by the Guaranteed Buyer in accordance with the procedure for purchasing electricity produced from alternative energy sources by the Guaranteed Buyer approved by the Resolution of NEURC dated 26 April 2019 No.641. The amount of cost of the service to ensure an increase in the share of electricity production from alternative energy sources is approved by the NEURC.

The Group fulfills financial obligations to cover reasonable expenses of the Guaranteed Buyer for the performance of public service obligation for the purchase of electricity at the "green" tariff and at the auction price at the expense of the tariff for electricity transmission services.

According to paragraph 9.1 of Section XVII "Final and Transitional Provisions" of the Law until 1 July 2023, the cost of a service to ensure an increase in the share of electricity production from alternative sources, which is provided by the guaranteed buyer, is determined taking into account the difference between income and expenses that arose during the performance of the guaranteed buyer's public service obligation assigned by the Cabinet of Ministers of Ukraine to ensure public interests (except for public service obligation to ensure an increase in the share of electricity production from alternative energy sources), in accordance with the Law.

Among such other public service obligations to ensure the public interests assigned to the guaranteed buyer are public service obligation to provide services to ensure the availability of electricity for domestic consumers (hereinafter – the "PSO for population"), defined by Regulation on the imposition of special obligations on market participants to ensure the public interest in the functioning of the electricity market, approved by the Resolution of the Cabinet of Ministers of Ukraine dated 5 June 2019 No.483 (hereinafter – the "CMU No.483").

On 11 August 2021 the Resolution of the Cabinet of Ministers of Ukraine №859 amended CMU No.483, providing for the transition from commodity to financial model of PSO. According to the new PSO financial model:

- From 1 October 2021 to at least 30 April 2022, household consumers (population) will pay universal service providers (USP) UAH 1.44 per kWh with VAT, if their monthly consumption does not exceed 250 kWh. (including). Tariff for consumers who consume more than 250 kWh per month remains at the previous level - 1.68 UAH per kWh with VAT for the entire volume of consumption.
- USPs should buy electricity for supply to household consumers in organized market segments at market prices.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

- SE "Guaranteed Buyer" will compensate USPs for the difference between the market price of electricity and the fixed price for household consumers at the expense of funds received from SE "NAEC "Energoatom" and PJSC "Ukrhydroenergo".

During 2022-2023, the Cabinet of Ministers of Ukraine extended the validity of this PSO mechanism several times. In April 2023, the validity of this PSO mechanism was extended until 31 May 2023.

On 16 March 2022, the Resolution of the Cabinet of Ministers of Ukraine No.299 amended CMU No.483 according to which the Group, as a transmission system operator, was imposed by special obligation to purchase a service to ensure the operation of the "last resort" supplier. By the order of the Cabinet of Ministers of Ukraine dated 12 December 2018 No.1023-r (as amended on 25 November 2022 No.1061-r) the "last resort" supplier for the period from 1 January 2019 to 31 December 2023 is determined SE "Ukrinterenergo".

The cost of the service to ensure the operation of the "last resort" supplier is calculated as 1/12 of the annual costs required SE "Ukrinterenergo" for its operational activities to perform the function of "last resort" supplier, estimated by the NEURC and formed in accordance with the financial plan for financial year.

By the Resolution of the Cabinet of Ministers of Ukraine No.775 dated 7 July 2022 was approved the Regulation on the imposition of obligation on participants in the electricity market, which carry out operations on the export of electricity, to ensure public interests in the process of functioning of the electricity market during the period of martial law. According to the document, exporters are obliged to transfer to SE "Guaranteed Buyer" 80% of the conditional profit from electricity export operations to EU countries until the end of martial law. SE "Guaranteed Buyer" transfers 80% of the exporters' conditional profit to universal service providers (USPs), which cover the difference between the market price of electricity and the administratively set price for the population.

As part of this PSO, the Group is obliged to provide SE "Guaranteed Buyer" with information on the hourly volumes of electricity exports in accordance with the nominations of the physical right to transfer, taking into account the reduction of the physical right to transfer, as well as the deprivation of the physical right to transfer the exporter of electricity and restrictions access to participation in auctions for the distribution of capacity of interstate power networks of electricity exporters in the cases provided for by the regulation.

Distribution of revenue on granting access to the transmission capacity of interstate power networks in 2022

As described in Note 1, ENTSO-E continental European transmission system operators are gradually increasing the available volume of interstate crossings for export/import of electricity between Ukraine and ENTSO-E. Accordingly, the Group's revenue on granting access to the transmission capacity of interstate power networks increased significantly in 2022. Previously, in accordance with the Law of Ukraine "On the Electricity Market", these revenues could be directed exclusively to the development and reconstruction of interstate power networks. But in August 2022, the Verkhovna Rada of Ukraine, by Law of Ukraine No.2479-IX dated 29 July 2022, amended it and allowed the Group to use revenue on granting access to the transmission capacity of interstate power networks in three directions:

- Revenue received by 31 July 2022:
 - 45% must be directed to the repayment of the Group's debt to electricity producers on the balancing market;
 - 45% - for repayment of the Group's debt to SE "Guaranteed Buyer" for services to ensure an increase in the share of electricity production from alternative sources;
 - 10% - for maintenance and increasing the capacity of interstate power networks.
- Revenue to be received from 1 August 2022 to 1 January 2023:
 - 50% - to repay the Group's debt to electricity producers on the balancing market;
 - 50% - for repayment of the Group's debt to SE "Guaranteed Buyer" for services to ensure an increase in the share of electricity production from alternative sources.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

With the help of this mechanism, in 2022, the Group transferred a total of about UAH 8.4 billion for repayment for the services of SE "Guaranteed Buyer" and electricity producers in the balancing market. Payments were made from revenues on granting access to the transmission capacity of interstate power networks when exporting electricity to Europe.

Financing the creation of a strategic coal reserve for the heating season

The Cabinet of Ministers of Ukraine instructed the Group to finance the creation of a strategic coal reserve for the heating season of 2022-2023. This decision was adopted by Resolution of the Cabinet of Ministers of Ukraine No.838 dated 22 July 2022. The Group is going to provide an interest-free loan of UAH 2.5 billion to the state-owned enterprise "Ukrvuhillia" for the purchase of coal to ensure the preparation and completion of the heating season of 2022-2023. During the heating season of 2022-2023, coal will be used for thermal generation in agreement with the Ministry of Energy of Ukraine. SE "Ukrvuhillia" must return the loan to the Group no later than 1 June 2023.

As of 31 December 2022, the Group provided a loan to SE "Ukrvugilya" in full. As of the date of approval of these consolidated financial statements, SE "Ukrvugilya" repaid to the Group UAH 1,591,377 thousand of the loan. Refer to Note 12 for more information.

Application assumptions about the Group's ability to continue as a going concern

On 24 February 2022 Russia initiated a full-scale military invasion of Ukraine (hereinafter – military aggression), which was followed up by the immediate enactment of martial law by the Ukrainian President's Decree approved by the Parliament of Ukraine and the corresponding introduction of the related temporary restrictions that impact the economic environment and business operations. There remains a significant uncertainty over the future development of the military invasion, its duration and short and long-term impact on the Group, its people, operations, liquidity, and assets. There could be multiple scenarios for further developments of the current situation with unknown likelihood and the magnitude of the impact on the Group might vary.

From the very beginning of the military aggression, the Group focused on the following key areas: security of its employees, security of IPS of Ukraine, uninterrupted performance of the functions of the transmission system operator and integration into ENTSO-E.

The Group coordinates, as far as possible, the evacuation of workers from regions where active hostilities are taking place. Business processes have been reorganized, the protection of assets and critical facilities has been strengthened to adapt to existing problems and ensure the continuity of the Group's activities. The key personnel and management of the Group continue to work and fully perform their duties. The Group constantly analyzes changes in the regulatory environment and their impact on its operations, responds effectively and, if necessary, implements changes in business processes.

Ukrainian energy infrastructure facilities have been under Russian crosshairs since the beginning of the full-scale invasion, while the Russians have set a course for its complete destruction since October 2022.

However, thanks to the efforts of the Group's and the entire country's power engineers, maximum efforts are being made to quickly and efficiently restore damaged electrical equipment and ensure uninterrupted power supply.

Despite the significant challenges the Group adjusted its business processes to support the continuity of its operational activities. Management of the Group continues to monitor the situation and take necessary measures to further adapt its operations to the circumstances and facilitate the Group's uninterrupted operations to the extent possible.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The Group continues and plans in the future to provide sustainable services for electricity transmission, dispatch (operational and technological) control services, to balance the energy system, and implement measures related to the most efficient use of existing capacity and capacity building of the Group, including integration into ENTSO-E and expansion of Ukraine's export and import opportunities.

Apparently, as a result of military aggression, the Group has suffered a number of significant failures and problems in its activities, the consequences of which are described below.

Impact on the condition of the Group's assets

Between February 2022 and September 2022, the energy sector suffered war-related (though mostly collateral) damage; but intensified attacks on energy infrastructure since early October 2022 have caused extensive damage across the country. In the last months, Ukraine's energy infrastructure has suffered multiple artillery attacks as well as cyberattacks on energy companies. The attacks resulted in significant damage to Ukraine's integrated energy system, including power generation and transmission infrastructure.

As a result of missile attacks all large thermal and hydroelectric plants were damaged. The Group's control center was forced to limit consumption due to a significant shortage of power in the system. According to analytical calculations 12 million households across Ukraine were left with no or limited electricity and with disrupted water supplies and heating systems.

As a result, there was a significant shortage of electricity in the power system, which was accompanied by emergency and stabilization shutdowns. At the same time, considering the extent of damage, the Ukrainian energy system demonstrated high flexibility and adaptability. Ukrainian energy engineers gained unique experience in maneuvering low-power electrical networks, physical protection of energy facilities was strengthened. Business also adapts to such conditions: many enterprises have provided themselves with autonomous generation, so the economy partially works even during interruptions in the supply of electricity. However, the likelihood of further shelling remains high, while reserves of reserve equipment are limited, and the supply and installation of the necessary imported equipment requires time and additional resources.

According to World Bank Rapid Damage and Needs Assessment Report, damage to the power sector is estimated to USD 6.5 billion. Within the power sector, the largest contributor to damage is the generation segment (USD 3.9 billion) followed by the transmission segment (about USD 1.9 billion). Damage to the power distribution sector is estimated at about USD 404 million (without including assets in territories temporarily not under government control).

Due to the continuation of active hostilities, the lack of reliable information regarding damage to assets located near the front line or in temporarily uncontrolled territory, limited access to some assets, it is impossible to make a reliable assessment of the extent and cost of damage suffered by the Group's assets in as a result of military aggression. As a result of the military invasion, for the purposes of preparing these consolidated financial statements the Group determined that, in the absence of any information that could be reliably and safely obtained on assets, which are located on the territory temporarily occupied, for evaluation of the physical conditions and ability to generate future economic benefits, the Group concluded that a prudent establishment of allowance for impairment is appropriate according to the impairment assessment considering the IPS of Ukraine as one cash-generating unit. Please, refer to Notes 5 and 7 for details.

According to preliminary estimates, the main consequences of the military aggression on the Group's assets are the following:

- As a result of numerous massive missile strikes, starting in October 2022, a significant part of the Group's energy infrastructure, especially high-voltage substations, suffered varying degrees of damage and destruction. Additionally, as of 31 December 2022 part of Group's assets were located on temporary uncontrolled territory. The Group does not disclose the total carrying value of the destroyed or damaged assets of the Group as a result of missile strikes and information about assets on temporary uncontrolled territory, as this information is sensitive and may be classified as information with limited access, including regarding critical infrastructure facilities.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

- Electricity is not supplied to the temporarily occupied territory of Ukraine, except for powering the Zaporizhzhia NPP. It is impossible to assess the condition of power transmission lines and substations located in the temporarily uncontrolled territory due to the lack of access to them.
- The Group's and contractor's repair crews and contractors continue to actively restore damaged assets. In 2022, repair and maintenance costs increased by 48% compared to 2021. Around 70 mobile repair crews of the Group, which include 1,500 specialists, repaired more than 10,000 kilometers of lines during the entire period of attacks. The period of repairs and restoration works was reduced by three times, compared to the period before the invasion. The courage and professionalism of Ukrainian energy workers made it possible to restore power plants and infrastructure. Thanks to their work, from 12 February 2023, electricity consumption in the country is almost unrestricted.
- The energy system of Ukraine currently has no capacity deficit. Generation with a reserve has the necessary volumes of capacity to fully meet the needs of electricity consumers throughout the country.
- When planning the summer 2023 power plant repair campaign, the Group, together with the Ministry of Energy and power plant operators, will take into account the state of generation after missile strikes, so that these repairs do not lead to new deficits in the system.
- To ensure proper preparation for next winter and possible new attacks by Russian troops on critical infrastructure, Ukraine will focus on four main components - physical protection of energy facilities, restoration of generation, equipment and funds for repairs. The plan is to significantly strengthen the protection of the facilities, i.e. engineering fortifications, and make the Group's substations impact-resistant in time for the next heating season. In addition to the physical protection of objects, this is the restoration of generation - hydroelectric and thermal power plants, preparation of thermal power plants for winter. Also, the work is carried out with the contracting and delivery to Ukraine of a sufficient amount of equipment, which is necessary for the repair of networks and power plants.
- The Ukrainian energy sector has received and continues to receive humanitarian aid in the form of energy equipment from more than 30 countries. As of the end of March 2023, such humanitarian aid amounted to 470 shipments with a total weight of about 6,000 tons. The corresponding equipment is distributed among Ukrainian energy companies according to necessity and criticality. Together with international partners, Ukraine has created a transparent mechanism for the provision of humanitarian aid and the implementation of recovery projects, as far as possible from the point of view of the sensitivity of information and the protection of objects from repeated enemy attacks. The equipment, which cannot be transferred to Ukraine as humanitarian aid, is purchased with the funds of the Energy Support Fund of Ukraine, established under the Secretariat of the Energy Community. At the moment, there is still a great need for an additional supply of equipment to ensure the stable operation of the electric power industry.
- The Group records all damage to fixed assets and assesses the damage to use this information to obtain compensation in the future. The Group is developing a legal mechanism through which the Group will be able to protect its interests in compensation for damages. One of the most influential international energy organizations in Europe - the Energy Community, of which Ukraine has been a member since 2010 - will help sue Russia and demand compensation for damages caused to the Group's main networks. The relevant Memorandum on this was signed between the Group and the Secretariat of the Energy Community.

Impact on revenue from the sale of goods and services of the Group

The revenue from the sale of goods and services of the Group in 2022 compared to 2021 increased by UAH 11.2 billion, or by 16% (from UAH 71.1 billion to UAH 82.3 billion). This growth is mainly explained by the increase in revenue on electricity sales on the balancing market and electricity sales from cross-border flows by UAH 10.8 billion and revenue on granting access to the transmission capacity of interstate power networks by UAH 5.1 billion.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

At the same time, revenue from services that are subject to tariff regulation decreased by UAH 4.8 billion, or by 9%, despite the increase in tariffs: (i) for electricity transmission services from UAH 293.93/MWh to UAH 345.64/MWh, or by 18%; and (ii) for dispatch (operational and technological) control services from UAH 39.41/MWh to UAH 62.13/MWh, or by 58%. This decrease in revenue is explained by a decrease in the volume of electricity transmission by approximately 30% in 2022. The main reasons for the drop in consumption and, accordingly, in transmission, are that with the beginning of the military aggression, more than 6.5 million Ukrainians left for neighboring countries, and some enterprises stopped their activities or reduced the level of production. Due to massive missile attacks on the energy infrastructure at the end of 2022, the level of consumption could not be significantly restored. As mentioned earlier, there is no electricity supply to the temporarily occupied territory of Ukraine.

As a result of synchronization of IPS of Ukraine with the European continental network ENTSO-E on 16 March 2022 and receiving a positive response from ENTSO-E on the resumption of electricity exports from Ukraine on 7 June 2022, the Group observed significant growth in revenues on granting access to interstate power networks during July – October 2022. Massive missile attacks on Ukraine's energy infrastructure forced Ukraine to suspend electricity exports from 11 October 2022, in order to stabilize its own energy system.

The potential consequences of increasing electricity exports to European countries are as follows:

- Ability to provide additional liquidity in the electricity market and obtain additional profits, which will be used to continue the efficient and uninterrupted performance of the Group's functions as a transmission system operator, repayment of debts on the market, etc. Given this, the start of electricity exports could be an economically viable alternative to new loans and credits.
- The supply of low-carbon electricity from Ukraine will significantly strengthen energy security in Central and Eastern Europe. At the same time, electricity supplies from Ukraine could cover some of the electricity consumption in these countries and reduce their dependence on the Russian Federation.

Revenue received in 2022 on granting access to the transmission capacity of interstate power networks for the export of electricity to Europe, which amounted to a total of about UAH 6 billion, helped the Group to made repayments of its trade payables to SE "Guaranteed Buyer" and electricity producers on the balancing market.

In order to cover the shortage of electricity that arose in Ukraine's energy system due to significant infrastructure damage as a result of Russian missile attacks, on 1 January 2023, Ukraine began importing electricity from the EU. Electricity imports played a significant role in January and early February 2023. In March, imports from Europe were reduced to almost zero, which is evidence that Ukrainian domestic capacities are sufficient to cover consumption. From 11 April 2023, in accordance with the decision of the Ministry of Energy of Ukraine, Ukraine resumes the export of electricity in conditions of surplus generating capacity.

Impact on the financial condition of the Group

Trade accounts receivable

With the onset of military aggression, the solvency of many consumers has deteriorated or lost. The level of settlements in the electricity market has significantly deteriorated. Since the beginning of the military aggression on the electricity market, there has been a shortage of funds due to deteriorating solvency, bankruptcy of end customers, and destruction of their infrastructure, which also resulted in significant increase of gross accounts receivables to the Group in 2022 by UAH 25.3 billion, or by 110% (from UAH 22.9 billion to UAH 48.2 billion).

Additional reasons for the increase in receivables to the Group are the impossibility of disconnecting certain categories of protected consumers from the energy supply, due to the risks of a social and environmental disaster, in accordance with the Procedure for ensuring the supply of electric energy to protected consumers, approved by Resolution No. 1209 of the Cabinet of Ministers of Ukraine dated 27 December 2018.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Also, in accordance with NEURC Resolution No. 332 dated 25 February 2022 "On ensuring the stable functioning of the electricity market, including the financial condition of participants in the electricity market during the period of martial law in Ukraine" in order to ensure the operational security of the functioning of the main part of the IPS of Ukraine, with among other things, the following was established during the period of martial law in Ukraine and within 30 days after its termination or cancellation:

- TSO (in the role of settlement administrator) shall not apply the provisions of the Market Rules regarding the acquisition of the "Default" status and the application of appropriate measures to the following market participants:
 - electricity producers who provide services on the balancing electricity market;
 - electricity suppliers that perform the functions of universal service providers;
 - electricity suppliers and traders, provided that the amount of receivables for electricity exceeds the amount of payables for electricity in accordance with the agreement on the settlement of electricity imbalances.
- stop the accrual and collection of fines provided for by contracts concluded in accordance with the Law of Ukraine "On the Electric Energy Market" between the participants of the electric energy market.

Thus, during the period of martial law, the Group has limited opportunities to stimulate the collection of receivables from market participants, which also significantly affected the deterioration of the level of settlements and the increase of debt level in 2022. As a result, in 2022 the Group accrued expected credit losses on trade accounts receivable in the amount of UAH 10.2 billion (Note 9).

Despite this, the Group continues to assess and manage its credit risks, analyze the state of receivables and actively cooperate with counterparties, the regulator and the Ministry of Energy of Ukraine. Management expects that in future periods it may revise its assessment of the probability of repayment of receivables by market participants, taking into account the constant volatility of the course of military aggression, changes in the economic environment, international support and other factors.

Trade accounts payable

In parallel with the increase in trade accounts receivable to the Group in 2022, the Group's trade accounts payable to market participants also increased. Its increase amounted to UAH 19.6 billion, or 71% (from UAH 27.7 billion to UAH 47.3 billion).

The main factors of such growth in trade accounts payable are the following:

- Deterioration of counterparty settlements in the balancing market with the Group, which affects the Group's settlements with other market participants, as all payments in this market segment go through a separate special bank account of the Group and cannot be financed by revenues from other activities, if it is not provided by other regulations. These trade payables increased in 2022 by UAH 3.3 billion, or by 24% (from UAH 13.6 billion to UAH 16.9 billion).
- Increase in the level of procurement of auxiliary services (frequency and active power management), which are critical to maintaining the security and effective balancing of Ukraine's energy system during military aggression. In addition, during the winter heating season of 2021/2022, the Group purchased auxiliary services to regulate the frequency and active power in the IPS of Ukraine, namely the provision of replacement reserves (tertiary regulation). The purchase of these services is expected to be continued during the winter heating season 2022/2023.
- Increase in the level of procurement of auxiliary services (support reserve, frequency restoration and replacement), which are critically necessary to maintain the security and effective balancing of the energy system of Ukraine during military aggression, in 2022 by UAH 12.2 billion, or by 182% compared to in 2021. The largest component is the purchase of auxiliary services to ensure regulation of frequency and active power in the IPS of Ukraine, namely the provision of replacement reserves (tertiary regulation), which was carried out during the autumn and winter heating seasons.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The increase in the purchase of these services was also influenced by massive missile attacks on the energy infrastructure at the end of 2022, due to which the Group carried out balancing of the energy system at the expense of available reserves and capabilities. These payables increased in 2022 by UAH 7.9 billion, or by 489% (from UAH 1.6 billion to UAH 9.5 billion).

- Increase in the level of procurement of services to curtail RES production in 2022 by UAH 3.8 billion, or by 314% compared to 2021, due to an increase in cases and volumes of renewable energy generation curtailment to support the security and effective balancing of the energy system of Ukraine during military aggression, especially in the first months of military aggression, when electricity consumption in the country decreased much more than its generation. This surplus of electricity in the system was realized during its export to the EU during July-October 2022. Accounts payable for these services increased by UAH 2.5 billion in 2022 (from UAH 68 million to UAH 2.6 billion).
- Payables for services to increase the share of electricity production from alternative sources (hereinafter – PSO RES) have increased in 2022 by UAH 3.9 billion, or by 36%, as a result of a decrease in the Group's payments to universal service providers after the start of military aggression. In 2022, the debt for PSO RES to SE "Guaranteed Buyer" did not change significantly. The growth of debt for these services was restrained by a significant decrease in the costs of their purchase in 2022 by approximately 52% compared to 2021. The reasons for such a decrease in costs are a decrease in the volume of production of electric energy from RES by approximately 31% and an increase in the weighted average price of its sale on the market of SE "Guaranteed Buyer" by approximately 46%. Also, until 1 October 2022, the exchange rate of the euro under the "green" tariff was fixed at the level of the end of February 2022, which, accordingly, did not contribute to a significant increase in the costs of SE "Guaranteed Buyer" for the purchase of electricity from renewable energy sources under the "green" tariff.

It should be noted that the tariffs for electricity transmission services and dispatch (operational and technological) control services for 2022 were set in December 2021 and were not revised during 2022. Accordingly, these tariffs do not take into account the significant decrease in the volume of electricity transmission and the change in the Group's cost structure that occurred with the beginning of military aggression and, later, massive missile strikes. Thus, the underfunding of some cost items in the tariffs and the deterioration of the level of payments of market participants to the Group in the conditions of martial law are the result of an increase in the Group's payables in 2022.

However, in accordance with the legislation and regulatory acts, all economically justified costs of the Group must be covered by the tariffs for electric energy transmission and dispatch (operational and technological) control services, which are regulated and approved by the NEURC. Any differences between the actual and planned expenses of the current periods should be reflected in the tariffs of the following years.

In such difficult conditions in the electricity market and to solve the settlement crisis in the electricity market, preparation for the heating season and, including, repayment of mutual debts between the Group and market participants, several mechanisms were implemented:

- By the Resolution of the Cabinet of Ministers of Ukraine No.775 dated 7 July 2022 was approved the Regulation on the imposition of obligation on participants in the electricity market, which carry out operations on the export of electricity, to ensure public interests in the process of functioning of the electricity market during the period of martial law. According to the document, exporters are obliged to transfer to SE "Guaranteed Buyer" 80% of the conditional profit from electricity export operations to EU countries until the end of martial law. SE "Guaranteed Buyer" transfers 80% of the exporters' conditional profit to universal service providers (USPs), which cover the difference between the market price of electricity and the administratively set price for the population. This additional liquidity will allow USPs to pay its debt to the Group for electricity transmission services.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

- In August 2022, the Verkhovna Rada of Ukraine, by Law of Ukraine No.2479-IX dated 29 July 2022, allowed the Group to use revenue on granting access to the transmission capacity of interstate power networks for repayment of debts on the balancing market and to SE "Guaranteed Buyer" under PSO RES. Thanks to these changes, as of the date of approval of these consolidated financial statements, the Group transferred around UAH 8.4 billion for repayment of its debts on the balancing market and for PSO RES.
- As described in Note 16, in May and August 2022, the Group and the EBRD signed the Agreement for amendment of the loan agreement No.49235, where the parties agreed to a partial change in the purpose of the loan funds, namely: the use of EUR 147 million to cover the Group's working capital needs. During 2022, these funds were received to repay the Group's payables to market participants for auxiliary services and services to curtail RES production.
- In September 2022, the Group withdrew funds in the amount of USD 32.35 million under a credit line from JSC "Oschadbank" and transfer them for repayment of the debts for PSO RES to SE "Guaranteed Buyer".
- In August 2022, the Group and the EIB agreed on the reassignment of part of the loan funds under the loan agreement No. FIN 87.554 Separis No. 2017-0155 in the amount of EUR 50 million to be used to support the financial condition of the Group. During 2022, these funds were received to repay the Group's payables to market participants for ancillary services.
- In December 2022, the Group and the EBRD signed a loan agreement No. 54138 for the Project for Emergency Rehabilitation of the Electricity Transmission Network in the amount of EUR 300 million. Part of these loan funds in the amount of EUR 150 million should be used to replenish the working capital of the Group, in particular, to fulfill its financial obligations in the electricity market in terms of non-payments that arose in the market due to military aggression. This amount of EUR 150 million, after deducting a commission of EUR 1.5 million, was received in the first quarter of 2023 and was used to repay the Group's payables to market participants for auxiliary services and services to curtail RES production.

