Joint Stock Company
“National Joint Stock Company
“NAFTOGAZ OF UKRAINE”

Unaudited Condensed Consolidated Interim Financial Statements as at and for the Three Months Ended 31 March 2019

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

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JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2019

In millions of Ukrainian hryvnias	Note	31 March 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	397,219	434,370
Investments in associates and joint ventures		1,238	1,255
Deferred tax assets		5,207	5,119
Other non-current assets	6	10,569	8,988
Total non-current assets		**414,233**	**449,732**
Current assets			
Inventories	7	44,912	65,571
Trade accounts receivable	8	75,349	65,942
Prepayments made and other current assets	9	11,545	6,888
Prepaid corporate income tax		20	17
Cash and bank balances		21,246	14,224
Restricted cash		967	1,338
Total current assets		**154,039**	**153,980**
TOTAL ASSETS		**568,272**	**603,712**
EQUITY			
Share capital	10	194,307	194,307
Revaluation reserve		346,815	379,022
Foreign currency translation reserve		4,018	4,027
Accumulated deficit		(144,911)	(165,342)
Equity attributable to owners of the Parent		**400,229**	**412,014**
Non-controlling interest in equity		**2,006**	**1,844**
TOTAL EQUITY		**402,235**	**413,858**
LIABILITIES			
Non-current liabilities			
Borrowings	11	4,966	11,299
Provisions	12	7,142	6,943
Deferred tax liabilities		43,812	50,544
Other long-term liabilities		1,490	221
Total non-current liabilities		**57,410**	**69,007**
Current liabilities			
Borrowings	11	32,971	44,700
Provisions	12	41,335	41,072
Trade accounts payable		4,817	5,500
Advances received and other current liabilities	13	24,665	23,269
Corporate income tax payable		4,839	6,306
Total current liabilities		**108,627**	**120,847**
TOTAL LIABILITIES		**166,037**	**189,854**
TOTAL LIABILITIES AND EQUITY		**568,272**	**603,712**

Andriy Kobolyev
Chairman of the Executive Board

Sergiy Konovets
Deputy Chairman of the Executive Board

The accompanying notes are an integral part of these condensed consolidated interim financial statements

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE THREE MONTHS ENDED 31 MARCH 2019

In millions of Ukrainian hryvnias	**Note**	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Revenue	3	88,049	91,999
Cost of sales	14	(55,517)	(64,485)
Gross profit		**32,532**	**27,514**
Other operating income		1,227	1,429
Other operating expenses	15	(6,662)	(14,602)
Operating profit		**27,097**	**14,341**
Finance costs	16	(2,085)	(1,457)
Finance income		372	324
Share of after-tax results of associates and joint-ventures		14	(1,035)
Net foreign exchange gain		348	140
Profit before income tax		**25,746**	**12,313**
Income tax expense		(5,169)	(5,319)
Net profit		**20,577**	**6,994**
Net profit is attributable to:			
Equity attributable to owners of the Company		20,410	6,440
Non-controlling interest		167	554
Net profit		**20,577**	**6,994**

The accompanying notes are an integral part of these condensed consolidated interim financial statements

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2019

In millions of Ukrainian hryvnias	**Note**	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Net profit		**20,577**	**6,994**
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss, net of income tax:			
Loss on revaluation of property, plant and equipment, net of income tax charge of UAH 7,058 million (2018: income tax benefit of UAH 3,039 million)		(32,156)	(13,845)
Share of other comprehensive income of associates, net of income tax effect of nil (2018: nil)		(31)	1,262
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation reserve		(9)	(341)
Other comprehensive loss		(32,196)	(12,924)
Total comprehensive loss		**(11,619)**	**(5,930)**
Total comprehensive (loss)/income is attributable to:			
Equity attributable to owners of the Company		(11,783)	(6,482)
Non-controlling interests		164	552
Total comprehensive loss		**(11,619)**	**(5,930)**

