Naftogazvydobuvannya PrJSC

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2019

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To the Shareholders and Management of Naftogazvydobuvannya PrJSC

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Naftogazvydobuvannya PrJSC (the "Company") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply, in all material respects, with financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine.

Our auditor's report is consistent with our additional report to the Supervisory Board.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence
We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Audit of Financial Statements and Auditing that are relevant to our audit of the financial statements in Ukraine. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company are in accordance with the applicable law and regulations in Ukraine and that we have not provided non-audit services that are prohibited under Article 6 part 4 of the Law on Audit of Financial Statements and Auditing.

Our audit approach

Overview

Materiality	Overall materiality: UAH 317 million
Key audit matters	Valuation of accounts receivable

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	UAH 317 million
How we determined it	We determined the above materiality as 10% of profit before tax from continuing operations of the Company for the current year.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We chose 10% which is consistent with the range of quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of accounts receivable The Company has UAH 17,820 million of trade accounts receivable outstanding and being contractually overdue as at 31 December 2019. Revenue for these accounts receivable is recognised at nominal amount based on a written contract with immediate impairment recognised in the Net impairment losses on trade accounts receivable line in the Statement of Comprehensive Income. We focused on this area because of its significance to the financial statements and as it requires a number of management judgements and estimates for the period of settlement and expected credit loss ratios used. Note 10 Trade and other receivables provides detailed information on impairment assessment.	We have performed among others the following procedures: - assessed the relevant contracts with customers in the light of IFRS 15 requirements and evaluated appropriateness of accounting and presentation adopted by management; - performed a look-back analysis and evaluated the prior impairment estimates of management; - verified methodology of impairment provision calculation for compliance with IFRS 9 requirements; - verified mathematical accuracy of impairment provision calculations; - assessed key inputs used by management in the impairment provision calculation with reference to available statistics and the actual subsequent cash collections; - verified completeness and accuracy of relevant disclosures made in the financial statements.

Reporting on other information including the management report[1]

Management is responsible for the other information. The other information comprises the management report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the management report.

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

Based on the work undertaken in the course of our audit, in our opinion, the information given in the management report for the financial year for which the financial statements are prepared is consistent with the financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

Responsibilities of management and for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the Law on Accounting and Financial Reporting in Ukraine, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company as a public entity on 19 November 2018. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 2 years.

The engagement leader on the audit resulting in this independent auditor's report is Maxim Vykhovanets.

LLC AF "PricewaterhouseCoopers (Audit)"
Registration number in the Register of Auditors and Auditing Entities 0152

Maxim Vykhovanets
Audit certificate No. 101814

LLC AF "PricewaterhouseCoopers (Audit)"

Kyiv, Ukraine

29 April 2020

In millions of Ukrainian Hryvnia	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	7	7,561	6,236
Intangible assets	8	339	365
Trade and other receivables	10	11,327	6,880
Deferred income tax asset	23	818	274
Total non-current assets		**20,045**	**13,755**
Current assets			
Inventories	9	184	139
Trade and other receivables	10	7,107	11,674
Cash and cash equivalents	11	76	11
Total current assets		**7,367**	**11,824**
TOTAL ASSETS		**27,412**	**25,579**
EQUITY			
Share capital	12	17	17
Other reserves	13	1,069	1,263
Accumulated profit		25,426	23,292
TOTAL EQUITY		**26,512**	**24,572**
LIABILITIES			
Non-current liabilities			
Provisions for other liabilities and charges		15	21
Other financial liabilities		-	3
Total non-current liabilities		**15**	**24**
Current liabilities			
Bank borrowings	14	29	-
Trade and other payables	15	249	281
Dividends payable		250	-
Current income tax payable		239	424
Other taxes payable	16	115	278
Other financial liabilities		3	-
Total current liabilities		**885**	**983**
TOTAL LIABILITIES		**900**	**1,007**
TOTAL LIABILITIES AND EQUITY		**27,412**	**25,579**

Signed by entire Management Board,

29 April 2020

Grebenyuk N.A., Director

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Nesterova I.Y., Chief accountant

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

In millions of Ukrainian Hryvnia	**Note**	**2019**	**2018**
Revenue	17	8,596	13,445
Cost of sales	18	(2,993)	(3,506)
Gross profit		**5,603**	**9,939**
Other operating income		48	16
General and administrative expenses	19	(108)	(67)
Selling expenses	21	(156)	-
Other operating expenses	20	(319)	(352)
Net impairment losses on trade accounts receivable	10	(1,794)	(964)
Net foreign exchange loss on operating activities		(30)	-
Operating profit		**3,244**	**8,572**
Finance income	22	43	1
Profit before income tax		**3,287**	**8,573**
Income tax expense	23	(599)	(1,584)
Profit for the year		**2,688**	**6,989**
Other comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**2,688**	**6,989**

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

	Attributable to equity holders of the Company			
In millions of Ukrainian Hryvnia	**Share capital**	**Other reserves**	**Retained earnings**	**Total**
Balance at 1 January 2018	**17**	**1,522**	**16,044**	**17,583**
Profit for 2018	-	-	6,989	**6,989**
Other comprehensive income for 2018	-	-	-	**-**
Total comprehensive income for 2018	**-**	**-**	**6,989**	**6,989**
Property, plant and equipment:				
- Realised revaluation reserve	-	(316)	316	**-**
- Deferred tax related to realised revaluation reserve	-	57	(57)	**-**
Balance at 31 December 2018	**17**	**1,263**	**23,292**	**24,572**
Profit for 2019	-	-	2,688	**2,688**
Other comprehensive income for 2019	-	-	-	**-**
Total comprehensive income for 2019	**-**	**-**	**2,688**	**2,688**
Dividends' distribution*			(748)	**(748)**
Property, plant and equipment:				
- Realised revaluation reserve	-	(236)	236	**-**
- Deferred tax related to realised revaluation reserve	-	42	(42)	**-**
Balance at 31 December 2019	**17**	**1,069**	**25,426**	**26,512**

* In 2019 the Company partially distributed profit of 2013 year as dividends in the amount of UAH 748 million, while UAH 250 million remained unpaid as at 31 December 2019.