Loans and borrowings

The main effects on loans and borrowings received by the Group were as follows:

- During 2022 and until the date of approval of these consolidated financial statements, the Group repaid in a timely manner and in full principal amount and interest on loans from IFIs in the amount of UAH 3,270,271 thousand and 1,052,114 thousand, respectively.
- During 2022 and until the date of approval of these consolidated financial statements, the Group partially repaid the principal of loans from state-owned banks in the amount of UAH 1,134,781 thousand. At the same time, interest payments on these loans were made in full and amounted to UAH 2,769,538 thousand. With the beginning of the military aggression of the Russian Federation against Ukraine in February 2022, the Group suspended the payment of the principal debt on loans from state banks in connection with force majeure circumstances and agreed credit holidays with creditor banks. Firstly, in July-August 2022, and later in March-April 2023, the Group's management agreed with the state banks on the terms of postponing the payment of the residual value of the principal debt on the loans for a later period (Note 16).
- In May 2022, the Group fully paid in time coupon on Eurobonds 2028 in the amount of USD 28.4 million.
- On the instructions of the Cabinet of Ministers of Ukraine, in July 2022, the Ministry of Finance of Ukraine and the Group addressed investors with a proposal to change the terms of all state Eurobonds and state derivatives of Ukraine, as well as Eurobonds guaranteed by the state, including Eurobonds 2028. On 11 August 2022, investors supported the Group's proposal to postpone the final maturity of the bonds by 24 months - from November 2026 to November 2028, and allowed no interest payments on the bonds for 24 months - from November 2022 till November 2024 (Note 16).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

- On 30 December 2021, the Group and JSC "Oschadbank" concluded a credit line agreement in the amount of USD 40 million for the purpose of repaying a debt to SE "Guaranteed Buyer". In July 2022, it was agreed to reduce the maximum credit limit from USD 40 to 32.35 million due to the devaluation of the hryvnia. The withdrawal of funds was done in September 2022, which were immediately transferred to SE "Guaranteed Buyer" for repayment of the debt for PSO RES.
- In May and August 2022, the Group and the EBRD signed an Amendment to Loan agreement No.49235, where the parties agreed to partially change the purpose of the loan, namely: the use of EUR 147 million for the liquidity needs of the Group. During 2022, these funds were received to repay the Group's payables to market participants for auxiliary services and services to curtail RES production.
- In August 2022, the Group and the EIB agreed on the reassignment of part of the loan funds under the loan agreement No. FIN 87.554 Separis No. 2017-0155 in the amount of EUR 50 million to be used to support the financial condition of the Group. During 2022, these funds were received to repay the Group's payables to market participants for ancillary services. The rest of the loan funds in the amount of EUR 86 million are undrawn and will be directed to the restoration or modernization of assets.
- In December 2022, the Group and the EBRD signed a loan agreement No. 54138 for the Project for Emergency Rehabilitation of the Electricity Transmission Network in the amount of EUR 300 million. Part of the loan funds in the amount of EUR 150 million will be directed to the purchase of equipment that is urgently needed for substations that have suffered massive rocket attacks. Remaining EUR 150 million should be used to replenish the working capital of the Group, in particular, to fulfill its financial obligations in the electricity market in terms of non-payments that arose in the market due to military aggression. This amount of EUR 150 million, after deducting a commission of EUR 1.5 million, was received in the first quarter of 2023 and was used to repay the Group's payables to market participants for auxiliary services and services to curtail RES production.
- Additionally, in December 2022, the Group signed an agreement to attract EUR 72 million in grant funds from the Netherlands through the EBRD Special Fund for network rehabilitation.
- In December 2022, the Group and the Bank Kreditanstalt für Wiederaufbau (Germany) signed the loan agreement BMZ-No. 2016.6520.7 in the amount of EUR 32.5 million under the project "Improving the efficiency of electricity transmission (Modernization of substations) II".
- The Group continues to cooperate and communicate with financial institutions regarding the attraction of credits and loans for the needs of working capital and for the restoration of equipment that was damaged or destroyed by missile attacks.
- Loans from IFIs and Eurobonds 2028 are denominated in foreign currencies, and changes in exchange rates may have significant effect on the Group's financial performance (Note 34). With the beginning of military aggression, the NBU fixed the exchange rate in order to ensure more reliable and stable functioning of the country's financial system. In July 2022, the National Bank of Ukraine fixed the exchange rate of the hryvnia against the US dollar at a new level of UAH 36.57 per US dollar in order to support Ukrainian manufacturers, reduce demand for the currency, and, accordingly, balance the foreign exchange market. However, as the Group's foreign currency loans and borrowings are long-term, the impact of changes in exchange rates on the Group's cash flows in the next twelve months from the date of approval of these consolidated financial statements is limited.
- As described in Note 16, as of 30 June 2022, the Group did not comply with certain financial covenants on IFI loans but received a waivers from all creditors in the period before the reporting date due to non-compliance with financial covenants as of 31 December 2022 and other non-financial covenants. The Group will take all possible measures to improve its financial condition and, accordingly, financial covenants, however, it is predicted that some financial covenants may not be fulfilled in future periods as a result of the impact of military aggression on the Group's activities. The Group intends to proactively obtain similar waivers for further periods, should the need arise, in order to avoid potential non-compliance with financial covenants under the loans and borrowings of the Group.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Management's plans and the Group's ability to continue as a going concern

For the purposes of assessing the going concern assumption, management has prepared a cash flow projection scenario for the 12 months period ended April 2024 based on the following key assumptions:

- no further significant progression of Russian troops into the territory of Ukraine and no further escalation of military actions that could severely affect the Group's assets;
- the Group expects to be able to resume electricity transmission on temporarily non-controlled territories after control over the respective territory is restored by Ukraine and the damaged transmission grids are repaired;
- no significant further deterioration as a result of the war on the demand and transmission of electricity in Ukraine and controlled assets of the Group;
- strengthening the physical protection of the Group's facilities and reducing the number of missile attacks on the energy infrastructure by the aggressor;
- as required by law, all economically justified expenses of the Group will be covered by tariffs for the electricity transmission and dispatch (operational and technological) control services, which are regulated and approved NEURC. Any differences between the actual and planned expenses of the current periods must be reflected in the tariffs of the following years;
- restoration of damaged and destroyed objects using credit and grant funds from the IFIs and humanitarian aid from international partners;
- no losses from non-payment by the main customers and return of accounts receivable collection to a pre-war levels by the end of projection period;
- agreement with state banks on the further postponement of the loan principal.

Under this scenario, management expects to have sufficient liquidity to settle the external debts according to the agreed schedules during the full projection period. However, it is uncertain how the military situation will further develop and the impact thereof on operations and physical safety of Group's assets, electricity transmission and tariffs. In case the military situation worsens, management still will be able to use mitigating liquidity measures for further uninterrupted operational activities.

As part of management's going concern assessment, the Group continuously adjusts its long-term model in order to reflect the latest developments in terms of possible changes in transmission volumes, tariffs set by NEURC, loans repayment schedules, debtors creditworthiness, etc. This long-term model is also used for the impairment test of the Group's non-current assets and the key assumptions used when preparing this model are disclosed in Note 5.

The Group also considers a negative scenario of the development of events, which may include a significant increase in the activity of hostilities with the expansion of the hostilities zone on the territory of Ukraine, significant damage to the energy infrastructure, a significant reduction in international support for Ukraine, the easing of sanctions against the Russian Federation, and an intensive outflow of labor force abroad. Given the high degree of uncertainty related to (i) the development of hostilities, their results, intensity, impact on the population and activities of enterprises in areas of hostilities, their intensification and transfer to other regions of Ukraine; or (ii) the possible political and socio-economic consequences of military aggression and a significant reduction in international support for Ukraine, the Group's management is unable to assess and calculate all significant consequences for its operations as a result of a negative scenario.

Given the significant reduction in the geographical direction of hostilities in the end of 2022 and their territorial location at South and East of Ukraine, the unprecedented political, economic, and military support of Ukraine from foreign partners, the political and economic stability of Ukraine as of the date of approval of these consolidated financial statements, management of the Group believes that the realization of a negative scenario is unlikely.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The results of modeling based on these scenarios indicate that, given the IFI's support for additional financing of working capital needs, successful postponement of payments on loans from state banks and Eurobonds 2028, the beginning of Ukraine's electricity exports to the EU, conclusion of new projects for restoration and modernization of assets with IFIs using credit and grant funds, receiving significant humanitarian aid in the form of equipment from international partners, management believes that the Group has sufficient economic resources to continue operating activities in the foreseeable future.

The full extent of the impact of the further development of military aggression on the Group's activities is unknown, but its scale may be significant. However, management notes that the development, duration and consequences of military aggression are subject to significant uncertainty. In addition to hostilities, the Group's performance may be significantly affected by factors beyond the Group's control and has limited tools to mitigate such risks (approval of tariffs for the Group's services, bankruptcy and insolvency of market participants, changes in exchange rates, changes in electricity consumption energy, changes in the value of goods and services because of inflation, etc.). Therefore, estimates and assumptions made by management to predict the impact of military aggression on the Group's financial condition and operations may change materially in the future due to possible changes in circumstances.

It is worth noting that in accordance with the legislation and regulatory acts, all economically reasonable costs of the Group must be covered by tariffs for the services of electricity transmission and dispatch (operational and technological) control, which are regulated and approved by the NEURC. Any differences between the actual and planned costs of the current periods should be reflected in the tariffs of the following years.

Management recognizes that the future development of military aggression and its duration is a major source of significant uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realize its assets and settle its liabilities in the ordinary course of operating activities. Despite the significant uncertainty surrounding the military aggression in Ukraine, management continues to take steps to minimize its impact on the Group and therefore considers it is appropriate to apply the Group's going concern assumption to these consolidated financial statements.

In addition, the state, as the owner of the Group, takes into account its critical importance as the sole transmission system operator in Ukraine to ensure security of electricity supply. Thus, the state is directly interested in the stable work of the Group and will, if necessary, support the activities of the Group in the future.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards

The Group has adopted such standards and interpretations for the first time beginning or after 1 January 2022:

- Amendments to IAS 16 *Property, Plant and Equipment*: Proceeds before Intended Use;
- Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*: Onerous Contracts - Costs of Fulfilling a Contract;
- Amendments to IFRS 3 *Business Combinations*: Reference to the Conceptual Framework;
- Amendment to IAS 41 *Agriculture*: Taxation in Fair Value Measurement;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*: Subsidiary as a First-time Adopter;
- Amendments to IFRS 9 *Financial Instruments*: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The adoption of the amendments to the standards did not have a material impact on the financial position or performance indicators reflected in the consolidated financial statements, and did not result in any changes in the Group's accounting policies and amounts reflected for the current or previous years.

Standards and Interpretations issued but not yet effective

As at the date of approval of these consolidated financial statements for issue, such standards and interpretations that have not been applied by the Group, as well as amendments to the standards, have been issued but have not yet entered into force:

Standards/Interpretations	Become effective for annual accounting periods beginning on or after
IFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> : Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 <i>Presentation of Financial Statements</i> : Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 12 <i>Income taxes</i> : Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 1 <i>Presentation of Financial Statements</i> : Classification of Liabilities as Current and Non-current	1 January 2024
Amendments to IFRS 16 <i>Leases</i> : Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> : Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Will be defined

Management expects that the application of the new standards and interpretations will not have material impact on the Group's consolidated financial statements in future periods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements are the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards (hereinafter – the "IFRS") and subject to the requirements of current legislation regarding the formation and presentation of consolidated financial statements.

In accordance with p.5 Article 12-1 of the Law of Ukraine on Accounting and Reporting in Ukraine, all mandatory IFRS reporters should prepare and submit their financial statements based on the taxonomy of financial statements under IFRS in a single electronic format (referred to as "iXBRL"). As of the date of issuing these consolidated financial statements, the 2022 UA XBRL IFRS taxonomy has not been published yet and the process for submitting 2022 financial statements in the single electronic format has not been initiated yet by the National Securities and Stock Market Commission. Management of the Group is planning to prepare the iXBRL report and submit it during 2023.

Basis for preparation of the consolidated financial statements

These consolidated financial statements of the Group were prepared on the basis of the historical value principle, with the exception of items of property, plant and equipment that are measured at revalued cost as explained in the accounting policies below.

Historical value is usually determined based on the fair value of consideration paid in exchange for goods and services.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Fair value is defined as the price that will be obtained as a result of the sale of an asset or paid as a result of the transfer of a liability in a regular transaction between market participants at the measurement date, regardless of whether this price is subject to direct observation or measurement using another valuation methodology. When measuring the fair value of an asset or a liability, the Group takes into account the characteristics of the relevant asset or liability, as if market participants took these characteristics into account when determining the price of the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on the following basis, with the exception of share-based payment transactions that fall within the scope of IFRS 2 *Share-based Payment*, leases that fall within the scope of IFRS 16 *Leases*, and measurements that are quite similar to the fair value but are not fair value, such as net realizable value under IAS 2 *Inventories* or value in use under IAS 36 *Impairment of Assets*.

In addition, for the purposes of the consolidated financial statements, fair value measurements are categorized at Levels 1, 2, or 3, depending on the extent to which the inputs used for fair value measurements are observable and the importance of such inputs for the overall fair value measurement, which can be set out as follows:

- Level 1 inputs represent quotation prices (unadjusted) in active markets for identical assets or liabilities available to the entity at the measurement date;
- Level 2 inputs represent input data (other than the quote prices assigned to Level 1) that can be observed for an asset or a liability, directly or indirectly; and
- Level 3 inputs represent inputs for an asset or a liability that are not observable.

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

Basis for consolidation

Subsidiaries are companies under the Group's control. Control is achieved when the Group has the power over an investee, is exposed to risks, or has rights over variable performance of the investee; and has the ability to use its power over the investee to influence its operating results. Subsidiaries are consolidated from the date when control passes to the Group (on the date of acquisition or establishment), and stop consolidating from the date when control is lost.

Intragroup transactions, transaction balances and unrealized gains or losses from such transactions are eliminated in full during consolidation. If necessary, the accounting policies of subsidiaries are amended to ensure their compliance with the policy adopted by the Group.

The Group reassesses the presence or absence of control if the facts or circumstances indicate a change in one or more of the above controls.

If the Group has an overwhelming majority of voting rights in the investee, it continues to assess whether these voting rights are sufficient to ensure its practical ability to manage significant activities alone and whether the Group's voting rights are sufficient to grant it authority over the investee.

The Group takes into account all relevant facts and circumstances when assessing whether the Group's voting rights in the investee are sufficient to grant it power over it, including:

- the size of the package of votes held by the Group in comparison with the size and degree of dispersion of packages of other voting rights holders;
- potential voting rights held by the Group, other holders or other parties;
- rights arising from other contractual agreements; and
- any additional facts and circumstances that indicate that the Group has or does not have the ability to manage significant activities during the period when a decision needs to be made, including the order of distribution of votes during voting at the previous shareholders' meeting.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Functional currency and presentation currency

The functional currency of Ukrainian companies of the Group is the Ukrainian Hryvnia ("UAH"), and the Group's subsidiary EUkrenergo in Belgium is the Euro ("EUR").

The presentation currency of these consolidated financial statements of the Group is the Ukrainian Hryvnia ("Hryvnia" or "UAH"). All amounts reflected in the consolidated financial statements are presented in hryvnias, rounded to thousands, unless otherwise specified.

Foreign currency transactions

Transactions in currencies other than the functional currency of the Group's companies are considered foreign currency transactions, and are translated into the functional currency using the currency exchange rate that prevailed on the dates of the corresponding transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates that were in effect at the reporting date. Non-monetary items that are valued at their historical value in a foreign currency are translated using currency exchange rates as of the dates of initial transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using currency exchange rates at the date of the fair value measurement. Exchange differences are recognized in profit or loss in the period in which they arise. Foreign exchange differences resulting from operating activities are recorded as other operating expenses or income, while other foreign exchange differences are presented separately in the statement of profit or loss.

The exchange rates used in the preparation of these consolidated financial statements were presented as follows:

Currency	As of 31 December 2022	Average currency exchange rate for 2022	As of 31 December 2021	Average currency exchange rate for 2021
UAH / US Dollar	36.57	32.37	27.28	27.28
UAH / Euro	38.95	34.00	30.92	32.30

Segment reporting

The operating segments presented in these consolidated financial statements are consistent with the structure of financial information, which is regularly reviewed by the Group's management. The Management Board is the main body that makes operational decisions of the Group. Segments whose income, results of operations or assets represent ten percent or more of the results of all segments are shown separately. Segments whose results do not exceed this threshold may be shown separately at the discretion of management.

The Group does not provide information on the assets and liabilities of segments, as the Group's management does not review such information for decision making.

Revenue recognition

The Group generates revenues on varied types of activities, the primary of which include electricity transmission and dispatch (operational and technological) control services, services of granting access to the transmission capacity of interstate power networks, sale of electricity during cross-border flows. Due to implementation of new electricity market in Ukraine, the Group started to participate in the balancing market and to purchase and sell balancing electricity and electricity to settle imbalances.

The Group's clients are electricity producers, traders, suppliers, distribution system operators, and other electricity market participants that pay the Group for transferred services related to the use of the Group's electricity transmission system.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The Group recognizes revenue in an amount that reflects the amount of consideration to which the Group is expected to be entitled in exchange for these services under the contracts. Such consideration does not include trade discounts and value-added tax ("VAT"). The Group uses a five-step model to recognize revenue:

- identifying a contract with customer;
- identifying of performance obligations in the contract;
- determining the transaction price;
- distribution of the transaction price by performance obligations in contracts;
- recognition of sales revenue when (or as) the Group satisfies its performance obligations.

The Group recognizes revenue when (or as) the performance obligation is satisfied, i.e., when control over the goods or services that accompany the fulfillment of specific obligations has been transferred to the customer.

The Group recognizes revenue from the following types of activities as services for sale of goods are provided. In addition, the Group recognizes its obligations as a series of separate services and goods that are in substance the same and are transferred to the customer on the same principle:

- Revenue from electricity transmission and dispatch (operational and technological) control services;
- Revenue from the sale of electricity on the balancing market;
- Revenue for services on granting access to the transmission capacity of interstate power networks;
- Revenue from the sale of electricity during cross-border flows.

The Group uses practical expedient for the above revenue since the Group is entitled to consideration from the customer in an amount that directly corresponds to the value of the obligation for the client performed by the Group, and therefore revenue from ordinary activities is recognized in the amount for which the Group is entitled to issue an invoice.

Revenue from electricity transmission and dispatch (operational and technological) control services

Revenue from electricity transmission (transportation of electricity from places of generation to places of distribution and consumption) is defined as (i) the sum of the product of volume of transmission (consumption), including the export of electricity and the tariff for electricity transmission services; and (ii) the product of the sum of the volume of transmission (consumption) of electricity, including the export of electricity, the volume of released electricity by producers of electricity, the volume of import of electricity and the tariff for dispatch (operational and technological) control services.

Electricity transmission and dispatch (operational and technological) control services are evaluated according to the transmitted units of electricity and do not depend on the transmission distance, do not contain discounts according to the amount of transmitted electricity, and do not depend on other contracts and services of the Group. Control over the rendered services is transferred as the Group fulfills its obligations, because buyers simultaneously receive and consume benefits from fulfilling the Group's obligations.

Tariffs for electricity transmission and dispatch (operational and technological) control services are approved by the NEURC. Separate contracts are concluded with each participant of the electricity market for the provision of electricity transmission and dispatch (operational and technological) control services.

Payments for the rendered services of electricity transmission and dispatch (operational and technological) control services are made on the terms of advance payments before the delivery date, with the corresponding balance payment immediately after the fulfillment of the obligation and issuing the final invoice.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

As described in Note 2, the Group should fulfill public service obligation to ensure the public interest in increasing the share of energy production from alternative sources, which concerns consideration to producers of electricity from renewable sources of the difference between the "green" tariff determined by legislation and the sale price of this electricity on the market. This obligation is included in the tariff for electricity transmission services. The Group recognizes revenue from ordinary activities for such consideration since there is no direct obligation to transfer a portion of the proceeds to third parties from the amount of funds received for electricity transmission services.

Revenue from the sale of electricity on the balancing market

The Group ensures the sufficiency of the volumes of electric capacity and electricity required for real-time balancing, in particular the commercial balance, for which it purchases and sells electricity to balance the volumes of supply and demand of electricity within the current day and in order to resolve the imbalances of electricity of the parties responsible for the balance in the balancing market. The cost of electricity imbalances for the party responsible for the balance is calculated by the Group for each hour of the day based on the volume of electricity imbalances caused by this party and the prices of electricity imbalances determined according to Market Rules. Payments are made on 10-day payment basis immediately after the obligation is fulfilled and invoices are issued.

The Group reflects income and expenses from the purchase/sale of balancing electricity and electricity to settle imbalances on gross basis, as it considers itself acting as a principal in the sale of electricity on the balancing market. According to the legislation, the Group is ultimately responsible for maintaining the balance in the system.

Revenue for services on granting access to the transmission capacity of interstate power networks

Distribution of the free transmission capacity of interstate power networks is carried out by the Group according to the procedure of electronic auctions using electronic document management and electronic digital signature. Electricity suppliers get access to the transmission capacity of interstate power networks based on the results of annual, monthly and daily auctions.

If the total demand for the transmission capacity of interstate power networks is lower than the free transmission capacity of interstate power networks, the access service is provided free of charge to all auction participants. Otherwise, the access service is provided on the principle of priority satisfaction of bids from auction participants who offer the highest price. In this case, the price of access to capacity in the corresponding direction is determined at the minimum price from the satisfied bids of auction participants. Revenue from providing services on granting access to the transmission capacity of interstate power networks is determined based on the price set at the auction, the amount of distributed capacity, and the period for granting such access.

Payments for services on granting access to the transmission capacity of interstate power networks are made on the terms of advance payment within 30 days before the delivery date for annual and monthly auctions, and for daily auctions - payment within 30 days from the date of fulfillment of the obligation according to the invoices issued.

Revenue from the sale of electricity during cross-border flows

As a result of the complete synchronization of the energy system of Ukraine with the energy grid of continental Europe ENTSO-E and a significant increase in the commercial export of electricity to Europe in 2022, the Group joined the inter-transmission system operator compensation mechanism (ITC) designated by the EU regulation No 838/2010, in which transmission system operators of over 30 countries participate. The mechanism works under the principle that a transmission system operator of a country compensates, through the ITC fund, the other transmission network operators for additional expenses caused by cross-border energy flows in case if that country has exported or imported electricity during the reporting period, and a transmission system operator receives compensation from the fund if a transit flow caused by market participants of other countries has crossed the country. Such accounting is kept by specifically authorised administrators in Switzerland, who submit to the members of the mechanism the data in the form of amounts to be paid or credited each month.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The Group recognizes revenue from the sale of electricity during cross-border flows as goods are provided. The Group reflects income and expenses from the purchase/sale of electricity during cross-border flows on gross basis, as it considers itself acting as a principal in the sale of electricity.

Revenue for services of connection to electricity transmission system

When connecting electrical installations to electricity transmission system, customers must pay the connection fee based on the actual construction costs of the infrastructure required to connect to the network. Agreements on connection are qualified as contracts with customers in accordance with IFRS 15 *Revenue from Contracts with Customers*.

Revenue from such services is recognized as the services are rendered. Thus, revenue from agreements on connection is recognized in profit or loss on a straight-line basis over the period of use of the network connection by the customer. This solution corresponds to the economic essence of operations: it is reasonable to recognize revenue from connection services during the period of use of the connection. In addition, the service provided to the customer does not consist in the connection itself, but in its use: the client simultaneously receives and consumes its right to use the connection provided by the Group.

As such, the connection service provided for in the contract is provided to the client continuously, and not on a specific date, and this is the reason why revenue from connection services should be gradually recognized during the period of use of the network connection.

The Group receives a full prepayment for the services provided. Such payments from customers for connection services are reflected in the consolidated statement of financial position as special purpose funding and deferred income. The Group expects that income from assets received for liabilities that have not been fulfilled will be recognized during the term of the Group's liabilities for connected users. The estimated time frame is approximately 20-30 years.

The Group does not disclose the expected terms of performance of obligations that remained unfulfilled as of the reporting date, because for all obligations under agreement, except for connection services, a practical expedient is used that enables to recognize income in the amount that directly corresponds to the value of the obligation for the customer, fulfilled by the Group at the end of the period.

Expense recognition

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

Finance income and costs

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

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

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Government grants

Government grants, assets received free of charge, humanitarian aid to restore the power system and similar funding from other organizations are mainly represented by funding from the state budget, foreign governmental institutions or international organizations for capital expenditures to complete the construction of new high-voltage power lines and the reconstruction of substations, restoration of energy infrastructure after its damage or destruction, as well as similar funding received from other institutions.

