Private Joint Stock Company “National Power Company “Ukrenergo”

Unaudited Interim Condensed Consolidated
Financial Statements
for the Six Months Ended 30 June 2023

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of the Private Joint Stock Company "National Power Company "Ukrenergo" and its subsidiaries (hereinafter – the Group) as of 30 June 2023 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed statement of changes in equity and interim condensed statement of cash flows (under direct method) for the six-month period then ended, and selected explanatory notes (hereinafter – the interim condensed consolidated financial statements). Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with the requirements of International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

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 the 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 was 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 their fair value. At the same time, 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. During the six months ended 30 June 2023, no estimate of the recoverable amount was made.

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 their carrying value. In the absence of an independent appraisal of the fair value of the Group's property, plant and equipment, 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 49,731,065 thousand and UAH 48,963,223 thousand, revaluation reserve and deferred tax assets/liabilities as at 30 June 2023 and 31 December 2022, respectively, as well as the amount of recognized impairment gain/loss of property, plant and equipment and income tax benefit/expense for the six months ended 30 June 2023. Therefore, we were unable to determine whether any adjustments to these amounts were necessary in these interim condensed consolidated financial statements.

Qualified Conclusion

Except for the adjustments to the interim condensed consolidated financial statements that we might have become aware of but for the matters described above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at 30 June 2023 and for the six months then ended, are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

Material Uncertainty Related to Going Concern

These interim condensed 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 interim condensed 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.

The review was performed under the supervision of the Key Audit Partner, Nikolaenko O.M.

Key Audit Partner Nikolaenko O.M.

Registration number with the Register of auditors and audit entities: 101534

Kyiv, 15 September 2023

Limited Liability Company BDO. Identification code under EDRPOU: 20197074. Registration number with 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 entitled 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-obovjazkovyj-audyt-finansovoi-zvitnosti-pidpryjemstv-shho-stanovljat-suspilnyj-interes/

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

Management is responsible for the preparation of the interim condensed 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 30 June 2023, and the results of its operations, cash flows, and changes in equity for the six months 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 interim condensed 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 interim condensed 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 unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023 were approved by management on 14 September 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"

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 JUNE 2023
In Ukrainian Hryvnias and in thousands

	Notes	30 June 2023	31 December 2022
		(unaudited)	(audited)
ASSETS			
Non-current assets			
Property, plant and equipment	5	49,731,065	48,963,223
Intangible assets		897,520	864,961
Deferred tax assets		3,803,812	3,482,715
Other non-current assets		183,945	45,618
Total non-current assets		**54,616,342**	**53,356,517**
Current assets			
Inventories		737,908	466,812
Trade accounts receivable	6	40,201,580	31,410,900
Prepayments	7	695,598	736,800
Other accounts receivable		104,122	102,670
Prepaid income tax		22,916	22,946
Taxes receivable, other than income tax	8	3,130,845	2,903,963
Loans receivable	9	-	2,104,503
Prepaid expenses		85,396	68,033
Cash and cash equivalents	10	6,237,050	4,732,828
Other current assets	11	1,227,531	2,081,904
Total current assets		**52,442,946**	**44,631,359**
TOTAL ASSETS		**107,059,288**	**97,987,876**
EQUITY			
Share capital		37,160,209	37,160,209
Corporatization effect		(35,933,854)	(35,933,854)
Revaluation reserve		24,030,051	24,033,949
Reserve capital		100,262	100,262
Accumulated deficit		(25,176,068)	(22,787,250)
Translation reserve		8,638	7,593
TOTAL EQUITY		**189,238**	**2,580,909**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	12	46,360,358	34,518,342
Retirement benefit obligations		553,626	510,725
Special purpose funding		1,849,288	1,509,634
Other non-current liabilities		36,232	35,790
Total non-current liabilities		**48,799,504**	**36,574,491**
Current liabilities			
Loans and borrowings	12	4,743,848	8,986,984
Trade accounts payable	13	49,825,011	47,299,334
Advances received	14	478,918	443,397
Other accounts payable		103,617	120,855
Income tax payable		195	-
Taxes payable, other than income tax		29,107	15,060
Provisions		626,339	561,102
Deferred income		111,974	54,243
Other current liabilities	15	2,151,537	1,351,501
Total current liabilities		**58,070,546**	**58,832,476**
TOTAL LIABILITIES		**106,870,050**	**95,406,967**
TOTAL LIABILITIES AND EQUITY		**107,059,288**	**97,987,876**

On behalf of management:

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V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

The accompanying Notes on pages from 7 to 58 form an integral part of these unaudited interim condensed consolidated financial statements

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023
In Ukrainian Hryvnias and in thousands

	Notes	Six months ended 30 June 2023	Six months ended 30 June 2022
		(unaudited)	
Revenue	16	38,116,241	38,024,820
Cost of sales	17	(35,506,677)	(34,372,072)
Gross profit		**2,609,564**	**3,652,748**
Other operating income		626,150	180,613
Administrative expenses	18	(482,339)	(382,588)
Other operating expenses	19	(781,213)	(744,190)
Impairment of financial assets, net		(982,571)	(4,123,133)
Operating profit/(loss)		**989,591**	**(1,416,550)**
Finance income	20	348,275	237,405
Finance costs	21	(3,546,210)	(1,933,947)
Foreign exchange loss, net		(503,130)	(2,050,745)
Loss before tax		**(2,711,474)**	**(5,163,837)**
Income tax benefit	22	318,758	975,608
LOSS FOR THE PERIOD		**(2,392,716)**	**(4,188,229)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Cumulative translation difference on retranslation to Group's presentation currency		1,045	(543)
Other comprehensive income/(loss) for the period		**1,045**	**(543)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(2,391,671)**	**(4,188,772)**

On behalf of management:

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V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

The accompanying Notes on pages from 7 to 58 form an integral part of these unaudited interim condensed consolidated financial statements

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2023
In Ukrainian Hryvnias and in thousands

	Share capital	Corporatization effect	Revaluation reserve	Reserve capital	Accumulated deficit	Translation reserve	Total equity
Balance at 1 January 2023	**37,160,209**	**(35,933,854)**	**24,033,949**	**100,262**	**(22,787,250)**	**7,593**	**2,580,909**
Loss for the period	-	-	-	-	(2,392,716)	-	**(2,392,716)**
Other comprehensive income for the period	-	-	-	-	-	1,045	**1,045**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(2,392,716)**	**1,045**	**(2,391,671)**
Realised revaluation reserve	-	-	(3,898)	-	3,898	-	**-**
Balance at 30 June 2023 (unaudited)	**37,160,209**	**(35,933,854)**	**24,030,051**	**100,262**	**(25,176,068)**	**8,638**	**189,238**

On behalf of management:

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V.D. Kudrytskyi,	N.M. Serdiuk,
Chairman of the Management Board	Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 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 2022	**37,160,209**	**(35,933,854)**	**25,657,936**	**100,262**	**(17,001,582)**	**-**	**9,982,971**
Loss for the period	-	-	-	-	(4,188,229)	-	**(4,188,229)**
Other comprehensive loss for the period	-	-	-	-	-	(543)	**(543)**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(4,188,229)**	**(543)**	**(4,188,772)**
Realised revaluation reserve	-	-	(2,992)	-	2,992	-	**-**
Balance at 30 June 2022 (unaudited)	**37,160,209**	**(35,933,854)**	**25,654,944**	**100,262**	**(21,186,819)**	**(543)**	**5,794,199**

On behalf of management:

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V.D. Kudrytskyi,
Chairman of the Management Board

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N.M. Serdiuk,
Chief Accountant

The accompanying Notes on pages from 7 to 58 form an integral part of these unaudited interim condensed consolidated financial statements

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNDER DIRECT METHOD) FOR THE SIX MONTHS ENDED 30 JUNE 2023
In Ukrainian Hryvnias and in thousands

	Notes	2023	2022
		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows from:			
Revenue		28,184,121	30,412,344
Return of taxes and duties		26	-
Special purpose funding		11,853	20,177
Advances from buyers and customers		1,257,961	1,512,557
Prepayments returned		2,199	526
Interest on current accounts with banking institutions		207,203	228,907
Forfeits (fines, penalties) from counterparties		339,645	99,723
Operating leases		1,918	1,190
Other proceeds		1,253,198	128,210
Cash outflows to:			
Goods (works, services)		(29,518,727)	(25,537,398)
Staff costs		(1,292,047)	(1,356,689)
Social charges		(328,148)	(341,039)
Liabilities on taxes and duties:		(786,864)	(547,607)
Income taxes		(2,103)	(24,134)
Value added tax		(462,276)	(25,616)
Other taxes and duties		(322,485)	(497,857)
Prepayments		(632,843)	(1,366,149)
Return of advances		(162,629)	(2,491,395)
Other expenses		(1,495,806)	(373,621)
Net cash flows (used in)/from operating activities		**(2,958,940)**	**389,736**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from loans repayment	9	2,493,166	-
Purchases of property, plant and equipment and intangible assets		(977,474)	(440,346)
Net cash flows from/(used in) investing activities		**1,515,692**	**(440,346)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	26	5,921,616	1,546,635
Repayment of loans and borrowings	26	(1,202,030)	(2,265,284)
Dividends paid	26	-	(127,036)
Interest paid	26	(1,819,364)	(1,897,806)
Other payments	26	(1,724)	(1,944)
Net cash flow from/(used in) financing activities		**2,898,498**	**(2,745,435)**
Net increase/(decrease) in cash and cash equivalents		**1,455,250**	**(2,796,045)**
Cash and cash equivalents at the beginning of the period	10	**4,732,828**	**10,355,609**
Effect of exchange rates change on cash and cash equivalents		48,972	55,931
Cash and cash equivalents at the end of the period	10	**6,237,050**	**7,615,495**

NON-CASH TRANSACTIONS

	Notes	2023	2022
Payments to acquire property, plant, and equipment and intangible assets by a lending bank	26	785,573	591,081

On behalf of management:

V.D. Kudrytskyi,
Chairman of the Management Board

N.M. Serdiuk,
Chief Accountant

The accompanying Notes on pages from 7 to 58 form an integral part of these unaudited interim condensed consolidated financial statements

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 108 substations (110-750 kV) and over 19,000 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").