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

In millions of Ukrainian Hryvnia	**Note**	**2019**	**2018**
Cash flows from operating activities			
Profit before income tax		3,287	8,573
Adjustments for:			
Depreciation and impairment of property, plant and equipment and amortisation of intangibles	7, 8	1,226	1,122
Finance income	22	(43)	(1)
Change in provision for trade and other receivables	10	1,794	964
Losses less gains on disposals of property, plant and equipment and intangible assets	7	50	9
Other movements		36	65
Impairment provision on inventory	20	36	-
Operating cash flows before working capital changes		**6,386**	**10,732**
Decrease in trade and other receivables		(1,654)	(7,149)
Decrease in inventories		(80)	(24)
Decrease in prepayments made		(21)	(21)
Decrease/increase in trade and other payables		(42)	29
Decrease/increase in taxes payable		(163)	15
Cash generated from operations		**4,426**	**3,582**
Income taxes paid		(1,353)	(1,889)
Interest received		1	1
Net cash generated from operating activities		**3,074**	**1,694**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(2,540)	(1,688)
Placement of restricted cash		(70)	-
Net cash used in investing activities		**(2,610)**	**(1,688)**
Payment of dividends		(498)	-
Proceeds from borrowings		29	-
Net cash used in financing activities		**(469)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(5)**	**6**
Cash and cash equivalents at the beginning of the year	11	**11**	**5**
Cash and cash equivalents at the end of the year	**11**	**6**	**11**

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

1 The Organisation and its Operations

Naftogazvydobuvannya PrJSC ("the Company") was incorporated in Ukraine on 25 April 2003 as a Private Joint Stock Company under the laws of Ukraine.

The principal activities of the Company are exploration, development and production of gas and gas condensate in Ukraine.

As at 31 December 2019, the Company has two licensed gas and gas condensate fields in Poltava and one licensed gas and gas condensate field in Kharkov regions of Ukraine.

The Company is beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM" or ultimate parent). Mr. Akhmetov has a number of other business interests outside of the Company. Related party transactions are detailed in Note 6.

In December 2013 DTEK Group acquired an effective 50% plus one share in the shares of the Naftogazvydobuvannya PrJSC.

As of 31 December 2019 Group owns 72,9999% of Naftogazvydobuvannya PrJSC.

The Company is registered at Magnitogorska Street 1, Kyiv, 02660, Ukraine.

2 Operating Environment of the Company

In 2019, the Ukrainian economy was showing signs of stabilisation after years of political and economic tensions. The year over year inflation rate in Ukraine has decreased to 4.1% during 2019 (as compared to 9.8% in 2018 and 13.7% in 2017) while GDP continued to grow at estimated 3.5% (after 3.3% growth in 2018).

After several years of devaluation, Ukrainian currency started strengthening and in 2019 appreciated by 14% (as at 31 December 2019, the official NBU exchange rate of Hryvnia against USD was UAH 23.69 per USD 1, compared to UAH 27.69 per USD 1 as at 31 December 2018). Among the key mitigating factors for the hryvnia appreciation were strong revenues of agricultural exporters, tight UAH liquidity, growth in remittances from labour migrants and high demand for government debt instruments.

Starting from April 2019, the National Bank of Ukraine ("NBU") launched the cycle of easing of the monetary policy and a gradual decrease of its discount rate for the first time in the last two years from 18% in April 2019 to 11% in January 2020, which is justified by a sustainable trend of inflation deceleration.

During 2018-2019 there has been easing of currency control restrictions that were introduced in 2014–2015. And starting from July 2019 NBU allowed Ukrainian companies to pay dividends to non-residents without any limits regardless of the period to which they relate.

In December 2018, the IMF Board of Directors approved the stand-by assistance (SBA) 14-month programme for Ukraine, totalling USD 3.9 billion. In December 2018, Ukraine has already received USD 2 billion from the IMF and the EU, as well as USD 750 million credit guarantees from the World Bank. IMF programme's approval significantly increased the chance of Ukraine to meet foreign currency obligations in 2019, and thus supported the financial and macroeconomic stability of the country. Continuation of cooperation with the IMF depends on Ukraine's success in implementing policies and reforms that underpin a new IMF-supported programme.

In 2020, Ukraine faces major public debt repayments, which will require mobilising substantial domestic and external financing in an increasingly challenging financing environment for emerging markets.

The events which led to annexation of Crimea by the Russian Federation in February 2014 and the conflict in the east of Ukraine which started in spring 2014 has not been resolved to date. The relationships between Ukraine and the Russian Federation have remained strained. There were no direct material consequences from these events for the Company.

Ukraine faced presidential elections in March-April 2019, and then early parliamentary elections in July 2019. Amid double elections, the degree of uncertainty including in respect of the future direction of the reforms in 2020 remains very high. Despite certain improvements in 2019, the final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Company's business.

Gas market developments.

During 2019 there has been a substantial decline in gas prices in Ukraine which is consistent with the developments of a European gas market. As such the Company's average selling price in 2019 comparing to 2018 decreased from UAH 8.1 thousand to UAH 5.2 thousand per 1 thousand of m3 of gas, which is 35.9% decrease. This affected the Company's revenues in 2019 respectively and continues to affect in the first months of 2020. This has been considered as an impairment trigger event and considered in the impairment testing of property, plant and equipment (Note 7).

2 Operating Environment of the Company (continued)

If any further substantial decrease in gas price, this may impact the strategic plan of the Company, particularly through deferring of investment program' extent and timeline.

Impact of Covid-19 pandemic.

Late in 2019 news first emerged from China about the COVID-19 (coronavirus). In the first few months of 2020 the virus spread globally causing disruptions to business and economic activity. In March 2020 World Health Organization recognised the coronavirus as a pandemic. The spread of the virus has had a significant negative impact on the economic activity in the world, including a drop on capital markets and a sharp decrease of commodity prices. Resulting from this Ukrainian sovereign credit default swaps increased in March 2020 more than twice as compared to 31 December 2019 and more than three times from its five year historical minimum reached in February 2020. Similarly, as of the day of this report the Ukrainian hryvna depreciated to UAH 27.05 per 1 US dollar.

In March 2020, the Government of Ukraine took a number of restrictive measures to prevent the spread of the virus in the country. In particular, restrictions were imposed on public transportation (including intercity), air traffic between countries, work of public institutions and events. The government also encouraged businesses to switch to a work from home regime for its employees. Further, on 17 March 2020, the Ukrainian Parliament passed new laws aimed to mitigating the effects of novel coronavirus. The regulations eased some tax requirements, in order to provide financial relief for businesses, employees and pensioners hurt by the economic slowdown. Among other changes, the Law suggests exemption from penalties for tax legislation violations during the period from March 1 to May 31. The law also bans tax audits for businesses over the same period. In response to the COVID-19 pandemic, on 25 March 2020 the Government of Ukraine instituted an emergency regime situation across the entire territory of Ukraine and extended quarantine measures until May 11, 2020.

The Company considers this outbreak to be a non-adjusting post balance sheet event. The restrictive measures applied by the Ukrainian Government to combat the coronavirus are likely to negatively affect the overall Ukrainian economy and the State budget. As such it may have indirect negative effect to the Company through further delays in settlement of trade accounts receivable due from the related party and potential need to increase a provision, decrease of demand for gas, local currency devaluation, etc. The situation continues to evolve and its consequences are currently uncertain.

At the date of this report, the Company continues to operate. Production facilities are operating at their planned capacity and are being supervised by a required minimum of staff who take necessary safety measures. Administrative activities are being managed remotely to ensure that critical activities for the Company are maintained, e.g. reporting and treasury functions.