Funds received in the form of government grants or similar financing are recognized as special purpose funding (long-term) and deferred income (short-term) in the consolidated statement of financial position, when there is sufficient assurance that the Group will meet the conditions for granting government grants and similar financing, and they will be received. Government grants and similar financing are recorded in the consolidated statement of financial position at the cost of funds received; if the financing is received in the form of a transfer of a non-monetary asset, it is recognized at its fair value.

Government grants and similar funding are transferred to profit or loss on a systematic and rational basis over the useful life of the respective assets.

Regulatory assets and regulatory liabilities

A description of critical accounting judgment regarding the impact of tariff regulation on the Group is described in Note 5.

The Group that (i) is subject to tariff regulation; (ii) which tariff (price) that the Group may charge for goods or services supplied to its customers is set by the regulator; (iii) has the enforceable right to increase / (obligation to decrease) the tariff for future periods by the difference between the economically justified actual and planned (included in the tariff) costs of the reporting period, recognizes regulatory assets and regulatory liabilities in the financial statements.

The Group recognizes:

- regulatory asset: when the Group has the right to increase the tariff to be charged to customers in future periods by adding to it additional costs incurred in the reporting period that are not covered by the tariff for the reporting period; and
- regulatory liability: when the Group has a current obligation to reduce the tariff to be charged to customers in future periods by reducing it by the amount of costs not incurred in the reporting period but covered by the tariff for the reporting period.

Regulatory assets and liabilities are assessed regularly at the end of the reporting period. Changes in regulatory assets and regulatory liabilities result in regulatory income and expenses.

The recognition of regulatory assets, liabilities, income and expenses meets the definition, recognition criteria and measurement concepts for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting*.

The Group discloses the net changes in regulatory assets and liabilities in other operating income or other operating expenses, depending on the net value. Regulatory assets are disclosed in other current assets, and regulatory liabilities are disclosed in other current liabilities in the statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) resulted from circumstances, past events and it is probable that outflow of resources will be required to repay the obligation, and a reliable assessment of this obligation can be made.

The amount recognized as provision is the best estimate of the consideration required to repay the current liability at the end of the reporting period, taking into account all the risks and uncertainties inherent in this liability.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Expenses for any provision are presented in profit or loss, net of any consideration. If the impact of the time value of money is significant, the provision is discounted using the current pre-tax rate, which reflects, if appropriate, the risks characteristic of the corresponding liability. If discounting is used, the increase in the provision over time is recognized as finance costs.

Retirement benefit obligations

Defined contribution plan

The Group makes payments to the State Pension Fund of Ukraine based on the salary of each employee in the form of accrual and payment of a single social contribution. These amounts are included in the expenses of the period in which they were incurred.

Defined benefit plan

The Group is also obliged to compensate the State Pension Fund of Ukraine for the amount of additional pensions paid to certain categories of its current and former employees who worked in dangerous and/or harmful working conditions as defined by the legislation, and, accordingly, received the right to leave and receive a pension earlier than the age established by pension legislation.

In addition, in accordance with the collective agreement, the Group has a legal obligation to make payments of monetary incentives to employees in connection with anniversaries, regular remuneration to retired employees in the form of non-targeted material assistance, irregular material assistance to close relatives in connection with the death of a non-working pensioner and lump-sum payments at the end of employees' work (due to old-age retirement). These programs meet the definition and are included in defined benefit plans.

These defined benefit plans (hereinafter – the "Plans") do not have a financial fund or related assets to implement thereof. Expenses related to such plans are calculated in these consolidated financial statements using the projected unit credit method for employees who are eligible for such payments.

The Group's net liability for these plans is calculated by estimating the amount of future payments due to employees for services rendered in the current and previous periods. The payment amount is then discounted to determine the present value of the liability, which is reflected in the consolidated statement of financial position. The discount rate is estimated using the actual yield of corporate or government securities that have a high rating and the same maturity as the corresponding pension liability.

The categories of expenses under a defined benefit pension plan are presented as follows:

- cost of current services (including the cost of current and past services, as well as gains or losses from pension plan curtailments and settlements);
- net interest expenses; and
- revaluation.

The Group reflects the cost of current services as part of gains and losses of the period in which they arise. Net interest expenses are recorded as part of finance costs of the period in which they arise. Revaluation, which includes actuarial gains and losses, is reflected directly in the consolidated statement of financial position with the recognition of the corresponding gain or loss as part of other comprehensive income of the period in which they arise. Revaluation recognized as part of other comprehensive income is reflected directly as part of retained earnings and will not change its classification for profit or loss in subsequent reporting periods.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Income tax

Annual income tax expenses include current tax and deferred tax.

Current tax

The tax payable in the current period is calculated based on the amount of taxable profit for the year. Taxable profit differs from the profit or loss reflected in the consolidated profit or loss and other comprehensive income statement as it does not include items of income or expenses that are taxable or that relate to expenses for tax purposes in other years, and also because it does not include items that will never be taxable or that will never relate to expenses for tax purposes. The Group's current income tax liabilities are calculated using the current tax rates as of the end of the reporting period.

Deferred tax

Deferred tax is recognized in relation to temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used to calculate taxable profits using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all temporary differences that relate to expenses that are taken into account for determining the object of taxation to the extent that it is probable to obtain taxable profits at the expense of which these temporary differences can be realized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is not probable to obtain sufficient taxable profit that will allow full or partial recovery of the amount of this asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the asset will be realized or the liability will be repaid, based on the tax legislation in force at the end of the reporting period. The assessment of deferred tax liabilities and assets reflects the tax consequences that may arise as a result of the Group's use of a particular method at the end of the reporting period to recover or repay the book value of its assets and liabilities.

Current income tax and deferred income tax are recognized as expenses or income as part of profit or loss, except when they relate to items that are recorded directly as part of equity or other comprehensive income (in this case, taxes are also recognized directly as part of equity or other comprehensive income).

Property, plant and equipment

On 31 December 2019, the Group switched to a revaluation model for all groups of property, plant and equipment, with the exception of property, plant and equipment located in the temporarily occupied territories of Crimea and Donbass, which are completely impaired, and construction in progress carried at historical cost.

The fair value of property, plant and equipment determined based on the results of an appraisal performed by an external independent appraiser as of 31 July 2019. The frequency of revaluations depends on materiality of changes in the fair value of the assets being measured. As of 31 December 2019, the increase in the carrying amounts that arose as a result of revaluation was recorded in equity as part of revaluation surplus through other comprehensive income; the decrease of the carrying amount resulting from the transition to the revaluation model is reflected in profit or loss as impairment losses.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Subsequent additions of property, plant and equipment are recorded at historical cost. Cost of an item of property, plant and equipment includes (a) the purchase price, including non-recoverable import duties and acquisition taxes after deducting trade and other discounts; (b) any expenses directly related to the delivery of an item of property, plant and equipment to a location and bringing it into a condition ensuring its operation in accordance with the intentions of the Group's management; (c) an initial estimate of the costs of dismantling and removing the item of property, plant and equipment and restoring the area it occupies, the obligations for which the Group assumes either at the time of acquisition of this item, or as a result of its operation for a certain period of time for purposes not related to production activities during this period. The cost of internally created assets includes the cost of materials, direct labor costs, and the respective share of production overheads. The initial cost of qualified assets acquired and internally created includes capitalized borrowing costs.

Cost of property, plant and equipment received free of charge is equal to their fair value at the date of receipt, taking into account the costs included in the cost, as shown above.

Any increase in carrying value resulting from revaluations is reflected in revaluation surplus as part of equity through other comprehensive income. Reductions that offset previously recognized increases in the same asset are recorded as revaluation surplus of equity through other comprehensive income; all other reductions are included in profit or loss. To the extent that the impairment loss of the same impaired asset was previously recognized in profit or loss, the reversal of this impairment loss is also recognized in profit or loss.

Depreciation of property, plant and equipment is calculated for the purpose of writing off the historical (revalued) cost of PPE less their residual value during the useful life of the asset using the straight-line method.

The useful life of property, plant and equipment is determined by an expert method during its putting into operation. The useful life of property, plant and equipment is reviewed in the event of changes in the expected economic benefits from its use, as well as at the end of each reporting period.

The useful lives of the groups of property, plant and equipment are presented as follows:

Transmission lines (OHL)	20-50 years
Buildings and structures	20-50 years
Plant and equipment	20-50 years
Vehicles and other	3-8 years

The residual value, useful lives, and depreciation method are reviewed at the end of each fiscal year. Impact of any changes compared to previous estimates is accounted for as a change in accounting estimates.

Construction in progress includes costs directly related to the construction of property, plant and equipment, taking into account the appropriately distributed direct variable overhead costs incurred during construction. Construction in progress is not depreciated. Depreciation of construction in progress, similar to other property, plant and equipment, begins when these assets are ready for operation, that is, when they are in the place and condition necessary for using for the purpose determined by the management. Construction in progress also includes prepayments for property, plant and equipment.

Property, plant and equipment are derecognized after the disposal or when future economic benefits from continuing use of the asset are no longer expected. Gains and losses from disposal, which are determined by comparing income with the carrying amount of property, plant and equipment, are recognized in profit or loss. After the sale or write-off of revalued assets, the amounts included in the revaluation reserve are transferred to retained earnings.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Intangible assets

Intangible assets include mainly software and right-of-use assets. The Group uses a cost model for all groups of intangible assets.

Intangible assets are recorded at their cost, less accumulated amortization and accumulated impairment losses, if any. Subsequent costs of intangible assets are capitalized only if they increase the future economic benefits embodied in the specific assets to which they relate. All other expenses are attributed to expenses in the period in which they were incurred.

Amortization is charged on a straight-line basis over their useful life, which is not expected to exceed a period of ten years.

The Group has the right to use the land on which its production facilities are located and pays a land tax, which is estimated annually based on the total area of land and its use according to the area to which it is assigned. Expenses for the acquisition and registration of land use rights are capitalized as intangible assets.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amount of its assets to determine whether there is any evidence that these assets have suffered an impairment loss. If such signs are present, the Group evaluates the recoverable amount of the relevant asset to determine the amount of impairment loss (if such impairment has occurred). If it is not possible to estimate the recoverable amount of an individual asset, the Group evaluates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If, according to estimates, the recoverable amount of an asset (or a cash generating unit) is less than its carrying value, the carrying value of the asset (the cash generating unit) is reduced to the expected recoverable amount. Impairment losses are recognized directly in profit or loss.

In cases where the impairment loss is further reversed, the carrying amount of the asset (or the cash generating unit) is increased to a revised estimate of its recoverable amount, but in such a way that the increased carrying amount does not exceed the carrying amount that would be determined provided that there are no impairment losses of the asset (or the cash generating unit) recognized in previous years.

Leases

Group as a lessee

Determining whether a contract is a lease, or contains a lease is based on an assessment and analysis of the content of the agreement at the contract inception: the contract is, or contains a lease, if the contract transfers the right to control the use of an identified asset for a certain period of time in exchange for consideration.

At the lease commencement, the Group recognizes the right-of-use asset and the lease liability in relation to all leases, with the exception of short-term leases (with a lease term of 12 months or less) and leases under which the underlying asset is of low value. The Group recognizes such lease payments on the straight-line basis over the lease term.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

At the lease commencement, the Group evaluates the right-of-use asset at its initial cost, consisting of:

- the amount of the initial measurement of the lease liability;
- lease payments made on or before the lease commencement, less incentive payments received for entering into a lease agreement;
- initial direct expenses incurred by the Group;
- estimate of the costs that will be incurred by the lessee during the dismantling process.

At the commencement date, the Group evaluates the lease liability at present value of rental payments discounted at the rate stipulated in the relevant agreement. If this rate is not determined by the terms of the agreement, the incremental borrowing rate of the lessee is used.

At the commencement date, rental payments included in the lease liability assessment are comprised of the following payments for the right to use the underlying asset during the lease term that were unpaid at the commencement date:

- fixed payments, net of any rental incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Group measures the right-of-use asset applying a cost model.

The right-of-use asset is subject to amortization in accordance with the procedure for the next term:

- from the commencement of the lease until the end of the useful life of the underlying asset, if the lease agreement provides for the transfer of ownership of the underlying asset before the end of the lease term;
- from the commencement of the lease to the earliest of the end date of the useful life of the right-of-use asset or the end date of the lease, if the lease agreement does not provide for the transfer of ownership of the underlying asset before the end of the lease term.

After the commencement date, the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- revaluing the carrying amount to reflect any revaluation or modification of the lease.

The Group reflects amortization of the right-of-use assets and interest on lease liabilities in profit or loss. The amount of the principal share of the lease liability paid is presented as part of the financial activities in the consolidated statement of cash flows (under direct method), and interest is presented as part of financing activities.

Group as a lessor

The Group classifies each of its leases either as an operating lease or as a financial lease.

The lease is classified as a financial lease, if it transfers substantially all the risks and rewards of ownership of the underlying asset. The lease is classified as an operating lease, if it does not transfer substantially all the risks and rewards of ownership of the underlying asset.

The Group recognizes lease payments from operating leases as income on a straight-line basis.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Inventories

Inventory is recorded at the lower of cost and net realizable value.

The cost of inventory includes:

- purchase costs that are paid in accordance with the agreement with the supplier (net of indirect taxes);
- import duties;
- amounts of indirect taxes related to the acquisition of inventory that are not reimbursed to the Group;
- transportation and procurement costs;
- other expenses that are directly related to the acquisition of inventory and bringing it to the condition and location in which it is suitable for use for the planned purposes.

The initial cost of inventory received for free is recognized as its fair value, taking into account other costs associated with bringing it to the condition and location in which it is suitable for use for the planned purposes.

Transportation and procurement costs that can be attributed to a specific unit of inventory are reflected directly in the initial cost. Transportation and procurement costs that cannot be attributed to a specific unit of inventory are distributed as of the date of initial recognition of the corresponding inventory.

When writing off inventory into production, sale, and other disposal, the value of inventory is determined based on the specific identification method for all inventory, except fuel, which are disposed of using the "First In - First Out" method.

Net realizable value is defined as the selling price less costs to sell. The carrying amount of inventory should be reduced to the net realizable value if there is physical damage, complete or partial obsolescence, or a drop in the realizable price. Inventory impairment is reducing their carrying amount to the net realizable value.

Financial instruments

Initial recognition of financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's main financial instruments include cash and cash equivalents, accounts receivable and payable, loans and borrowings.

All transactions of purchase and sale of financial instruments that require their delivery within a time period defined by regulatory or market conditions ("regular" purchase and sale operations) are accounted for as of the transaction date, i.e., the date on which the Group undertakes to transfer the financial instrument. All other purchase and sale transactions are recognized as of the settlement date.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Financial assets

Classification and subsequent valuation of financial assets

Financial assets are subsequently measured at amortized or fair value. In particular, investments in debt instruments that are held under a business model that aims to collect contract cash flows, and that have contract cash flows that are payments only of a principal and interest on the outstanding amount of debt, are generally estimated at amortized cost. Debt instruments that are held within a business model, the purpose of which is achieved by both collecting contract cash flows and selling financial assets, and that have contractual terms under which cash flows arise on certain dates, which are payments only of a principal and interest on outstanding principal, are measured at fair value through other comprehensive income. All other investments in debt instruments are measured at fair value at the end of subsequent reporting periods.

The amortized cost is calculated using the effective interest rate method and is determined less any impairment loss. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the corresponding instrument and amortized on the basis of the effective interest rate for the corresponding instrument.

The Group uses a practical expedient that assumes that the amortized cost of financial assets with maturities of up to one year, less any expected credit losses, is equal to their nominal value.

Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and allocating interest income or expenses over the corresponding period. The effective interest rate is the rate discounting the expected future cash inflows over the expected useful life of the financial instrument or, if appropriate, a shorter period to the net book value of the instrument at the initial recognition. Income or expenses are recognized using the effective interest rate method for financial instruments.

Accounts receivable

Accounts receivable are derivative financial assets with fixed or determinable payments that are not quoted in the active market. Accounts receivable that do not contain a significant financing component are measured at the transaction price. Accounts receivable (including other non-current assets, trade and other accounts receivable) are measured at amortized value using the effective interest rate method, less any impairment loss.

Interest income is recognized using the effective interest rate method, with the exception of short-term accounts receivable, for which the recognition of interest will not have material impact.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in bank accounts, deposits with an initial maturity of up to three months plus one week, and cash in special accounts.

Special accounts are accounts through which the Group receives credit funds under agreements with the International Bank for Reconstruction and Development and the European Investment Bank, and makes payments to suppliers. These special accounts are allowed to be used only for payments to suppliers under capital construction projects after the approval of contracts by the Ministry of Finance of Ukraine. All payments made from special accounts are initiated by the Group and approved by the Ministry of Finance of Ukraine for a period of up to three months. Special accounts include also those, which are used by the Group for settlements on the purchase and sale of electricity on the balancing market and others.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Impairment of financial assets

The Group reflects expected credit losses and changes therein at each reporting date to reflect changes in credit risk after initial recognition.

The expected credit losses of accounts receivables are estimated on a portfolio basis using the provision matrix and on an individual basis using different scenarios of the probability of default.

The provision matrix is used with reference to the historical information of debtors' default and analysis of the debtor's forecast condition, adjusted for factors specific to debtors, general economic conditions of the industry in which debtors work, assessment of current and forecast events that may significantly affect future payments, credit terms, and available market information on the solvency of debtors. Individual assessment is used for individually significant debtors or groups of debtors with credit risk characteristics that are different from others.

Assessing expected credit losses on trade accounts receivables, the Group takes into account the cash flows expected from credit enhancements, which are an integral part of the contract. Such credit enhancements are accounts payable of the counterparties owed to the Group, which are usually settled on a net basis together with accounts receivable, but does not meet the offsetting criteria, and financial guarantees arising under of the same contract.

The carrying amount of the asset is reduced by the provision, and the amount of the loss is recognized in profit or loss. If accounts receivable are uncollectible, it is written off through usage of previously recognised expected credit losses. Subsequent reimbursement of previously written off amounts is included in profit or loss.

For other financial instruments, the Group recognizes expected credit losses for the lifetime of the financial instrument when there has been a significant increase in credit risk since the initial recognition. However, if the credit risk to the financial instrument has not increased significantly since the initial recognition, the Group estimates expected credit losses for the financial instrument at an amount equal to the expected credit losses over 12 months.

Expected credit losses for the lifetime of a financial instrument represent credit losses that will arise from all possible default events during the expected term of the financial instrument. Conversely, the expected credit losses for 12 months represent a portion of the expected credit losses for the lifetime of the financial instrument, which are expected to arise as a result of events of default on the financial instrument, the occurrence of which is possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since the initial recognition, the Group compares the risk of default of the financial instrument at the reporting date with the risk of default of the financial instrument at the date of initial recognition. During the assessment, the Group takes into account both quantitative and qualitative information that is reasonable and useful, including historical experience and forecast information that is available without excessive cost or effort.

Forecast information that is taken into account includes future forecasts for the industries in which the Group's debtors conduct their operating activities, obtained from economic reports of experts, financial analysts, government agencies, relevant think tanks and other similar organizations, as well as an assessment of various external sources of actual and forecast economic information related to the main operating activities of the Group.

A significant increase in credit risk is the delayed debt repayment for a period of more than 30 days.

In particular, such information is taken into account when assessing whether there has been a significant increase in credit risk since the initial recognition:

- actual or expected significant deterioration in external (if available) or internal credit rating of a financial instrument;

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

- a significant deterioration in external market indicators of credit risk for a particular financial instrument, such as a significant increase in the credit spread, credit default swap prices for the debtor, or the length of time or volume by which the fair value of the financial asset has become less than its amortized cost;
- current or projected negative changes in business, financial and economic conditions, which are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- actual or expected significant deterioration of the debtor's operating results;
- significant increase in credit risk in relation to other financial instruments of the same debtor;
- actual or expected significant negative changes in the debtor's regulatory, economic, or technological environment that result in a significant decrease in the debtor's ability to meet its debt obligations.

Default definition

The Group considers the following factors to be components of a default event for internal credit risk management, as historical experience shows that financial assets that meet any of the following criteria are generally not recoverable:

- when there was a violation of financial conditions by a debtor; or
- internal or external information indicates that the debtor will most likely not be able to make payments to its creditors, including the Group, in full (without taking into account any provision held by the Group).

Regardless of the above analysis, the Group believes that a default occurred when a financial asset is more than 90 days overdue, unless the Group has reasonable and useful information to demonstrate that it would be more appropriate to apply the default criterion with a longer delay.

Estimation and recognition of expected credit losses

Estimating expected credit losses is a function of determining the probability of default, the level of losses in the event of default (i.e., the amount of losses in the event of default), and the risk of losses in the event of default. The assessment of the probability of default and the level of losses in the event of default is based on historical data adjusted using forecast information, as described above. As for the risk of loss in the event of default, for financial assets, it represents the gross carrying amount of assets at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contract cash flows due to the Group under the contracts and all cash flows that the Group expects to receive, discounted at the initial effective interest rate. The Group recognizes gains or losses from impairment in profit or loss for all financial instruments, with appropriate adjustments to their carrying amount against the provision for loss.

Derecognition of financial assets

The Group derecognizes financial assets when (i) the assets have been repaid or the contractual rights from the assets to cash flows expire, or (ii) the Group has transferred all significant risks and rewards of ownership of the assets, or (iii) the Group has neither transferred nor retained all significant risks and rewards of ownership, but has lost control of the asset. Control is retained if the counterparty does not have the practical ability to sell the asset in full to an unrelated third party without the need to impose additional restrictions on the sale operation.

Financial liabilities and equity instruments

Classification of debt instruments or equity instruments

Debt instruments and equity instruments are classified as either financial liabilities or equity, depending on the nature of the contractual relationship and the definitions of the financial liability and equity instrument.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Share capital

Ordinary shares are classified as equity. Additional expenses that directly relate to the issue of new shares are recorded in equity as a deduction from income, excluding tax.

Dividends

Dividends are recognized as liabilities and deducted from equity at the reporting date only when they are declared before or on the reporting date. Information about dividends is disclosed when they are offered before the reporting date or offered or announced after the reporting date, but before the consolidated financial statements are approved to the issue.

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) a conditional compensation of the buyer in a merger transaction, (ii) are not held for trading, or (iii) are not defined as being measured at fair value through profit or loss, are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate is the rate discounting expected future cash payments (including fees paid or received, transaction costs, and other premiums or discounts) over the expected term of the financial liability or, if appropriate, a shorter period to the amortized value of the financial liability.

Derecognition of financial liabilities

The Group derecognizes financial liabilities if and only if the Group's obligations are fulfilled, cancelled, or expire. The difference between the carrying amount of a financial liability that has been derecognized and the compensation paid is recognized as part of profit or loss.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. While assessing if modification is substantial, management considers both quantitative and qualitative factors. Under quantitative assessment it is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Qualitative factors include change of form of the instrument, interest rate, maturity, risk factors, change in covenants and guarantors. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss.

Prepayments

Prepayments to suppliers are recorded at their cost, excluding VAT, less provisions for impairment losses. A prepayment is classified as a non-current asset when goods or services related to that prepayment are expected to be received after one year, or when the prepayment relates to an asset that is classified as non-current after initial recognition.

If there is an indication that assets, goods or services related to prepayment will not be received, the Group charges a provision for impairment for the corresponding prepayment, while simultaneously recognizing expenses in profit or loss.

Taxes receivable

Taxes receivable (prepayment for corporate income tax, VAT to be reimbursed, and prepayment for other taxes) are reflected at the actual value of the funds paid.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Trade accounts payable

Trade accounts payable are recognized and initially assessed in accordance with the stated policy regarding financial instruments. In the future, fixed-maturity instruments are revalued at amortized cost using the effective interest rate method. The amortized cost is calculated taking into account any transaction costs and any discount or premium at the time of repayment.

Advances received

Advances received are reflected in the amount of the original amounts received, excluding VAT. The amounts of advances received are expected to be realized by receiving income from the Group's ordinary activities.

Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements, except in cases where the outflow of economic resources for the settlement of the liability is probable and their amount can be estimated reliably. Contingent liabilities are disclosed, except in cases where the possibility of outflow of resources that embody economic benefits is unlikely.

Contingent assets are not recognized in the consolidated financial statements. They are disclosed in notes, if the inflow of economic benefits is highly probable.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The application of the Group's accounting policies as set out in Note 4 requires management to make professional judgments, estimates and assumptions about the carrying amount of assets and liabilities that cannot be obtained explicitly from other sources. Estimates and related assumptions are based on historical experience and other factors that management considers appropriate in these circumstances. Actual results may differ from these estimates. Management also makes certain judgments, other than those relating to estimates, in the process of applying accounting policies.

Estimates and related assumptions are reviewed on an ongoing basis. The results of revisions of accounting estimates are recognized in the period of such revision, if the result of revision affects only this period, or in the period of revision and future periods, if the result of revision affects the current and future periods.

Critical professional judgments when applying accounting policies

The following are critical judgments, other than those requiring to perform estimates, made by management in applying the Group's accounting policies and which have the most significant impact on the amounts recognized in the consolidated financial statements.

(i) Revenue recognition – receiving full consideration

At the inception of contracts with customers for provision of services and sale of goods, the Group is likely to expect to receive full consideration in exchange for goods or services that will be transferred by customers and for which the corresponding invoices will be issued. In assessing whether the probability of receiving the amount of compensation is high enough, the Group considers the customer's ability and intention to pay the full amount of consideration when it becomes due.

As part of its operations, the Group provides services and sells goods to various counterparties, including protected consumers, which cannot be disconnected from the energy supply due to the risks of social and environmental catastrophe. Such companies are financed not only through revenues from the sale of goods and services, but also through other mechanisms of subsidies and compensations provided by Ukrainian legislation. The Group's management believes that such enterprises have sufficient sources of income to conclude that the Group is likely to recover full compensation under its sales agreements.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

In addition, the Group may receive compensation for services provided and sales of goods from third parties, rather than directly from customers, which also increases the likelihood of receiving compensation in full.