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2019

	Equity attributable to owners of the Parent						
In millions of Ukrainian hryvnias	**Share capital**	**Revaluation reserve**	**Foreign currency translation reserve**	**Accumulated deficit**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2018	**194,307**	**379,022**	**4,027**	**(165,342)**	**412,014**	**1,844**	**413,858**
Profit for the period	-	-	-	20,410	20,410	167	20,577
Other comprehensive loss	-	(32,153)	(9)	(31)	(32,193)	(3)	(32,196)
Total comprehensive (loss)/income	**-**	**(32,153)**	**(9)**	**20,379**	**(11,783)**	**164**	**(11,619)**
Transfer of revaluation reserve	-	(54)	-	54	-	-	-
Change in investments in joint operations	-	-	-	(2)	(2)	(2)	(4)
Balance at 31 March 2019	**194,307**	**346,815**	**4,018**	**(144,911)**	**400,229**	**2,006**	**402,235**

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Equity attributable to owners of the Parent						
In millions of Ukrainian hryvnias	**Share capital**	**Revaluation reserve**	**Foreign currency translation reserve**	**Accumulated deficit**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 31 December 2017	**194,307**	**411,261**	**3,462**	**(168,057)**	**440,973**	**(454)**	**440,519**
Effect of adoption of new standard	-	-	-	(3,666)	(3,666)	-	(3,666)
Balance at 1 January 2018	**194,307**	**411,261**	**3,462**	**(171,723)**	**437,307**	**(454)**	**436,853**
Profit for the period	-	-	-	6,440	6,440	554	6,994
Other comprehensive (loss)/income	-	(13,843)	(341)	1,262	(12,922)	(2)	(12,924)
Total comprehensive (loss)/income	**-**	**(13,843)**	**(341)**	**7,702**	**(6,482)**	**552**	**(5,930)**
Transfer of revaluation reserve	-	(45)	-	45	-	-	-
Change in investments in joint operations	-	-	-	(2)	(2)	(2)	(4)
Balance at 31 March 2018	**194,307**	**397,373**	**3,121**	**(163,978)**	**430,823**	**96**	**430,919**

JOINT STOCK COMPANY “NATIONAL JOINT STOCK COMPANY “NAFTOGAZ OF UKRAINE”

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2019

In millions of Ukrainian hryvnias	**Note**	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**25,746**	**12,313**
Adjustments for:			
Depreciation and depletion of property, plant and equipment and amortisation of intangible assets		10,958	12,101
Loss on disposal of property, plant and equipment		153	33
Impairment of property, plant and equipment		4	2
Write down of inventories		9	-
Net movement in provision for trade accounts receivable and prepayments made, other current assets and VAT balances		2,634	10,176
Change in provisions	12	1,382	1,195
Write off of accounts payable and other current liabilities		(42)	(2)
Share of after-tax results of associates and joint-ventures		(14)	1,035
Net foreign exchange loss		(348)	(140)
Finance costs, net		1,713	1,133
Operating cash flows before working capital changes		**42,195**	**37,846**
Decrease/(increase) in other non-current assets		358	(87)
Decrease in inventories		20,650	27,064
Increase in trade accounts receivable		(14,565)	(22,384)
(Increase)/decrease in prepayments made and other current assets		(1,142)	2,581
Decrease in other long-term liabilities		(43)	-
Provisions paid or used	12	(1,142)	(1,303)
Decrease in trade accounts payable		(636)	(3,623)
Increase in advances received and other current liabilities		1,227	7,500
Cash generated from operations		**46,902**	**47,594**
Income taxes paid		(6,407)	(10,000)
Interest received		276	254
Net cash generated by operating activities		**40,771**	**37,848**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(11,677)	(5,496)
Withdrawal of bank deposits		527	-
Withdrawal of restricted cash		371	248
Acquisition of financial investments		(3,417)	(3,365)
Net cash used in investing activities		**(14,196)**	**(8,613)**

JOINT STOCK COMPANY "NATIONAL JOINT STOCK COMPANY "NAFTOGAZ OF UKRAINE"