As a result of the full-scale invasion of Russia on the territory of Ukraine in February 2022, 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.

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 "Semidvirya", 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 24).

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.

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023 were approved by the Management Board on 14 September 2023.

2. OPERATING ENVIRONMENT

As a result of the full-scale invasion of the russian army on the territory of Ukraine on 24 February 2022, the economic, political and social environment in which the Group operates underwent significant changes, which, accordingly, significantly affected all aspects of the Group's operational activities.

The economic situation in the world

During the second quarter of 2023, the growth of the global economy and the economies of developed countries lost the initial momentum, mainly generated by China's rapid exit from quarantine. Growth in all types of services has begun to slow due to high interest rates and the rising of cost of living. Despite the recovery of supply chains, the downturn in industry has deepened due to a sharp drop in demand. The economies of most of the countries of Central and Eastern Europe entered a recession due to high inflation, which caused a decrease in investment and a decrease in real incomes of the population. In contrast, Asian countries grew thanks to significantly easier monetary conditions amid lower inflation, which helped to revive domestic demand, as well as the opening of China, which supported the services sector.

World energy prices, after a short-term upward correction in the heating period, tend to decrease. Thus, in the first half of 2023, oil prices were lower than expected: weak global demand and significant Russian exports outweighed OPEC+ restrictions (which accounted for approximately 5% of global demand). European gas prices continued to decline and approached average pre-pandemic levels. Against the background of low consumption and substitution of Russian pipeline gas, the EU has entered the season of replenishment of its gas reserves with the highest level of storage capacity in history - more than 55%. Accordingly, achieving the target indicator of gas storage at the level of 90% storage filling before the start of the heating season is realistic.

World prices for goods that dominate Ukrainian exports also continue to decrease. According to the NBU's estimates, the weak harvest of 2022/2023 against the backdrop of a dry spring and the lack of operation of the "grain corridor" will keep prices close to current levels despite the saturation of the market with a new high harvest. In the coming years, prices will decrease due to a significant increase in supply, while demand will grow more slowly.

The rapid simultaneous increase in interest rates by the world's central banks, which made it possible to reduce inflationary pressure from peak levels, has come to an end. Then there were signs of stabilization with a tendency towards a weak softening. However, in general, monetary policy remains quite tight and, according to the expectations of financial market participants, will remain so until at least the end of 2023.

Further growth of interest rates in leading countries increases the risks of macro-financial stability. Debt servicing becomes more expensive, especially if a significant part of the debt is denominated in US dollars. Devaluation pressure on national currencies is increasing, and the narrowing of the spread between the yield on US Treasuries and sovereign bonds in foreign currencies increases the likelihood of capital outflows.

Operational environment of Ukraine

In the second quarter of 2023, the slowdown in inflation continued (to 12.8% y/y in June). The actual rate of price growth was lower than forecast, primarily due to the sufficient supply of food products and fuel, and the stable situation in the energy sector. Inflation was also restrained by the effects of the strengthening of the hryvnia cash rate and moratoriums on tariff increases for certain housing and communal services. These factors outweighed the effects of higher business costs incurred as a result of the war and higher household electricity tariffs.

The supply of agricultural products remained sufficient to meet domestic needs, despite last year's low harvests and the consequences of the destruction of the Kakhovskaya HPP. In addition, the world prices for these goods continued to decline, and export prices for Ukrainian grain and other agricultural products were even lower due to logistical difficulties and high risks, in particular due to disruptions in the "grain corridor". An additional factor was the uncertainty associated with the restriction of food transit through neighboring EU countries. As a result, the prices of flour and cereals decreased, and the price increase of dairy products and sunflower oil slowed down.

Significant reserves, a decrease in global oil prices, increased competition in the retail market and a high base of comparison led to a drop in fuel prices (by 20.3% y/y in June). However, in the third quarter of 2023, price growth will resume due to the return of the pre-war level of fuel taxation. In addition, it will have an indirect effect on inflation due to the transfer of the cost of fuel to the prices of other goods and services, in particular transport.

The recovery of economic activity in both the manufacturing and service sectors continued in the first half of 2023. It was supported by the improvement of business and consumer sentiments and the revival of domestic demand in conditions of stable functioning of the energy system and significant fiscal support. Against the background of a low base of comparison, this led to an increase in real GDP in the II quarter of 2023 by 18.1% y/y, according to NBU estimates.

Thanks to the establishment of energy supply, the revival of external demand in conditions of expansion of the carrying capacity of the western border crossings, the situation in metallurgy and ore mining, animal husbandry and food industry has improved. Repairs in the energy sector supported the extractive industry and engineering, and the demand for fertilizers supported the chemical industry. Budget financing contributed to the further growth of industrial activities focused on defense needs, as well as individual budget sectors (government and defense, health care). The restoration of housing and infrastructure, as well as the development of logistics hubs on the western border, supported construction.

However, wartime challenges and security risks remain significant. Economic activity was suppressed by large-scale shelling and the destruction of the Kakhovskaya HPP, although the impact of the latter is relatively insignificant. The blocking of the "grain corridor" and restrictions on the export of Ukrainian agricultural products by certain EU countries affected the operation of transport. In addition, according to the results of surveys on the business expectations of enterprises, in the second quarter of 2023, the negative impact of the "lack of qualified personnel" factor increased.

In the second quarter of 2023, the volume of expenditures of the consolidated budget was the largest since the beginning of the war. In the first half of 2023, expenditures of the consolidated budget are more than 67% higher than last year. Such significant expenses are primarily related to the need to ensure defense and security expenses (the share of defense alone is almost 50% of the expenses of the consolidated budget). Also, the need to support the population led to significant expenditures on social protection. In contrast to the previous year, capital expenditures increased significantly this year. This is primarily related to the active repair, restoration and construction of infrastructure facilities. In wartime conditions, the role of the state as an investor and customer/consumer of goods was referred to. The increase in spending on infrastructure projects gives a boost to construction and other related industries.

Significant budgetary needs in the first half of 2023 (almost 37% of the state budget) were financed by international aid. Its volume was 23.6 billion US dollars, in particular, in the second quarter of 2023 - almost 12.7 billion US dollars (of which 3.6 billion US dollars are tranches under the IMF program). Overall, international funding is expected to exceed 42 billion US dollars in 2023 and beyond, and will remain significant, albeit gradually declining.

State and state-guaranteed debt continued to grow and, according to the NBU, exceeded 80% of GDP as of the end of June 2023. This trend was primarily due to the predominance of loans in the total amount of international aid (more than 2/3 came as loan funds in the first half of 2023), the revival of domestic debt borrowing.

In the second quarter of 2023, foreign exchange earnings of the private sector decreased compared to the previous quarter, primarily due to obstacles to food exports. The blockade of the "Southern" port and increased sabotage of ship inspections by the Russian Federation led to a significant reduction in shipments through the "grain corridor". Alternative route deliveries decreased compared to the previous quarter due to the introduction of trade restrictions by several EU countries and depletion of stocks. At the same time, prompt settlement of issues with food transit to other EU countries, narrowing of the list of goods prohibited for import somewhat mitigated the fall in food exports. At the same time, shipments by alternative routes were higher than expected, which made it possible to compensate for losses from restrictions on the part of EU countries.

The decrease in food exports was only partially compensated by the increase in supplies of other goods. Thus, the export of MMC products increased due to the further restoration of its production, a certain release of logistics capacities and growth in the supply structure of more expensive rolled products and semi-finished products. Coking coal supplies also increased. However, the shortage of water at some enterprises as a result of the undermining by the occupiers of Kakhovskaya HPP restrained the growth of metallurgical exports in June and will probably limit it in the second half of the year as well.

Services exports were largely unchanged from the previous quarter, with post-Covid contraction in global demand and still high security risks restrained the recovery in IT services exports.
The outflow of currency in the second quarter of 2023 decreased primarily due to the energy component of imports. Purchases of petroleum products decreased against the background of significant oil reserves and a stable situation in the energy sector, while increasing domestic production contributed to a decrease in purchases of natural gas and coal. Together with the subsequent fall in world prices, this ensured a significant reduction in the import of energy carriers. Imports of equipment to ensure energy independence also decreased due to the absence of system interruptions in the supply of electricity. In addition, imported purchases of fertilizers, plant protection products and seed material decreased. Instead, purchases of defense products increased.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Imports of metallurgical products increased on the back of infrastructure recovery, while planned repairs at energy facilities led to an increase in purchases of some industrial equipment. Increasing investments in logistics facilities and improving exchange rate expectations in the context of strengthening the hryvnia cash rate stimulated the import of vehicles.

In the second quarter of 2023, international aid was one of the main drivers of the increase in net foreign exchange receipts. Thus, the volume of official financing in the second quarter of 2023 increased to 12.7 billion US dollars, most of which came from the EU, the USA and the IMF. In the first half of 2023, Ukraine received 23.6 billion US dollars from international partners, and a total of 55.9 billion US dollars since the beginning of the full-scale invasion. As a result, gross international reserves as of the end of June reached a historical record value of 39 billion US dollars. This volume provided almost 100% of the minimum required level of reserves according to the IMF's composite criterion.