With the beginning of the military aggression, some of the Group's clients stopped their activities or reduced the level of production, and some enterprises are located in the temporarily occupied territory. However, the supply of electricity to the temporarily occupied territory of Ukraine does not take place, and, accordingly, the Group does not provide services and sell goods to counterparties located there. The military aggression affected the volume of electricity consumption in Ukraine, and, accordingly, the volume of sales of services and goods by the Group, however, the management believes that such enterprises have sufficient sources of income to make payments to the Group in full under its sales agreements.

Thus, management has concluded that revenue recognition criteria are met when services and goods are delivered to the consumer. Losses from changes in the creditworthiness of customers in subsequent periods are recognized as expected credit losses.

(ii) Recognition of revenue from connection services to the electricity transmission system

Revenue from connection services to the electricity transmission system is recognized as these services are provided. Thus, revenue from connection agreements is recognized in profit or loss on a straight-line basis over the period of use of the network connection by the customer. This solution corresponds to the economic essence of operations: it is reasonable to recognize revenue from connection services during the period of use of the connection. In addition, the service provided to the customer does not consist in the connection itself, but in its use: the client simultaneously receives and consumes its right to use the connection provided by the Group. As such, the Group believes that connection services are provided to the client continuously, and not on a specific date, and this is the reason why revenue from connection services should be gradually recognized during the period of use of the network connection. The period of use of a network connection corresponds to its useful life.

(iii) Property, plant and equipment on the right of operational management

According to the Order of the Cabinet of Ministers of Ukraine of 22 November 2017 No.829-r "On Approval of the Transformation of the State Enterprise National Power Company Ukrenergo into Private Joint Stock Company" property that ensures the integrity of the IPS of Ukraine and dispatch (operational and technological) control, trunk and interstate power grids, which were on the balance of the state enterprise "National Energy Company "Ukrenergo", are assigned to a private joint stock company formed in the process of transformation of the enterprise, on the right of operational management and are not subject to disposal.

On 27 May 2021 the Company and the Ministry of Finance of Ukraine concluded an agreement on the transfer of state-owned property used in the electricity transmission activities on the right of operational management. On 8 December 2021 amendments were made to this agreement in terms of establishing the Ministry of Energy of Ukraine as the body of management of state-owned property used in the electricity transmission activities.

The right of operational management allows to own and use property, plant and equipment (until its full amortization, depreciation or destruction – the government does not have any risk elements associated with the residual value of assets at the end of their useful life), except for actions to dispose of property, plant and equipment that may lead to dispossession of such property, plant and equipment. The Group freely uses them in its business activities and bears the risk of their accidental destruction or damage. There are no special restrictions on income received from the use of these assets, and the Group maintains their proper functional state at its own expense.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

In accordance with the Resolution of the National Energy and Utilities Regulatory Commission dated 17 December 2021 No.2589, a final decision was made on the certification of NPC "Ukrenergo" as a transmission system operator according to the ISO (Independent System Operator) model. The ISO model regulates the relationship between the Company and the transmission system owner so that the Company uses state-owned property (trunk and interstate electricity networks) to ensure the integrity of IPS of Ukraine.

Management believes that the terms of the agreement on the perpetual transfer of state-owned facilities used in electricity transmission on the right of operational management give the Group control over the defined properties, all economic benefits from the use of assets belong to the Group, and therefore these properties meet the definition of an asset, namely an item of property, plant and equipment in accordance with the IAS 16 *Property, Plant and Equipment* definition.

As such, the state properties received on the right of operational management are carried on the Group's balance sheet at fair value as part of corresponding groups of property, plant and equipment.

In addition, operations to assign to the Company property that ensures the integrity of the IPS of Ukraine and dispatch (operational and technological) control, trunk and interstate power grids, which were on the balance of the state enterprise "National Energy Company "Ukrenergo" according to the Order of the Cabinet of Ministers of Ukraine of 22 November 2017 No.829-r, as well as the conclusion of the abovementioned agreement on its perpetual transfer on the right of operational management, are recognized as transactions with shareholder acting on behalf of the owner.

(iv) Presentation of impact of tariff regulation on financial statements

Tariff regulation can have a significant impact on the long-term financial results of companies. However, existing IFRS standards do not contain comprehensive guidelines and rules for the presentation of the impact of tariff regulation on accounting and financial reporting.

The application of only existing IFRS increases the volatility of gross profit and financial results between the reporting periods of the Group, which is subject to tariff regulation. Financing of actual expenses in one period is carried out by increasing the tariff and income of another period, which contradicts the principle of matching income and expenses, and, accordingly, may mislead users of financial statements by reflecting overstated or understated financial results in certain reporting periods.

To ensure that the Group's consolidated financial statements present fairly the financial position, financial performance and cash flows of the Group, and reflect the economic substance of transactions and events rather than legal form, the Group has developed and applied accounting policies to reflect the impact of tariff regulation on financial statements (Note 4).

As a result, the Group's total income is consistent with its "total allowable compensation" - the amount that the Group is entitled to collect in accordance with the tariff set by the regulator. This, in turn, will reduce the volatility of financial results between reporting periods, which will improve the relevance and truthfulness of the information in the financial statements for its users.

As at and for the year ended 31 December 2021, the Group recognized regulatory assets and regulatory income in the amount of UAH 1,385,109 thousand (2020: nil) (Notes 14 and 25).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The tariffs for Group's services, which were established in December 2021, were not revised during 2022. This level of tariffs does not take into account the significant decrease in the volume of electricity transmission and the change in the Group's cost structure that occurred with the beginning of military aggression and, later, massive missile attacks on the energy infrastructure. Thus, the underfunding of some cost items in the tariffs and the legislative obligation of the regulator to cover all the economically justified expenses of the Group in the tariffs of future periods leads to the recognition of a regulatory asset as of 31 December 2022. However, the Group considers it appropriate not to recognize this regulatory asset, as there is no probable certainty of its full recovery due to such factors as a significant change in the operating environment as a result of military aggression, uncertainty regarding the state policy of tariff establishing during the period of martial law and further developments. As a result, in 2022 the Group recognized regulatory expenses in the amount of UAH 1,385,109 thousand (Note 27).

Key sources of estimation uncertainty

The following are the main assumptions for the future and other key sources of estimation uncertainty at the end of the reporting period, for which there is a significant risk that they will cause material adjustments to the carrying amount of assets and liabilities during the next fiscal year.

(i) Revaluation of property, plant and equipment

As stated in Note 4, the Group applies the revaluation model to its property, plant and equipment starting from 31 December 2019. At each reporting date, the Group performs an analysis to assess whether the carrying amount of property, plant and equipment accounted for at revalued cost differs significantly from its fair value. This assessment is performed annually and is based on an analysis of prices, price indices, technological changes, changes in exchange rates, and other relevant factors. If the results of the analysis indicate that the carrying amount of property, plant and equipment differs significantly from their fair value at the reporting date, management engages independent appraisers to assess the fair value of property, plant and equipment.

The last independent fair value assessment of the Group's property, plant and equipment was performed as of 31 July 2019. The main assumptions for revaluation are disclosed in Note 33.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2).

When performing valuation using these methods, the key estimates and judgments applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of similar items for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available as well as corresponding adjustments required to take into account differences in technical characteristics and the condition of new and existing equipment;
- use of directories of per-unit replacement cost for buildings and constructions, assuming that all buildings and constructions of similar type and nature within industry have similar replacement costs; and
- liquidation value for items, which are expected to be realised, less cost to sell.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for impairment testing described below.

As of 31 December 2022, management has performed an analysis to assess whether the carrying amount of property, plant and equipment differs materially from their fair value:

- the depreciated replacement cost of property, plant and equipment was assessed, taking into account their depreciated replacement cost at the date of preliminary valuation by an independent appraiser, changes in price indices, physical wear and tear;
- the income approach is applied by discounting a series of expected future cash flows of the Group to determine economic impairment. The assumptions used to estimate expected cash flows are consistent with the assumptions used for impairment testing of assets. The discount rate was defined as the weighted average cost of capital after tax.

Based on the results of the analysis as of 31 December 2022, management concluded that the carrying amount of property, plant and equipment accounted for at revalued value does not differ significantly from their fair value, and no revaluation of property, plant and equipment was performed on this date. At the same time, the carrying value of the Group's property, plant and equipment is reduced to their recoverable value as a result of the impairment test described below. The management believes that in the situation of significant uncertainty of the military and economic environment in Ukraine revaluation unlikely to result in substantial uplift in fair value in excess of carrying value. At the same time, the calculated fair value of property, plant and equipment may differ significantly depending on the underlying assumptions used, which are affected by uncertainty regarding the further development of military aggression and changes in the operating environment.

(ii) Impairment of property, plant and equipment, construction in progress, and intangible assets

At the end of each reporting period, the Group reviews the carrying amount of its property, plant and equipment, construction in progress, and intangible assets to determine whether there is any indication that those assets may be impaired.

Given the significant change in the operating environment described in Note 2, as of 31 December 2022, the Group determined the existence of certain indications that the recoverable amount of property, plant and equipment, construction in progress and intangible assets might fall lower than their carrying amounts.

As previously mentioned, as of 31 December 2022, part of the Group's assets are located in the temporarily uncontrolled territory of Ukraine. Management has determined that inability to operate the assets does not require the derecognition of these assets as the Group still holds the legal title over these assets and inability to operate the assets is temporary. Thus, the assets of the Group, which are located in the temporarily uncontrolled territory, were subject to the recoverable value assessment as part of the single cash-generating unit - the Integrated Power System of Ukraine.

The Group assessed recoverable value of property, plant and equipment, construction in progress and intangible assets (at the level of the cash generating unit) for impairment considering the Group as one cash-generating unit. Value-in-use of the Group's assets was calculated by preparing the analysis of discounted cash flows based on the assumptions of estimated income and expenses, as well as the discount rate.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

According to the results of this assessment, the Group determined that the recoverable value of the relevant non-current assets was lower than their carrying value by UAH 6,061,705 thousand. Impairment of assets in the amount of UAH 1,967,707 thousand was recognized as a decrease in the revaluation reserve in other comprehensive income, and UAH 4,093,998 thousand as an impairment loss in profit or loss for 2022:

	Impairment of assets	incl. decrease in the revaluation reserve	incl. impairment loss in profit or loss
Property, plant and equipment	4,968,361	1,967,707	3,000,654
Construction in progress	1,092,061	-	1,092,061
Intangible assets	1,283	-	1,283
Total	6,061,705	1,967,707	4,093,998

The key assumptions used in the calculation of the value in use are those related to the discount rate, growth rate, and estimated changes in income and operating expenses. The Group's management determined the discount rate of 27.7% (2021: 12.5%), reflecting the current situation in the country and the impact of military aggression on a significant increase in the country risk premium. The growth rate is based on the growth of the consumer price index and the producer price index. Expected changes in income and operating expenses are based on historical experience and expectations regarding future changes in the market, the date of transition to incentive tariff regulation (RAB regulation).

Cash flow forecasts are based on the most recent financial budgets for the next five years. Beyond this period, the Group's management extrapolated cash flows based on expected growth levels below the average long-term growth rate for the respective markets. When making calculations, the legislation was used that was in force on assessment date.

The table below shows the key assumptions based on which management built its projections of cash flows in order to assess its property, plant, and equipment, construction in progress and intangible assets for impairment:

	2022	2021
Pre-tax discount rate	27.7%	12.5%
Regulatory rate of return on the regulatory asset base (RAB)	12.5%	12.5%
Average growth rate of the consumer price index over the next 5 years	8.1%	5.4%
Date of transition to incentive tariff regulation	1 January 2029	1 January 2023

The numerical values of the main assumptions reflect the Group management's assessment of future business trends and are based on both external and internal sources of information.

An analysis of the sensitivity of the value in use to the possible changes in the key assumptions used in preparing the discounted cash flow analysis as of 31 December 2022:

	Change of assumptions	Increase/ (Decrease) of value in use
Pre-tax discount rate	+1%	(5,121,536)
Pre-tax discount rate	-1%	6,162,288
Regulatory rate of return on the regulatory asset base (RAB)	+1%	3,498,112
Regulatory rate of return on the regulatory asset base (RAB)	-1%	(3,335,681)
Average growth rate of the consumer price index	+1%	225,291
Average growth rate of the consumer price index	-1%	(190,491)

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

An analysis of the sensitivity of the value in use to the possible changes in the key assumptions used in preparing the discounted cash flow analysis as of 31 December 2021:

	Change of assumptions	Increase/ (Decrease) of value in use
Pre-tax discount rate	+1%	(6,574,666)
Pre-tax discount rate	-1%	8,151,686
Regulatory rate of return on the regulatory asset base (RAB)	+1%	6,819,132
Regulatory rate of return on the regulatory asset base (RAB)	-1%	(6,497,827)
Average growth rate of the consumer price index	+1%	194,209
Average growth rate of the consumer price index	-1%	(151,043)

Another impairment assessment will be performed at the end of any subsequent reporting periods. If there are positive changes in the Group's future cash flows and macroeconomic indicators, restoration of control over assets, then part of the impairment loss may be reversed in future periods. Conversely, an adverse change in the above key assumptions would further reduce the expected recoverable value of the Group's non-current assets.

(iii) Expected credit losses on trade accounts receivables

Expected credit losses on trade accounts receivables is based on an analysis of historical and current information on debtors. Factors taken into account include an analysis of the repayment of trade accounts receivable compared to the payment history, credit conditions provided to customers, and available market information about the counterparty's ability to make payments. If the actual recovery is less than management's estimates, the Group may be forced to reflect additional impairment charges. If there is a deterioration in the creditworthiness of the main customers or the actual non-fulfillment of their obligations exceeds acceptable estimates, actual results may differ from such estimates.

The expected credit losses on trade accounts receivables are estimated on a portfolio basis using the provision matrix and on an individual basis using different scenarios of the probability of default.

As of 31 December 2022 and 2021, the Group's management assessed trade accounts receivables for their recoverability and recognized expected credit losses in the amount of UAH 16,743,917 thousand and UAH 6,505,663 thousand, respectively (Note 9).

With the onset of military aggression, the solvency of many consumers has deteriorated or lost. The level of settlements in the electricity market has significantly deteriorated. Since the beginning of the military aggression on the electricity market, there has been a shortage of funds due to deteriorating solvency, bankruptcy of end customers, and destruction of their infrastructure, which also resulted in significant increase of gross accounts receivables to the Group.

In addition, the Group provides services and sells goods to various counterparties, including protected consumers, which cannot be disconnected from energy supply due to the risks of social and environmental disaster in accordance with the Procedure for ensuring electricity supply to protected consumers, approved by the Resolution of Cabinet of Ministers of Ukraine dated 27 December 2018 No.1209. Financing of the activities of such enterprises is carried out not only through revenues from the sale of goods and services, but also through other mechanisms of subsidies and compensations provided by Ukrainian law. However, the final laws necessary to settle the debt of these counterparties to the Group and other market participants have not yet been adopted by the Ukrainian parliament, and the timing of these laws is still uncertain and depends on political decisions.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Also, in accordance with the NEURC Resolution No. 332 dated 25 February 2022 "On ensuring the stable functioning of the electricity market, including the financial condition of the participants of the electricity market during the period of martial law in Ukraine" in order to ensure the operational security of the functioning of the main part of the IPS of Ukraine during the period of martial law in Ukraine and within 30 days after its termination or cancellation, it was established that the Group cannot apply certain provisions of the Market Rules to stimulate the collection of receivables from market participants, which also had a significant impact on the deterioration of the level of settlements and the increase of accounts receivable in 2022.

Taking into account the abovementioned factors and the management's expectations, the Group revised its estimates of debt repayment by a number of debtors, changed the approach and factors to which historical default rates are adjusted for current and forecast information, the deterioration of the economic environment and the creditworthiness of electricity market participants. For the year ended 31 December 2022, the Group made an accrual of expected credit losses on trade accounts receivables in the amount of UAH 10,238,254 thousand (2021: reversal in the amount of UAH 586,514 thousand). More detailed information is presented in Note 9.

The Group, assessing expected credit losses on trade accounts receivables, takes into account the cash flows expected from credit enhancements, which are an integral part of the contract. Such credit enhancements are accounts payable of the counterparties owed to the Group, which are usually settled on a net basis together with accounts receivable, but does not meet the offsetting criteria and financial guarantees arising under of the same contract.

As of 31 December 2022, 13% of gross trade accounts receivables are covered by credit enhancements that are an integral part of contracts (31 December 2021: 15%). These credit enhancements resulted in a decrease in the expected credit losses on trade accounts receivable in the amount of UAH 1,025,544 thousand as of 31 December 2022 (31 December 2021: UAH 467,009 thousand).

(iv) Fair value of Eurobonds 2028

In view of the unprecedented crisis situation caused by the military aggression of the Russian Federation against Ukraine, in order to maintain liquidity and prioritise expenses that are vital for the security of the Ukrainian energy system, the uninterrupted performance of the functions of the Transmission System Operator, the Group's operating performance in general as well as the integration of the Ukraine's energy system into ENTSO-E, on behalf of the Cabinet of Ministers of Ukraine, in July 2022, the Ministry of Finance of Ukraine and the Group addressed investors with a proposal to change the terms of all state Eurobonds and state derivatives of Ukraine, as well as Eurobonds guaranteed by the state, including USD 825 million 6.875% Sustainability-Linked Green Bonds issued by the Group in November 2021 (hereinafter - Eurobonds 2028).

On 11 August 2022, investors consented to the proposal of the Group to amend certain terms of Eurobonds 2028. The main agreed amendments to the terms of Eurobonds 2028 described in Note 16.

Taking into account both quantitative and qualitative factors, including a change of maturity, covenants, operating environment risk, the management considers the change in the terms of Eurobonds 2028, which was agreed on 11 August 2022, as a substantial modification of the financial liability. Such a substantial change in the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value on the date of modification.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

To determine the fair value of the Eurobonds 2028 on the modification date, the Group applied a market approach, and in order to use Level 1 input data, an analysis of quotations in open sources was conducted. On the date of modification, taking into account the significant changes in the operational and economic environment of Ukraine as a result of military aggression, Eurobonds 2028 were traded at a discount of about 82%. Taking into account the sufficiency of information on quotations, their daily changes, the impact of changes in the operating environment, credit ratings of the Group and Ukraine, military aggression between the Russian Federation and Ukraine, the Group's management believes that these quotations represent the fair value of Eurobonds 2028 and additional adjustments to this price are not necessary.

Therefore, as of the date of modification, the Group extinguished the original financial liability of Eurobonds 2028 in the amount of UAH 30,518,450 thousand and recognized a new liability at fair value in the amount of UAH 5,285,625 thousand. Transaction costs in the amount of UAH 19,421 thousand were recognized in finance income as part of the gain from the modification of Eurobonds 2028, which amounted to UAH 25,213,404 thousand (Note 28). As a result of a substantial modification, the effective interest rate for Eurobonds 2028 changed from 7.58% to 50.44%.

(v) 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. The Group reviews useful lives of property, plant, and equipment and intangible assets at the end of each annual reporting period. 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 prospective basis.

As of 1 January 2022, the Group engaged an independent appraiser to evaluate the residual value and remaining useful lives for transmission lines (OHL) and substation equipment. This assessment led to a reduction in the rate of depreciation of property, plant and equipment from 7.30% in 2021 to 5.90% in 2022 (Note 7).

(vi) Retirement benefit obligations

In determining the ultimate cost of providing post-employment and other long-term employee benefits (hereinafter – "Retirement benefit obligations"), the Group's management performs the best estimate of the variables used to assess the liability at the end of each reporting period.

The present value of retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The main assumptions used in determining the present value of obligations include the discount rate, the expected level of wage growth in future periods, staff turnover. Any changes in these assumptions may affect the carrying amount of the liability in the statement of financial position and the corresponding accruals in the statement of profit or loss and other comprehensive income, as disclosed in the sensitivity analysis in Note 17.

The Group determines the appropriate discount rate at the end of each year, which is the interest rate that should be used to determine the present value of expected future cash outflows that are expected to be required to settle pension and other long-term employee benefits. In determining the appropriate discount rate, the Group takes into account the interest rates on government bonds denominated in the currency in which the payments will be made, and the maturity of which is close to the maturity of the relevant obligation.

As of 31 December 2022, the consolidated financial statements of the Group included a retirement benefit obligations in the amount of UAH 510,725 thousand (2021: UAH 707,002 thousand). More detailed information is provided in Note 17.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

(vii) Recoverability of deferred tax assets

Deferred tax assets, including those arising from carried forward tax losses and temporary differences, are recognized only when it is probable that they will be recovered, which depends on the sufficient future taxable income. Deviations between expected and actual future taxable income may have a negative impact on the recognized deferred taxes in the Group's consolidated financial statements. Assumptions about the formation of profit before tax in the future depend on management's estimates of future cash inflows. These estimates depend on estimates of future tariffs and volumes of services, material prices, and operating costs.

Judgments are also required applying tax legislation. These judgments and assessments are subject to risks and uncertainties; as such, it is possible that changes in circumstances will affect expectations, which will change the amount of deferred tax assets and deferred tax liabilities recognized as of the reporting date. In such a situation, some or all of the amounts of recognized deferred tax assets and liabilities may need to be adjusted, which will result in an increase or decrease in the net profit.

As of 31 December 2022, based upon projections for future taxable income over the periods in which the taxable temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of UAH 2,979,458 thousand (2021: UAH 4,668,322 thousand) recognized with respect to tax losses carried forward. There is no expiration date of accounting tax losses according to Tax Code of Ukraine. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts consistent with those used for impairment testing of non-current assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised. For more information, see Note 30.

(viii) Provision for litigation costs

The Group acts as a plaintiff in several legal proceedings with its counterparties. A provision for litigation costs is management's estimate of possible losses that may be incurred as a result of negative court rulings (Notes 21 and 32).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

6. SEGMENT INFORMATION

The operating segments presented in these consolidated financial statements are consistent with the structure of financial information, which is regularly reviewed by the Group's management. The Management Board is the main body that makes operational decisions of the Group.

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 *Operating segments* are as follows:

- Transmission system operator ("TSO") – comprising the operation, maintenance and dispatch (operational and technological) control of the Integrated Power System of Ukraine, electricity transmission via high voltage lines from generation to distribution networks based on tariffs approved by the regulator NEURC. Additionally, it includes activities for connection to electricity transmission system and sales of reactive energy.
- Energy system balancing – comprising purchase/sale of electricity to ensure a real-time balance of production, import, export, consumption of electricity and settlement of imbalances, cross-border flows and provision of emergency assistance to neighbouring countries.
- Access to the transmission capacity of IPN (interstate power networks) – comprising activities of granting access to the transmission capacity of interstate power networks.
- Other – comprising activities for development of special purpose software for transmission system operator, administrative and corporate functions and other activities, whose individual share of the Group's revenue is immaterial.

The segment result represents operating profit or loss under IFRS before unallocated other operating expenses.

As a result of the complete synchronization of the energy system of Ukraine with the power grid of continental Europe ENTSO-E and a significant increase in the commercial export of electricity to Europe in 2022, the Group allocated the activity of granting access to the transmission capacity of interstate power networks into a separate segment "Access to the transmission capacity of IPN". Previously, this type of activity was presented in the "Other" segment. Following these changes, the Group has restated its segment presentation for the year ended 31 December 2022. The comparative information for the year ended 31 December 2021 has been updated accordingly.