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2019 (CONTINUED)

In millions of Ukrainian hryvnias	Note	Three months ended 31 March 2019	Three months ended 31 March 2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		198	2,389
Repayment of borrowings		(17,516)	(21,892)
Interest paid		(1,420)	(1,268)
Net cash used in financing activities		**(18,738)**	**(20,771)**
Net increase in cash and cash equivalents		**7,837**	**8,464**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**12,759**	**23,093**
Effect of exchange rates change on cash and cash equivalents		(304)	(753)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**20,292**	**30,804**

Significant Non-Cash Transactions

In millions of Ukrainian hryvnias	Three months ended 31 March 2019	Three months ended 31 March 2018
Payment for the natural gas purchase by a lending bank	-	5,465
Purchase of property, plant and equipment with payment delay	1,265	-

1. THE ORGANISATION AND ITS OPERATIONS

Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" ("Naftogaz", the "Parent" or the "Company") was founded in 1998 in accordance with the Resolution of the Cabinet of Ministers of Ukraine #747 dated 25 May 1998. According to the Resolution of the Cabinet of Ministers of Ukraine dated 6 March 2019 the Company was changed from Public to Private Joint Stock Company.

Naftogaz and its subsidiaries (hereinafter collectively referred to as the "Group") are owned by the State of Ukraine. The Cabinet of Ministers of Ukraine executes the State corporate rights and the shareholders' meetings and appoints the Supervisory Board that controls and regulates the Executive Board activities.

Naftogaz is a vertically integrated oil and gas company engaged in the full cycle of operations in gas and oil field exploration and development, exploratory drilling and production, gas and oil transmission and storage, sales and supply of natural gas and petroleum products to customers.

The Company holds stakes in various entities that form the national system of production, refinery, distribution, transportation, and storage of natural gas, gas condensate and oil.

The Company is registered at 6 B. Khmelnytskoho Street, Kyiv, Ukraine.

These unaudited condensed consolidated interim financial statements were authorised for issue on 21 June 2019.

The Group conducts its business and holds its production facilities mainly in Ukraine. The principal subsidiaries and joint operations are presented as follows:

	% Interest held as at		Subsidiary/	
Name/Type of activity	**31 March 2019**	**31 December 2018**	**Joint operations**	**Country of registration**
Production of gas, oil and refinery products				
Ukrgasvydobuvannya, JSC	100.00	100.00	Subsidiary	Ukraine
Ukrnafta, PJSC	50.00+1 share	50.00+1 share	Subsidiary	Ukraine
Petrosannan Company, Joint operations with the Arab Republic of Egypt and Egyptian General Petroleum Corporation ("EGPC")	50.00	50.00	Joint operations	Egypt
Zakordonnaftogaz, Subsidiary Enterprise	100.00	100.00	Subsidiary	Ukraine
Karpatygaz, LLC, Joint operations with Misen Enterprises AB (Note 17)	49.99	49.99	Joint operations	Ukraine
Oil and gas transportation				
Ukrtransgaz, JSC	100.00	100.00	Subsidiary	Ukraine
Ukrtransnafta, JSC	100.00	100.00	Subsidiary	Ukraine
Ukrspectransgaz, JSC	100.00	100.00	Subsidiary	Ukraine
Wholesale and retail distribution of oil, gas and refinery products				
Gaz Ukraiiny, Subsidiary Enterprise	100.00	100.00	Subsidiary	Ukraine
Gas supply company Naftogaz of Ukraine, LLC	100.00	100.00	Subsidiary	Ukraine
Gas supply company Naftogaz Teplo, LLC	100.00	100.00	Subsidiary	Ukraine
Gas supply company Naftogaz Trading, LLC	100.00	100.00	Subsidiary	Ukraine
Naftogaz Trading Europe AG	100.00	100.00	Subsidiary	Switzerland
Kirovogradgaz, Open JSC	51.00	51.00	Subsidiary	Ukraine
Ukravtogaz, Subsidiary Enterprise	100.00	100.00	Subsidiary	Ukraine

2. OPERATING ENVIRONMENT

The Ukrainian economy is showing signs of stabilisation after years of political and economic tensions. The year over year inflation rate in Ukraine has decreased to 9.8% during 2018 while GDP continued to grow at 3.4%.