In July 2023, the NBU reduced the discount rate from 25% to 22%. The steady improvement of the macro-financial situation enabled the transition to the discount rate reduction cycle earlier than expected. It is, in particular, about a sharp decrease in inflation, a long-term stable situation on the foreign exchange market, a high level of international reserves, as well as the effectiveness of previous measures to increase the attractiveness of hryvnia assets. Easing interest rate policy supports economic recovery.

Government regulation of electric power market

Tariff regulation of the Company'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").

In December 2022, the NEURC approved an increase in tariffs for electricity transmission services and the tariff for dispatch (operational and technological) control services in three stages: in January, April and July 2023. The expediency of a gradual, rather than one-time, sharp increase in tariffs was argued by the possible negative consequences for consumers in wartime conditions.

Tariffs for electricity transmission services in 2022-2023 were as follows:

Year	Period	Tariff, UAH/MWh	Date and number of the NEURC resolution
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

Additionally, the NEURC established a separate tariff for electricity transmission services for 2023 for "green" electrometallurgy enterprises, approved by NEURC Resolution No. 1788 dated 21 December 2022, in the amount of 209.42 UAH/MWh.

Tariffs for dispatch (operational and technological) control services in 2022-2023 were as follows:

Year	Period	Tariff, UAH/MWh	Date and number of the NEURC resolution
2022	January - December	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.

On 11 August 2021 the Resolution of the Cabinet of Ministers of Ukraine №859 amended the Resolution of the Cabinet of Ministers of Ukraine No.483 dated 5 June 2019 (hereinafter – CMU Resolution 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.
- 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 30 May 2023, Resolution of the Cabinet of Ministers of Ukraine No.544 (hereinafter - CMU Resolution No.544) amended CMU Resolution No.483. In particular, with the aim of ensuring the sustainable operation of the IPS, CMU Resolution No.544 approved the proposal of the Ministry of Energy of Ukraine regarding the application of new fixed electricity prices for household consumers from 1 June 2023. During the period from 1 June 2023 to 31 December 2023, consumers will pay USPs 2.64 UAH per kWh with VAT.

On 27 June 2023, the NEURC adopted the Resolution "On establishing limit prices on the day-ahead market, intraday market, and balancing market," which established three levels of price caps for time slots during the day from 30 June 2023:

- For nighttime hours, from 00:00 a.m. to 7:00 a.m. and from 11:00 p.m. to 00:00 a.m., the upper limit of the price of electricity for business increased by 50% from 2,000 to 3,000 UAH/MWh.
- For daytime hours, from 7:00 a.m. to 7:00 p.m., a 40% increase from 4,000 to 5,600 UAH/MWh.
- For the evening peak of electricity consumption, from 7:00 p.m. to 11:00 p.m., an increase of 80% to 7,200 UAH/MWh.

Until 30 June 2023, the maximum prices on the electricity market, which were established in February 2022, were in effect on the market - a maximum price cap of UAH 2,000/MWh for hours of minimum load and UAH 4,000/MWh for hours of maximum load.

Other legislative changes in the electricity market

Implementation of the REMIT regulation in Ukraine

In accordance with the Protocol on the Accession of Ukraine to the Treaty on the Establishment of the Energy Community dated 15 December 2010, Ukraine assumed international obligations regarding the implementation into national legislation of the Regulation (EU) No. 1227/2011 dated 25 October 2011 on wholesale energy market integrity and transparency (Regulation on Wholesale Energy Market Integrity and Transparency - hereinafter "REMIT").

With the aim of fulfilling European integration obligations, on 10 June 2023 Parliament adopted the Law of Ukraine "On Amendments to Certain Laws of Ukraine on Prevention of Abuse in Wholesale Energy Markets" №3141-IX (hereinafter - the "Law on REMIT").

The Law on REMIT sets out a number of key elements to improve transparency in wholesale energy markets, namely:

- introduction of anti-abuse tools on wholesale energy markets;
- establishment of prohibition of manipulations;
- determination of requirements for disclosure of insider information by market participants;
- obligation of companies that organize trade operations to report suspicious operations;
- strengthening the powers of the NEURC to conduct investigations of abuses and establish tough sanctions for manipulation in the energy markets, as well as for trading based on insider information.

The introduced Law on REMIT will contribute to the fulfillment of obligations to bring Ukraine's energy legislation closer to European legislation, increase the level of integration of the energy markets of Ukraine and the EU, and deepen the trust of foreign participants in the Ukrainian energy markets.

Legislative changes for the "green" transformation of the energy system of Ukraine

On 30 June 2023, the Verkhovna Rada of Ukraine adopted Law of Ukraine No. 3220-IX "On Amendments to Certain Laws of Ukraine Regarding the Restoration and "Green" Transformation of the Energy System of Ukraine" (hereinafter – "Law No. 3220-IX"), which provides for comprehensive changes in the functioning of the electric energy market, solving existing problems on the market and implementing tools of the European electric energy market.

As a result of the adopted Law No. 3220-IX, it is expected that changes aimed at solving problematic issues in the RES sector will have a positive effect on the industry, namely: improvement of the calculation of imbalances and the share of their compensation in the balancing group of the Guaranteed buyer, as well as the continuation of the possibility completion of RES projects started prior to 24 February 2022.

Export/import of electricity from ENTSO-E

Massive missile attacks on the energy infrastructure of Ukraine in October 2022 forced Ukraine to suspend electricity exports from 11 October 2022 in order to stabilize its own energy system.

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.

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.

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.

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. 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 of 2022 and January-February 2023 Ukraine's energy infrastructure has suffered multiple missile 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.

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 interim condensed 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 Note 5 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 part of the Group's energy infrastructure, especially high-voltage substations, was damaged. Additionally, as of 30 June 2023 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.
- 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. During six months ended 30 June 2023, repair and maintenance costs increased by 176% compared to the same period of 2022. 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.

- In June-September 2023, there is a shortage of electricity in the system, which arose due to an increase in electricity consumption during hot weather, the transition of power units of nuclear and thermal plants for repair and their restoration after massive missile and drone strikes by the Russia. First of all, such capacity deficit is covered by the import of electricity. In addition, the Group requests emergency assistance from neighboring countries when the power system urgently needs additional electricity for safe operation.
- 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 31 countries. According to the assessment of Ministry of Energy of Ukraine as of the end of June 2023 such humanitarian aid amounted to 8,000 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.
- In July 2023, the Ministry of Energy of Ukraine and the World Bank announced the project "Restoration of energy supply in the winter period and supply of energy resources", which provides for total financing in the amount of USD 500 million. The funds will be used to purchase equipment for heating services and equipment for electricity transmission infrastructure. The first part of the agreement provides for the allocation of a grant in amount of USD 200 million.
- The Group records all damage to fixed assets and assesses the damage as a result of military aggression. 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 during the six months ended 30 June 2023, compared to the same period in 2022, was almost unchanged and amounted to UAH 38.1 and 38.0 billion, respectively.

Revenue from services that are subject to tariff regulation increased by UAH 0.3 billion, or by 1%. Despite the increase in tariffs: (i) for electricity transmission services from 345.64 UAH/MWh to weighted average for the period - 403.44 UAH/MWh, or by 17%; and (ii) for dispatch (operational and technological) control services from 62.13 UAH/MWh to weighted average for the period - 74.09 UAH/MWh, or by 19%, revenue was largely unchanged due to an approximately 16% decline in electricity transmission volume for the six months ended 30 June 2023, compared to the same period 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 and at the beginning of 2023, the level of consumption could not be significantly restored. As mentioned earlier, there is no electricity supply to the temporarily occupied territory of Ukraine.

Revenue on electricity sales from cross-border flows increased by UAH 1.0 billion, or by 337%. This is explained by the fact that in 2022 cross-border flows became possible only after the synchronization of the IPS of Ukraine with the European continental network ENTSO-E and coordination of technical criteria.

Revenue on granting access to the transmission capacity of interstate power networks decreased by UAH 1.1 billion, or by 98% for the six months ended 30 June 2023, compared to the same period in 2022. This is explained by Ukraine's suspension of electricity exports from 11 October 2022 to 11 April 2023 as a result of massive missile attacks on energy infrastructure in order to stabilize its own energy system. In addition, during April-August 2023, Ukraine and transmission system operators of neighboring countries settled the question of implementation of joint auctions for the distribution of transmission capacity.

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, as well as during the summer of 2023, when there was a shortage of electricity in the system due to the transition of nuclear and thermal power units for repair.

It is worth noting that from 21 July 2023, the export of electricity to Slovakia was resumed during those hours of the day when there is a surplus of electricity produced from renewable sources, and in August 2023, the regulator agreed on the rules for distributing the transmission capacity of the Ukraine-Romania and Ukraine-Poland interstate power crossings. This, in turn, will increase the volume of electricity exports in the future.

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.

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 during six months ended 30 June 2023 by UAH 10.0 billion, or by 21% (from UAH 48.2 billion to UAH 58.2 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.

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 during six months ended 30 June 2023. As a result, during six months ended 30 June 2023 the Group accrued expected credit losses on trade accounts receivable in the amount of UAH 1.2 billion (Note 6).

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 during six months ended 30 June 2023, the Group's trade accounts payable to market participants also increased. Its increase amounted to UAH 2.5 billion, or 5% (from UAH 47.3 billion to UAH 49.8 billion).