For the year ended 31 December 2022, the Group's revenue from one customer amounted to UAH 18,825,700 thousand (2021: UAH 17,977,007 thousand) and was included in first three operating segments. Information on revenue from customers under control of the State is disclosed in Note 31. Revenue from other customers does not exceed 10% of the total revenue.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Segment information for the year ended 31 December 2022 was as follows:

	TSO	Energy system balancing	Access to the transmission capacity of IPN	Other	Elimination	Total
Revenue - external	47,720,064	28,565,575	6,044,874	-	-	82,330,513
Revenue - inter-segment	-	-	-	113,544	(113,544)	-
Total revenue	47,720,064	28,565,575	6,044,874	113,544	(113,544)	82,330,513
Segment operating expenses	(57,562,871)	(25,581,677)	-	(17,277)	-	(83,161,825)
Impairment of financial assets, net	(6,768,051)	(3,741,547)	-	-	-	(10,509,598)
Impairment of property, plant and equipment and intangible assets, net	(4,093,998)	-	-	-	-	(4,093,998)
Segment result	(20,704,856)	(757,649)	6,044,874	96,267	(113,544)	(15,434,908)
Unallocated other operating income, net						160,424
Finance income						25,823,184
Finance costs						(5,086,970)
Foreign exchange loss, net						(12,875,076)
Loss before tax						(7,413,346)
Income tax benefit						1,316,222
LOSS FOR THE PERIOD						(6,097,124)

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Segment information for the year ended 31 December 2021 was as follows:

	TSO	Energy system balancing	Access to the transmission capacity of IPN	Other	Elimination	Total
Revenue - external	52,414,529	17,763,456	911,016	-	-	71,089,001
Revenue - inter-segment	-	-	-	64,227	(64,227)	-
Total revenue	52,414,529	17,763,456	911,016	64,227	(64,227)	71,089,001
Segment operating expenses	(54,127,097)	(16,147,747)	-	(8,845)	-	(70,283,689)
Impairment of financial assets, net	1,180,512	(595,875)	-	-	-	584,637
Segment result	(532,056)	1,019,834	911,016	55,382	(64,227)	1,389,949
Unallocated other operating expenses, net						(101,620)
Finance income						209,794
Finance costs						(1,805,047)
Foreign exchange gain, net						481,432
Profit before tax						174,508
Income tax expenses						(45,476)
PROFIT FOR THE PERIOD						129,032

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

7. PROPERTY, PLANT, AND EQUIPMENT

	Transmission lines (OHL)	Buildings and structures	Plant and equipment	Vehicles and other	Construction in progress	Total
Cost/Revalued cost						
As of 1 January 2021	21,018,115	3,864,681	22,632,523	650,802	10,897,344	59,063,465
Reclassification between groups	54,717	(54,869)	(7,316)	7,468	-	-
Additions	-	98,133	365,513	22,944	3,507,387	3,993,977
Internal transfers	625,828	90,335	1,670,382	42,435	(2,428,980)	-
Disposals	(90)	(5,812)	(7,549)	(6,303)	(6,337)	(26,091)
As of 31 December 2021	21,698,570	3,992,468	24,653,553	717,346	11,969,414	63,031,351
Reclassification between groups	-	340	134	(474)	-	-
Additions	-	-	89,858	2,053	2,577,322	2,669,233
Internal transfers	71,473	30,302	1,328,620	63,802	(1,494,197)	-
Transfer to inventories	-	-	-	-	(25,204)	(25,204)
Disposals	-	(2,738)	(2,620)	(985)	(41,035)	(47,378)
As of 31 December 2022	21,770,043	4,020,372	26,069,545	781,742	12,986,300	65,628,002
Accumulated depreciation and impairment losses						
As of 1 January 2021	1,332,988	243,530	1,941,147	224,095	179,763	3,921,523
Reclassification between groups	7,768	(7,768)	(1,591)	1,591	-	-
Depreciation expenses	1,347,406	245,008	1,946,853	80,962	-	3,620,229
Disposals	-	(5,920)	(7,417)	(5,214)	-	(18,551)
Reversal of impairment losses	-	-	-	-	(5,128)	(5,128)
As of 31 December 2021	2,688,162	474,850	3,878,992	301,434	174,635	7,518,073
Reclassification between groups	-	22	(60)	38	-	-
Depreciation expenses	598,098	245,485	2,140,724	74,546	-	3,058,853
Disposals	-	(1,170)	(2,459)	(812)	-	(4,441)
Impairment losses	1,280,810	483,928	3,180,684	22,939	1,123,933	6,092,294
As of 31 December 2022	4,567,070	1,203,115	9,197,881	398,145	1,298,568	16,664,779
Net book value						
As of 31 December 2021	19,010,408	3,517,618	20,774,561	415,912	11,794,779	55,513,278
As of 31 December 2022	17,202,973	2,817,257	16,871,664	383,597	11,687,732	48,963,223

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Revaluation

The Group engaged independent professional appraisers to determine the fair values of its property, plant, and equipment as of 31 July 2019. The fair values were determined on the basis of depreciated replacement cost by using income approach to determine the economic impairment or market data in accordance with International Valuation Standards. Considering the character of the Group's property, plant, and equipment, the fair values were determined by using the depreciated replacement cost of specialized assets and market evidence for non-specialized assets. The depreciated replacement cost is based on the analysis of reproduction cost or replacement of property, plant, and equipment items, with reference to physical, functional, or economic depreciation and obsolescence. The depreciated replacement cost was assessed on the basis of internal sources and analysis of available information about the market for similar property, plant, and equipment items (published data, catalogs, statistical data, etc.), as well as industry experts and suppliers. Main assumptions of revaluation are disclosed in Note 33.

The Group did not revalue property, plant and equipment as of 31 December 2022 and 2021 because it concluded that the carrying value of property, plant and equipment at the reporting date was not significantly different from their fair value (Note 5). At the same time, the carrying value of the Group's property, plant and equipment is reduced to their recoverable value as a result of the impairment test described below. The management believes that in the situation of significant uncertainty of the military and economic environment in Ukraine revaluation unlikely to result in substantial uplift in fair value in excess of carrying value. At the same time, the calculated fair value of property, plant and equipment may differ significantly depending on the underlying assumptions used, which are affected by uncertainty regarding the further development of military aggression and changes in the operating environment.

Impairment of property, plant and equipment and construction in progress

Given the significant change in the operating environment described in Note 2, as of 31 December 2022, the Group determined the existence of certain indications that the recoverable amount of property, plant and equipment, construction in progress and intangible assets might fall lower than their carrying amounts.

The Group assessed recoverable value of property, plant and equipment, construction in progress and intangible assets (at the level of the cash generating unit) for impairment considering the Group as one cash-generating unit. Value-in-use of the Group's assets was calculated by preparing the analysis of discounted cash flows based on the assumptions of estimated income and expenses, as well as the discount rate. Assumptions and valuation methodology are described in Note 5.

According to the results of this assessment, the Group determined that the recoverable value of the relevant non-current assets was lower than their carrying value by UAH 6,061,705 thousand. Impairment of particularly property, plant and equipment and construction in progress amounted UAH 6,060,422 thousand, including UAH 1,967,707 thousand recognized as a decrease in the revaluation reserve in other comprehensive income, and UAH 4,092,715 thousand - as an impairment loss in profit or loss for 2022.

Review of residual value and remaining useful lives

As of 1 January 2022, the Group engaged an independent appraiser to evaluate the residual value and remaining useful lives for transmission lines (OHL) and substation equipment. This assessment led to a reduction in the rate of depreciation of property, plant and equipment from 7.30% in 2021 to 5.90% in 2022.

Depreciation expenses

In 2022, the depreciation expenses of UAH 3,035,487 thousand (2021: UAH 3,593,124 thousand) were included in cost of sales, UAH 20,077 thousand (2021: UAH 24,137 thousand) in administrative expenses, UAH 2,084 thousand (2021: UAH 2,276 thousand) in other operating expenses, UAH 1,205 thousand (2021: UAH 692 thousand) were capitalised.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

=Capitalized borrowing costs

In 2022 additions to construction in progress included capitalized interests in the amount of UAH 273,881 thousand (2021: 219,493 thousand). During 2022 and 2021, interests were capitalized only for loans obtained exclusively for the implementation of construction of qualifying assets projects.

Prepayments for property, plant and equipment

Construction in progress as of 31 December 2022 included prepayments for property, plant and equipment with carrying amount UAH 2,118,187 thousand, excluding accumulated impairment losses in amount of UAH 159,763 thousand (2021: carrying amount – UAH 1,659,513 thousand, accumulated impairment losses – UAH 127,891 thousand).

Fully depreciated assets

As of 31 December 2022 the cost of fully depreciated property, plant and equipment that are still in use by the Group amounted to UAH 498,373 thousand (2021: UAH 199,165 thousand).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

8. INTANGIBLE ASSETS

	Computer software	Right-of-use asset	Other intangible assets	Capital investment in intangible assets	Total
Cost					
As of 1 January 2021	397,031	22,778	9,413	129,603	558,825
Additions	94,517	5,197	125	252,584	352,423
Internal transfers	83,164	-	491	(83,655)	-
Disposals	(5,973)	-	-	(2,058)	(8,031)
As of 31 December 2021	568,739	27,975	10,029	296,474	903,217
Reclassification between groups	8,656	-	(8,656)	-	-
Additions	-	-	-	235,559	235,559
Internal transfers	235,897	-	-	(235,897)	-
Disposals	(699)	(13,766)	(22)	-	(14,487)
As of 31 December 2022	812,593	14,209	1,351	296,136	1,124,289
Accumulated amortization and impairment losses					
As of 1 January 2021	154,218	6,203	1,451	3,708	165,580
Amortization expenses	39,169	4,283	899	-	44,351
Disposals	(5,722)	-	-	-	(5,722)
Impairment losses	-	-	-	657	657
As of 31 December 2021	187,665	10,486	2,350	4,365	204,866
Reclassification between groups	1,948	-	(1,948)	-	-
Amortization expenses	56,317	3,018	40	-	59,375
Disposals	(679)	(6,200)	(20)	-	(6,899)
Impairment losses	694	-	-	1,292	1,986
As of 31 December 2022	245,945	7,304	422	5,657	259,328
Net book value					
As of 31 December 2021	381,074	17,489	7,679	292,109	698,351
As of 31 December 2022	566,648	6,905	929	290,479	864,961

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Amortization expenses

In 2022, the amortization expenses of UAH 57,806 thousand (2021: UAH 38,841 thousand) were included in cost of sales, UAH 1,563 thousand (2021: UAH 5,128 thousand) in administrative expenses, UAH 6 thousand (2021: UAH 36 thousand) in other operating expenses. In 2021 UAH 346 thousand were capitalised.

Capitalized borrowing costs

In 2022 additions to Capital investment in intangible assets included capitalized interests in the amount of UAH 11,557 thousand (2021: nil). During 2022 interests were capitalized only for loans obtained exclusively for the implementation of construction of qualifying assets projects.

Prepayments for intangible assets

Capital investment in intangible assets as of 31 December 2022 included prepayments for intangible assets with carrying amount UAH 11,046 thousand, excluding accumulated impairment losses in amount of UAH 1,360 thousand (2021: carrying amount – UAH 10,449 thousand, accumulated impairment losses – UAH 657 thousand).

9. TRADE ACCOUNTS RECEIVABLE

	31 December 2022	31 December 2021
Electricity to settle imbalances	23,335,015	13,360,360
Electricity transmission services	14,134,803	7,384,110
Dispatch (operational and technological) control services	7,321,003	1,594,695
Balancing electricity	1,715,047	504,930
Electricity from cross-border flows	1,553,210	-
Services on granting access to the transmission capacity of interstate power networks	80,325	19,615
Reactive energy	8,801	8,945
Other goods and services	6,613	6,613
Total gross amount	48,154,817	22,879,268
Less: Expected credit losses on trade accounts receivable	(16,743,917)	(6,505,663)
Total carrying amount	31,410,900	16,373,605

No credit limits are applied to the Group's customers. The average credit period for the Group's customers did not exceed 30 days. No interest is charged on trade accounts receivable that are not repaid within credit limits.

Expected credit losses on trade accounts receivable

The expected credit losses on trade accounts receivable are estimated on a portfolio basis using the provision matrix and on an individual basis using different scenarios of the probability of default.

The provision matrix is used with reference to the historical information of debtors' default and analysis of the debtor's forecast condition, adjusted for factors specific to debtors, general economic conditions of the industry in which debtors work, assessment of current and forecast events that may significantly affect future payments, credit terms, and available market information on the solvency of debtors.

Individual assessment is used for individually significant debtors or groups of debtors with credit risk characteristics that are different from others.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

With the onset of military aggression, the solvency of many consumers has deteriorated or lost. The level of settlements in the electricity market has significantly deteriorated. Since the beginning of the military aggression on the electricity market, there has been a shortage of funds due to deteriorating solvency, bankruptcy of end customers, and destruction of their infrastructure, which also resulted in significant increase of gross accounts receivables to the Group.

Taking into account the abovementioned factors and the management's expectations, the Group revised its estimates of debt repayment by a number of debtors, changed the approach and factors to which historical default rates are adjusted for current and forecast information, the deterioration of the economic environment and the creditworthiness of electricity market participants.

As a result of the events described in Note 5 and above, for the year ended 31 December 2022, the Group made an accrual of expected credit losses on trade accounts receivables in the amount of UAH 10,238,254 thousand (2021: reversal in the amount of UAH 586,514 thousand).

The Group continues to assess and manage its credit risks, analyze conditions of receivables and actively cooperate with counterparties, the regulator and the Ministry of Energy of Ukraine. Management expects that in future periods it may revise its assessment of the probability of repayment of receivables by market participants, taking into account the constant volatility of the course of military aggression, changes in the economic environment, international support and other factors.

The movements in expected credit losses on trade accounts receivable for the years ended 31 December 2022 and 2021 were as follows:

	Portfolio assessment	Individual assessment	Total
Balance at 1 January 2021	767,519	6,324,658	7,092,177
Charge/(reversal)	608,160	(1,194,674)	(586,514)
Balance at 31 December 2021	1,375,679	5,129,984	6,505,663
Charge	3,054,892	7,183,362	10,238,254
Balance at 31 December 2022	4,430,571	12,313,346	16,743,917

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Analysis of credit quality of trade accounts receivable for the years ended 31 December 2022 is as follows:

31 December 2022	<u>Not past due</u>	<u>Past due from 1 to 90 days</u>	<u>Past due from 91 to 180 days</u>	<u>Past due from 181 to 270 days</u>	<u>Past due from 271 to 365 days</u>	<u>Past due for more than 365 days</u>	<u>Total</u>
Portfolio assessment							
Gross amount	5,668,466	7,903,843	2,375,833	1,389,528	1,773,683	2,515,171	21,626,524
Expected credit losses	(93,769)	(453,987)	(341,801)	(481,121)	(833,371)	(2,226,522)	(4,430,571)
<i>Ratio of expected credit losses, %</i>	1.65%	5.74%	14.39%	34.62%	46.99%	88.52%	
Individual assessment							
Gross amount	2,077,598	5,622,152	3,661,413	2,274,561	2,868,349	10,024,220	26,528,293
Expected credit losses	(222,411)	(975,753)	(1,011,992)	(683,360)	(1,614,900)	(7,804,930)	(12,313,346)
<i>Ratio of expected credit losses, %</i>	10.71%	17.36%	27.64%	30.04%	56.30%	77.86%	
Total gross amount							48,154,817
Total expected credit losses							(16,743,917)

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Analysis of credit quality of trade accounts receivable for the years ended 31 December 2021 is as follows:

31 December 2021	<u>Not past due</u>	<u>Past due from 1 to 90 days</u>	<u>Past due from 91 to 180 days</u>	<u>Past due from 181 to 270 days</u>	<u>Past due from 271 to 365 days</u>	<u>Past due for more than 365 days</u>	<u>Total</u>
Portfolio assessment							
Gross amount	3,824,004	3,804,822	1,967,494	811,554	2,473,820	526,609	13,408,303
Expected credit losses	(34,265)	(66,624)	(155,879)	(167,275)	(483,190)	(468,446)	(1,375,679)
<i>Ratio of expected credit losses, %</i>	<i>0.90%</i>	<i>1.75%</i>	<i>7.92%</i>	<i>20.61%</i>	<i>19.53%</i>	<i>88.96%</i>	
Individual assessment							
Gross amount	1,104,062	1,689,462	797,432	581,000	905,340	4,393,669	9,470,965
Expected credit losses	(43,600)	(429,085)	(388,010)	(190,312)	(728,796)	(3,350,181)	(5,129,984)
<i>Ratio of expected credit losses, %</i>	<i>3.95%</i>	<i>25.40%</i>	<i>48.66%</i>	<i>32.76%</i>	<i>80.50%</i>	<i>76.25%</i>	
Total gross amount							22,879,268
Total expected credit losses							(6,505,663)

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The reconciliation of expected credit losses on trade accounts receivables as of 31 December 2022 with the balance at the beginning of the year was as follows:

	Portfolio assessment	Individual assessment	Total
Balance at 1 January 2022	1,375,679	5,129,984	6,505,663
Increase in gross value of trade accounts receivable	3,561,424	1,408,188	4,969,612
Change in assumptions, estimates and risk parameters	367,485	3,806,575	4,174,060
Change in approach of taking into consideration of current and forecast information	1,007,985	86,597	1,094,582
Transfer of separate financial assets between types of assessment	(1,882,002)	1,882,002	-
Balance at 31 December	4,430,571	12,313,346	16,743,917

The Group, assessing expected credit losses on trade accounts receivables, takes into account the cash flows expected from credit enhancements, which are an integral part of the contract. Such credit enhancements are accounts payable of the counterparties owed to the Group, which are usually settled on a net basis together with accounts receivable, but does not meet the offsetting criteria, and financial guarantees received by the Group from the customers for electricity to settle imbalances and balancing electricity arising under of the same contract (Notes 19 and 22).

As of 31 December 2022, 13% of gross trade accounts receivables are covered by credit enhancements that are an integral part of contracts (31 December 2021: 15%). These credit enhancements resulted in a decrease in the expected credit losses on trade accounts receivable in the amount of UAH 1,025,544 thousand as of 31 December 2022 (31 December 2021: UAH 467,009 thousand).

10. PREPAYMENTS

	31 December 2022	31 December 2021
Electricity for compensation of technical losses	612,238	722,110
Goods, works and services	75,345	53,391
Electricity to settle imbalances	49,784	43,315
Total gross amount	737,367	818,816
Less: Allowance for impairment of prepayments	(567)	(209)
Total carrying amount	736,800	818,607

The movements in allowance for impairment of prepayments for the years ended 31 December 2022 and 2021 were as follows:

	2022	2021
Balance at 1 January	209	303
Charge/(reversal)	358	(94)
Balance at 31 December	567	209

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

11. TAXES RECEIVABLE, OTHER THAN INCOME TAX

As of 31 December 2022 and 2021 taxes receivable, other than income tax consisted mainly of VAT receivable in amount of UAH 2,884,276 thousand and UAH 2,983,813 thousand respectively.

12. LOANS RECEIVABLE

	31 December 2022	31 December 2021
Loan provided to SE "Ukrvuhillia"	2,366,942	-
Total gross amount	2,366,942	-
Less: Expected credit losses on loans receivable	(262,439)	-
Total carrying amount	2,104,503	-

As of 31 December 2022, loans receivable were represented by an interest-free loan to the state-owned enterprise "Ukrvuhillia" that was provided in accordance with the instruction of the Cabinet of Ministers of Ukraine to finance by the Group the creation of a strategic coal reserve for the heating season of 2022-2023. Such decision was adopted by Resolution of the Cabinet of Ministers of Ukraine No.838 dated 22 July 2022. The Group provided to SE "Ukrvuhillia" an interest-free loan of UAH 2,499,974 thousand for the purchase of coal to ensure the preparation and completion of the heating season of 2022-2023. During the heating season of 2022-2023, coal was used for thermal generation in agreement with the Ministry of Energy of Ukraine. SE "Ukrvuhillia" must return the loan to the Group no later than 1 June 2023.

The reconciliation of gross amount of loans receivable for the years ended 31 December 2022 and 2021 was as follows:

	2022	2021
Balance at 1 January	-	-
Loans provided	2,499,974	-
Proceeds from loans repayment	(6,807)	-
Discount costs on initial recognition (Note 29)	(240,059)	-
Income from amortization of discount (Note 28)	113,834	-
Balance at 31 December	2,366,942	-

The Group determines the expected credit loss on loans receivable based on different scenarios of probability of default and expected loss based on 12-month expected credit losses (stage 1). The movements in expected credit losses on loans receivable for the years ended 31 December 2022 and 2021 were as follows:

	2022	2021
Balance at 1 January	-	-
Charge	262,439	-
Balance at 31 December	262,439	-

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

13. CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash on current bank accounts	3,725,851	9,629,098
Cash on special purpose accounts	1,006,976	726,508
Cash on hand	1	3
Total	4,732,828	10,355,609

Special purpose accounts are accounts with a special use regime, in particular for receiving funds under loan agreements with international financial institutions, settlements on the purchase and sale of electricity on the balancing market and others.

In accordance with the international rating agencies of Moody's or Fitch, credit ratings of the banks with which the Group had cash and cash equivalents accounts opened as of 31 December 2022 and 2021 were as follows:

	31 December 2022	31 December 2021
Ukrainian state banks with CCC/B* rating	3,543,423	9,728,457
Ukrainian commercial banks with CCC/B* rating	462,447	609,204
Subsidiaries of international banks with A rating	710,060	-
Other banks without ratings	16,898	17,948
Total	4,732,828	10,355,609

* Ukrainian banks had credit rating of B as of 31 December 2021 and CCC as of 31 December 2022. Decrease of credit rating of Ukrainian banks is explained by military aggression of Russian Federation against Ukraine and respective decrease in long-term credit ratings of Ukraine (Note 2).

14. OTHER CURRENT ASSETS

	31 December 2022	31 December 2021
VAT amounts for which deadline or right to declare is not due	2,077,708	2,158,118
One-time commission on loans from banks	4,112	3,706
Regulatory asset	-	1,385,109
Other	84	235
Total	2,081,904	3,547,168

In 2021, the Group incurred UAH 1,385,109 thousand of actual costs that were not included in determining the Group's tariffs for 2021. However, the Group has an enforceable right to increase the tariff for future periods by the amount of the difference between economically justified actual and planned (included in the tariff) costs of the current period. Applying the accounting policy about reflecting the impact of tariff regulation on the financial statements described in Notes 4 and 5 to the situation with the temporary difference between the period of incurring of actual costs and their reimbursement in the tariff, as of and for the year ended 31 December 2021, the Group recognized regulatory assets and regulatory income in the amount of UAH 1,385,109 thousand.

As described in Note 5, as of 31 December 2022 the Group considers it appropriate not to recognize this regulatory asset, which arises due to underfunding of costs in the tariffs of 2022, as there is no probable certainty of its full recovery due to such factors as a significant change in the operating environment as a result of military aggression, uncertainty regarding the state policy of tariff establishing during the period of martial law and further developments. As a result, in 2022 the Group recognized regulatory expenses in the amount of UAH 1,385,109 thousand (Note 27).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

15. EQUITY

Share capital

In July 2019, NPC "Ukrenergo" was registered as a private joint stock company with 100% of its shares owned by the state of Ukraine. The private joint stock company NPC "Ukrenergo" is the legal successor of the State Enterprise "National Power Company "Ukrenergo".

As of 31 December 2022 and 2021 the nominal value of registered, issued and fully repaid share capital of the Company amounted to UAH 37,160,209 thousand, consisting of 37,160,209 ordinary registered shares with nominal value of UAH 1,000 per share.

The shares of the Company are not subject to dispossession, they are not registered on a stock exchange and are not traded in the market. The Decree of the Cabinet of Ministers of Ukraine date 28 July 2021 No.833-r "Certain issues of management of state property" approved the transfer of management of corporate rights owned by the state in share capital of the Company from the Ministry of Finance of Ukraine to the Ministry of Energy of Ukraine. On 16 September 2021, the state, represented by the Ministry of Energy of Ukraine, became the owner of 100% of the Company's shares.

Corporatization effect

The value of shares of Company during corporatization was assessed by engaging an independent appraiser who assessed the fair values of the Company's assets and liabilities in accordance with the rules developed for valuation of shares by the State Property Fund of Ukraine. The fair value measurement of non-current assets is required by corporatization rules so that the Government could determine the share capital value of a new business entity. Since the new entity, Private Joint Stock Company NPC "Ukrenergo", is the continuation of the existing business, as well as assets and liabilities of the previous legal entity, the above fair value of assets and liabilities could not be reflected in the financial statements. Through the reorganization ("corporatization") the Company's share capital was increased in the amount of UAH 35,933,854 thousand which has been reflected as increase in share capital, consistent with the legal form of the shares. However, as the shareholder of the Company did not contribute additional capital through the reorganization, the increase in equity has been reflected as a corporatization in the amount of UAH 35,933,854 thousand, as separate reserve in equity.

	Number of ordinary shares	Share capital	Corporatization effect	Total
31 December 2022	37,160,209	37,160,209	(35,933,854)	1,226,355
31 December 2021	37,160,209	37,160,209	(35,933,854)	1,226,355

Revaluation reserve

As described in Notes 5 and 7, because of a significant change in the operating environment, as of 31 December 2022, the Group determined that there were certain indications that the recoverable value of property, plant and equipment, construction in progress and intangible assets may be less than their carrying amount. As a result of the assessment of the recoverable value of assets, part of the impairment of property, plant and equipment in the amount of UAH 1,619,008 thousand was recognized as a decrease in the revaluation reserve in other comprehensive income, net of income tax benefit in the amount of UAH 348,699 thousand.

Reserve capital

In accordance with the Company's Charter, the Company shall form a reserve capital in the amount of 15% of the registered authorized/share capital of the Company to cover losses from its business activities. To achieve this amount of reserve capital, the amount of annual charges should be not less than 5% of the net Company's profits for the year.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

For the year ended 31 December 2022 the Company made no transfers to the reserve capital due to the loss incurred in 2022. Based on the results of the year ended 31 December 2021, the Group made charges to the reserve capital in the amount of UAH 7,057 thousand.

As of 31 December 2022 and 2021 reserve capital amounted to UAH 100,262 thousand.

Dividends

The decision on payment of dividends and their amount is made by the shareholders meeting of the Company taking into account the requirements stipulated by the legislation of Ukraine, the indicators of financial statements and the structure of the tariffs for electricity transmission and dispatch (operational and technological) control services. Profit of each reporting period available for distribution to owners is determined on the basis of separate financial statements prepared in accordance with IFRS. The Group pays dividends exclusively in cash.

According to Part 5, Article 11 of the Law of Ukraine "On Management of State-Owned Properties" No 185-V dated 21 September 2006, in its effective version, a business entity, in the share capital of which the state has corporate rights, should pay a portion of net profits, based on the performance of the calendar year, as dividends in accordance with the procedure approved by the Cabinet of Ministers of Ukraine.

Resolution of the Cabinet of Ministers of Ukraine dated 8 March 2022 No.230 approved the basis of not less than 50% for deducting the share of profits to pay dividends based on the results of financial and economic activities in 2021, in particular for companies in which the state ownership share is 100 percent, including its subsidiaries. The company decided to direct 90% of the profit for 2021 to pay dividends and, accordingly, as of 31 December 2021, made an accrual of provision for dividends in the amount of UAH 127,036 thousand.