The National Bank of Ukraine ("NBU") continued its inflation targeting policy that helped restrain inflation below 10%, although the cost of domestic funding has increased significantly. NBU adhered to floating hryvnia exchange rate.

As part of foreign currency transaction regulations, the NBU continued its policy of reducing the currency restrictions and decreased share of mandatory sale of foreign currency proceeds from 50% down to 30% with effect from March 2019, increased foreign currency denominated export/import transactions settlement period from 180 up to 365 days, and increased the limit for dividends payment from USD 2 million to EUR 7 million per months, and to EUR 11 million from May 2019.

In December 2018, the IMF Board of Directors approved the stand-by assistance ("SBA") 14-month programme for Ukraine in amount of USD 3.9 billion. 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 approval significantly increases the chance of Ukraine to meet foreign currency obligations in 2019, and thus will support the financial and macroeconomic stability of the country.

In May the IMF postponed the decision on tranches in 2019 and indicated that they will resume cooperation with Ukraine after the parliamentary elections and the appointment of a new government..

In 2019-2020, Ukraine faces major public debt repayments, which will require mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. Also, Ukraine faces extraordinary parliamentary elections scheduled in July 2019, thus the degree of uncertainty in 2019 will remain very high. Despite certain improvements in 2018, 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 Group's business.

The Government of Ukraine and the Group are undertaking active measures in the open European natural gas market development that introduce conceptual changes to the legal framework and market participants interaction and also will have significant impact on the performance of the Company and the Group as a whole.

Starting from 1 March 2019, the Ukrainian gas market switched to daily balancing, which provides the calculation of the size of the positive or negative imbalance between the customers of the natural gas transportation service by the transmission system operator on the daily basis. From this date the Ukrainian gas market is synchronized with the markets of the European counties. In terms of daily balancing, the Ukrainian side has fulfilled all the commitments undertaken by the Government under the Association Agreement with the European Union.

2. OPERATING ENVIRONMENT (Continued)

State regulation of gas market in Ukraine

The currently effective Law on Gas Market has defined the work of natural gas market on the principles of free, fair competition and state non-interference with the operations of the natural gas market, except when it is necessary to eliminate market constraints or to insure public interest, and taking that actions by the State are carried at a minimum sufficient level.

Prices for a natural gas supply should be defined between the supplier and the customer on an arm's length, except for the certain cases, as prescribed by the para 12, part 2, of the Law. In particular, such cases include imposing public service obligations ("public service obligations" or "PSO") on the Company by the Cabinet of Ministers of Ukraine ("CMU") to insure public interest on the natural gas market in accordance with para 11 of the Law.

Public service obligations were imposed on the Company according to the CMU Resolutions, in particular:
- by the Resolution #758 dated 1 October 2015 "On Approval of the Provisions for Imposing Special Obligations on the Natural Gas Market Participants for Ensuring Public Interests in the Natural Gas Market Functioning" effective from 1 October 2015 to 31 March 2017 ("Resolution #758");
- by the Resolution #187 dated 22 March 2017 "On Approval of the Provisions for Imposing Special Obligations on the Natural Gas Market Participants for Ensuring Public Interests in the Natural Gas Market Functioning" effective from 1 April 2017 to 31 October 2018 ("Resolution #187");
- by the Resolution #867 dated 19 October 2018 "On Approval of the Provisions for Imposing Special Obligations on the Natural Gas Market Participants for Ensuring Public Interests in the Natural Gas Market Functioning" effective from 1 November 2018 to 1 May 2020 ("Resolution #867").