Management believes that impact of COVID-19 pandemic does not have a material effect on the oil and gas industry and the Company as:

- there is no urgent need to do any substantial capex programme by the Company;
- the gas price in Ukraine is indirectly linked to the EU prices where the gas prices forward curves as of the date of these financial statements indicate a flat dynamics in the next 6 months and increase by 50% in the 4th quarter of 2020;
- the gas produced is ultimately supplied to the Group of industrial customers, who at the date of these financial statements are still operating at full capacity and supply its goods internationally;
- the Company's operational sites do not require many production workers.

As the situation is fluid and rapidly evolving, management do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. Management will continue to monitor the potential impact of governmental restrictive measures and will take all steps possible to mitigate any negative effects.

Though the gas market developments have negative effect to the Company's profitability and COVID-19 may bring some uncertainties to the future performance projections, management considers that there is no material uncertainty in ability of the Company to continue as going concern because of strong current liquidity position, significant volumes of proved developed producing reserves available and ability to sell gas produced to customers.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using the historical cost convention, as modified by the revaluation of property, plant and equipment (revaluation model under IAS 16: *Property, plant and equipment*), and certain financial instruments measured in accordance with the requirements of IFRS 9: *Financial Instruments*. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3 Summary of Significant Accounting Policies (Continued)

New IFRS standards. The Company has applied IFRS 16 standard for the first time for their annual reporting period commencing 1 January 2019. The Company had to change its accounting policies as a result of adopting this new standard. There has been no material effect from adoption of his standard.

Going concern assumption: Despite the continuing political and economic uncertainties in Ukraine and Covid-19 pandemic outbreak, the Management considers that the application of the going concern assumption for the preparation of these financial statements is appropriate and these IFRS financial statements have been prepared on a going concern basis.

As of 31 December 2019 the Company had net assets of UAH 26,512 million (31 December 2018: net assets of UAH 24,572 million) and earned a net profit of UAH 2,688 million for the year ended 31 December 2019 (31 December 2018: net profit of UAH 6,989 million). For the year ended 31 December 2019, the Company received positive cash flows generated from its operations in the amount of UAH 4,426 million (for the year ended 31 December 2018: UAH 3,582 million).

Use of estimates. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas, involving a high degree of judgement, complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

Functional and presentation currency. Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Ukrainian Hryvnia ("UAH"), is the Company's functional and presentation currency.

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency, using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses, resulting from settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities at year end, are recognised in the income statement. Translation at year end does not apply to non-monetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation differences related to changes in amortised cost of financial assets and liabilities are recognised in profit or loss.

Foreign exchange differences classification. Foreign exchange transaction differences on accounts receivable, accounts payable, cash and cash equivalents and deposits placed are classified in income statement as "Net operating foreign exchange gains and losses". Transaction differences recognised on other monetary assets and liabilities are classified in income statement as "Foreign exchange losses less gains on financing and investing activities".

As at 31 December 2019, the exchange rates used for translating foreign currency balances were USD 1 = UAH 23.69 (31 December 2018: USD 1 = UAH 27.69); EUR 1 = UAH 26.42 (31 December 2018: EUR 1 = UAH 31.71); RUB 10 = UAH 3.82 (31 December 2018: RUB 10 = UAH 3.98).

Property, plant and equipment. The Company uses the revaluation model to measure all classes of property, plant and equipment. Fair value is based on valuations by external independent appraisers.

The frequency of revaluation depend upon the movements in the fair values of the assets being revalued. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Any increase in the carrying amounts resulting from revaluation are credited to other reserves in equity through other comprehensive income. Decreases that offset previously recognised increases of the same asset are charged against other reserves in equity through other comprehensive income; all other decreases are charged to the income statement. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset.

Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

3 Summary of Significant Accounting Policies (Continued)

Oil and gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised until the determination of reserves is evaluated. If it

is determined that commercial discovery has not been achieved, these costs are charged to expense. Capitalisation is made within property, plant and equipment.

Development and production assets are grouped into cash generating units ("CGU") by field for impairment testing. Additionally, when no future economic benefits are expected from the use or disposal of individual items of oil and gas assets (e.g. wells), such items are derecognised and impaired.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognised in profit or loss as incurred. Such capitalised costs generally represent costs incurred in developing proved reserves and bringing in or enhancing production from such reserves, and are accumulated on a field basis. The carrying amount of any replaced or sold component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Construction in progress is stated at cost less impairment losses.

Depreciation. Oil and gas properties are depreciated using the units-of-production method based on the estimated quantities of proved developed commercially producible hydrocarbons which the existing geological, geophysical and engineering data show to be recoverable in future years from known reserves.

Depreciation of assets not directly associated with production of gas and gas condensate is charged on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

	Useful lives in years
Plant and machinery	from 2 to 30
Furniture, fittings and equipment	from 2 to 15

Construction in progress represents the cost of property, plant and equipment, including advances to suppliers, which has not yet been completed. No depreciation is charged on such assets until they are available for use.

Leases. The Company leases land from local authorities for its oil and gas extraction facilities. Rental contracts are typically made for the period of extraction license is valid but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Lease payments are variable and calculated as a percentage from "normative monetary appraisal of land". Normative monetary appraisal of land does not constitute fair value of land as at reporting date, as Ukraine imposed land-sales moratorium. Furthermore, changes in normative monetary appraisal of land would not represent a change in a market index or rate. In general, normative monetary appraisal of land is based on specific requirements in the legislation. Therefore management concluded that variable lease payment based on normative monetary appraisal of land shall not be included in the calculation of lease liability under IFRS 16 and respectively no lease asset and liability should be recorded for lease of land contracts.

Other lease contracts refer to lease of the Company's office premises mainly from a related party and are concluded for 12 months or less. Payments associated with these short-term leases are recognised on a straight-line basis as an expense in profit or loss.

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include licences for operating of the gas fields as well as capitalised computer software and capitalised services for seysmic development. Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Intangibles assets are amortised on a straight-line basis over estimated useful life of 1 - 20 years.

Exploration and evaluation expenditure. Pre-license costs are recognised in profit or loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses, initially are capitalised as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. Items used for drilling purposes (e.g. drilling rigs) are capitalised as tangible exploration and evaluation assets. Expenditures providing valuable technical and geological information that can be further used for making a decision on technical feasibility and commercial viability of extracting a resource (e.g. exploratory wells drilling, specific technical and geological assessments) are capitalised as intangible exploration and evaluation assets. Borrowing costs incurred on exploration and evaluation assets are capitalised. Administrative and other overhead costs associated with exploration and evaluation activity are not

3 Summary of Significant Accounting Policies (Continued)

capitalised. Costs that meet capitalisation criteria are accumulated in cost centres by field (exploration area) pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven reserves. Upon determination of technical feasibility and commercial viability, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property and equipment referred to as oil and gas assets.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped by field (exploration area).

Intangible evaluation and exploration assets are not depreciated until determination of technical feasibility and commercial viability and reclassification to an oil and gas assets. Tangible exploration and evaluation assets are depreciated according to the nature of assets acquired.