The main factor behind this increase in trade accounts payable is the respective increase in debt for services to increase the share of electricity production from alternative sources (hereinafter – PSO RES) during the six months ended 30 June 2023, by UAH 10.3 billion, or by 68% as a result of the reduction of the Group's payments in favor of SE "Guaranteed Buyer" and universal services providers after the start of military aggression. During the six months ended 30 June 2023, the debt for PSO RES to SE "Guaranteed Buyer" increased by UAH 9.8 billion, or by 83%. The increase of debt for these services is explained primarily by a significant increase in the costs of their purchase during the six months ended 30 June 2023, by approximately UAH 4.2 billion, or by 70% compared to the same period in 2022.

The reasons for such an increase in costs are an increase in the weighted average "green" tariff by 31% and the undecided issue of determining the share of imbalances that is reimbursed by RES producers within the balancing group of the guaranteed buyer (on 8 September 2022, the decision of the Supreme Court declared the formula for the calculation of imbalances of the balancing group of the guaranteed buyer illegal and invalid, which was applied starting from January 2021). At the same time, the volumes of electricity production from renewable energy sources decreased by approximately 7%, and the sale price of such electricity on the market by SE "Guaranteed Buyer" increased by approximately 30%.

Another component of the increase in the Group's debt is a decrease in the level of payments by the Group due to a decrease in the receipt of payments for electricity transmission services and the transfer of working capital to repairs and restoration of equipment after missile attacks, preparation for the heating season and covering other critical expenditure items.

At the same time, the Group's trade accounts payable on the electricity market for other goods and services (balancing market, auxiliary services, services to curtail RES production) decreased by UAH 7.7 billion during the six months ended 30 June 2023, or by 24%.

It should be noted that 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 on the electricity market and to solve the settlement crisis, preparation for the heating season and, including, repayment of mutual debts between the Group and market participants, several mechanisms were implemented:

- On 30 June 2023, the Verkhovna Rada of Ukraine adopted Law of Ukraine No. 3220-IX "On Amendments to Certain Laws of Ukraine Regarding the Restoration and "Green" Transformation of the Energy System of Ukraine" (hereinafter – "Law No. 3220-IX"), which provides for comprehensive changes in functioning of the electricity market, solving existing problems on the market and implementing tools of the European electric energy market:
    - The law singles out the agreement on participation in the balancing group (hereinafter – "BG") of the guaranteed buyer, the standard form of which must be approved by the Regulator, and which regulates the issue of determining the share of imbalances that are reimbursed by RES producers within the BG of the guaranteed buyer. These changes, introduced by Law No. 3220-IX, apply to relationships that have arisen since 8 September 2022, when the decision of the Supreme Court to recognize as illegal and invalid the formula for calculating the BG imbalances of the guaranteed buyer, which was applied starting from January 2021, entered into force.
    - Law No. 3220-IX refers to the powers of the Cabinet of Ministers of Ukraine to approve the principles of the trade policy of the guaranteed buyer, which, according to expectations, can increase the profitability of this market participant and his settlements for the "green" tariff.
    - Law No. 3220-IX clarifies the tariff formation mechanism for electricity transmission services, which is the main source of funds for calculations according to the "green" tariff. Thus, the possibility of financial support from the state budget for payments under the "green" tariff is provided for by legislation in 2020, was taken into account when setting the tariff for the electricity transmission services, but in fact it was never implemented, which also affected the insufficient level of the tariff for further calculations for "green" tariff. Therefore, Law No. 3220-IX provides for the Regulator to take into account financial support from the state budget when setting the electricity transmission tariff only in the case of actual receipt of such support by relevant market participants, which should improve the situation with tariff formation for the electricity transmission services and settlements for the "green" tariff.
- With the aim of fulfilling European integration obligations, on 10 June 2023, the Verkhovna Rada of Ukraine adopted Law of Ukraine No. 3141-IX "On Amendments to Certain Laws of Ukraine on Prevention of Abuse in Wholesale Energy Markets" (hereinafter - the "Law on REMIT"). The Law on REMIT sets out a number of key elements to improve transparency in wholesale energy markets. The introduced Law on REMIT will contribute to the fulfillment of obligations to bring Ukraine's energy legislation closer to European legislation, increase the level of integration of the energy markets of Ukraine and the EU, and deepen the trust of foreign participants in the Ukrainian energy markets.

- 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 of military aggression on loans and borrowings received by the Group were as follows:

- During the six months ended 30 June 2023, and until the date of approval of these interim condensed 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 1,535,463 thousand and UAH 1,033,565 thousand, respectively.
- During the six months ended 30 June 2023, and until the date of approval of these interim condensed consolidated financial statements, the Group partially repaid the principal of loans from state-owned banks in the amount of UAH 123,698 thousand. At the same time, interest payments on these loans were made in full and amounted to UAH 1,637,150 thousand. With the beginning of the military aggression of the Russian Federation against Ukraine, in March 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 12).
- 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".
- In July 2023, the Ministry of Energy of Ukraine and the World Bank announced the project "Restoration of energy supply in the winter period and supply of energy resources", which provides for total financing in the amount of USD 500 million. The funds will be used to purchase equipment for heating services and equipment for electricity transmission infrastructure. The first part of the agreement provides for the allocation of a grant in amount of USD 200 million.
- 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 26). 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 interim condensed consolidated financial statements is limited.

- As described in Note 12, as of 30 June 2023, 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 30 June 2023 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.

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 September 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.

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 stabilization of hostilities starting from the second half 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 interim condensed consolidated financial statements, management of the Group believes that the realization of a negative scenario is unlikely.

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 interim condensed 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. BASIS FOR PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. It do not include all of the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2022 prepared in accordance with IFRS.

Significant accounting policies and adoption of new and revised International Financial Reporting Standards

The accounting policies and methods of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022 except for the adoption of the new standards, interpretations and amendments to IFRSs that became effective as of 1 January 2023, which are described below.

The Group has adopted such standards and interpretations for the first time beginning or after 1 January 2023:

- IFRS 17 *Insurance Contracts*;
- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates;
- Amendments to IAS 1 *Presentation of Financial Statements*: Disclosure of Accounting Policies;
- Amendments to IAS 12 *Income taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

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

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"). 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 presentation currency of these interim condensed 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.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

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

Currency	**As of 30 June 2023**	**Average currency exchange rate for six months ended 30 June 2023**	**As of 31 December 2022**	**Average currency exchange rate for six months ended 30 June 2022**
UAH / US Dollar	36.57	36.57	36.57	28.91
UAH / Euro	40.00	39.52	38.95	31.74

4. SEGMENT INFORMATION

The operating segments presented in these interim condensed 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.

For the six months ended 30 June 2023, the Group's revenue from one customer amounted to UAH 8,717,731 thousand (2022: UAH 9,062,765 thousand) and was included into the first three operating segments. Information on revenue from customers under control of the State is disclosed in Note 23. Revenue from other customers does not exceed 10% of the total revenue.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Segment information for the six months ended 30 June 2023 was as follows:

	TSO	Energy system balancing	Access to the transmission capacity of IPN	Other	Elimination	Total
Revenue - external	26,509,038	11,581,186	26,017	-	-	**38,116,241**
Revenue - inter-segment	-	-	-	73,272	(73,272)	**-**
Total revenue	**26,509,038**	**11,581,186**	**26,017**	**73,272**	**(73,272)**	**38,116,241**
Segment operating expenses	(26,297,036)	(9,934,863)	-	(14,453)	-	**(36,246,352)**
Impairment of financial assets, net	(430,944)	(551,627)	-	-	-	**(982,571)**
Segment result	**(218,942)**	**1,094,696**	**26,017**	**58,819**	**(73,272)**	**887,318**
Unallocated other operating income, net						**102,273**
Finance income						**348,275**
Finance costs						**(3,546,210)**
Foreign exchange loss, net						**(503,130)**
Loss before tax						**(2,711,474)**
Income tax benefit						**318,758**
LOSS FOR THE PERIOD						**(2,392,716)**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Segment information for the six months ended 30 June 2022 was as follows:

	TSO	**Energy system balancing**	**Access to the transmission capacity of IPN**	**Other**	**Elimination**	**Total**
Revenue - external	26,209,569	10,711,722	1,103,529	-	-	**38,024,820**
Revenue - inter-segment	-	-	-	22,311	(22,311)	**-**
Total revenue	**26,209,569**	**10,711,722**	**1,103,529**	**22,311**	**(22,311)**	**38,024,820**
Segment operating expenses	(26,765,757)	(8,512,758)	-	(14,219)	-	**(35,292,734)**
Impairment of financial assets, net	(1,330,914)	(2,792,219)	-	-	-	**(4,123,133)**
Segment result	**(1,887,102)**	**(593,255)**	**1,103,529**	**8,092**	**(22,311)**	**(1,391,047)**
Unallocated other operating expenses, net						**(25,503)**
Finance income						**237,405**
Finance costs						**(1,933,947)**
Foreign exchange loss, net						**(2,050,745)**
Loss before tax						**(5,163,837)**
Income tax benefit						**975,608**
LOSS FOR THE PERIOD						**(4,188,229)**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