Resolutions #187 and #867 set the following, in particular:
- conditions for buying natural gas by the Company from "Ukrgazvydobuvannya" JSC and "Chornomornaftogaz" JSC to create sufficient gas stocks when performing public service obligations;
- conditions for selling / supplying natural gas by the Company when performing the public service obligations, including setting gas selling prices.

Certain provisions of the Resolution #867 differ significantly from the Resolution #187, in particular:
- Resolution #867 provides a formula for the gas selling price determination by the Company as an arithmetic mean value of the gas selling price set by the Company for industrial customers for supplies made on a prepayment basis during July-September 2018, adjusted for the multiplier (so-called "discount"). This multiplier amounts to 0.6943 from 1 November 2018, and 0.8 starting from 1 May 2019.
- Resolution #867 provides that starting from 1 January 2020, the Company will sell / supply natural gas within the public service obligations at prices defined between the supplier and the customer on an arm's length, but not higher than the arithmetic mean value of the gas selling price set by the Company for industrial customers for gas supplies made on a prepayment basis.

2. OPERATING ENVIRONMENT (Continued)

For customers outside the PSO, imported natural gas is sold under the prices set discretionary by the gas market participants. The prices for natural gas set by the Company are differentiated based on the monthly consumption volumes and payment method by the customer.

In April 2019 the Cabinet of Ministers of Ukraine issued Resolution #293 dated 3 April 2019 that changed a mechanism of calculation of the gas prices in accordance with public service obligations imposed on the Company.

Households settle their debts on natural gas consumed via special purpose accounts opened in banks that were authorised by the Cabinet of Ministers of Ukraine for such purpose. According to the current procedure, gas suppliers with public service obligations open special purpose bank accounts to receive payments for the natural gas consumed. Amounts accumulated on the special purpose bank accounts are then allocated to current accounts of the transmission system operator, distribution system operators and gas suppliers with public service obligations according to the ratios calculated by the gas suppliers with specific obligations and approved by the National Commission for Regulation of Energy and Utilities ("NCREU"). Balances on the special purpose accounts cannot be arrested or blocked.

Municipal heat generating entities also open special purpose banks accounts for the settlement of debts for heat supplied. Cash received by municipal heat generating entities on their special purpose bank accounts is then allocated, among others, to current bank accounts of the gas suppliers with public service obligations according to the ratios approved by the NCREU monthly. The special purpose bank accounts of municipal heat generating entities also cannot be blocked or arrested.

In November 2016 the Law of Ukraine "On measures to settle the debts for the natural gas consumed by municipal heat generating entities and distribution and water supplying companies" #1730 was adopted. The settling principles for municipal heat generating entities and distribution and water supply companies payables for gas are set in this Law. Among other, the Law assumes writing off penalties and fines implied for overdue debts for gas supplied, and restructuring of payables to the Company for gas consumed. The list of companies entitled for debt settling procedures is approved by the central body of the government executive authority responsible for pursuing the State policy in housing and utilities.

Fulfilment of gas debt restructuring agreements is guaranteed by municipal executive government bodies representing particular territorial community as set by the separate guarantee agreement. According to the terms of gas debt restructuring agreements, the Company has a right to terminate them in case of late payments by counterparty. There were no such agreements terminated up to the date of these unaudited condensed consolidated financial statements. As at 31 March 2019 outstanding nominal amount of such restructured agreements is UAH 1,890 million (31 December 2018: UAH 1,655 million) (Note 18).

2. OPERATING ENVIRONMENT (Continued)

The following tariffs and prices were set:

	31 March 2019	31 March 2018
Natural gas price for sale to the regional gas supply companies for the needs of households, excluding VAT and tariffs for gas transmission and distribution and trade mark up.	**UAH 6,235.51** per 1,000 cubic meters	**UAH 4,942.00** per 1,000 cubic meters
Natural gas price for supply to the municipal heat generating entities for the needs of households, excluding VAT and tariffs for gas transmission and distribution.	**UAH 6,235.51** per 1,000 cubic meters	**UAH 4,942.00** per 1,000 cubic meters
Natural gas price for sale to the regional gas supply companies for the needs of religious organisations (excluding volumes used in commercial activities), excluding VAT and tariffs for gas transmission and distribution and trade mark up.	**UAH 6,235.51** per 1,000 cubic meters	**UAH 2,471.00** per 1,000 cubic meters
Natural gas price for supply to the municipal heat generating entities for the needs of religious organisations (excluding volumes used in commercial activities), excluding VAT and tariffs for gas transmission and distribution.	**UAH 6,235.51** per 1,000 cubic meters	**UAH 2,471.00** per 1,000 cubic meters
Natural gas price for supply to the municipal heat generating entities for the needs of customers other than households and religious organisations, including those producing electricity, excluding VAT and tariffs for gas transmission and distribution.	**UAH 6,235.51** per 1,000 cubic meters	**UAH 7,907.20** per 1,000 cubic meters
Natural gas price for supply to industrial customers and entities financed from the State or municipal budgets, excluding VAT and tariffs for gas transmission and distribution. These selling prices are set discretionary by the Company depending on monthly consumption levels and terms of payments.	From **UAH 7,405** to **UAH 8,160** per 1,000 cubic meters	From **UAH 6,580 to UAH 7,408** per 1,000 cubic meters
Tariff for entry points of Ukrainian gas transmission network located at the state border of Ukraine, excluding VAT.	**USD 6.28** per 1,000 cubic meters per day	**USD 12.47** per 1,000 cubic meters per day
Tariff for domestic entry points to the gas transmission network, excluding VAT.	**UAH 91.87** per 1,000 cubic meters per day	none
Single gas transmission and distribution tariff via territory of Ukraine, excluding VAT.	none	**UAH 732.7** per 1,000 cubic meters
Gas storage tariff, excluding VAT.	**UAH 0.172** per 1,000 cubic meters per day	**UAH 46.20** per 1,000 cubic meters
Gas injection tariff, excluding VAT.	**UAH 64.40** per 1,000 cubic meters per day	**UAH 32.90** per 1,000 cubic meters
Gas withdrawal tariff, excluding VAT.	**UAH 67.10** per 1,000 cubic meters per day	**UAH 32.90** per 1,000 cubic meters

2. OPERATING ENVIRONMENT (Continued)

Compensation for performing public service obligations

In accordance with Para 7, Article 11 of the Law of Ukraine "On Natural Gas Market", a gas market player with public service obligations is eligible for compensation of economically justified expenditures incurred by such player, less any income obtained in the course of fulfilling such obligations plus adequate profit margin. The level of profit margin should be calculated following the relevant resolution approved by the Cabinet of Ministers of Ukraine.

In July 2017, Kyiv county administrative court supported the Company's claim against the Cabinet of Ministers of Ukraine, and admitted the failure of the latter to identify formula and sources of financing the compensation for performing public service obligations when approving the PSO Resolution. The court decision became effective in October 2017. Further, the Cabinet of Ministers of Ukraine has appealed to this decision, however, it was rejected by the Kyiv Court of Appeal in October 2017. Then the Cabinet of Ministers of Ukraine filed a cassational appeal that is under review as at the date of these unaudited condensed consolidated financial statements. As at the date of these unaudited condensed consolidated financial statements such resolution has not been adopted.

Further, in October 2018 the Company initiated a claim to request a compensation of the damages incurred by the Company during performing public service obligation in the fourth quarter of 2015. The amount claimed by the Company states at UAH 6.6 billion. In March 2019 the Kyiv Commercial Court has rejected Naftogaz claim. The Company has appealed this decision. There is no decision of the court appeal as at the date of these unaudited condensed consolidated financial statement.

Taking the significant uncertainty in respect of receiving the compensation for performing public service obligations as at the date of these unaudited condensed consolidated financial statements, the Company did not recognise any income in this respect during three month ended 31 March 2019 and during 2018, and did not receive any compensation as a gas market player with public service obligations during these periods.

Gas transmission unbundling process

As at 31 March 2019 and 31 December 2018, the Company executed control over transmission system operator "Ukrtransgaz" JSC.