Impairment of non-financial assets. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Company classifies financial assets in the following measurement categories: fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) and at amortized cost (AC). The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Initial recognition of financial instruments. The Company's principal financial instruments comprise loans and borrowings, cash and cash equivalents, short-term deposits and financial guarantees. The Company has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

Where financial instruments are acquired from parties under the common control of the ultimate shareholder, and the difference between the amount paid to acquire the instrument and its fair value in substance represents a capital contribution or distribution, such difference is recorded as a debit or credit in other reserves in equity.

Reclassification of financial assets. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Impairment financial asset (credit loss allowance for ECL). The Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts, for contract assets. The Company measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised

3 Summary of Significant Accounting Policies (Continued)

as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis that is, up until contractual maturity but considering expected prepayments ("Lifetime ECL"). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

Modification of financial assets. The Company sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Company assesses whether the modification of contractual cash flows is substantial. If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Company derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Company also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Company compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Company recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

Measurement categories of financial liabilities. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Derecognition of financial assets. The Company derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Company has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Company has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities. A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. While assessing if modification is substantial, management considers both quantitative and qualitative factors. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, are recognised in profit or loss. If the exchange or modification of financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Payment of dividends are recognised as part of financial activity in the statement of cash flow.

Gains and losses on loans provided and received. Gains and losses on initial recognition and early repayment as well as unwinding of discount and foreign exchange differences on loans provided and received are recognised in income statements in the period when incurred.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the first in first out basis for gas and gas condensate, raw materials and spare parts, specific identification principle for goods for resale. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company.

Other prepayments are charged to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as share premium.

Value added tax ("VAT"). In Ukraine VAT is levied at two rates: 20% on sales and imports of goods within the country, works and services and 0% on the export of goods and provision of works or services to be used outside Ukraine. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. Rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments mentioned above. Subsequently, instruments with a fixed maturity are re-measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Prepayments received. Prepayments received are carried at amounts originally received. Amounts of prepayments received are expected to be realised through the revenue received from usual activity of the Company.

Provisions for liabilities and charges. Provisions for liabilities and charges are provisions for environmental restoration, restructuring costs and legal claims which are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Decommissioning provision. The Company's assessment of the decommissioning provision is based on the estimated future costs expected to be incurred in respect of the decommissioning and site restoration, adjusted for the effect of the projected inflation for the upcoming periods and discounted using interest rates applicable to the provision. Interest expense related to the provision is included in finance costs in profit or loss.

Changes in the decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are added to,

3 Summary of Significant Accounting Policies (Continued)

or deducted from, the cost of the related oil and gas asset in the current period. The amount deducted from the cost of the asset is limited to the carrying amount of the asset. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Revenue recognition. Revenue from the sale of gas and gas condensate is recognised at the date of transfer of control over goods at the virtual entry point of the gas transmission system at transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over gas and gas condensate to a customer.

The gas selling price is determined based on the application of prices for gas sales as approved (capped) by the Ukrainian National Commission on Energy Regulation. Prices for gas condensate are established at the market based on actual correspondence of supply and demand at a particular period of time. Revenues are shown net of value added tax and discounts.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date.

Financing components. The Company has contracts where the period between the transfer of gas and gas condensate to the customer and payment by the customer exceeds one year. In such cases, the Company adjusts transaction price for the time value of money.

***Recognition of expenses*.** Expenses are recorded on an accrual basis. The cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments, unwinding of interest of decommissioning provision, and foreign exchange gains and losses.

Borrowing costs that relate to assets that take a substantial period of time to construct are capitalised as part of the cost of the asset. All other interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Employee benefits: Defined Contributions Plan. The Company makes statutory unified social contributions to the Pension Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary, and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in profit or loss.

4 Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Revaluation of property, plant and equipment.

On an annual basis management of the Company carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plan and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

4 Critical Accounting Estimates and Judgements (Continued)

As most of the Company's property, plant and equipment is of a specialised nature, its fair value is determined using depreciated replacement cost (Level 3). For assets which were fair valued as of previous balance sheet date, the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices or changes in foreign exchange rates (Level 3). As at 31 December 2017, the Company's management decided to carry out a revaluation of property, plant and equipment based on changes in economic conditions of the business environment and the cumulative impact of inflation. Fair values of property, plant and equipment and remaining useful lives were determined by an independent appraiser.

The carrying value and depreciation of property, plant and equipment are affected by the estimates of depreciated replacement cost and remaining useful life. Changes in these assumptions could have a material impact to the fair value of property, plant and equipment.

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

- choice of information sources for construction costs analysis (actual costs recently incurred by the Company, specialised reference materials and handbooks, estimates for cost of construction of various equipment etc.);
- determination of comparatives for replacement cost of certain fixed assets, 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; and
- determination of applicable cumulative price indices or changes in foreign exchange rates which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts.

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).

As at 31 December 2019 management considers that carrying value of property, plant and equipment is not materially different from its fair value and therefore no revaluation of property, plant and equipment was considered necessary.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued.

Deferred tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimation based on historic taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Interest rates applied to other financial liabilities and investments. Judgement has been used to estimate the fair value of long-term liabilities in the absence of similar financial instruments. A change in the effective interest rates used in assessing the fair value of loans and borrowings may have a material impact on the financial statements.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities.

Estimation of gas reserves. Engineering estimates of oil and gas reserves are inherently uncertain, require professional judgment and are subject to future revisions. Accounting measures such as depreciation, depletion and amortization expenses, impairment assessments and asset retirement obligations that are based on the estimates of proved developed producing reserves are subject to change based on future changes to estimates of gas reserves. Proved developed producing reserves are estimated by reference to available well information, including production and pressure trends for producing wells. Furthermore, estimates of proved developed producing reserves only include volumes for which access to market is assured with reasonable certainty.

All proved developed producing reserves estimates are subject to revision, either downward or upward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Proved developed producing reserves are defined as the estimated quantities of gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As those fields are further developed, new information may lead to further revisions in reserve estimates. Gas reserves have a direct impact on certain amounts reported in the financial statements, most notably depreciation, depletion and amortization. Depreciation rates on oil and gas assets using the units-of-production method for each field are based on proved developed producing reserves and development costs.

4 Critical Accounting Estimates and Judgements (Continued)

Assuming all variables are held constant, an increase in proved developed producing reserves for each field decreases depreciation, depletion and amortization expenses. Conversely, a decrease in the estimated proved developed producing reserves increases depreciation, depletion and amortization expenses. Moreover, estimated proved reserves are used to calculate future cash flows from oil and gas properties, which serve as an indicator in determining whether or not property impairment is present.

Gas reserves were assessed as at 31 December 2019 by an independent oil and gas appraiser.