5. 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 2023	**21,770,043**	**4,020,372**	**26,069,545**	**781,742**	**12,986,300**	**65,628,002**
Additions	-	-	4,276	-	2,193,844	**2,198,120**
Internal transfers	377,558	270,387	1,144,396	39,716	(1,832,057)	**-**
Transfer to inventories	-	-	-	-	(35,023)	**(35,023)**
Transfer of equipment as a returnable commodity loan	-	-	-	-	(24,879)	**(24,879)**
Disposals	-	(11)	(2,714)	(2,505)	(9,395)	**(14,625)**
As of 30 June 2023	**22,147,601**	**4,290,748**	**27,215,503**	**818,953**	**13,278,790**	**67,751,595**
Accumulated depreciation and impairment losses						
As of 1 January 2023	**4,567,070**	**1,203,115**	**9,197,881**	**398,145**	**1,298,568**	**16,664,779**
Reclassification between groups	-	(6)	(117)	123	-	**-**
Depreciation expenses	276,883	107,615	942,491	34,053	-	**1,361,042**
Disposals	-	(6)	(2,270)	(2,294)	-	**(4,570)**
Reversal of impairment losses	-	-	-	-	(721)	**(721)**
As of 30 June 2023	**4,843,953**	**1,310,718**	**10,137,985**	**430,027**	**1,297,847**	**18,020,530**
Net book value						
As of 1 January 2023	**17,202,973**	**2,817,257**	**16,871,664**	**383,597**	**11,687,732**	**48,963,223**
As of 30 June 2023	**17,303,648**	**2,980,030**	**17,077,518**	**388,926**	**11,980,943**	**49,731,065**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

	Transmission lines (OHL)	Buildings and structures	Plant and equipment	Vehicles and other	Construction in progress	Total
Cost/Revalued cost						
As of 1 January 2022	**21,698,570**	**3,992,468**	**24,653,553**	**717,346**	**11,969,414**	**63,031,351**
Additions	-	-	321	219	506,850	**507,390**
Internal transfers	13,346	12,508	285,253	16,086	(327,193)	**-**
Transfer to inventories	-	-	-	-	(9,309)	**(9,309)**
Disposals	-	(2,668)	(874)	(116)	(46)	**(3,704)**
As of 30 June 2022	**21,711,916**	**4,002,308**	**24,938,253**	**733,535**	**12,139,716**	**63,525,728**
Accumulated depreciation and impairment losses						
As of 1 January 2022	**2,688,162**	**474,850**	**3,878,992**	**301,434**	**174,635**	**7,518,073**
Depreciation expenses	670,797	123,644	984,346	39,457	-	**1,818,244**
Disposals	-	(1,120)	(871)	(117)	(8)	**(2,116)**
As of 30 June 2022	**3,358,959**	**597,374**	**4,862,467**	**340,774**	**174,627**	**9,334,201**
Net book value						
As of 1 January 2022	**19,010,408**	**3,517,618**	**20,774,561**	**415,912**	**11,794,779**	**55,513,278**
As of 30 June 2022	**18,352,957**	**3,404,934**	**20,075,786**	**392,761**	**11,965,089**	**54,191,527**

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.

The Group did not revaluate property, plant and equipment as of 30 June 2023 and 31 December 2022 because it concluded that the carrying value of property, plant and equipment at the reporting date was not significantly different from their fair value. 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, 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.

According to the results of this assessment, the Group determined impairment of property, plant and equipment and construction in progress recognized as a decrease in the revaluation reserve in other comprehensive income and as an impairment loss in profit or loss for 2022.

As of 30 June 2023, there were no additional indicators of significant impairment compared to 31 December 2022, and therefore, no assessment of the recoverable amount was made.

Depreciation expenses

During the six months ended 30 June 2023 the depreciation expenses of UAH 1,350,236 thousand (2022: UAH 1,806,916 thousand) were included in cost of sales, UAH 9,903 thousand (2022: UAH 10,117 thousand) in administrative expenses, UAH 959 thousand (2022: UAH 1,022 thousand) in other operating expenses. These expenses innclude UAH 56 thousand, which were capitalized in previous periods, but recognised as expenses during six months ended 30 June 2023 (2022: UAH 189 thousand were capitalised).

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Capitalized borrowing costs

During the six months ended 30 June 2023 additions to construction in progress included capitalized interests in the amount of UAH 167,806 thousand (2022: 100,184 thousand). 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 30 June 2023 included prepayments for property, plant and equipment with carrying amount UAH 2,117,242 thousand, excluding accumulated impairment losses in amount of UAH 159,042 thousand (31 December 2022: carrying amount – UAH 2,118,187 thousand, accumulated impairment losses – UAH 159,763 thousand).

Fully depreciated assets

As of 30 June 2023 the cost of fully depreciated property, plant and equipment that are still in use by the Group amounted to UAH 630,178 thousand (31 December 2022: UAH 498,373 thousand).

6. TRADE ACCOUNTS RECEIVABLE

	30 June 2023	31 December 2022
Electricity to settle imbalances	27,429,443	23,335,015
Electricity transmission services	20,189,332	14,134,803
Dispatch (operational and technological) control services	9,380,697	7,321,003
Electricity from cross-border flows	606,993	1,553,210
Balancing electricity	483,990	1,715,047
Services on granting access to the transmission capacity of interstate power networks	86,786	80,325
Reactive energy	7,069	8,801
Other goods and services	6,613	6,613
Total gross amount	**58,190,923**	**48,154,817**
Less: Expected credit losses on trade accounts receivable	(17,989,343)	(16,743,917)
Total carrying amount	**40,201,580**	**31,410,900**

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.

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 Ukrainian Hryvnias and in thousands, unless otherwise indicated

During the six months ended 30 June 2023, the Group made an accrual of expected credit losses on trade accounts receivables in the amount of UAH 1,245,426 thousand (2022: UAH 4,123,166 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 six months ended 30 June 2023 were as follows:

	Portfolio assessment	Individual assessment	Total
Balance at 1 January 2023	**4,430,571**	**12,313,346**	**16,743,917**
Charge/(reversal)	1,883,168	(637,742)	**1,245,426**
Balance at 30 June 2023	**6,313,739**	**11,675,604**	**17,989,343**

The movements in expected credit losses on trade accounts receivable for the six months ended 30 June 2022 were as follows:

	Portfolio assessment	Individual assessment	Total
Balance at 1 January 2022	**1,375,679**	**5,129,984**	**6,505,663**
Charge	1,532,421	2,590,745	**4,123,166**
Balance at 30 June 2022	**2,908,100**	**7,720,729**	**10,628,829**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Analysis of credit quality of trade accounts receivable as of 30 June 2023 is as follows:

30 June 2023	**Not past due**	**Past due from 1 to 90 days**	**Past due from 91 to 180 days**	**Past due from 181 to 270 days**	**Past due from 271 to 365 days**	**Past due for more than 365 days**	**Total**
Portfolio assessment							
Gross amount	3,848,853	9,622,426	7,573,893	2,744,661	762,356	4,595,192	**29,147,381**
Expected credit losses	(21,099)	(441,496)	(623,637)	(479,125)	(349,071)	(4,399,311)	**(6,313,739)**
Ratio of expected credit losses, %	*0.55%*	*4.59%*	*8.23%*	*17.46%*	*45.79%*	*95.74%*	
Individual assessment							
Gross amount	1,274,476	3,944,726	6,203,588	3,062,295	1,700,409	12,858,048	**29,043,542**
Expected credit losses	(27,115)	(777,908)	(1,141,695)	(779,311)	(642,869)	(8,306,706)	**(11,675,604)**
Ratio of expected credit losses, %	*2.13%*	*19.72%*	*18.40%*	*25.45%*	*37.81%*	*64.60%*	
					Total gross amount		**58,190,923**
					Total expected credit losses		**(17,989,343)**

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	**Not past due**	**Past due from 1 to 90 days**	**Past due from 91 to 180 days**	**Past due from 181 to 270 days**	**Past due from 271 to 365 days**	**Past due for more than 365 days**	**Total**
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)**
Ratio of expected credit losses, %	*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)**
Ratio of expected credit losses, %	*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)**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

The reconciliation of expected credit losses on trade accounts receivables as of 30 June 2023 with the balance at the beginning of the year was as follows:

	Portfolio assessment	Individual assessment	Total
Balance at 1 January 2023	**4,430,571**	**12,313,346**	**16,743,917**
Increase in gross value of trade accounts receivable	2,143,235	1,780,739	**3,923,974**
Change in assumptions, estimates and risk parameters	(315,087)	(2,363,461)	**(2,678,548)**
Transfer of separate financial assets between types of assessment	55,020	(55,020)	**-**
Balance at 30 June 2023	**6,313,739**	**11,675,604**	**17,989,343**

The reconciliation of expected credit losses on trade accounts receivables as of 30 June 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	564,312	1,142,567	**1,706,879**
Change in assumptions, estimates and risk parameters	91,072	1,260,384	**1,351,456**
Change in approach of taking into consideration of current and forecast information	1,064,831	-	**1,064,831**
Transfer of separate financial assets between types of assessment	(187,794)	187,794	**-**
Balance at 30 June 2022	**2,908,100**	**7,720,729**	**10,628,829**

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 13 and 15).

As of 30 June 2023, 9% of gross trade accounts receivables are covered by credit enhancements that are an integral part of contracts (31 December 2022: 13%). These credit enhancements resulted in a decrease in the expected credit losses on trade accounts receivable in the amount of UAH 891,052 thousand as of 30 June 2023 (31 December 2022: UAH 1,025,544 thousand).

7. PREPAYMENTS

	30 June 2023	31 December 2022
Electricity for compensation of technical losses	573,848	612,238
Goods, works and services	88,934	75,345
Electricity to settle imbalances	33,382	49,784
Total gross amount	**696,164**	**737,367**
Less: Allowance for impairment of prepayments	(566)	(567)
Total carrying amount	**695,598**	**736,800**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

8. TAXES RECEIVABLE, OTHER THAN INCOME TAX

As of 30 June 2023 taxes receivable, other than income tax consisted mainly of VAT receivable in amount of UAH 3,117,226 thousand (31 December 2022: UAH 2,884,276 thousand).