During the year ended 31 December 2022, the Company transferred UAH 127,036 thousand for the payment of dividends to the State Budget of Ukraine based on the results of financial and economic activity in 2021. The distribution of dividends by the Company was approved by the Decree of the Cabinet of Ministers of Ukraine No.579 dated 7 July 2022 and the Order of the Ministry of Energy of Ukraine No.284 dated 19 August 2022.

As of 31 December 2022, no provision for dividends was accrued due to the Company's loss in 2022.

16. LOANS AND BORROWINGS

	31 December 2022	31 December 2021
Non-current		
Loans	28,148,260	18,151,418
Eurobonds 2028*	6,370,082	22,321,569
Total non-current loans and borrowings	34,518,342	40,472,987
Current		
Loans	8,986,984	7,695,827
Eurobonds 2028	-	238,411
Total current loans and borrowings	8,986,984	7,934,238
Total loans and borrowings	43,505,326	48,407,225

* The change in the terms of Eurobonds 2028, which was agreed on 11 August 2022, was determined by the Management as a substantial modification of the financial liability. Such a substantial change in the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value on the date of modification. The approach to determining the fair value of Eurobonds 2028 on the modification date is described later in this Note and in Note 5.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

As of 31 December 2022 and 2021, the weighted average effective interest rates and balances on loans and borrowings were presented as follows:

	Creditor	Currency	31 December 2022		31 December 2021	
			% annual	Balance	% annual	Balance
European Bank for Reconstruction and Development, No.49235	EBRD	EUR	1.12%	5,802,904	1.12%	53,503
Ministry of Finance of Ukraine, No.8462-UA	IBRD	USD	3.56%	5,470,339	3.27%	3,460,561
Oshchadbank, No.1372/31/2	Oshchadbank	UAH	19.10%	4,583,333	15.29%	5,000,000
Ukreximbank, No.20-1KV0016	Ukreximbank	UAH	24.53%	3,666,000	15.57%	4,000,000
Ministry of Finance of Ukraine, No.24668-UA	EIB	EUR	2.47%	3,075,100	2.52%	2,692,392
Ministry of Finance of Ukraine, No.4868-UA	IBRD	USD	3.46%	3,017,880	3.24%	2,631,499
Ministry of Finance of Ukraine, No.FIN 31.143						
SEPARIS No.20090117	EIB	EUR	2.52%	2,546,097	2.39%	2,144,998
Ministry of Finance of Ukraine, No.27406	EBRD	EUR	4.28%	2,133,703	4.27%	1,589,392
European Investment Bank, № 87.554	EIB	EUR	2.35%	1,947,550	-	-
Ministry of Finance of Ukraine, No.40147-UA	EBRD	EUR	3.15%	1,707,146	3.10%	1,765,850
Oshchadbank, №1427/31/2	Oshchadbank	USD	5.42%	1,182,994	-	-
Ukrasbank, No.20-K/20-VIP	Ukrasbank	UAH	17.50%	989,583	15.55%	1,250,000
Ministry of Finance of Ukraine, No.2006 66 537	KfW	EUR	2.78%	558,679	2.78%	434,320
Ministry of Finance of Ukraine, No.TF017661	IBRD	USD	2.81%	453,936	2.81%	252,494
Ministry of Finance of Ukraine, No.37598	KfW	EUR	-	-	3.33%	572,236
Total loans				37,135,244		25,847,245
Eurobonds 2028	-	USD	50.44%	6,370,082	7.58%	22,559,980
Total loans and borrowings				43,505,326		48,407,225

As of 31 December 2022 and 2021 accounts payable for interests accrued on loans amounted to UAH 591,769 and UAH 250,741 thousand respectively (Note 22).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Loans from international financial organizations

Ministry of Finance of Ukraine, loan No.4868-UA

Creditor: International Bank for Reconstruction and Development

In 2007, the long-term loan agreement No.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 (hereinafter – "IBRD") to implement the Power Transmission Project. The sub-loan agreement between the Group 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 SOFR¹ plus a variable spread, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine.

As of 31 December 2022 and 2021, there was no undrawn balance under the loan. The loan is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 March 2013 to 15 September 2027.

Ministry of Finance of Ukraine, loan No.8462-UA

Creditor: International Bank for Reconstruction and Development

In 2015, long-term loan agreement No.8462-UA for the total amount of USD 330,000 thousand was concluded between the Government of Ukraine and the IBRD to implement the Second Power Transmission Project. In accordance with the sub-loan agreement between the Group 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 SOFR plus a variable spread. In addition, the Group 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. In May 2019, amendments were made to Loan Agreement No.8462-UA, according to which was agreed to reduce the amount of borrowing funds by USD 60,000 thousand and extend the final completion of the project from 30 June 2020 to 29 June 2022. In March 2022, the project completion date was extended to 31 December 2023. The loan is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 January 2020 to 15 July 2032.

As of 31 December 2022, the undrawn balance under the loan amounted to USD 90,786 thousand (2021: USD 125,591 thousand).

Ministry of Finance of Ukraine, loan No.TF017661

Creditor: International Bank for Reconstruction and Development

In 2015, long-term loan agreement No.TF017661 for the total amount of USD 48,425 thousand was concluded between the Government of Ukraine and the IBRD to implement the Second Power Transmission Project. The sub-loan agreement between the Group and the Ministry of Finance of Ukraine was concluded on 25 May 2015. The interest rate of the loan is a fixed interest rate of 0.75%. In addition, the Group 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. In March 2022, the project completion date was extended to 31 December 2023. The loan is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 January 2025 to 15 July 2034.

As of 31 December 2022, the undrawn balance under the loan amounted to USD 36,012 thousand (2021: USD 39,169 thousand).

¹ The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated financial instruments based on transactions in the Treasury repurchase market. SOFR replaced LIBOR in all loan agreements.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Ministry of Finance of Ukraine, loan No.37598

Creditor: European Bank for Reconstruction and Development

In 2008, long-term loan agreement No.37598 for the total amount of EUR 150,000 thousand was concluded between the Government of Ukraine and European Bank for Reconstruction and Development (hereinafter - the "EBRD") to implement Rivnenska AES-Kyivska high voltage line construction project. The sub-loan agreement between the Group 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 Group is charged a commission of 0.50% applied to the undrawn balance of the loan. The loan was repaid in full according to the schedule determined by the agreement in November 2022.

Ministry of Finance of Ukraine, loan No.40147-UA

Creditor: European Bank for Reconstruction and Development

In 2010, long-term loan agreement No.40147 for the total amount of EUR 175,000 thousand was concluded between the Government of Ukraine and the EBRD to implement Zaporizka AES-Kakhovska high voltage line construction project. The sub-loan agreement between the Group 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 Group is charged a commission of 0.50% applied to the undrawn balance of the loan. The loan is repayable in accordance with the settlement schedule specified in the agreement in equal semi-annual instalments starting from 20 April 2014 to 20 October 2025.

As of 31 December 2022, the undrawn balance under the loan amounted to EUR 23,220 thousand (2021: EUR 24,219 thousand).

Ministry of Finance of Ukraine, loan No.24668-UA

Creditor: European Investment Bank

In 2008, long-term loan agreement No.24668-UA for the total amount of EUR 150,000 thousand was concluded between the Government of Ukraine and European Investment Bank (hereinafter – the "EIB") to implement Rivnenska AES-Kyivska high voltage line construction project. The sub-loan agreement between the Group 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 Group is charged a commission of 0.10% applied to the undrawn balance of the loan. The loan is repayable in accordance with the settlement schedule specified for each tranche in semi-annual instalments starting from 20 February 2016. Average period of tranche repayments is 15 years from the date of funds receiving.

As of 31 December 2022 and 2021, the undrawn balance under the loan amounted to EUR 37,550 thousand.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Ministry of Finance of Ukraine, loan No.FIN 31.143 SEPARIS No.20090117

Creditor: European Investment Bank

In 2011, long-term loan agreement No.FIN 31.143 SEPARIS No.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 Group 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 Group is charged a commission of 0.10% applied to the undrawn balance of the loan. The loan is repayable in accordance with the settlement schedule specified for each tranche in semi-annual instalments starting from 20 October 2019. Average period of tranche repayments is 20 years from the date of funds receiving.

As of 31 December 2022 and 2021, the undrawn balance under the loan amounted to EUR 102,300 thousand.

Ministry of Finance of Ukraine, loan No.2006 66 537

Creditor: Kreditanstalt für Wiederaufbau (KfW)

In 2011, long-term loan agreement No.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 Group and the Ministry of Finance of Ukraine was concluded on 10 July 2012. In 2015, pursuant to the additional letter to the loan agreement, the total amount of the loan was reduced to EUR 40,500 thousand. The loan has a fixed interest rate 0.75%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Group is charged a commission of 0.25% applied to the undrawn balance of the loan. The loan is repayable in equal semi-annual installments starting from 30 December 2021 until 30 December 2051.

As of 31 December 2022, the undrawn balance under the loan amounted to EUR 24,831 thousand (2021: EUR 25,792 thousand).

Ministry of Finance of Ukraine, loan No.27406

Creditor: Kreditanstalt für Wiederaufbau (KfW)

In 2016, long-term loan agreement No.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 Group and the Ministry of Finance of Ukraine was concluded on 21 March 2017. The interest rate of the loan is a fixed interest rate of 3.97%. In addition, the Group is charged a margin of 2.00% payable to the Ministry of Finance of Ukraine and a commission of 0.25% for the undrawn loan amount. The loan is repayable in accordance with the settlement schedule specified in the agreement starting from 30 December 2021 until 30 December 2031.

As of 31 December 2022, the undrawn balance under the loan amounted to EUR 80,935 thousand (2021: EUR 91,458 thousand).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

European Bank for Reconstruction and Development, loan No.49235

Creditor: European Bank for Reconstruction and Development

In July 2019, long-term loan agreement for the total amount of EUR 149,000 thousand was concluded between the Group and the European Bank for Reconstruction and Development to implement the Project on Modernization of Transmission Network (purchase of new transformers and modernization of twelve substations in key regions of Ukraine). 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 for the government guarantee granted for the total loan amount. In addition, the Group is charged a commission of 0.50% applied to the undrawn balance of the loan. The loan is repayable in accordance with the repayment schedule defined in the agreement in equal semi-annual installments starting from 20 April 2024 until 20 April 2034.

In May 2022, the Group and the EBRD signed an Amendment to Loan agreement No.49235 (Amendment #1). In particular, the parties agreed to partially change the purpose of the loan, namely: the use of EUR 50,000 thousand (Loan A) for the liquidity needs of the Group and EUR 99,000 thousand (Loan B) - for the implementation of the Project, provided that this amount includes already received loans and already paid a one-time fee in the amount of EUR 1,500 thousand. Loans are repayable in accordance with the settlement schedule specified in the agreement in semi-annual instalments: Loan A - until 20 October 2026 and Loan B - until 20 April 2034.

In August 2022, the EBRD and the Group concluded an Amendment to Loan agreement No.49235 (Amendment #2), which provided for a change in the purpose of credit funds included in Loan B as defined in Amendment #1. In particular, credit funds in the amount of EUR 97,150 thousand (Loan B as defined in Amendment #2) may be disbursed to finance the critical operational costs of the Group, and EUR 1,850 thousand (Loan C) should include a one-time fee paid and the costs of a consultant for the preparation of the Project. The loans are repayable according to the schedule every six months: Loan A - until 20 October 2026, Loan B as defined in Amendment #2 - until 20 April 2028, and Loan C - until 20 April 2034.

As of 31 December 2022 the unused balance of the loan amounted to EUR 20 thousand (2021: EUR 147,270 thousand).

European Investment Bank, loan No.FIN 87.554 SEPARIS No.2017-0155

Creditor: European Investment Bank

In 2018, a long-term loan agreement No.FIN 87.554 Serapis No.2017-0155 in the amount of EUR 136,000 thousand was concluded between the Group and the EIB for the implementation of the Substation Reliability Project. The EIB provides loans in 13 tranches, each of which is set at a floating interest rate based on the EURIBOR rate or a fixed rate. For each tranche, the EIB and the Group agree on the amount of the tranche, receiving date, repayment terms, and the interest rate. In addition, the Group must pay a margin of 0.20% to the Ministry of Finance of Ukraine for the provided state guarantee for the total loan amount. The loan is repayable in accordance with the settlement schedule specified for each tranche in semi-annual instalments starting from March 2027. Average period of tranche repayments is 15 years from the date of funds receiving.

In August 2022, the Group and the EIB agreed on the reassignment of part of the loan funds under the loan agreement No. FIN 87.554 Separis No. 2017-0155 in the amount of EUR 50 million to be used to support the financial condition of the Group. During 2022, these funds were received to repay the Group's payables to market participants for ancillary services. The rest of the loan funds in the amount of EUR 86 million are undrawn and will be directed to the restoration or modernization of assets.

As of 31 December 2022, the unused balance of the loan amounted to EUR 86,000 thousand (2021: EUR 136,000 thousand).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Kreditanstalt für Wiederaufbau (KfW), loan No.BMZ-No 2016.6520.7

Creditor: Kreditanstalt für Wiederaufbau (KfW)

In 2022, the Group and KfW signed a long-term loan agreement No.BMZ-No. 2016.6520.7 in the amount of EUR 32,500 thousand for the implementation of the Project to improve the efficiency of electricity transmission. The interest rate on the loan is fixed and amounts to 2% per annum. In addition, the Group must pay a margin of 0.5% to the Ministry of Finance of Ukraine for the provided state guarantee for the total loan amount, and a commission of 0.25% applied to the undrawn balance of the loan. The loan is repayable in equal semi-annual installments starting from 15 November 2032 until 15 May 2052.

As of 31 December 2022, the withdrawal of funds under this loan did not take place and the unused balance of the loan amounted to EUR 32,500 thousand.

European Bank for Reconstruction and Development, loan No.54138

Creditor: European Bank for Reconstruction and Development

In December 2022, the Group and the EBRD signed a long-term loan agreement in the amount of EUR 300,000 thousand with which the parties agreed to direct loan funds in the amount of EUR 150,000 thousand (Loan A) for the implementation of the Project for emergency restoration of the electricity transmission network and EUR 150,000 thousand (Loan B) - to support the Group's capital structure. Amounts of Loans A and B include a one-time fee, which is calculated as 1% of the total amount of the loan according to the contract. The interest rate on the loan is floating and is calculated based on the EURIBOR rate. In addition, the Group must pay the Ministry of Finance of Ukraine a margin of 0.10% for the provided state guarantee for the total amount of the loan. In addition, the Group must pay a fee of 0.50% of the unused credit balance. The loans are repayable according to the schedule in semi-annual installments starting from 20 January 2026: Loan A – until 20 January 2038 and Loan B - until 20 January 2033.

As of 31 December 2022, the withdrawal of funds for this loan did not take place and the unused balance of the loan amounted to EUR 300,000 thousand.

Loans from state-owned banks

At the beginning of 2022, the Group began to make monthly principal repayments on loans from state-owned banks in accordance with the terms of the contracts. However, with the beginning of the military aggression of the Russian Federation against Ukraine, the Group suspended the payment of the principal amount on these loans from March 2022 due to force majeure circumstances and agreed credit holidays with creditor banks. During 2022 the Group repaid the principal amount on loans from state-owned banks in the amount of UAH 1,011,083 thousand. At the same time, interest payments on these loans were made in full and amounted to UAH 1,950,467 thousand.

Oschadbank, loan No.1372/31/2

On 30 December 2020, the Group and JSC "Oschadbank" signed a credit line agreement No.1372/31/2 in the amount of UAH 5.0 billion for the purpose of repaying the debt to SE "Guaranteed Buyer". The loan has a floating interest rate linked to NBU key policy rate. Additionally, the Group has to pay a margin of 0.10% to the Ministry of Finance of Ukraine for the provided state guarantee for the total loan amount. The loan is repayable in equal installments on a monthly basis, starting from January 2022 until December 2023.

In August 2022, the Group and JSC "Oschadbank" signed an Additional agreement to the Credit line Agreement No.1372/31/2, by which agreed on a new loan repayment schedule with a postponement of the initial repayment date of the remaining loan debt to January 2023. The final date of repayment of the loan does not change – 29 December 2023.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

In April 2023, the Group and JSC "Oschadbank" signed an Additional agreement #2 to the Credit line Agreement No.1372/31/2, by which agreed on a new loan repayment schedule with a postponement of the initial repayment date of the remaining loan debt to January 2024. Accordingly, the loan is repayable in equal installments on a monthly basis, starting from January 2024 until December 2025.

As of 31 December 2022 and 2021, there is no undrawn balance within the current credit limit.

Ukreximbank, loan No.20-1KV0016

The loan was provided by opening a revolving credit line with a sample of credit funds in tranches and a limit of UAH 4.0 billion. The loan has a floating interest rate linked to NBU key policy rate. Additionally, the Group has to pay a margin of 0.10% to the Ministry of Finance of Ukraine for the provided state guarantee for the total loan amount. The loan is repayable in equal installments on a monthly basis, starting from January 2022. The final repayment date of this loan is 29 December 2023.

In September 2022, the Group and JSC "Ukreximbank" signed the Additional agreement to the Loan Agreement No.20-1KV0016, by which agreed on a new loan repayment schedule with a postponement of the initial repayment date of the remaining debt to October 2022. The final date of repayment of the loan does not change – 30 December 2023.

In March 2023, the Group and JSC "Ukreximbank" signed a new Additional agreement to the Loan Agreement No.20-1KV0016, by which the parties agreed on a new loan repayment schedule with a postponement of the initial repayment date of the remaining debt to January 2024. Accordingly, the loan is repaid in monthly installments starting from January 2024 to December 2025.

As of 31 December 2022 and 2021, there is no undrawn balance within the current credit limit.

Ukrgasbank, loan No.20-K/20-VIP

The loan was provided in the form of a non-revolving revocable credit line with a total limit of UAH 1.25 billion. The loan has a floating interest rate linked to NBU key policy rate. Additionally, the Group has to pay a margin of 0.10% to the Ministry of Finance of Ukraine for the provided state guarantee for the total loan amount. Repayment of the loan is performed in accordance with the repayment schedule specified in the agreement in installments on a monthly basis, starting from January 2022. The final repayment date of this loan is 30 December 2023.

In August 2022, the Group and JSC "Ukrgazbank" signed the Additional agreement to the Loan Agreement No.20-K/20-VIP, by which agreed to change the calculation of the interest rate on the loan and approved a new loan repayment schedule with a postponement of the initial repayment date of the remaining debt on the loan to January 2023. The final date of repayment of the loan does not change – 30 December 2023.

In April 2023, the Group and JSC "Ukrgazbank" signed the Additional agreement #2 to Loan Agreement No.20-K/20-VIP, in which the parties agreed on a fixed interest rate for the use of credit funds within the credit period and a new loan repayment schedule with a postponement of the initial repayment date of the remaining debt on the loan to January 2024. Accordingly, the loan is repaid in monthly installments starting from January 2024 to December 2025.

As of 31 December 2022 and 2021, there is no undrawn balance within the credit limit.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Oschadbank, loan No.1427/31/2

On 30 December 2021, a credit line agreement No.1427/31/2 in the amount of USD 40 million was signed between the Group and JSC "Oschadbank" for the purpose of repaying the debt to SE "Guaranteed Buyer". The loan has a floating interest rate linked to UIRD² index. In addition, the Group must pay the Ministry of Finance of Ukraine a margin of 0.50% for the state guarantee provided for the total loan amount. The loan is repayable in equal installments on a monthly basis, starting from January 2023 until December 2026.

In July 2022, the Group and JSC "Oschadbank" signed an Additional agreement to the Credit line Agreement No.1427/31/2, by which agreed to reduce the maximum credit limit from USD 40 to USD 32.35 million due to the devaluation of the hryvnia. The withdrawal of funds was carried out in September 2022, which were immediately transferred to SE "Guaranteed Buyer" for repayment of the debt for PSO RES. The loan is repaid in equal monthly installments starting from January 2023 to December 2026.

In April 2023, the Group and JSC "Oschadbank" signed an Additional agreement #2 to the Credit line Agreement No.1427/31/2, which agreed on a new loan repayment schedule with a postponement of the initial repayment date of the remaining debt to January 2024. Accordingly, the loan is repaid in equal monthly installments starting from January 2024 to December 2027.

As of 31 December 2022, there is no undrawn balance within the credit limit (2021: USD 40,000 thousand).

Eurobonds 2028

In November 2021, the Group issued USD 825 million 6.875% Sustainability-Linked Green Bonds due 2026 on the London Stock Exchange (hereinafter - Eurobonds 2028). The maturity date of Eurobonds 2026 is 9 November 2026. Coupon on Eurobonds 2028 is payable every six months in May and November. Eurobonds 2028 have an unconditional and irrevocable state guarantee of Ukraine, for which the Group must pay a margin of 0.5%. The effective interest rate on Eurobonds 2026 is 7.58% per annum, which includes the cost of the state guarantee and direct costs of its issuance. The credit rating of the issue was assessed by rating agencies Moody's and Fitch as B3 and B, respectively, and it was linked to the sovereign credit rating of Ukraine. At the beginning of 2022, the credit rating of Ukraine, and respectively, of Eurobonds 2028, was declined due to the beginning of military aggression (Note 2).

The funds received from the Eurobonds 2028 issuance were used to solve settlement problems in the domestic electricity market by repaying the Group's debt to SE "Guaranteed Buyer" for the service to increase the share of electricity production from alternative sources, which was accumulated during 2020-2021.

The terms of Eurobonds 2028 also contain two Sustainability Performance Targets. Failure to meet one or both may increase the coupon interest rate by 0.35% per annum for the period from May 2025:

- a) SPT 1a - Installed capacity of wind and solar power plants connected to the power systems of Ukraine to achieve 8,900 MW by the end of 2024 from the 2020 baseline of 6,474 MW;
- b) SPT 1b - Share of connected wind and solar energy production capacity of total connected energy production capacity to reach 16.1% by the end of 2024 from the 2020 baseline of 11.8%.

As of 31 December 2021, the value of SPT 1a was 7,894 MW, and SPT 1b - 14.0%.

In May 2022, the Group repaid on time and in full coupon interests on Eurobonds 2026 in the amount of USD 28.4 million.

² UIRD (Ukrainian Index of Retail Deposit Rates) is a weighted average annual rate calculated on the basis of nominal rates on term deposits of individuals in the currency corresponding to the loan currency for a period of three months with interest payment in the end of agreement, published on the website www.bank.gov.ua, as well as in Thomson Reuters information systems.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Amendment of terms of Eurobonds 2028

In view of the unprecedented crisis situation caused by the military aggression of the Russian Federation against Ukraine, in order to maintain liquidity and prioritise expenses that are vital for the security of the Ukrainian energy system, the uninterrupted performance of the functions of the Transmission System Operator, the Group's operating performance in general as well as the integration of the Ukraine's energy system into ENTSO-E, on behalf of the Cabinet of Ministers of Ukraine, in July 2022, the Ministry of Finance of Ukraine and the Group addressed investors with a proposal to change the terms of all state Eurobonds and state derivatives of Ukraine, as well as Eurobonds guaranteed by the state, including Eurobonds 2028.

On 11 August 2022, investors consented to the proposal of the Group to amend certain terms of Eurobonds 2028. The main agreed amendments to the terms of Eurobonds 2028 are as follows:

- Push-back of the maturity of Eurobonds 2028 by 24 months - from November 2026 to November 2028;
- Coupon interest payments have been suspended for 24 months starting from next coupon payment date - during the period from November 2022 to November 2024 (hereinafter referred to as the Support Period);
- Coupons that are not paid during the Support Period are capitalized at the coupon rate of Eurobonds 2028 - 6.875%;
- The Group will be able to pay coupon interests accrued during the Support Period earlier;
- Coupons accrued during the Support Period are envisaged to be reaggregate with the bond principal and paid out at the bond's deferred maturity with the capitalization before that date (November 2028).

Amendments to the terms of Eurobonds 2028 related to sustainability-linked elements were also changed, failure to comply with which may increase the interest rate of the coupon:

- Deferral of the Sustainability Performance Targets (SPTs) testing date by 24 months deadlines for verification and reporting on by 24 months;
- The war event is added for the qualification of Adjustment Event so that the Group could adjust its SPTs as of the earlier of:
 - date when the volume of electricity transmission of the Group for the previous 12 months ending on 30 June or 31 December of a certain year is equal to or exceeds 90% of the volume of electricity transmission for 2021 (pre-war level);
 - 30 September 2026 (three months before the delayed testing date of Sustainability Performance Targets (SPTs)).

Taking into account both quantitative and qualitative factors, including a change of maturity, covenants, operating environment risk, the management considers the change in the terms of Eurobonds 2028, which was agreed on 11 August 2022, as a substantial modification of the financial liability. Such a substantial change in the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value on the date of modification. The approach to determining the fair value of Eurobonds 2028 on the modification date is described in Note 5.

Therefore, as of the date of modification, the Group extinguished the original financial liability of Eurobonds 2028 in the amount of UAH 30,518,450 thousand and recognized a new liability at fair value in the amount of UAH 5,285,625 thousand. Transaction costs in the amount of UAH 19,421 thousand were recognized in finance income as part of the gain from the modification of Eurobonds 2028, which amounted to UAH 25,213,404 thousand (Note 28). As a result of a substantial modification, the effective interest rate for Eurobonds 2028 changed from 7.58% to 50.44%.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Covenants

Loan agreements and Eurobonds 2028 contain financial and non-financial covenants. As of 31 December 2022 and 2021, the Group complied with all the terms of loan agreements and Eurobonds 2028, except for some financial covenants under the loan agreements with IFIs listed below.

International Bank for Reconstruction and Development (IBRD)

In accordance with terms and conditions of loan agreements with the IBRD No.8462-UA and No.TF017661, the Group, inter alia, should comply with the following financial covenants:

- a) Debt Service Ratio should be not less than 1.20; and
- b) Self-financing Ratio should be not less than 25%.