Accounts receivable impairment valuation. The Company has a significant overdue balance of trade receivable from a related party under common control as of 31 December 2019. Revenue for these accounts receivable is recognised at nominal amount based on a written contract with immediate impairment recognised in the Net impairment losses on financial assets line in the Statement of Comprehensive Income. Impairment valuation of this balance requires significant management judgements and estimates, including with respect to the period of settlement and expected credit loss ratios used (refer for those disclosed in Note 10). Would the period of settlement of all receivables be 1 month longer than currently expected, the impairment provision as of 31 December 2019 would be UAH 145 million higher and respectively profit before tax for 2019 would be UAH 145 million lower.

Related party transactions. In the normal course of business the Company enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. Financial instruments are recorded at origination at fair value using the effective interest method. The Company's accounting policy is to record gains and losses on related party transactions in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

New and amended standards adopted by the company. The company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- ***IFRIC 23 Uncertainty over Income Tax Treatments*** (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);
- ***Annual Improvements to IFRS Standards 2015-2017 Cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*** (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);g
- ***Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*** (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019);
- ***IFRS 16 – Leases*** (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)
- ***Prepayment Features with Negative Compensation – Amendments to IFRS 9***;

Other new or revised standards or interpretations that will become effective for annual periods starting on or after 1 January 2020 will likely have no material impact to the Company.

6 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. 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 operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The balances and transactions with related parties at 31 December are detailed below.

		2019				**2018**
In millions of Ukrainian Hryvnia	**Parent – DTEK Oil&Gas B.V.**	**DTEK BV Group subsidiaries**	**Entities under common control of SCM**	**Parent – DTEK Oil&Gas B.V.**	**DTEK BV Group subsidiaries**	**Entities under common control of SCM**
Trade and other receivables, net of impairment (Note 10)	-	18,312	-	-	18,450	-
Cash and cash equivalents	-	-	76	-	-	11
Trade and other payables	-	(15)	-	-	(80)	-
Dividends payable	(32)	(187)	-	-	-	-

The income and expense items with related parties for the years ended 31 December were as follows:

		2019				**2018**
In millions of Ukrainian Hryvnia	**Parent – DTEK Oil&Gas B.V.**	**DTEK BV Group subsidiaries**	**Entities under common control of SCM**	**Parent – DTEK Oil&Gas B.V.**	**DTEK BV Group subsidiaries**	**Entities under common control of SCM**
Sales of gas (Note 17)	-	7,766	-	-	12,591	-
Sales of gas condensate	-	805	-	-	414	-
Interest income on bank deposits (Note 22)	-	-	1		-	1
Purchase of services	-	(50)	-	-	(21)	(1)

Revenue, trade and other receivable

The trade receivable balances as at 31 December 2019 and 31 December 2018 are due from the related parties under common control of DTEK B.V. and are non-interest bearing. The balances outstanding from related parties are unsecured and settlements are made either in cash, or in the form of debt set-off. As at 31 December 2019 the Company created provision for lifetime ECL for trade and other receivables under expected loss rate of 20.83% (Note 10).

Purchases, trade and other payables

Purchases and outstanding trade and other payables as at 31 December 2019 and 31 December 2018 comprised mainly balances due to related parties for services. Balances payable are non-interest bearing and are repayable in the normal course of business.

Key management personnel compensation. Key management personnel consist of six top executives (2018: six top executives). In 2019 total compensation to key management personnel included in administrative expenses amounted to UAH 12 million (2018: UAH 11 million). Compensation to the key management personnel consists of salary and bonus payments.

7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In millions of Ukrainian Hryvnia	Oil and gas properties	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
At 1 January 2018					
Cost or valuation	4,733	545	107	901	**6,286**
Accumulated depreciation	(613)	(31)	-	-	**(644)**
NBV at 1 January 2018	**4,120**	**514**	**107**	**901**	**5,642**
Additions	-	-	-	1,684	**1,684**
Disposals	(5)	(2)	(2)	-	**(9)**
Depreciation charge	(801)	(252)	(14)	-	**(1,067)**
Impairment of PPE	-	(8)	(6)	-	**(14)**
Transfer	449	903	8	(1,360)	**-**
Reclassification among categories	(947)	947	-	-	**-**
NBV at 31 December 2018	**2,816**	**2,102**	**93**	**1,225**	**6,236**
At 31 December 2018					
Cost or valuation	4,230	2,385	107	1,225	**7,947**
Accumulated depreciation	(1,414)	(283)	(14)	-	**(1,711)**
NBV at 31 December 2018	**2,816**	**2,102**	**93**	**1,225**	**6,236**
Additions	-	-	-	2,557	**2,557**
Disposals	(33)	(17)		-	**(50)**
Depreciation charge	(777)	(220)	(15)	-	**(1,012)**
Impairment of PPE	(168)	-	(2)	-	**(170)**
Transfer	1,957	234	8	(2,199)	**-**
NBV at 31 December 2019	**3,795**	**2,099**	**84**	**1,583**	**7,561**
At 31 December 2019					
Cost or valuation	5,986	2,602	113	1,583	**10,284**
Accumulated depreciation and impairment	(2,191)	(503)	(29)	-	**(2,723)**
NBV at 31 December 2019	**3,795**	**2,099**	**84**	**1,583**	**7,561**
NBV without revaluation at 31 December 2018	**2,241**	**1,673**	**88**	**1,225**	**5,227**
NBV without revaluation at 31 December 2019	**3,267**	**1,345**	**65**	**1,583**	**6,260**

In 2019 the Company engaged independent appraisers to assess gas reserves as at 31 December 2019. Change in estimated amount of proved developed producing reserves being basis for calculation of carrying value of Oil and gas properties due to geophysical factors resulted in decrease of depreciation charge up to UAH 777 million in 2019 (2018: UAH 801 million).

The decrease in gas prices observed in 2019 was considered as impairment indicator and management run the impairment testing which indicated that recoverable values are substantially higher than the carrying values of CGUs. No reasonable change in assumptions would cause impairment as of 31 December 2019.

In 2019, the depreciation expense of UAH 1,003 million (2018: UAH 1,061 million) was included in cost of sales, UAH 5 million (2018: UAH 3 million) in general and administrative expenses and UAH 4 million in other operating expenses (2018: UAH 3 million).

8 Intangible Assets

The movements of intangible assets were as follows:

In millions of Ukrainian Hryvnia	Cost	Accumulated amortisation and impairment	Net book value
As at 1 January 2018	**476**	**(90)**	**386**
Additions / (Charge) for the year	20	(41)	**(21)**
As at 31 December 2018	**496**	**(131)**	**365**
Additions / (Charge) for the year	18	(44)	**(26)**
As at 31 December 2019	**514**	**(175)**	**339**

8 Intangible Assets (Continued)

In 2019, the amortisation expense of UAH 41 million (2018: UAH 38 million) was included in cost of sales and UAH 3 million (2018: UAH 3 million) in general and administrative expenses.