9. LOANS RECEIVABLE

	30 June 2023	31 December 2022
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 30 June 2023, interest-free loan to the state-owned enterprise "Ukrvuhillia" that was provided in 2022 in amount of UAH 2,499,974 thousand in accordance with the Resolution of the Cabinet of Ministers of Ukraine No.838 dated 22 July 2022 regarding the creation of a strategic coal reserve for the heating season of 2022-2023, was fully recovered according to the schedule.

The reconciliation of gross amount of loans receivable for the six months ended 30 June 2023 and 2022 was as follows:

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Balance at 1 January	**2,366,942**	**-**
Proceeds from loans repayment	(2,493,166)	-
Income from amortization of discount	126,224	-
Balance at 30 June	**-**	**-**

The movements in expected credit losses on loans receivable for the six months ended 30 June 2023 and 2022 was as follows:

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Balance at 1 January	**262,439**	**-**
Reversal	(262,439)	-
Balance at 30 June	**-**	**-**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

10. CASH AND CASH EQUIVALENTS

	30 June 2023	31 December 2022
Cash on current bank accounts	5,863,059	3,725,851
Cash on special purpose accounts	373,989	1,006,976
Cash on hand	2	1
Total	**6,237,050**	**4,732,828**

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 30 June 2023 and 31 December 2022 were as follows:

	30 June 2023	31 December 2022
Ukrainian state banks with CCC rating	5,179,140	3,543,423
Subsidiaries of international banks with AA rating	557,826	710,060
Ukrainian commercial banks with CCC rating	483,184	462,447
Other banks without ratings	16,900	16,898
Total	**6,237,050**	**4,732,828**

11. OTHER CURRENT ASSETS

	30 June 2023	31 December 2022
VAT amounts for which deadline or right to declare is not due	1,214,280	2,077,708
One-time commission on loans from banks	13,010	4,112
Other	241	84
Total	**1,227,531**	**2,081,904**

12. LOANS AND BORROWINGS

	30 June 2023	31 December 2022
Non-current		
Loans	38,396,936	28,148,260
Eurobonds 2028	7,963,422	6,370,082
Total non-current loans and borrowings	**46,360,358**	**34,518,342**
Current		
Loans	4,743,848	8,986,984
Eurobonds 2028	-	-
Total current loans and borrowings	**4,743,848**	**8,986,984**
Total loans and borrowings	**51,104,206**	**43,505,326**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

As of 30 June 2023 and 31 December 2022, the weighted average effective interest rates and balances on loans and borrowings were presented as follows:

			30 June 2023		31 December 2022	
	Creditor	**Currency**	**% annual**	**Balance**	**% annual**	**Balance**
European Bank for Reconstruction and Development, No.54138	EBRD	EUR	3.62%	6,060,091	-	-
European Bank for Reconstruction and Development, No.49235	EBRD	EUR	3.14%	5,959,273	1.12%	5,802,904
Ministry of Finance of Ukraine, No.8462-UA	IBRD	USD	4.86%	5,363,806	3.56%	5,470,339
Oshchadbank, No.1372/31/2	Oshchadbank	UAH	21.13%	4,583,333	19.10%	4,583,333
Ukreximbank, No.20-1KV0016	Ukreximbank	UAH	25.36%	3,666,000	24.53%	3,666,000
Ministry of Finance of Ukraine, No.24668-UA	EIB	EUR	2.95%	2,987,211	2.47%	3,075,100
Ministry of Finance of Ukraine, No.4868-UA	IBRD	USD	3.69%	2,751,785	3.46%	3,017,880
Ministry of Finance of Ukraine, No.FIN 31.143 SEPARIS No.20090117	EIB	EUR	3.97%	2,534,705	2.52%	2,546,097
Ministry of Finance of Ukraine, No.27406	KfW	EUR	4.27%	2,374,520	4.28%	2,133,703
European Investment Bank, № 87.554	EIB	EUR	3.92%	2,000,030	2.35%	1,947,550
Ministry of Finance of Ukraine, No.40147-UA	EBRD	EUR	3.41%	1,467,444	3.15%	1,707,146
Oshchadbank, №1427/31/2	Oshchadbank	USD	5.66%	1,182,994	5.42%	1,182,994
Ukrgasbank, No.20-K/20-VIP	Ukrgasbank	UAH	21.29%	865,885	17.50%	989,583
Ministry of Finance of Ukraine, No.2006 66 537	KfW	EUR	2.78%	573,733	2.78%	558,679
Ministry of Finance of Ukraine, No.TF017661	IBRD	USD	2.81%	494,801	2.81%	453,936
KfW, No.BMZ-No 2016.6520.7	KfW	EUR	2.52%	275,173	-	-
Total loans				**43,140,784**		**37,135,244**
Eurobonds 2028	-	USD	50.44%	7,963,422	50.44%	6,370,082
Total loans and borrowings				**51,104,206**		**43,505,326**

As of 30 June 2023 and 31 December 2022 accounts payable for interests accrued on loans amounted to UAH 851,027 and UAH 591,769 thousand respectively (Note 15).

Loans from international financial organizations

During the six months ended 30 June 2023, the Group repaid the principal amount and interests on loans from international financial institutions in full and in accordance with the schedule in the amount of UAH 1,078,332 thousand and UAH 581,582, respectively (2022: UAH 1,306,284 thousand and UAH 240,061 thousand).

In January 2023, loan agreement No.54138 signed in December 2022 between the Group and the EBRD in the amount of EUR 300,000 thousand entered into force, 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 capital structure of the Group.

During the six months ended 30 June 2023, the Group made a withdrawal of loan funds in the amount of EUR 151,500 thousand, of which EUR 3,000 thousand was a one-time fee of 1% of the total loan amount. These funds were directed to the repayment of the Group's trade payables to market participants for auxiliary services and services of curtailment of RES production. As of 30 June 2023, the unused balance of the loan amounted to EUR 148,500 thousand.

In June 2023, the long-term loan agreement No.BMZ-No. 2016.6520.7 entered into force, which was signed in December 2022 between the Group and Kreditanstalt für Wiederaufbau (KfW), in the amount of EUR 32,500 thousand for the implementation of the Project to improve the efficiency of electricity transmission. During the six months ended 30 June 2023, the Group made a withdrawal of EUR 6,879 thousand of loan funds for the purchase of substation equipment. As of 30 June 2023, the unused balance of the loan amounted to EUR 25,621 thousand.

Fair value of loans from international financial organizations

The loans received by the Group in 2023 from the EBRD and KfW are directed to the implementation of the Project for emergency restoration of the electricity transmission network and the Project on increasing the efficiency of electricity transmission, respectively. Such loans from international financial organizations are a specific financial instrument and have different characteristics, substance, goals and conditions from other types of borrowing capital. Accordingly, such loans form a specific market, the lenders of which are a limited number of international financial organizations, non-governmental organizations and supranational institutions, and access to which is available to a limited number of borrowers who fulfill the conditions for obtaining such loans and implement specific functions and projects. In this market, lenders such as the EBRD and KfW act as market makers and offer the same credit terms to all borrowers who have access to it and meet the criteria.

Thus, the loans received by the Group in 2023 from the EBRD and KfW were received on standard terms for such loan capital market and at interest rates that do not significantly differ from similar rates for this market under similar conditions. The management believes that at the date of recognition in 2023, the fair value of loans from the EBRD and KfW does not differ significantly from the transaction price, and belongs to Level 3 of the fair value hierarchy.

Loans from state-owned banks

During the six months ended 30 June 2023, the Group repaid the principal amount on loans from state-owned banks in the amount of UAH 123,698 thousand (2022: UAH 959,000 thousand). At the same time, interest payments on these loans were made in full and amounted to UAH 1,237,782 thousand (2022: 767,757 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 amount on these loans 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 banks on the terms of postponing the payment of the residual value of the principal debt on the loans for a later period.

In April 2023, 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 2024. Accordingly, the loan is repayable in equal installments on a monthly basis, starting from January 2024 until December 2025.

In April 2023, the Group and JSC "Oschadbank" signed and Additional agreement 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.

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.

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.

Covenants

Loan agreements and Eurobonds 2028 contain financial and non-financial covenants. As of 30 June 2023 and 31 December 2022, 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%.

In accordance with the terms of the loan and project agreements with the IBRD, the calculation of these financial covenants should be based on the latest annual financial statements. Accordingly, on interim dates and, in particular, as of 30 June 2023, the calculation of these financial covenants was not performed.

As of 31 December 2022, the Group failed to comply with Debt Service Ratio and 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 2023 and 2022. Therefore, as of 31 December 2022, despite of non-compliance with financial covenants, the Group classified these loans as non-current in the consolidated statement of financial position.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

European Bank for Reconstruction and Development (EBRD)

According to the terms of the loan agreement with EBRD No.40147-UA, the Group, inter alia, should comply with the following financial covenants at each interim and annual reporting date:

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 at each interim and annual reporting date:

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 of Debt Service Coverage Ratio and Debt to EBITDA Ratio, but starting from the 2024 financial year.

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

As of 30 June 2023 and 31 December 2022, the values of these financial covenants were as follows:

	30 June 2023	**31 December 2022**
Debt Service Coverage Ratio	-1.26	-0.80
Liquidity Ratio	0.90	0.76
Debt to EBITDA Ratio	17.85	-2001.41

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 30 June 2023 and 31 December 2022, 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 30 June 2023 and 31 December 2022. Therefore, as of 30 June 2023 and 31 December 2022, 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.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

In accordance with the terms of the loan and project agreements with EIB No.FIN 87.554 Separis No.2017-0155, the calculation of these financial covenants should be based on the latest annual financial statements. Accordingly, on interim dates and, in particular, as of 30 June 2023, the calculation of these financial covenants was not performed.