These financial covenants are calculated in accordance with the procedure specified in the loan and project agreements.

As of 31 December 2022 and 2021, the values of these financial covenants were as follows:

	31 December 2022	31 December 2021
Debt Service Ratio	0.43	1.20
Self-financing Ratio	-38%	-327%

As of 31 December 2022, the Group failed to comply with Debt Service Ratio and Self-financing Ratio, and as of 31 December 2021 - with Self-financing Ratio.

According to the general terms and conditions of the loan agreements with the IBRD, in the event of 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 Group repay in full the outstanding amounts. However, the Group received a waiver from the IBRD in the period before the reporting date due to non-compliance with the ratios as of 31 December 2022 and 2021. Therefore, as of 31 December 2022 and 2021, despite of non-compliance with financial covenants, the Group classified these loans as non-current in the consolidated statement of financial position.

European Bank for Reconstruction and Development (EBRD)

According to the terms of the loan agreements with EBRD No.40147-UA and No.27406, the Group, inter alia, should comply with the following financial covenants:

- a) Debt Service Coverage Ratio should be not less than 1.20;
- b) Liquidity Ratio should be not less than 1.10; and
- c) Debt to EBITDA Ratio should be not more than 3.00.

According to the terms of the loan agreements with EBRD No.49235, the Group, inter alia, should comply with the following financial covenants:

- a) Debt Service Coverage Ratio should be not less than 1.20;
- b) Debt to EBITDA Ratio should be not more than 3.00.

According to the terms of the new loan agreement with the EBRD No.54138, which was concluded in December 2022, the Group, among other things, is obliged to comply with the aforementioned financial covenants, but starting from the 2024 financial year.

These financial covenants are calculated in accordance with the procedure specified in the loan and project agreements.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

As of 31 December 2022 and 2021, the values of these financial covenants were as follows:

	31 December 2022	31 December 2021
Debt Service Coverage Ratio	-0.80	-4.12
Liquidity Ratio	0.76	0.87
Debt to EBITDA Ratio	-2001.41	9.48

As of 31 December 2022, the significant negative value of Debt to EBITDA Ratio is explained by the fact that the EBITDA for the year 2022 has a small negative value, which, accordingly, divides by the amount of loans and borrowings as of the end of reporting period.

As of 31 December 2022 and 2021, the Group failed to comply with the above mentioned ratios.

According to the terms and conditions of the loan agreements with the EBRD, in the event of the failure to comply with financial covenants thereunder, the EBRD may suspend further disbursements of the loan and/or require that the Group repay in full the outstanding amounts. However, the Group received a waivers from the EBRD in the period before the reporting date due to non-compliance with the ratios as of 31 December 2022 and 2021. Therefore, as of 31 December 2022 and 2021, Group classified these loans as non-current in the consolidated statement of financial position.

European Investment Bank (EIB)

According to the terms of the loan agreements with EIB No.FIN 87.554 Separis No.2017-0155, the Group, inter alia, should comply with the following financial covenants:

- a) EBITDA to Debt Service Ratio should be not less than 1.20;
- b) Cashflow to Capital Expenditures Ratio should be not less than 25%.

These financial covenants are calculated in accordance with the procedure specified in the loan and project agreements.

As of 31 December 2022 and 2021, the values of these financial covenants were as follows:

	31 December 2022	31 December 2021
EBITDA to Debt Service Ratio	-0.90	1.23
Cashflow to Capital Expenditures Ratio	-175%	-286%

As of 31 December 2022 the Group did not comply with the EBITDA to Debt Service Ratio and the Cashflow to Capital Expenditures Ratio. According to the terms and conditions of the loan agreement with the EIB, in the event of the failure to comply with financial covenants thereunder, the EIB may suspend further disbursements of the loan and/or require that the Group repay in full the outstanding amounts. However, the Group received a waivers from the EIB in the period before the reporting date due to non-compliance with the ratios as of 31 December 2022. Therefore, as of 31 December 2022, Group classified this loan as non-current in the consolidated statement of financial position.

As of 31 December 2021 the Group did not comply with the Cashflow to Capital Expenditures Ratio. However, as of 31 December 2021, no funds have been received under this loan agreement, and, accordingly, there was no outstanding debt.

Loan agreements with the EIB No.FIN 31.143 SEPARIS No.20090117 and No.24668-UA contain a provision on cross default, with references to financial agreement of the EBRD and the EU. As of 31 December 2022 and 2021, the Group complied with financial covenants prescribed by the loan agreements with the EBRD, and respectively classified loans from EIB as non-current in consolidated statement of financial position.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

As of 31 December 2022 and 2021 and prior to the date these consolidated financial statements were authorized for issuance, the Group had not received any notice of cessation of further financing or notice requesting immediate repayment of any of the abovementioned loans.

17. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution pension plans

Employees of the Group are eligible for obtaining pension benefits from the Government in accordance with the pension legislation of Ukraine. The Group pays contributions to the State Pension Fund, which are recognized in the statement of profit or loss and other comprehensive income under accrual basis. Total amount of contributions to the State Pension Fund of Ukraine recognized in the statement of profit or loss and other comprehensive income for the year ended 31 December 2022 amounted to UAH 644,089 thousand (2021: UAH 629,269 thousand).

Defined benefit pension plans

The Group is also obliged to compensate to the State Pension Fund of Ukraine the amounts of additional pensions provided to certain categories of its current and former employees who worked in 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 Group in accordance with monthly calculations of actual compensations provided by the State Pension Fund of Ukraine.

In addition, in accordance with the collective employment agreement, the Group has a legal obligation to make cash bonus payments to employees in connection with jubilee dates, regular payments to retired employees in the form of financial aid, non-regular financial aid to close relatives in connection with the death of non-working pensioner and one-time payments upon retirement (in connection with retirement). These programs meet the definition and are included in the defined benefit pension plans.

As of 31 December 2022 and 2021, the present value of defined benefit obligations was UAH 527,997 thousand and UAH 727,049 thousand, respectively.

Reconciliation of the present value of defined benefit obligations for the years ended 31 December 2022 and 2021 was as follows:

	2022	2021
Balance at 1 January	727,049	664,786
Current service cost	39,318	45,520
Interest costs	80,994	67,607
Actuarial gain recognized in other comprehensive income	(311,376)	(22,437)
Actuarial gain recognized in profit or loss	(204)	(321)
Gain on budget cuts	-	(14,641)
Benefits paid during the year	(7,784)	(13,465)
Balance at 31 December	527,997	727,049

The present value of defined benefit obligations as of 31 December 2022 and 2021 were presented in the consolidated statement of financial position as follows:

	31 December 2022	31 December 2021
Non-current obligations	510,725	707,002
Current obligations (Note 21)	17,272	20,047
Total	527,997	727,049

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Amounts recognized in the consolidated statement of profit or loss for defined benefit obligations were as follows:

	2022	2021
Interest costs (Note 29)	80,994	67,607
Current service cost	39,318	45,520
Actuarial gain recognized in profit or loss	(204)	(321)
Gain on budget cuts (Note 25)	-	(14,641)
Total	120,108	98,165

During the year ended 31 December 2022, the Group included in other comprehensive income that will not be reclassified subsequently to profit or loss, actuarial gain in the amount of UAH 306,477 thousand, including income tax expense of UAH 4,899 thousand (2021: UAH 22,011 thousand, including income tax expense of UAH 426 thousand). These actuarial gains were primarily driven by changes in actuarial assumptions.

Key assumptions used for actuarial assessment as of 31 December 2022 and 2021 were as follows:

	31 December 2022	31 December 2021
Discount rate	16.8%	11.2%
Expected salary growth rate	12.0%	12.0%
Staff turnover	4.5%	4.5%

Information on the sensitivity of defined benefit obligations to changes in the underlying assumptions is as follows:

31 December 2022	Change in assumptions	Increase/ (decrease) of obligation
Discount rate	+1%	(29,241)
Discount rate	-1%	33,001
Expected salary growth rate	+1%	30,127
Expected salary growth rate	-1%	(26,956)
Staff turnover	+1%	(9,436)
Staff turnover	-1%	10,420
31 December 2021	Change in assumptions	Increase/ (decrease) of obligation
Discount rate	+1%	(60,114)
Discount rate	-1%	70,340
Expected salary growth rate	+1%	60,386
Expected salary growth rate	-1%	(52,841)
Staff turnover	+1%	(18,120)
Staff turnover	-1%	20,437

The sensitivity analysis presented above may not represent the actual changes in post-employment and other long-term employee benefit obligation because it is unlikely that changes in assumptions would occur in isolation of one another, as some assumptions may be interrelated. In addition, in the sensitivity analysis presented above, the present value of the defined benefit obligation was calculated using the projected unit credit method at the end of the reporting period, consistent with that used to calculate the benefit recognized in the consolidated statement of financial position.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

18. SPECIAL PURPOSE FUNDING AND DEFERRED INCOME

Special purpose funding and deferred income include funds or the fair value of non-monetary assets received from customers under agreements for connection services to the electricity transmission system; funding from the state budget ("government grants") for capital expenditures to complete new high voltage transmission grids and renovate certain assets, assets received free of charge and similar funding received from other agencies; and non-current assets received free of charge in the form of humanitarian aid for the restoration of power system (hereinafter - humanitarian aid).

Special purpose funding and deferred income as of 31 December 2022 and 2021 were as follows:

	31 December 2022	31 December 2021
Government grants, assets received free of charge and similar funding	723,218	835,187
Connection to the electricity transmission system	693,581	760,947
Humanitarian aid for the restoration of power system	147,078	-
Total	1,563,877	1,596,134
<i>Including:</i>		
Special purpose funding (non-current liabilities)	1,509,634	1,548,965
Deferred income (current liabilities)	54,243	47,169
Total	1,563,877	1,596,134

Government grants, assets received free of charge and similar funding

Information about the movement in government grants, assets received free of charge and similar funding for the years ended 31 December 2022 and 2021 were as follows:

	2022	2021
Balance at 1 January	835,187	791,784
Grants received for modernization of property, plant and equipment	63,302	67,159
Grants received for operating expenses	34,661	-
Grants used for operating expenses	(34,661)	-
Grants recognized as other operating income (Note 25)	(175,271)	(23,756)
Balance at 31 December	723,218	835,187

Government grants, assets received free of charge and similar funding as of 31 December 2022 and 2021 were presented in the consolidated statement of financial position as follows:

	31 December 2022	31 December 2021
Special purpose funding (non-current liabilities)	700,642	808,212
Deferred income (current liabilities)	22,576	26,975
Total	723,218	835,187

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Connection to the electricity transmission system

Information about the movements in funding, received from customers under agreements for connection services to the electricity transmission system for the years ended 31 December 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Balance at 1 January	760,947	274,622
Funding received	15,784	490,744
Funding recognized as revenue from services rendered	<u>(83,150)</u>	<u>(4,419)</u>
Balance at 31 December	<u>693,581</u>	<u>760,947</u>

Financing received from customers under agreements for connection services to the electricity transmission system as of 31 December 2022 and 2021 were presented in the consolidated statement of financial position as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Special purpose funding (non-current liabilities)	667,726	740,753
Deferred income (current liabilities)	<u>25,855</u>	<u>20,194</u>
Total	<u>693,581</u>	<u>760,947</u>

Humanitarian aid for the restoration of power system

Information about the movements in non-current assets received free of charge in the form of humanitarian aid for the restoration of power system (hereinafter - humanitarian aid) for the years ended 31 December 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Balance at 1 January	-	-
Funding received	147,145	-
Humanitarian aid recognized as income	<u>(67)</u>	<u>-</u>
Balance at 31 December	<u>147,078</u>	<u>-</u>

Non-current assets received free of charge in the form of humanitarian aid for the restoration of power system as of 31 December 2022 and 2021 were presented in the consolidated statement of financial position as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Special purpose funding (non-current liabilities)	141,266	-
Deferred income (current liabilities)	<u>5,812</u>	<u>-</u>
Total	<u>147,078</u>	<u>-</u>

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

19. TRADE ACCOUNTS PAYABLE

	31 December 2022	31 December 2021
Services to increase share of electricity production from alternative sources (PSO RES)	14,999,496	11,053,700
Balancing electricity	12,234,913	8,864,089
Auxiliary services (frequency and active power management)	9,523,368	1,617,352
Electricity to settle imbalances	4,694,941	4,776,352
Curtailement of RES production	2,591,691	68,082
Electricity from cross-border flows	1,947,407	-
Acquisition, construction, modernization, reconstruction of non-current assets	1,148,573	1,192,439
Other goods, works, services	158,945	116,159
Total	47,299,334	27,688,173

20. ADVANCES RECEIVED

	31 December 2022	31 December 2021
Electricity transmission services	344,469	257,710
Electricity to settle imbalances	50,891	50,087
Dispatch (operational and technological) control services	44,294	42,317
Services on granting access to the transmission capacity of interstate power networks	208	2,570,855
Other goods, works, services	3,535	9,266
Total	443,397	2,930,235

During 2022 the Group recognized UAH 1,014,561 thousand as revenue on account of advances received as of 31 December 2021 (2021: UAH 200,604 thousand).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

21. PROVISIONS

	Unused vacations	Additional pension and other benefits	Financial incentives	Provision for dividends	Litigation costs	Other	Total
As of 1 January 2021	143,796	16,284	165,311	-	136,040	-	461,431
Provision for dividends	-	-	-	127,036	-	-	127,036
Charged / (reversed)	287,749	17,229	416,143	-	(50,289)	3,053	673,885
Used or paid	(245,097)	(13,466)	(382,466)	-	(20,808)	-	(661,837)
As of 31 December 2021	186,448	20,047	198,988	127,036	64,943	3,053	600,515
Dividends paid	-	-	-	(127,036)	-	-	(127,036)
Charged / (reversed)	318,984	5,009	462,201	-	(2,558)	767	784,403
Used or paid	(210,288)	(7,784)	(469,068)	-	(6,587)	(3,053)	(696,780)
As of 31 December 2022	295,144	17,272	192,121	-	55,798	767	561,102

Provision for unused vacations

The Group creates provisions for short-term cumulative reimbursable absences bonuses.

Provision for additional pension and other benefits

Provisions for additional pension and other benefits relate to the current part of the defined benefit obligation (Note 17).

Provision for financial incentives

The Group creates provisions for the annual remuneration based on the terms of the collective employment agreement, in respect of which the Group has a constructive obligation to pay such benefits as a result of past events. Costs on provisions for financial incentives for the year are included in staff costs and related social charges.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Provision for dividends

As described in Note 15 as of 31 December 2021 the Group made an accrual of provision for dividends in the amount of UAH 127,036 thousand, which was calculated as 90% of the profit of the Company for 2021.

As of 31 December 2022, no provision for dividends was accrued due to the Company's loss in 2022.

During the year ended 31 December 2022, the Company transferred UAH 127,036 thousand for the payment of dividends to the State Budget of Ukraine based on the results of financial and economic activity in 2021. The distribution of dividends by the Company was approved by the Decree of the Cabinet of Ministers of Ukraine No.579 dated 7 July 2022 and the Order of the Ministry of Energy of Ukraine No.284 dated 19 August 2022.

Provision for litigation costs

The Group acts as a plaintiff in several legal proceedings. A provision for litigation costs is management's estimate of probable losses that may be incurred as a result of negative court rulings (Note 32).

22. OTHER CURRENT LIABILITIES

	31 December 2022	31 December 2021
Financial guarantees of electricity market participants	723,450	81,753
Accrued interest on loans	591,769	250,741
Other liabilities	36,282	39,703
Total	1,351,501	372,197

23. REVENUE

	2022	2021
Revenue on rendering of electricity transmission services and connection to electricity transmission system	34,911,208	41,219,969
Revenue on electricity sales on the balancing market	25,536,190	17,763,456
Revenue on the sales of dispatch (operational and technological) control services	12,767,592	11,142,652
Revenue on granting access to the transmission capacity of interstate power networks	6,044,874	911,016
Revenue on electricity sales from cross-border flows	3,029,385	-
Revenue on sales of reactive energy	41,264	51,908
Total	82,330,513	71,089,001

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

24. COST OF SALES

	2022	2021
Procurement of electricity on the balancing market	22,426,775	15,850,814
Procurement of auxiliary services (frequency and active power management)	18,955,685	6,723,350
Procurement of services to increase share of electricity production from alternative sources (PSO RES)	15,838,123	32,806,477
Procurement of electricity to compensate technological losses	8,261,094	6,209,919
Curtailment of RES production	5,066,700	1,224,822
Depreciation and amortization	3,093,293	3,631,965
Procurement of electricity from cross-border flows	3,005,745	-
Staff costs	2,582,579	2,439,935
Social charges	525,195	498,581
Repairs and maintenance	430,207	291,038
Security expenses	310,608	195,956
Other expense	375,670	270,726
Total	80,871,674	70,143,583

25. OTHER OPERATING INCOME

	2022	2021
Income from grants and free-of-charge received property, plant and equipment (Note 18)	175,338	23,756
Operating foreign exchange gain, net	136,247	-
Fines, penalties, forfeits received	116,789	216,918
Current assets received free-of-charge	58,601	11
Capitalization of materials after write-offs and repairs	57,295	37,144
Received grants to cover consulting services (Note 18)	34,661	-
Income from other sales of works, services	15,870	20,252
Income on sale of inventories and scrap	14,487	56,624
Recovery of earlier written-off debt	6,499	11,392
Stock-count results	71	1,804
Gain on budget cuts on defined benefit obligations (Note 17)	-	14,641
Changes in regulatory assets and regulatory liabilities, net (Note 14)	-	1,385,109
Other income	7,284	5,326
Total	623,142	1,772,977

26. ADMINISTRATIVE EXPENSES

	2022	2021
Staff costs	533,433	573,005
Court fees	85,003	59,391
Social charges	84,821	95,322
Legal, audit and other expert services	23,606	20,133
Depreciation and amortization	21,640	29,265
Information and consulting services	10,334	74,481
Other costs	50,443	50,228
Total	809,280	901,825

In addition to the audit fees related to the compulsory audit as included in the legal, audit and other expert services are fees for other services performed by the Group's auditor in 2022 amounting to UAH 2,138 thousand (2021: UAH 1,923 thousand).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

27. OTHER OPERATING EXPENSES

	2022	2021
Changes in regulatory assets and regulatory liabilities, net (Note 14)	1,385,109	-
Fines, penalties, forfeitures recognized	135,082	850,026
Staff costs	67,428	29,643
Consulting services at the expense of grant funds (Note 18)	34,661	-
Expenses for maintenance of NEURC	34,182	37,803
Social charges	34,127	35,364
Change in allowance for impairment of prepayments, net	32,933	(4,565)
Membership fees	32,228	1,390
Insurance expenses	27,330	3,093
Impairment of inventories	25,276	-
Assets transferred free of charge as humanitarian aid	24,074	-
Contributions to labor union	19,910	45,239
Depreciation and amortization	2,090	2,312
Change in allowance for litigation provision, net	(2,558)	(50,289)
Operating foreign exchange loss, net	-	48,059
Other costs	91,717	114,803
Total	1,943,589	1,112,878

28. FINANCE INCOME

	2022	2021
Gain from the modification of issued bonds (Note 16)	25,213,404	-
Income from interest on current bank accounts	492,770	193,545
Income from amortization of discount (Note 12)	113,834	-
Income from discount on long-term liabilities	3,027	16,075
Income from amortization of long-term debt discount	149	174
Total	25,823,184	209,794

29. FINANCE COSTS

	2022	2021
Interest expense on loans	2,787,626	1,695,866
Capitalized borrowing costs	(285,438)	(219,493)
Interest expense on bonds	2,243,734	242,566
Discount costs on initial recognition (Note 12)	240,059	-
Interest expense on defined benefit obligations (Note 17)	80,994	67,607
Interest on discount amortization of non-current liabilities	15,077	13,153
Interest expense on lease obligations	977	1,641
Other finance expenses	3,941	3,707
Total	5,086,970	1,805,047

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

30. INCOME TAX

Profits of Group companies are subject to corporate income tax. For the years ended 31 December 2022 and 2021 the Group's companies was subject to corporate income tax in Ukraine at the rate of 18%.

The components of income tax expense for the year ended 31 December 2022 and 2021 were as follows:

	2022	2021
Current income tax expense	944	697
Deferred income tax (benefit)/expense	(1,317,166)	44,779
Total income tax (benefit)/expense	(1,316,222)	45,476

The reconciliation of profit before tax, multiplied by the statutory income tax rate and income tax expense for the years ended 31 December 2022 and 2021 was as follows:

	2022	2021
(Loss)/profit before tax	(7,413,346)	174,508
Income tax (benefit)/expense at the statutory tax rate of 18%	(1,334,402)	31,411
Effect of expenses not deductible for tax purposes	18,180	14,065
Total income tax (benefit)/expense	(1,316,222)	45,476

As of 31 December 2022 and 2021, deferred tax assets and liabilities related to the following:

	31 December 2022	31 December 2021
Trade and other accounts receivable	3,115,771	1,218,116
Defined benefit obligation	11,385	14,643
Provision for litigation costs	10,044	11,698
Provision for accrued expenses	1,816	1,815
Impairment allowance of inventories and construction in progress	210,140	9,087
Deferred tax asset from tax losses	2,979,458	4,668,322
Deferred tax assets	6,328,614	5,923,681
Property, plant and equipment and intangible assets	(2,845,899)	(4,101,932)
Deferred tax liability	(2,845,899)	(4,101,932)
Net deferred tax assets	3,482,715	1,821,749

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Deferred tax movements for the years ended 31 December 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Net deferred tax assets as of the beginning of the year	1,821,749	1,866,954
Deferred income tax benefit/(expense) for the year recognized in profit or loss	1,317,166	(44,779)
Deferred income tax benefit for the year related to impairment of property, plant and equipment, recognized in other comprehensive income	348,699	-
Deferred income tax expense for the year related to remeasurement of defined benefit obligation recognized in other comprehensive income	(4,899)	(426)
Net deferred tax assets at the end of the year	<u>3,482,715</u>	<u>1,821,749</u>

As of 31 December 2022, based upon projections for future taxable income over the periods in which the taxable temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of UAH 2,979,458 thousand (2021: UAH 4,668,322 thousand) recognized with respect to tax losses carried forward. There is no expiration date of accounting tax losses according to Tax Code of Ukraine. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts consistent with those used for impairment testing of non-current assets. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

31. 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.

As disclosed in Note 1, the party with ultimate control over the Group is the Government of Ukraine represented by the Ministry of Energy of Ukraine (shareholder of the Company), accordingly, all entities controlled by the State are considered to be related parties under common control. During 2020 and until 16 September 2021 a shareholder of the Company was the Ministry of Finance of Ukraine.

Key management remuneration

The Group's key management consisted of 3 members of the Management Board as of 31 December 2022 and 2021. Compensation to key management included in administrative expenses consists of cash payments, contractual salaries, bonuses and other payments provided for in the collective employment agreement. Payments to the Group's key management amounted to UAH 32,282 thousand in 2022 (2021: UAH 37,583 thousand).

During 2022 the Group also incurred UAH 20,260 thousand (2021: UAH 14,121 thousand) of compensation to the members of Supervisory Board. The Supervisory Board consisted of 6 and 7 members as of 31 December 2022 and 2021.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Transactions with state-controlled entities and institutions

Such related parties include SE "Guaranteed Buyer", SE "Ukrinterenergo", Private Joint Stock Company "Ukrhydroenergo", SE "Market Operator", SE "NAEC Energoatom", JSC "State Savings Bank of Ukraine", JSC "State Export-Import Bank of Ukraine", JSB "Ukrghazbank" and other entities.

Balances with state-controlled entities and institutions as of 31 December 2022 and 2021, were as follows:

	31 December 2022	31 December 2021
ASSETS		
Other non-current assets	6,803	6,803
Trade accounts receivable	16,554,805	9,388,934
Prepayments	616,373	731,574
Other accounts receivable	93,895	65,076
Loans receivable	2,104,504	-
Грошові кошти та їх еквіваленти	3,560,321	9,745,783
Total assets from related parties	22,936,700	19,938,170
LIABILITIES		
Trade accounts payable	26,351,872	21,003,704
Advances received	88,517	48,702
Loans received from the Ministry of Finance of Ukraine	18,962,880	15,543,742
Loans received from state-owned banks	10,421,910	10,250,000
Accrued interests on loans	565,871	246,080
Provisions for dividends	-	127,036
Other current liabilities, except accrued interests on loans	12,787	31,082
Total liabilities to related parties	56,403,837	47,250,346

Transactions with state-controlled entities and institutions in 2022 and 2021 were as follows:

	2022	2021
Revenue	30,132,277	22,247,039
Purchases of services to increase the share of electricity production from alternative sources (PSO RES)	(12,781,535)	(29,486,532)
Purchases of electricity and related services in the electricity market	(28,114,809)	(18,636,258)
Purchases of other goods, works, and services	(517,595)	(255,471)
Change in expected credit losses on financial assets, net	(6,328,391)	275,942
Fines, penalties, forfeits received	23,807	34,234
Fines, penalties, forfeitures recognized	(70,645)	(642,142)
Income from interest on current bank accounts	437,541	160,838
Interest expense on loans (including capitalized borrowing costs)	(2,743,577)	(1,671,214)
Income from amortization of discount	113,834	-
Discount costs on initial recognition	(240,059)	-

As of 31 December 2022, expected credit losses on trade accounts receivable, which were accrued on receivables from related parties, amount to UAH 9,408,329 thousand (2021: UAH 3,344,962 thousand).