9 Inventories

As at 31 December, inventories were as follows:

In millions of Ukrainian Hryvnia	**2019**	**2018**
Raw materials	144	94
Spare parts	29	32
Other inventory	11	13
Total inventories	**184**	**139**

10 Trade and Other Receivables

As at 31 December, non-current trade and other receivables were as follows:

In millions of Ukrainian Hryvnia	**2019**	**2018**
Trade receivables (less provision of UAH 4,005 million) (2018: provision of UAH 1,888 million)	11,327	6,880
Total non-current trade and other receivables	**11,327**	**6,880**

The Company has UAH 17,820 million of trade accounts receivable outstanding and being contractually overdue as at 31 December 2019. Revenue for these accounts receivable is recognised at nominal amount based on a written contract with immediate impairment recognised in the Net impairment losses on financial assets line in the Statement of Comprehensive Income.

During 2018 and 2019 management revised expected settlement period of trade accounts receivable due from the entities under common control. Consequently, UAH 11,327 million of outstanding balance was classified as non-current in 2019 (2018: UAH 6,880 million). As at 31 December 2019 out of total nominal balance of trade receivables, management expects that UAH 7,789 million will be settled before 31 December 2020, UAH 9,600 million will be settled before 31 December 2021 and UAH 5,732 million before 31 July 2022.

As at 31 December, current trade and other receivables were as follows:

In millions of Ukrainian Hryvnia	**2019**	**2018**
Trade receivables (less provision of UAH 813 million) (2018: provision of UAH 1,136 million)	6,985	11,570
Total financial assets	***6,985***	***11,570***
Prepayments to suppliers (less provision of UAH nil) (2018: UAH nil)	*98*	*76*
Other receivables (less provision of UAH nil) (2018: UAH nil)	*24*	28
Total non-financial assets	***122***	***104***
Total current trade and other receivables	**7,107**	**11,674**

As at 31 December 2019 and 31 December 2018 all trade and other receivables were denominated in UAH.

10 Trade and Other Receivables (Continued)

Movement in the impairment provision for trade receivable were as follows:

In millions of Ukrainian Hryvnia	2019	2018
Provision for impairment at 31 December	**3,024**	**2,060**
Provision for impairment during the year	2,564	3,334
Reversal of provision	(2,219)	(2,370)
Changes in estimates and assumptions	1,449	-
Provision for impairment at 31 December	**4,818**	**3,024**

The following table provides information about the exposure to credit risk and ECLs for trade receivables as follows:

as at 31 December 2019:

In millions of Ukrainian Hryvnia	Expected loss rate	Gross carrying amount	Lifetime ECL	Basis
Trade receivables from related parties	20.83%	23,130	4,818	Adjusted yield to maturity on corporate bonds

as at 31 December 2018:

In millions of Ukrainian Hryvnia	Expected loss rate	Gross carrying amount	Lifetime ECL	Basis
Trade receivables from related parties	14.08%	21,474	3,024	Adjusted yield to maturity on corporate bonds

11 Cash and Cash Equivalents

As at 31 December, cash and cash equivalents were as follows:

In millions of Ukrainian Hryvnia	2019	2018
Restricted cash	70	-
Term deposits with original maturity of less than three months (Note 6)	6	10
Bank balances payable on demand (Note 6)	-	1
Total cash and cash equivalents	**76**	**11**

The bank balances and term deposits are neither past due nor impaired. As at 31 December 2019 cash and cash equivalents of UAH 70 million were denominated in US dollars (31 December 2018: nil), UAH 6 million were denominated in UAH (31 December 2018: UAH 11 million) and placed in non-rated banks (non-rated banks rank in the top 10 Ukrainian banks by size of total assets and capital per National Bank of Ukraine).

12 Share Capital

The authorised share capital of the Company equals to fully paid share capital and comprises 1 711 970 ordinary shares with a par value of UAH 10 per share in total amount of UAH 17 million. All shares carry one vote.
In 2019 Company partly distributed dividends for 2013 year in the amount of UAH 748 million.

13 Other Reserves

In millions of Ukrainian Hryvnia	Revaluation reserve	Total
Balance at 1 January 2018	**1,522**	**1,522**
Property, plant and equipment:		
- Realised revaluation reserve	(316)	**(316)**
- Realised income tax recorded in equity	57	**57**
Balance at 31 December 2018	**1,263**	**1,263**
Property, plant and equipment:		
- Realised revaluation reserve	(236)	**(236)**
- Realised income tax recorded in equity	42	**42**
Balance at 31 December 2019	**1,069**	**1,069**

The revaluation reserve is not distributable to the shareholders until they are transferred to retained earnings.

14 Bank borrowings

In December 2019 the Company signed credit line agreement with JSC Kredobank for the total amount of USD 1,240 thousand bearing 5.5% interest with maturity on 23rd December 2020.

In millions of Ukrainian Hryvnia	2019	2018
Bank borrowings	29	-
Total	**29**	**-**

As at 31 December 2019 bank borrowings of UAH 29 million were denominated in US dollars.

15 Trade and Other Payables

As at 31 December trade and other payables were as follows:

In millions of Ukrainian Hryvnia	2019	2018
Liabilities for purchased property, plant and equipment	167	132
Trade payables	62	53
Other creditors	1	80
Total financial payables	**230**	**265**
Wages and salaries payable	12	11
Accruals for employees' unused vacations	7	5
Total non-financial payables	**19**	**16**
Total	**249**	**281**

15 Trade and Other Payables (Continued)

As at 31 December 2019 UAH 227 million of trade and other payables were denominated in UAH (31 December 2018: UAH 266 million), UAH 17 million in USD (31 December 2018: UAH 9 million) and UAH 5 million in EUR (31 December 2018: UAH 6 million). Analysis by future undiscounted cash flows of financial trade and other payables is as follows:

31 December 2019

In millions of Ukrainian Hryvnia	**Liabilities for purchased property, plant and equipment**	**Trade payables**	**Other creditors**
Future undiscounted cash flow analysis:			
Up to 3 months	167	62	1
Total	**167**	**62**	**1**

31 December 2018

In millions of Ukrainian Hryvnia	**Liabilities for purchased property, plant and equipment**	**Trade payables**	**Other creditors**
Future undiscounted cash flow analysis:			
Up to 3 months	132	53	80
Total	**132**	**53**	**80**

16 Other Taxes Payable

As at 31 December other taxes payable were as follows:

In millions of Ukrainian Hryvnia	**2019**	**2018**
Subsoil tax payable	82	184
Value-added tax	33	91
Other taxes payable	-	3
Total other taxes payable	**115**	**278**

Subsoil tax is directly linked to gas price, and its significant decrease during 2019 year impacted subsoil tax accordingly

17 Revenue

Analysis of revenue by category is as follows:

In millions of Ukrainian Hryvnia	**2019**	**2018**
Revenue from sales of gas (Note 6)	7,766	12,591
Revenue from sales of gas to other party	25	-
Revenue from sales of gas condensate	805	854
Total	**8,596**	**13,445**

Company recognises revenue at a point of time.