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.

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 30 June 2023 and 31 December 2022, the Group was not in default under loan agreements with the EBRD, and respectively classified loans from EIB as non-current in consolidated statement of financial position.

As of 30 June 2023 and 31 December 2022 and prior to the date these interim condensed 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.

13. TRADE ACCOUNTS PAYABLE

	30 June 2023	31 December 2022
Services to increase share of electricity production from alternative sources (PSO RES)	25,265,071	14,999,496
Balancing electricity	11,976,081	12,234,913
Electricity to settle imbalances	4,897,931	4,694,941
Auxiliary services (frequency and active power management)	4,831,038	9,523,368
Acquisition, construction, modernization, reconstruction of non-current assets	1,205,088	1,148,573
Curtailment of RES production	901,395	2,591,691
Electricity from cross-border flows	586,582	1,947,407
Other goods, works, services	161,825	158,945
Total	**49,825,011**	**47,299,334**

14. ADVANCES RECEIVED

	30 June 2023	31 December 2022
Electricity transmission services	239,125	344,469
Electricity to settle imbalances	160,964	50,891
Dispatch (operational and technological) control services	74,435	44,294
Services on granting access to the transmission capacity of interstate power networks	208	208
Other goods, works, services	4,186	3,535
Total	**478,918**	**443,397**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

15. OTHER CURRENT LIABILITIES

	30 June 2023	31 December 2022
Financial guarantees of electricity market participants	1,268,043	723,450
Accrued interest on loans	851,027	591,769
Other liabilities	32,467	36,282
Total	**2,151,537**	**1,351,501**

16. REVENUE

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Revenue on rendering of electricity transmission services and connection to electricity transmission system	19,356,195	19,169,913
Revenue on electricity sales on the balancing market	10,301,038	10,418,676
Revenue on the sales of dispatch (operational and technological) control services	7,131,702	7,018,166
Revenue on electricity sales from cross-border flows	1,280,148	293,046
Revenue on granting access to the transmission capacity of interstate power networks	26,017	1,103,529
Revenue on sales of reactive energy	21,141	21,490
Total	**38,116,241**	**38,024,820**

17. COST OF SALES

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Procurement of services to increase share of electricity production from alternative sources (PSO RES)	12,871,235	8,370,206
Procurement of electricity on the balancing market	8,267,804	8,270,007
Procurement of electricity to compensate technological losses	3,902,903	3,750,398
Procurement of auxiliary services (frequency and active power management)	3,720,810	6,988,610
Curtailment of RES production	1,819,372	2,941,833
Depreciation and amortization	1,386,973	1,833,743
Staff costs	1,272,843	1,319,574
Procurement of electricity from cross-border flows	1,240,117	175,860
Repairs and maintenance	362,515	131,228
Social charges	261,381	262,939
Security expenses	154,162	152,236
Other expense	246,562	175,438
Total	**35,506,677**	**34,372,072**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

18. ADMINISTRATIVE EXPENSES

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Staff costs	293,990	270,869
Court fees	100,235	25,472
Social charges	48,915	39,404
Depreciation and amortization	12,422	10,382
Legal, audit and other expert services	5,148	4,089
Information and consulting services	4,401	1,681
Other costs	17,228	30,691
Total	**482,339**	**382,588**

19. OTHER OPERATING EXPENSES

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Fines, penalties, forfeitures recognized	480,420	63,724
Contributions to labor union	119,985	14,231
Membership fees	53,866	669
Staff costs	41,146	27,620
Expenses for maintenance of NEURC	14,380	13,941
Insurance expenses	12,838	8,339
Social charges	12,666	9,671
Liquidation of non-current assets	11,099	-
Depreciation and amortization	960	1,025
Changes in regulatory assets and regulatory liabilities, net	-	536,188
Other costs	33,853	68,782
Total	**781,213**	**744,190**

20. FINANCE INCOME

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Income from interest on current bank accounts	221,915	236,654
Income from amortization of discount of loans receivable (Note 9)	126,224	-
Income from discount on long-term liabilities	136	751
Total	**348,275**	**237,405**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

21. FINANCE COSTS

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Interest expense on loans	2,075,873	1,096,425
Capitalized borrowing costs	(174,532)	(104,807)
Interest expense on bonds	1,593,340	900,332
Interest expense on defined benefit obligations	42,901	39,592
Interest expense on lease obligations	291	551
Other finance expenses	8,337	1,854
Total	**3,546,210**	**1,933,947**

22. INCOME TAX

Profits of Group's companies are subject to corporate income tax. For the six months ended 30 June 2023 and 2022 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 six months ended 30 June 2023 and 2022 were as follows:

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Current income tax expense	2,340	-
Deferred income tax benefit	(321,098)	(975,608)
Total income tax benefit	**(318,758)**	**(975,608)**

The reconciliation of profit before tax, multiplied by the statutory income tax rate and income tax expense for the six months ended 30 June 2023 and 2022 was as follows:

	For the six months ended 30 June 2023	For the six months ended 30 June 2022
Loss before tax	**(2,711,474)**	**(5,163,837)**
Income tax benefit at the statutory tax rate of 18%	(488,065)	(929,491)
Change in accumulated tax losses that are not recognized at the interim reporting date	82,283	(52,760)
Permanent differences arising from the reversal of impairment of financial assets and prepayments	47,377	-
Assets transferred as humanitarian aid or to non-profit organizations	33,882	2,682
Effect of expenses not deductible for tax purposes	5,765	3,961
Total income tax benefit	**(318,758)**	**(975,608)**

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

23. 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.

Key management remuneration

As of 30 June 2023 and 31 December 2022, the Group's key management consisted of 5 and 3 members of the Management Board, respectively. 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. During the six months ended 30 June 2023 payments to the Group's key management amounted to UAH 12,698 thousand (2022: UAH 13,487 thousand).

During the six months ended 30 June 2023 the Group also incurred UAH 14,816 thousand (2022: UAH 6,514 thousand) of compensation to the members of Supervisory Board. The Supervisory Board consisted of 6 members as of 30 June 2023 and 31 December 2022.

Transactions with state-controlled entities and institutions

Balances with state-controlled entities and institutions as of 30 June 2023 and 31 December 2022, were as follows:

	30 June 2023	**31 December 2022**
ASSETS		
Other non-current assets	6,803	6,803
Trade accounts receivable	20,074,523	16,554,805
Prepayments	577,649	616,373
Other accounts receivable	91,198	93,895
Loans receivable	-	2,104,504
Cash and cash equivalents	5,372,275	3,560,321
Total assets from related parties	**26,122,448**	**22,936,700**
LIABILITIES		
Trade accounts payable	35,871,440	26,351,872
Advances received	35,325	88,517
Loans received from the Ministry of Finance of Ukraine	18,548,005	18,962,880
Loans received from state-owned banks	10,298,212	10,421,910
Accrued interests on loans	664,309	565,871
Other current liabilities, except accrued interests on loans	337,943	12,787
Total liabilities to related parties	**65,755,234**	**56,403,837**

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Transactions with state-controlled entities and institutions for the six months ended 30 June 2023 and 2022 were as follows:

	For the six months ended 30 June 2023	**For the six months ended 30 June 2022**
Revenue	14,434,447	11,465,498
Purchases of services to increase the share of electricity production from alternative sources (PSO RES)	(10,840,973)	(6,390,379)
Purchases of electricity and related services in the electricity market	(11,687,133)	(11,187,792)
Purchases of other goods, works, and services	(246,090)	(185,445)
Impairment of financial assets, net	(1,771,687)	(2,305,670)
Fines, penalties, forfeits received	82,333	17,789
Fines, penalties, forfeitures recognized	(378,407)	(8,430)
Income from interest on current bank accounts	183,676	213,567
Interest expense on loans (including capitalized borrowing costs)	(1,807,793)	(1,084,027)
Income from amortization of discount of loans receivable	126,224	-

As of 30 June 2023, expected credit losses on trade accounts receivable, which were accrued on receivables from related parties, amount to UAH 11,442,458 thousand (31 December 2022: UAH 9,408,329 thousand).

As of 30 June 2023, there are no expected credit losses on loan provided to SE "Ukrvugilya" due to the full repayment of the interest-free loan during the six months ended 30 June 2023 (31 December 2022: UAH 262,439 thousand).

State guarantees on loans and borrowings

As of 30 June 2023 the amount of state guarantees received from the Government of Ukraine on loans and borrowings amounted to UAH 51,104,206 thousand (31 December 2022: UAH 43,505,326 thousand) (Note 12).

24. 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 interim condensed 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. 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 financial statements.

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

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.

Additionally, in 2020-2023, 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 30 June 2023 and 31 December 2022, the total amount of claims in such cases amounted to UAH 12,166,602 thousand and UAH 10,339,220 thousand, respectively. 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 interim condensed 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 30 June 2023, the Group had contractual capital commitments for the purchase of property, plant, and equipment in the amount of UAH 8,814,582 thousand (31 December 2022: UAH 9,018,715 thousand).

25. 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.

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

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- 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 revaluate property, plant and equipment as of 30 June 2023 and 31 December 2022 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. 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.

The following table summarizes information about property, plant and equipment recognized at fair value upon initial recognition using the fair value hierarchy:

30 June 2023	**Level 2**	**Level 3**	**Total**
Property, plant and equipment	388,926	37,361,196	**37,750,122**
Total	**388,926**	**37,361,196**	**37,750,122**

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**

There were no transfers between fair value measurements during the reporting period.