As of 31 December 2022, expected credit losses on loan provided to SE "Ukrvugilya" amount to UAH 262,439 thousand (2021: nil).

Payment of dividends to the state budget

In 2022 the Group paid UAH 127,036 thousand of dividends to the state based on its financial results in 2021 (Note 15). The respective provision was created as of 31 December 2021.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

State guarantees on loans and borrowings

As of 31 December 2022 the amount of state guarantees received from the Government of Ukraine on loans and borrowings amounted to UAH 43,505,326 thousand (2021: UAH 48,407,225 thousand) (Note 16).

Financing the creation of a strategic coal reserve for the heating season

In accordance with the Resolution of the Cabinet of Ministers of Ukraine No.838 dated 22 July 2022, the Group financed the creation of a strategic coal reserve for the 2022-2023 heating season by providing an interest-free loan of UAH 2.5 billion to the state-owned enterprise "Ukrvuhillia" for the purchase of coal (Note 12).

32. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Taxation

The tax environment in Ukraine is characterized by complex tax administration, inconsistent interpretation of tax legislation and regulations by the tax authorities, which, inter alia, can increase financial pressure on taxpayers. Inconsistent application, interpretation and implementation of tax laws may lead to litigation, which may ultimately result in the assessment of additional taxes, penalties and interest, and these amounts could be significant.

The Group has complied with all regulations and all taxes have been paid or accrued. Management believes it has adequately provided for any potential difficulties and does not consider the risk to be greater than that faced by similar enterprises in Ukraine. Unless it is deemed probable that significant claims will arise, no provision has been made in these consolidated financial statements.

Legal issues

Legal proceedings

In the normal course of business, the Group is subject to legal claims. Where the risk of outflow of financial resources associated with such claims is assumed as probable, a respective liability is recognised as the provision for litigation costs (Note 21). Where management estimates the risk of outflow of financial resources associated with such claims as possible, or amount of outflow cannot be measured reliably, no provision is recognised, and respective amount is disclosed in the consolidated financial statements.

Claims of SE "Guaranteed Buyer" regarding delayed payments by the Group

As stated in Note 2, since the beginning of 2020 crisis signs began to appear on the electricity market: delays in the Group's payments to SE "Guaranteed Buyer" for services to increase the share of electricity production from alternative sources (hereinafter – "PSO RES"), and accordingly delays in payments of SE "Guaranteed Buyer" in favor of renewable energy producers. The reason for the delay in the Group's payments for PSO is the insufficiency of funds provided for in the tariff for electricity transmission to cover this type of expenses.

As a result, at the end of 2020 SE "Guaranteed Buyer" initiated legal proceeding against the Group for collection of debt in the amount of UAH 25,724,290 thousand, which represents the cost of PSO RES for the period from January to July 2020. In February 2021 the amount of the claim was reduced to UAH 19,317,552 thousand due to partial repayment of the debt by the Group through funds received under loan agreements with state-owned banks. In July 2021 the amount of claim was additionally reduced to UAH 15,317,552 thousand. In February 2022, the proceedings in this case were closed due to the full repayment by the Group of the debt to SE "Guaranteed Buyer" through funds received under the issuance of Eurobonds 2028.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Additionally, in 2020-2021, SE "Guaranteed Buyer" initiated lawsuits on payment by the Group of fines and penalties for breach of debt repayment terms between the Group and SE "Guaranteed Buyer" regarding PSO RES. As of 31 December 2022, the total amount of claims in such cases amounted to UAH 10,339,220 thousand. It should be noted that the legal relationship between the Group and SE "Guaranteed Buyer" for the payment of PSO RES, establishment of the regulator's tariff for electricity transmission services, which should cover these costs in full, is subject to state regulation and does not depend on the Group's decisions.

Management believes that, given the nature of the legal relationship between the Group, SE "Guaranteed Buyer", the regulator, the state, reasons of debt accumulation, inability to repay it in time, the impact of court decisions on the net cash flow between the Group and SE "Guaranteed Buyer" is remote and, therefore, and no provision should be made in the Group's consolidated financial statements as of the reporting date.

Claim against the Russian Federation regarding assets in Crimea

In April 2018, senior officials of the Russian Federation were served with the Group's official written communications on the investment dispute under the 1998 Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on the Promotion and Mutual Protection of Investments. Their purpose was to consult and negotiate with representatives of the Russian Federation to resolve the dispute through negotiations. The Russian side did not provide a response.

Having received no response, on 27 August 2019, the Group referred the dispute to arbitration (ad hoc) in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law of 15 December 1976 (UNCITRAL). The Group seeks compensation for the Russian Federation's violation of the 1998 Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on the Promotion and Reciprocal Protection of Investments. The claims also include compensation for damages caused by the illegal expropriation of the Group's investments in the Crimea, and the violation of the obligation to guarantee full and unconditional legal protection. The Group's claims arose after the Russian Federation seized the Group's assets, property and business as a result of the illegal occupation and attempted annexation of Crimea in 2014.

On 27 March 2020, the composition of the arbitral tribunal was determined. The place of arbitration was determined to be in Paris.

On 16 July 2020 the arbitral tribunal began to consider the case of the illegal seizure by the Russian Federation of the Group's infrastructure facilities in Crimea. In October 2020 the value of the assets on which the claim is based was assessed and amounted to EUR 528 mln including interest (EUR 95 mln as of 20 October 2020).

After the start of Russia's military aggression against Ukraine, the proceedings in this case were suspended. After the appointment of a new arbitrator in November 2022, the proceedings were continued. The next session of the arbitral tribunal on the issue of jurisdiction is scheduled for September 2023.

Capital commitments

As of 31 December 2022, the Group had contractual capital commitments for the purchase of property, plant, and equipment in the amount of UAH 9,018,715 thousand (2021: UAH 7,326,888 thousand).

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Investment program

In accordance with Resolution of the NEURC dated 4 May 2006 No.563 and Resolutions of the NEURC dated 22 April 2019 No.585 and No.586 (as subsequently amended), a part of the tariff calculated by the Company for its electricity transmission and dispatch (operational and technological) control services includes a component allocated to fund the Company's investment program for replacement and modernization of its property, plant, and equipment. In 2022, for the purposes intended by the investment program, the Company effectively used UAH 2,389,278 thousand (2021: UAH 3,059,211 thousand).

In the event of failure to implement the investment program in full, the NEURC has the right to make deductions from the Company's future earnings by reducing the investment component in the tariff applied by the Company in subsequent periods by the total amount for which the program has not been previously fulfilled.

On an annual basis, based on the actual data, the NEURC adjusts income of the planned year (withdrawals and compensations) which considers actual volumes of the investment program fulfilled.

Insurance

The Group 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 Group'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 Group's operations and financial position.

Environmental contingencies

The Group has been operating in the energy industry of Ukraine in strict compliance with the requirements of environmental legislation for many years. The normal activities of the Group 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 Group periodically evaluates its liabilities under environmental regulations. 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 consolidated financial statements.

33. FAIR VALUE

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent they are available and relevant valuation techniques. However, in determining the estimated fair value, it is required to apply judgments to interpret market information. Management has used all available market information to measure fair value. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument or pay in the course of transfer of liabilities.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Fair value of the Group's property, plant, and equipment

The Group's property, plant, and equipment are measured at fair value based on the categories of Levels 2 and 3 of the fair value hierarchy (inputs are unobservable for an assets). As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2).

The Group engages independent professional appraisers to determine the fair value of its property, plant, and equipment by using the depreciated replacement cost method for most groups of property, plant and equipment. The fair value is defined as the cost of construction of those items at current prices, less economic impairment, functional and physical wear and tear at the relevant date. A key parameter used in the valuation technique is the present cost of construction of substations and electric power grids and other property, plant and equipment.

For the items that have market analogs (mainly administrative buildings), income approach is applied, prices of market offers for leases of comparable properties are adjusted considering differences in major parameters (such as property space). A key parameter used in this valuation technique is lease price of one square meter of property.

When performing valuation using these methods, the key estimates and judgments applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of similar items for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value where it is available as well as corresponding adjustments required to take into account differences in technical characteristics and the condition of new and existing equipment;
- use of directories of per-unit replacement cost for buildings and constructions, assuming that all buildings and constructions of similar type and nature within industry have similar replacement costs; and
- liquidation value for items, which are expected to be realised, less cost to sell.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence).

The Group engaged independent professional appraisers to determine the fair values of its property, plant, and equipment as of 31 July 2019. The Group did not revalue property, plant and equipment as of 31 December 2022 and 2021 because it concluded that the carrying value of property, plant and equipment at the reporting date was not significantly different from their fair value (Notes 5 and 7). At the same time, the carrying value of the Group's property, plant and equipment is reduced to their recoverable value as a result of the impairment test described below. The management believes that in the situation of significant uncertainty of the military and economic environment in Ukraine revaluation unlikely to result in substantial uplift in fair value in excess of carrying value. At the same time, the calculated fair value of property, plant and equipment may differ significantly depending on the underlying assumptions used, which are affected by uncertainty regarding the further development of military aggression and changes in the operating environment.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Information about the inputs used to measure the Group's property, plant and equipment as of 31 July 2019 and 31 December 2019 are as follows:

Valuation technique	Unobservable inputs	Range of unobservable inputs as of 31 July 2019	Range of unobservable inputs as of 31 December 2019	Relationships between key unobservable inputs and fair value measurement
Depreciated replacement cost method with the use of income approach to determine economic impairment	Factor of functional impairment (optimization)	0.6–0.9	0.6–0.9	The higher the factor, the lower fair value
	Date of transfer to incentive tariff regulation	1 January 2021	1 January 2021	The later transition date, the lower fair value
	Rate of return on regulatory base of assets	12.5%	11.9%	The higher income rate, the higher fair value
	Nominal weighted average cost of capital on UAH-denominated cash flows	13.7%	11.9%–13%	The higher weighted average capital cost, the lower fair value

The following table summarizes information about property, plant and equipment recognized at fair value upon initial recognition using the fair value hierarchy:

31 December 2022	Level 2	Level 3	Total
Property, plant and equipment	383,597	36,891,894	37,275,491
Total	383,597	36,891,894	37,275,491
31 December 2021	Level 2	Level 3	Total
Property, plant and equipment	415,912	43,302,587	43,718,499
Total	415,912	43,302,587	43,718,499

There were no transfers between fair value measurements during the reporting period.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Financial instruments

Fair values of financial instruments are determined and disclosed in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary to be applied to identify their fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full package of a particular instrument.

	31 December 2022	31 December 2021
Financial assets		
Trade accounts receivable	31,410,900	16,373,605
Loans receivable	2,104,503	-
Cash and cash equivalents	4,732,828	10,355,609
Other accounts receivable	102,670	80,097
Other non-current assets*	7,994	8,225
Total financial assets	38,358,895	26,817,536
Financial liabilities		
Trade accounts payable	47,299,334	27,688,173
Loans	37,135,244	25,847,245
Eurobonds 2028	4,525,364	19,839,671
Other non-current liabilities	35,790	178,576
Other current liabilities**	594,624	254,954
Total financial liabilities	89,590,356	73,808,619

* Non-current accounts receivable are included in Other non-current assets in the consolidated statement of financial position as of 31 December 2022 and 2021.

** Financial instruments include the value only of those Other current liabilities that meet the definition of financial liabilities. The carrying amount of these financial liabilities corresponds to their fair value. As of 31 December 2022 and 2021 Other current liabilities amounted to UAH 1,351,501 thousand and UAH 372,197 thousand, respectively.

All of the Group's financial assets and liabilities are carried at amortized cost. The fair value of all financial instruments relates to Level 3 of the fair value hierarchy, except for Eurobonds 2028, the fair value of which relates to Level 1. The fair value of Eurobonds 2028 is measured according to quotations in active markets using interest rates equal to yields at maturity.

	31 December 2022		31 December 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds 2028	6,370,082	4,525,364	22,559,980	19,839,671

As of 31 December 2022 and 2021, the Group used the following assumptions in assessing the fair value of each class of its financial instruments related to the Level 3 of the hierarchy of fair value:

- the fair value of trade accounts receivable, cash and cash equivalents, loans receivable, other accounts receivable, interest receivable, trade accounts payable, other current liabilities correspond to their book value due to the short-term nature of such instruments;
- the fair value of other non-current liabilities approximates their carrying amounts determined under the effective interest rate method;
- the fair value of financial investments does not differ materially from their market value;
- the fair value of long-term loans corresponds to their carrying value in accordance with the calculation of effective interest rates on loans, taking into account changes in prime rates and

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

the expected terms of use and repayment of loans. Calculated effective interest rates as of the reporting dates were consistent with market rates for similar instruments.

34. RISK MANAGEMENT

The financial instruments that the Group is using in the course of its business are subject to certain risks, the main ones being credit risk, liquidity risk and market risk, including currency risk and interest rate risk. The Group does not engage in significant transactions involving derivative financial instruments. The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial market and is aimed to minimize potential adverse effects on the Group's financial performance.

During the years ended 31 December 2022 and 2021, there were no significant changes in the objectives, policies and process of managing the following risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge its obligation. Credit risk arises from the Group's provision of services and sales on loan terms and other transactions with counterparties giving rise to financial assets. The Group requires bank and financial guarantees from its counterparties.

As of 31 December 2022 and 2021, the maximum exposure to credit risk is represented by the carrying amount of financial assets, net of impairment losses on such assets, was:

	31 December 2022	31 December 2021
Trade accounts receivable	31,410,900	16,373,605
Loans receivable	2,104,503	-
Cash and cash equivalents	4,732,828	10,355,609
Other accounts receivable	102,670	80,097
Non-current accounts receivable	7,994	8,225
Total	38,358,895	26,817,536

As a result of events described in Notes 2 and 5, for the year ended 31 December 2022, the Group made an accrual of expected credit losses on financial assets in the amount of UAH 10,509,598 thousand (2021: reversal of expected credit losses in the amount of UAH 584,637 thousand).

The Group, assessing expected credit losses on trade accounts receivables, takes into account the cash flows expected from credit enhancements, which are an integral part of the contract. Information about its influence on credit risk is described in Note 9.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity is carefully monitored and managed by management. The Group has a detailed budgeting and forecasting process in place to ensure that it has sufficient cash to meet its liabilities.

The Group manages liquidity risk by complying with the financial discipline in accordance with a financial plan that is approved annually. The Group's key sources of funding are its operating cash flows and borrowings. Funds are used to finance the Group's investment in property, plant and equipment and its working capital needs. In case of any liquidity problems, the level of cash inflows is regulated by increasing tariffs for electricity transmission and dispatch (operational and technological) control services, which are set by NEURC with appropriate amendments to the Group's financial plan.

The table below provides the maturity analysis of financial liabilities based on contractual undiscounted repayment liabilities. The table contains both accrued interest and the principal amount of cash flow arrears as of 31 December 2022 and 2021. The amounts in the table may not be equal to the carrying amount of the related liabilities, as the table includes all cash outflows on a non-discounted basis.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

31 December 2022	Carrying amount	Contractual amounts	Up to 6 months	6-12 months	1-5 years	More than 5 years
Loans*	37,727,013	43,699,890	5,710,354	5,504,995	22,677,167	9,807,374
Eurobonds 2028	6,370,082	45,027,195	-	-	12,633,129	32,394,066
Trade accounts payable**	47,330,186	47,332,701	47,004,023	296,264	32,414	-
Finance lease liabilities	7,793	9,024	1,751	1,751	5,522	-
Total	91,435,074	136,068,810	52,716,128	5,803,010	35,348,232	42,201,440

31 December 2021	Carrying amount	Contractual amounts	Up to 6 months	6-12 months	1-5 years	More than 5 years
Loans*	26,097,986	29,832,476	4,779,955	4,587,355	14,143,990	6,321,176
Eurobonds 2028	22,559,980	30,803,055	829,854	829,854	29,143,347	-
Trade accounts payable**	27,853,405	27,864,041	27,359,384	328,788	175,869	-
Finance lease liabilities	17,557	21,014	2,843	2,843	15,328	-
Total	76,528,928	88,520,586	32,972,036	5,748,840	43,478,534	6,321,176

* Including accrued interests on loans.

** Including long-term trade accounts payable presented in Other long-term liabilities in the consolidated statement of financial position.

All other financial liabilities (other than those listed above) are repayable within one year.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Deferral of debt payments for loans from state-owned banks

As described in Note 16, with the beginning of the military aggression of the Russian Federation against Ukraine, the Group suspended the payment of the principal amount on these loans from March 2022 due to force majeure circumstances and agreed credit holidays with creditor banks. Firstly, in July-August 2022, and later in March-April 2023 the Group's management agreed with the state-owned banks on the terms of deferral of the payment of principal debt on loans for a later period.

The table above provides an analysis of maturity of financial liabilities based on the contractual terms effective as of 31 December 2022, not including the deferral of payments for loans from state-owned banks agreed after the reporting date.

Information on the impact of the deferral of payments of the remaining debt on loans from state-owned banks, which existed as of 31 December 2022, on the future cash outflow of the Group (including accrued interest) is presented as follows:

	31 December 2022	
	Initial contractual terms	Amended contractual terms
Loans from state-owned banks		
Up to 6 months	4,310,344	1,101,584
6-12 months	4,065,213	965,043
1-5 years	4,062,059	13,043,036
More than 5 years	-	-
Total contractual amounts	12,437,616	15,109,663

Market risks

Risk of changes in tariffs

Tariff risk is the risk that the Group's current or future revenues may be adversely affected by a reduction or non-approval, to the extent necessary to cover costs, of NEURC tariffs for electricity transmission and dispatch (operational and technological) control services. NEURC has the authority to revise tariffs on an annual basis in cases where the Company fails to comply with licensing activities, regulatory requirements of NEURC or other regulatory requirements; and in cases where the Company fails to implement its investment program to an extent that ensures the use of all funds that have been accumulated through the investment component of the tariff.

The Group manages this risk by carrying out its activities in full compliance with all regulatory requirements and full compliance with them, as well as by taking adequate measures to implement the investment program and comply with the approved tariff structures.

Interest rate risk

The Group normally has no significant interest bearing assets and its income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from loans at floating rates. The primary objective of interest rate risk management is to obtain financing at minimal cost and to match liquidity to the loan proceeds schedule.

As of 31 December 2022 and 2021, the Group had loan liabilities with a floating interest rate pegged to LIBOR, EURIBOR, the NBU discount rate, UIRD.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The following table includes information for the year ended 31 December 2022 and 2021, the sensitivity of the Group's pretax earnings to a probable change in interest rates with all other variables held constant:

31 December 2022	Increase "+" / decrease "-" of percentage points	Increase / (decrease) in profit before tax	Increase / (decrease) in equity
SOFR / LIBOR	+0.50%	(30,761)	(30,761)
SOFR / LIBOR	-0.50%	30,761	30,761
EURIBOR	+0.25%	(20,914)	(20,914)
EURIBOR	-0.25%	20,914	20,914
NBU discount rate	+1.00%	(86,930)	(86,930)
NBU discount rate	-1.00%	86,930	86,930
UIRD	+0.10%	(275)	(275)
UIRD	-0.10%	275	275
31 December 2021	Increase "+" / decrease "-" of percentage points	Increase / (decrease) in profit before tax	Increase / (decrease) in equity
SOFR / LIBOR	+0.50%	(30,761)	(30,761)
SOFR / LIBOR	-0.50%	30,761	30,761
EURIBOR	+0.25%	(20,914)	(20,914)
EURIBOR	-0.25%	20,914	20,914
NBU discount rate	+1.00%	(86,930)	(86,930)
NBU discount rate	-1.00%	86,930	86,930

Foreign currency risk

Foreign currency risk is the risk that the financial performance of the Group will be adversely impacted by changes in foreign exchange rates to which the Group is exposed. The Group sells goods and services in the domestic market of Ukraine at prices denominated in hryvnia.

Most of the Group's loans and borrowings are denominated in foreign currencies, as well as certain agreements on the import of equipment for modernization and construction of property, plant and equipment. The Group does not use any derivatives to manage its foreign currency risk exposure. Carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of the reporting dates were as follows:

	USD		EUR	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Assets				
Cash and cash equivalents	313,820	111,709	998,540	245,578
Trade accounts receivable	-	-	1,553,210	-
Liabilities				
Loans	(10,125,149)	(6,344,554)	(17,771,179)	(9,252,691)
Eurobonds 2028	(6,370,082)	(22,559,980)	-	-
Trade accounts payable	(485,781)	(477,248)	(2,492,812)	(428,403)
Other non-current liabilities	-	(42,891)	(30,852)	(117,206)
Accrued interests on loans	(5,024)	-	(20,874)	(4,661)
Net position	<u>(16,672,216)</u>	<u>(29,312,964)</u>	<u>(17,763,967)</u>	<u>(9,557,383)</u>

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The table below provides details of the sensitivity of the Group's profit or loss and equity to a reasonably possible change in foreign exchange rates applied at the reporting date, with all other variables held constant. These sensitivities represent management's assessment at the reporting dates of reasonably possible changes in foreign exchange rates.

	2022		2021	
	USD – impact	EUR – impact	USD – impact	EUR – impact
Profit at strengthening by 10%	1,667,222	1,776,397	2,931,296	955,738
Loss at weakening by 10%	(1,667,222)	(1,776,397)	(2,931,296)	(955,738)

Capital management

The Group's principal sources of funding are borrowings and equity. The primary objective of the Group's capital management is to ensure that it maintains an adequate credit rating and sufficiency of capital ratios to support its business. The Group monitors its capital using a gearing ratio, which is calculated as net liabilities divided by equity and net liabilities. In calculating net liability, the Group considers loans and borrowings, net of cash and short-term deposits.

The Group's capital management policy aims to ensure and maintain an optimal capital structure in order to reduce the overall cost of capital and provide the flexibility necessary for the Group to access capital markets.

	31 December 2022	31 December 2021
Loans	37,135,244	25,847,245
Eurobonds 2028	6,370,082	22,559,980
Accrued interests on loans	591,769	250,741
Less: Cash and cash equivalents	(4,732,828)	(10,355,609)
Net liability	39,364,267	38,302,357
Equity	2,580,909	9,982,971
Equity and net liability	41,945,176	48,285,328
Gearing ratio	0.94	0.79

Reconciliation of liabilities arising from financing activities

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

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Reconciliation of liabilities arising from financing activities for the year ended 31 December 2022 was the following:

2022	Loans	Accrued interests on loans	Eurobonds 2028	Dividends	Lease and other liabilities	Total
As at 1 January	25,847,245	250,741	22,559,980	-	17,232	48,675,198
Cash inflow from loans and borrowings	8,332,655	-	-	-	-	8,332,655
Cash repayments	(3,575,731)	(2,447,626)	(889,989)	(127,036)	(4,617)	(7,044,999)
Extinguishment of liability	-	-	(30,518,450)	-	(7,203)	(30,525,653)
Recognition at fair value	-	-	5,285,625	-	-	5,285,625
Direct payments of bank to counterparties	1,346,180	-	-	-	-	1,346,180
Recognition of accounts payable	-	-	-	127,036	1,432	128,468
Interest expense	-	2,787,626	2,243,734	-	977	5,032,337
Foreign currency exchange differences, net	5,184,895	1,028	7,689,182	-	(29)	12,875,076
As of 31 December	37,135,244	591,769	6,370,082	-	7,792	44,104,887

Reconciliation of liabilities arising from financing activities for the year ended 31 December 2021 was the following:

2021	Loans	Accrued interests on loans	Eurobonds 2028	Lease and other liabilities	Total
As at 1 January	17,825,153	120,175	-	16,282	17,961,610
Cash inflow from loans and borrowings	5,250,000	-	21,439,546	-	26,689,546
Cash repayments	(2,207,885)	(1,564,555)	-	(5,302)	(3,777,742)
Transaction costs for the issue of Eurobonds 2028	-	-	(102,296)	-	(102,296)
Direct payments of bank to counterparties	6,440,621	-	-	-	6,440,621
Recognition of accounts payable	-	-	-	4,818	4,818
Interest expense	-	1,695,866	242,566	1,641	1,940,073
Foreign currency exchange differences, net	(1,460,644)	(745)	980,164	(207)	(481,432)
As of 31 December	25,847,245	250,741	22,559,980	17,232	48,675,198

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

35. EVENTS AFTER THE REPORTING PERIOD

Military aggression of the Russian Federation against Ukraine

The military aggression of the Russian Federation against Ukraine continues to be in an active stage, its duration and consequences cannot be reliably estimated. During the period from the reporting date to the date of approval of these consolidated financial statements, there were no significant changes in the front line and hostilities zones.

The intensity of missile attacks on energy infrastructure decreased at the beginning of 2023 compared to October-December 2022. Starting from the middle of February 2023, electricity consumption in the country is almost unrestricted, as the energy system of Ukraine currently does not have a capacity deficit - generation with a reserve has the necessary capacity to fully meet the needs of electricity consumers throughout the country.

From 11 April 2023 Ukraine resumed electricity exports to Europe, which will allow to attract additional financial resources for the necessary reconstruction of the destroyed and damaged energy infrastructure.

Deferral of debt payments for loans from state-owned banks

As stated in Note 16, with the beginning of the military aggression of the Russian Federation against Ukraine in February 2022, the Group suspended the payment of the body on loans from state banks in connection with force majeure circumstances and agreed credit holidays for creditor banks. First, in July-August 2022, and later in March-April 2023, the Group's management agreed with the state banks on the terms of deferring the payment of the outstanding principal debt on the loans for a later period - the loans will be repaid in equal monthly installments, starting from January 2024 until December 2025-2027 years. As of 31 December 2022, loans from state-owned banks amounted to UAH 10,421,910 thousand.