In 2019 the Company sold 99.7% of produced gas to one customer, which is the Company’s related party. (In 2018 the Company sold 100% of produced gas to two customers, which are the Company’s related parties).

18 Cost of Sales

In millions of Ukrainian Hryvnia		2019	2018
Subsoil tax		1,319	1,990
Depreciation of property, plant and equipment and amortisation of intangible assets		1,044	1,099
Production overheads and other costs		172	151
Impairment of property, plant and equipment	7	170	14
Staff cost, including payroll taxes		101	85
Raw materials		79	98
Equipment maintenance and repairs		64	69
Cost of goods sold		44	-
Total		**2,993**	**3,506**

During 2019 the Company employed an average of 185 employees of production personnel (2018: 173 employees).

19 General and Administrative Expenses

In millions of Ukrainian Hryvnia	2019	2018
Professional fees	59	21
Rent costs	12	15
Staff cost, including payroll taxes	11	10
Depreciation of property, plant and equipment and amortisation of intangible assets	8	6
Other costs	18	15
Total	**108**	**67**

In the period from 1 January 2019 till 31 December 2019 the Auditor of the Company provided the services with respect to the Agreed Upon Procedures on Covenants reporting.

20 Other Operating Expenses

In millions of Ukrainian Hryvnia	2019	2018
Insurance	205	230
Impairment provision for inventory	36	-
Charitable donations and sponsorship	18	21
Depreciation of property, plant and equipment, depletion and amortisation of intangible assets	4	3
Other	56	98
Total	**319**	**352**

At present, the Company insurance policy covers risks associated with the loss or damage of property, plant and equipment and loss of profit resulting from the work breakdown. At the reporting date the Company has insured operating costs and losses if incurred by the Company in case of failure to reach budgeted target of gas extraction for 2020.

21 Selling expenses

In millions of Ukrainian Hryvnia	2019	2018
Selling expenses	156	-
Total selling expenses	156	-

Selling expenses are associated with the introduction of a fee for entry into the Ukraine gas transmission system from 01.01.2019 in the amount of 92 UAH per thousand m3

22 Finance Income and Finance Costs

In millions of Ukrainian Hryvnia	2019	2018
Income from change in carrying value of re-cultivation provision for production sites	42	-
Interest income on bank deposits (Note 6)	1	1
Total finance income	43	1

23 Income Taxes

Income tax expense comprises the following:

In millions of Ukrainian Hryvnia	2019	2018
Current tax	1,143	1,869
Deferred tax	(544)	(285)
Income tax expense	**599**	**1,584**

In 2019 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18% (2018: 18%).

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

In millions of Ukrainian Hryvnia	2019	2018
Profit before income tax	**3,287**	**8,573**
Income tax at statutory rates 18%	592	1,543
Tax effect of items not deductible or assessable for taxation purposes:		
- non-deductible expenses	7	41
- non-taxable income	-	-
Income tax expense	**599**	**1,584**

The deferred tax liabilities and assets reflected in the statements of financial position as at 31 December are as follows:

In millions of Ukrainian Hryvnia	1 January 2019	Charged to equity	Credited/ (charged) to income	31 December 2019
Tax effect of deductible temporary differences				
Trade and other receivables	545	-	322	867
Gross deferred tax asset	**545**	**-**	**322**	**867**
Less offsetting with deferred tax liabilities	(271)	-	222	(49)
Recognised deferred tax asset	**274**	**-**	**544**	**818**
Property, plant and equipment	(271)	-	222	(49)
Gross deferred tax liability	**(271)**	**-**	**222**	**(49)**
Less offsetting with deferred tax assets	271	-	(222)	49
Recognised deferred tax liability	**-**	**-**	**-**	**-**

23 Income taxes (Continued)

In millions of Ukrainian Hryvnia	1 January 2018	Charged to equity	Credited/ (charged) to income	31 December 2018
Tax effect of deductible temporary differences				
Provisions for other liabilities and charges	3	-	(3)	0
Trade and other receivables	371	-	174	545
Gross deferred tax asset	**374**	**-**	**171**	**545**
Less offsetting with deferred tax liabilities	(374)	**-**	103	(271)
Recognised deferred tax asset	**(0)**	**-**	**274**	**274**
Tax effect of taxable temporary differences				
Property, plant and equipment	(385)	-	114	(271)
Gross deferred tax liability	**(385)**	**-**	**114**	**(271)**
Less offsetting with deferred tax assets	374	-	(103)	271
Recognised deferred tax liability	**(11)**	**-**	**11**	**-**

24 Contingencies, Commitments and Operating Risks

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Company conducts intercompany transactions. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the new Tax Code, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it should not be significant.

The ultimate tax consequences of many transactions and calculations are uncertain, partly because of uncertainty concerning their timing. The Company continually assesses such matters and where final tax sums differ from the estimates such differences are recognised as income tax provisions in the period in which the differences become apparent.

On 1 September 2013 the Law "On Changes to the Tax Code of Ukraine in respect of transfer pricing rules" came into effect. The new transfer pricing rules are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

Legal proceedings and tax litigations. From time to time and in the normal course of business, claims against the Company are received. Management believes that it has provided for all material losses in these financial statements.

Because of non-explicit requirements of the applicable tax legislation, some past transactions of the Company may be challenged. Management estimated potential tax risk exposure as UAH 29 million (31 December 2018: UAH 100 million). Management believes the Company's positions and interpretations can be supported if challenged by tax authorities.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Management believes that there are no significant liabilities for environmental damage.

24 Contingencies, Commitments and Operating Risks (Continued)

License maintenance commitments. The Company has an obligation to comply with exploration license requirements representing capital expenditure programmes. Under these license maintenance commitments the Company is required to commit seismic, geophysical, exploratory drilling works on licensed fields according to the capital expenditure programmes. Although these commitments are not binding and may be modified based on results of exploration work, as at 31 December 2019 the Company's potential capital expenditures relating to qualifying activities on gas and gas condensate are UAH 1 million (2018: UAH 6 million). Justified deviation from the capital expenditures committed is permitted and should be agreed with the licensor, while failure to commit exploration works and substantiate the different capital expenditure schedule may result in termination of the license.

Purchase commitments. As at 31 December 2019 the Company has purchase commitments for the property, plant and equipment in the amount of UAH 830 million (31 December 2018: UAH 370 million).

Asset retirement obligation. The Company determines the amount of asset retirement obligation for all its wells and facilities located in all gas and gas condensate fields. Decommissioning expenditure will be incurred by the Company at the end of the operating life of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Assets pledged and restricted.

At 31 December 2019 the Company has only cash as letter of credit in the amount of UAH 70 million pledged as collateral for equipment supply, which was required by contract conditions.

Insurance. At present, the Company insurance policy covers risks associated with the loss or damage of property, plant and equipment and loss of profit resulting from the work breakdown. At the reporting date the Company has insured operating costs and losses incurred by the Company in case of failure to reach budgeted target of gas extraction for 2019.