Unbundling plan was approved by the Resolution of the Cabinet of Ministers of Ukraine #496 dated 1 July 2016, which envisages transfer of gas transmission activities to "Mahistralny gasoprovody Ukrainy" PJSC after Stockholm Arbitrations are completed (Note 17).

Under the Gas Transit Contract with "Gazprom" PJSC ("Gazprom"), Naftogaz is responsible for reliable and uninterrupted functioning of the Ukrainian gas transmission system. Technical realisation of such Naftogaz's obligations is performed by "Ukrtransgaz" JSC. The rights and obligations in respect of the Gas Transit Contract cannot be designated to a third party (e.g. "Mahistralny gasoprovody Ukrainy" PJSC) without Gazprom consent. Gazprom is reluctant to give such consent and has filed a Request for Arbitration to The Arbitration Institute of the Stockholm Chamber of Commerce ("Tribunal") requesting revision or, alternatively, setting aside of the Gas Transit and Gas Sales Contracts (Note 17).

2. OPERATING ENVIRONMENT (Continued)

Therefore, management believes that legal separation of transit and domestic transmission is unlikely to be completed until the Gas Transit Contract expires on 1 January 2020.

Assets located at temporarily occupied territories

In early 2014, Ukraine suffered from the military aggression of the Russian Federation which resulted in the purported annexation of the Autonomous Republic of Crimea ("Crimea") and unlawful military take-over of certain areas in Luhanska and Donetska regions by armed terrorist groups as well as the collapse of law enforcement in such areas. Management of the Group continues to undertake all possible legal and diplomatic measures to reimburse for losses and recover control of the Group's assets in Crimea (Note 17).

3. SEGMENT INFORMATION

The Executive Board is the Group's chief operating decision maker. In 2018 the Group started the organisational transformation into efficient integrated national oil and gas company. Operating model selected assumes that operations of the Group are organised into Business Delivery Units, Business Enabling Units and corporate functions based on portfolio of assets and processes. Business Delivery Units ("BDUs") focus on the Group's principal activities and achieving financial and operational goals. Enabling units and corporate functions should support BDUs in order to maximize value of the Group.

Following these changes and expected developments, the Group has changed presentation of segment information as at 31 December 2018. Comparative information for the three months ended 31 March 2018 was restated respectively.

Management vision of the Group performance is viewed through the following business units:

Integrated gas. Integrated gas includes gas production, imports, sales and supply to different groups of customers and other byproducts sales. Management identified four main groups of customers in respect of gas sales and supply:

- Gas production, imports and sales to the regional gas supply companies ("RSC") for the needs of households,
- Gas production, imports and supply to the municipal heat generating entities ("MHE") for the needs of households,
- Gas production, imports and supply to the other customers under PSO,
- Gas imports and supply to the other customers outside PSO and byproducts sales.

Each group of customers has its own selling price setting procedure and its own economic characteristics, such as products delivered to the end customers, their credit risks etc.

Selling price setting for gas sales to RSC, MHE for the needs of households and to the other customers under PSO is performed within the current PSO Resolution (Note 2). Gas supply for other groups of customers is performed at prices established independently by Naftogaz.

3. SEGMENT INFORMATION (Continued)

The Group controls about 75% of all natural gas production in Ukraine. As described in Note 2, "Ukrgasvydobuvannya" JSC and "Chornomornaftogaz" JSC are obliged to sell gas to Naftogaz for the needs of households, religious organisations, municipal heat generating entities and distribution and water supply companies for households and religious organisations. Therefore, management views performance from gas production up to its sale to one of the groups of customers named above as a single reporting segment.Demand in gas for other customers outside PSO is satisfied from gas import.

Byproducts sales include production of oil and gas condensate by "Ukrgasvydobuvannya" JSC which is consumed by Oil midstream and downstream segment at intra-group prices.

Oil midstream and downstream. This segment includes activities related to transportation, sale and supply of oil, gas condensate, petroleum products, and related services.