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 interim condensed 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.

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As of 30 June 2023 and 31 December 2022, the fair value of the Group's financial instruments were as follows:

	30 June 2023	31 December 2022
Financial assets		
Trade accounts receivable	40,201,580	31,410,900
Loans receivable	-	2,104,503
Cash and cash equivalents	6,237,050	4,732,828
Other accounts receivable	104,122	102,670
Other non-current assets*	7,994	7,994
Total financial assets	**46,550,746**	**38,358,895**
Financial liabilities		
Trade accounts payable	49,825,011	47,299,334
Loans	43,140,784	37,135,244
Eurobonds 2028	6,326,459	4,525,364
Other accounts payable	103,617	120,855
Other non-current liabilities	36,232	35,790
Other current liabilities**	2,121,134	1,318,074
Total financial liabilities	**101,553,237**	**90,434,661**

* Non-current accounts receivable are included in Other non-current assets in the consolidated statement of financial position as of 30 June 2023 and 31 December 2022.

** 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 30 June 2023 and 31 December 2022 Other current liabilities amounted to UAH 2,151,537 thousand and UAH 1,351,501 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.

	30 June 2023		31 December 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Eurobonds 2028	7,963,422	6,326,459	6,370,082	4,525,364

As described in Note 12, the loans received by the Group in 2023 from the EBRD and KfW were obtained on standard terms for such loan capital market and at interest rates that do not significantly differ from similar rates for this market under similar conditions. The management believes that at the date of recognition in 2023, the fair value of loans from the EBRD and KfW does not differ significantly from the transaction price, and belongs to Level 3 of the fair value hierarchy.

As of 30 June 2023 and 31 December 2022, 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 and other accounts receivable, loans receivable, cash and cash equivalents, 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;

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- 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 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. Also, some long-term loans have a floating interest rate tied to market indicators that reflect the market value of such instruments.

26. 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 six months ended 30 June 2023 and 31 December 2022, 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 30 June 2023 and 31 December 2022, the maximum exposure to credit risk is represented by the carrying amount of financial assets, net of impairment losses on such assets, was:

	30 June 2023	**31 December 2022**
Trade accounts receivable	40,201,580	31,410,900
Loans receivable	-	2,104,503
Cash and cash equivalents	6,237,050	4,732,828
Other accounts receivable	104,122	102,670
Non-current accounts receivable	7,994	7,994
Total	**46,550,746**	**38,358,895**

As a result of events described in Notes 6 and 9, for the six months ended 30 June 2023, the Group made an accrual of expected credit losses on financial assets in the amount of UAH 982,571 thousand (2022: UAH 4,123,133 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 in described in Note 6.

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 30 June 2023 and 31 December 2022. 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.

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30 June 2023	**Carrying amount**	**Contractual amounts**	**Up to 6 months**	**6-12 months**	**1-5 years**	**More than 5 years**
Loans*	43,991,811	56,493,257	2,767,937	5,604,881	31,320,196	16,800,243
Eurobonds 2028	7,963,422	45,027,194	-	-	13,745,614	31,281,580
Trade accounts payable**	49,859,364	49,861,107	49,784,448	40,563	36,096	-
Other accounts payable	103,617	103,617	103,617	-	-	-
Finance lease liabilities	3,943	4,486	1,329	1,031	2,126	-
Financial guarantees of electricity market participants	1,268,043	1,268,043	1,268,043	-	-	-
Total	**103,190,200**	**152,757,704**	**53,925,374**	**5,646,475**	**45,104,032**	**48,081,823**

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	45,009,834	5,887,456	5,678,672	23,636,332	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	-
Other accounts payable	120,855	120,855	120,855	-	-	-
Finance lease liabilities	7,793	9,024	1,751	1,751	5,522	-
Financial guarantees of electricity market participants	723,450	723,450	723,450	-	-	-
Total	**92,279,379**	**138,223,059**	**53,737,535**	**5,976,687**	**36,307,397**	**42,201,440**

* Including accrued interests on loans.

** Including long-term trade accounts payable presented in Other long-term liabilities in the consolidated statement of financial position.

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Deferral of debt payments for loans from state-owned banks

As described in Note 12, with the beginning of the military aggression of the Russian Federation against Ukraine in February 2022, the Group suspended the payment of the principal amount on these loans 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 that 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	
Loans from state-owned banks	**Initial contractual terms**	**Amended contractual terms**
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**

During the period after 30 June 2023 and until the date of issue of these interim condensed consolidated financial statements, there were no significant changes in contractual terms that would have an impact on the future cash outflow of the Group.

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 30 June 2023 and 31 December 2022, the Group had loan liabilities with a floating interest rate pegged to SOFR, EURIBOR, the NBU discount rate, UIRD.

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The following table includes information for the six months ended 30 June 2023 and for the year ended 31 December 2022, the sensitivity of the Group's pretax earnings to a probable change in interest rates with all other variables held constant:

30 June 2023	**Increase "+" / decrease "-" of percentage points**	**Increase / (decrease) in profit before tax**	**Increase / (decrease) in equity**
SOFR	+0,50%	(20,417)	(20,417)
SOFR	-0,50%	20,417	20,417
EURIBOR	+0,25%	(25,032)	(25,032)
EURIBOR	-0,25%	25,032	25,032
NBU discount rate	+1,00%	(45,467)	(45,467)
NBU discount rate	-1,00%	45,467	45,467
UIRD	+0,1%	(587)	(587)
UIRD	-0,1%	587	587

31 December 2022	**Increase "+" / decrease "-" of percentage points**	**Increase / (decrease) in profit before tax**	**Increase / (decrease) in equity**
SOFR	+0,50%	(36,319)	(36,319)
SOFR	-0,50%	36,319	36,319
EURIBOR	+0,25%	(23,236)	(23,236)
EURIBOR	-0,25%	23,236	23,236
NBU discount rate	+1,00%	(94,572)	(94,572)
NBU discount rate	-1,00%	94,572	94,572
UIRD	+0,1%	(275)	(275)
UIRD	-0,1%	275	275

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**	
	30 June 2023	**31 December 2022**	**30 June 2023**	**31 December 2022**
Assets				
Cash and cash equivalents	12,554	313,820	895,745	998,540
Trade accounts receivable	-	-	606,993	1,553,210
Liabilities				
Loans	(9,793,386)	(10,125,149)	(24,232,180)	(17,771,179)
Eurobonds 2028	(7,963,422)	(6,370,082)	-	-
Trade accounts payable	(668,865)	(485,781)	(1,062,375)	(2,492,812)
Other non-current liabilities	-	-	(34,353)	(30,852)
Accrued interests on loans	(4,706)	(5,024)	(182,011)	(20,874)
Net position	**(18,417,825)**	**(16,672,216)**	**(24,008,181)**	**(17,763,967)**

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.

		2023	
	Change in exchange rate, %	**USD – impact**	**EUR – impact**
Profit at UAH strengthening	10%	1,841,783	2,400,818
Loss at UAH weakening	10%	(1,841,783)	(2,400,818)

		2022	
	Change in exchange rate, %	**USD – impact**	**EUR – impact**
Profit at UAH strengthening	10%	1,667,222	1,776,397
Loss at UAH weakening	10%	(1,667,222)	(1,776,397)

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.

	30 June 2023	**31 December 2022**
Loans	43,140,784	37,135,244
Eurobonds 2028	7,963,422	6,370,082
Accrued interests on loans	851,027	591,769
Less: Cash and cash equivalents	(6,237,050)	(4,732,828)
Net liability	**45,718,183**	**39,364,267**
Equity	189,238	2,580,909
Equity and net liability	**45,907,421**	**41,945,176**
Gearing ratio	**1.00**	**0.94**

Reconciliation of liabilities arising from financing activities

The tables below detail 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.

In Ukrainian Hryvnias and in thousands, unless otherwise indicated

Reconciliation of liabilities arising from financing activities for the six months ended 30 June 2023 was the following:

2023	**Loans**	**Accrued interests on loans**	**Eurobonds 2028**	**Lease and other liabilities**	**Total**
As at 1 January	**37,135,244**	**591,769**	**6,370,082**	**7,792**	**44,104,887**
Cash inflow from loans and borrowings	5,921,616	-	-	-	**5,921,616**
Cash repayments	(1,202,030)	(1,819,364)	-	(1,724)	**(3,023,118)**
Direct payments of bank to counterparties	785,573	-	-	-	**785,573**
Extinguishment of liability	-	-	-	(2,416)	**(2,416)**
Interest expense	-	2,075,873	1,593,340	291	**3,669,504**
Foreign currency exchange differences, net	500,381	2,749	-	-	**503,130**
As at 30 June	**43,140,784**	**851,027**	**7,963,422**	**3,943**	**51,959,176**

Reconciliation of liabilities arising from financing activities for the six months ended 30 June 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	1,546,635	-	-	-	-	**1,546,635**
Cash repayments	(2,265,284)	(1,007,817)	(889,989)	(127,036)	(1,944)	**(4,292,070)**
Direct payments of bank to counterparties	591,081	-	-	-	-	**591,081**
Recognition of accounts payable	-	-	-	127,036	-	**127,036**
Interest expense	-	1,096,425	900,332	-	551	**1,997,308**
Foreign currency exchange differences, net	413,536	(61)	1,637,298	-	(28)	**2,050,745**
Other changes	-	-	-	-	172	**172**
As at 30 June	**26,133,213**	**339,288**	**24,207,621**	**-**	**15,983**	**50,696,105**

27. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the reporting date that would have an impact on the interim condensed consolidated financial statements.