25 Financial Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management policies seek to minimise the potential adverse effects on the Company's financial performance for those risks that are manageable or noncore to the oil and gas exploration activities.

Risk management is carried out by a centralised treasury department working closely with the operating units, under policies approved by the supervisory board. The Company treasury identifies, evaluates and proposes risk management techniques to minimise these exposures.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

Credit risk is managed on an entity by entity basis with oversight by the Company. Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions. For Banks only SCM related banks or upper tier Ukrainian banks are accepted, which are considered at time of deposit to have minimal risk of default. The exposure to credit risk for other customers is approved and monitored on an ongoing basis individually for all significant customers. The Company does not require collateral in respect of trade and other receivables.

25 Financial Risk Management (Continued)

Credit risks concentration. The Company is exposed to concentrations of credit risk.

The table below shows the balance of the major counterparties at the balance sheet date.

Counterparty	Classification in balance sheet	31 December 2019	31 December 2018
First Ukrainian International Bank (FUIB)	Cash and cash equivalents	76	11
DTEK Naftogaz LLC	Trade and other receivables	17,538	16,391
Investekogaz LLC	Trade and other receivables	765	2,059

The maximum exposure to credit risk at the reporting date is UAH 18,379 million (2018: UAH 18,461 million) being carrying value of financial investments, trade and other receivables and cash. The Company does not hold any collateral as security.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. As at 31 December 2019 and 31 December 2018 the Company did not have material foreign currency balances.

Liquidity risk. Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding to meet existing obligations as they fall due. Management monitors liquidity on a daily basis, management incentive programs use key performance indicators such as EBITDA, free cash flow and cash collections to ensure liquidity targets are actively monitored. Prepayments are commonly used to manage both liquidity and credit risks. The Company has capital construction programs which can be funded through existing business cash flows.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows. The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	Total
Liabilities				
Other financial liabilities - external	-	3	-	**3**
Bank borrowings (Note 14)	1	30	-	**31**
Trade and other payables (Note 15)	230	-	-	**230**
Dividends payable	250			**250**
Total future payments, including future principal and interest payments	**481**	**33**	**-**	**514**

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

In millions of Ukrainian Hryvnia	Up to 6 months	6 -12 months	1 - 2 years	Total
Liabilities				
Other financial liabilities – external	-	-	3	**3**
Trade and other payables (Note 15)	265	-	-	**265**
Total future payments, including future principal and interest payments	**265**	**-**	**3**	**268**

26 Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return on capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of its gearing ratio. This ratio is calculated as net liabilities divided by total capital under management. Net debt is calculated as total borrowing (current and long-term as shown in the statement of financial position) less cash and cash equivalents. Total capital under management equals equity as shown in the statement of financial position.

The Company has yet to determine its optimum gearing ratio.

27 Fair Value of Assets and Liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of the financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to produce the estimated fair values. Accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

Financial instruments carried at fair value. Trading and available-for-sale investments are carried in the balance sheet at their fair value. Fair values were determined based on quoted market prices or third party valuations using discounted cash flows techniques.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows, expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.
Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

a) Recurring fair value measurements

Financial instruments carried at fair value

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. Equity securities are carried in the statement of financial position at their fair values.

Property, plant and equipment measured at fair value:

Property, plant and equipment are carried in the statement of financial position at their fair value.

The Company uses the revaluation model to measure property, plant and equipment. The frequency of valuation depends on movements in fair values of the assets being revalued. Management performs an annual assessment to ensure that the carrying amount of property, plant and equipment is not materially different from its fair value. In case of substantial differences the Company engages external, independent and qualified valuers to determine the fair value of the Company's property, plant and equipment. The valuers use different approaches for valuing different asset groups.

Where the fair value of an asset is able to be determined by reference to market based evidence, such as sales of comparable assets, the fair value is determined using this information. Where fair value of the asset is not able to be reliably determined using market based evidence, discounted cash flows or optimised depreciated replacement cost is used to determine fair value.

The Company's property, plant and equipment are all categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between the levels of the fair value hierarchy.

27 Fair Value of Assets and Liabilities (Continued)

b) Fair value of financial assets and liabilities carried at amortised cost:

In millions of Ukrainian Hryvnia	31 December 2019		31 December 2018	
	Level 2	Carrying value	Level 2	Carrying value
FINANCIAL ASSETS				
Cash and cash equivalents (Note 11)				
-Restricted cash	70	70	-	-
- Term deposits with original maturity of less than three months	6	6	10	10
- Bank balances payable on demand	-	-	1	1
Trade and other receivables (Note 10)				
- Trade receivables	18,567	18,312	18,436	18,450
TOTAL ASSETS	**18,643**	**18,388**	**18,447**	**18,461**
FINANCIAL LIABILITIES				
Other financial liabilities	3	3	3	3
Bank borrowings (Note 14)	29	29	-	0
Trade and other payables (Note 15)	230	230	265	265
Dividends' payable	250	250	-	-
TOTAL LIABILITIES	**512**	**512**	**268**	**268**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements:

In millions of Ukrainian Hryvnia	Fair value 2019	Fair value 2018	Valuation technique	Inputs used
FAIR VALUE OF FINANCIAL ASSETS				
Cash and cash equivalents (Note 11)				
- Restricted cash	70	-	Current cost accounting	
- Term deposits with original maturity of less than three months	6	10	Current cost accounting	Interest on loans pursuant to statistical data of Ukrainian banks
- Bank balances payable on demand	-	1		
Trade and other receivables (Note 10)				
- Trade receivables	18,312	18,436	Current cost accounting	
FAIR VALUE OF FINANCIAL LIABILITIES				
Other financial liabilities	3	3	Discounted cash flows	
Bank borrowings (Note 14)	29	-	Current cost accounting	
Trade and other payables (Note 15)	230	265		
Dividends' payable	250	-		

Property, plant and equipment at fair value.

Property, plant and equipment are carried in the statement of financial position at their fair value.

The Company uses the revaluation model to measure property, plant and equipment. The frequency of valuation depends on movements in fair values of the assets being revalued. Management performs an annual assessment to ensure that the carrying amount of property, plant and equipment is not materially different from its fair value. In case of substantial differences the Company engages external, independent and qualified valuers to determine the fair value of the Company's property, plant and equipment. The valuers use different approaches for valuing different asset groups.

Where the fair value of an asset is able to be determined by reference to market based evidence, such as sales of comparable assets, the fair value is determined using this information. Where fair value of the asset is not able to be reliably determined using market based evidence, discounted cash flows or optimised depreciated replacement cost is used to determine fair value.

The Company's property, plant and equipment are all categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between the levels of the fair value hierarchy.

28 Reconciliation of Classes of Financial Instruments with Measurement Categories

All of the Company's financial assets and financial liabilities are carried at amortised cost.

29 Subsequent events

The developments after the balance sheet date which are related to the operating environment are disclosed in the Note 2.