The Group sells purchased and domestically refined petroleum products through filling stations network throughout Ukraine. Domestic refinery of petroleum products is performed at oil and gas refineries controlled by the Group. Oil transit and transmission operations are presented by oil transmission pipelines and 11 oil reservoirs operated by the Group.

Gas domestic transmission and gas transit. These segments are presented by the gas transmission pipelines operated by the Group. Management considers gas transit and gas transmission as separate business segments as gas transit is mainly represented by a contract with a single counterparty and is being assessed separately.

Ukrainian gas transmission system is one of the largest in the world in terms of its transportation capacities. The total length of gas transmission pipelines in Ukraine is 38.5 thousand km. Over 40% of natural gas supplies from the Russian Federation to European countries were delivered through Ukrainian gas transmission system in 2018 and 2017.

Gas domestic transmission segment also includes result of market-based gas balancing operations introduced by the Code of the Gas Transmission System. Market-based gas balancing operations is an activity to balance gas volumes entered the gas transmission system at entry point and volumes taken out at exit point. Gas balancing services are provided to consumers of gas transmission services. Currently this type of activities is performed by "Ukrtransgaz" JSC.

Gas storage. Ukrainian gas transportation system includes 12 underground gas storage facilities located in mainland Ukraine. The total capacity of the underground gas storage system located in Ukraine is 31 billion cubic meters of gas.

"Ukrnafta" PJSC. "Ukrnafta" PJSC is the biggest oil producing company in Ukraine. "Ukrnafta" PJSC is composed of several production and maintenance units, which are currently in the process of corporate restructuring, including six oil and gas production units, one well drilling division and three gas processing plants.

"Ukrnafta" PJSC also owns one of the largest filling stations network in Ukraine located in different regions of Ukraine.

3. SEGMENT INFORMATION (Continued)

Other. Revenues of this segment include revenues from sales of materials and services. The segment also includes results of joint operations under the concession agreement for exploration and development with the Arab Republic of Egypt.

Management assesses performance of operating segments based on adjusted operating result. Adjusted operating result represents operating profit/(loss) with operating foreign exchange differences included.

Management uses net working capital and net cash flows from operating activities as measures of both a segment operational efficiency and its short-term financial health. Management uses adjusted operating result net of income taxes (NOPLAT) as an additional measure of the segment operational efficiency. Income taxes at nominal tax rate are deducted from adjusted operating profit to arrive to NOPLAT. Adjusted operating loss is not corrected for income taxes.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 21 other than presentation of payments for natural gas made directly by lending bank to suppliers within cash flows from operating activities.

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the three months ended 31 March 2019 is as follows:

In millions of Ukrainian hryvnias	**Integrated gas**	**Oil midstream and downstream**	**Gas transit**	**Gas domestic transmis-sion**	**Gas storage**	**Ukrnafta**	**Other**	**Elimi-nation**	**Total**
Sales – external	51,014	2,822	18,669	8,680	52	6,670	142		88,049
Sales to other segments	9,957	8	-	1,153	606	29	-	(11,753)	-
Total revenue	**60,971**	**2,830**	**18,669**	**9,833**	**658**	**6,699**	**142**	**(11,753)**	**88,049**
Segment result	**21,194**	**77**	**6,894**	**(1,518)**	**(215)**	**1,618**	**(170)**	**-**	**27,880**
Change in provisions for litigations and other provisions									(496)
Finance costs, net									(1,713)
Share of after-tax results of associates and joint-ventures									14
Unallocated income/(expense), net									61
Profit before income tax									**25,746**
NOPLAT	**17,379**	**63**	**5,653**	**(1,518)**	**(215)**	**1,327**	**(170)**	**-**	**22,519**
Material non-cash items included in segment results:									
Depreciation, depletion and amortisation	5,713	273	3,773	515	313	336	35		10,958
Net movement in provision for trade and other receivables and prepayments made and other current assets	(1,948)	1	-	4,618	1	(45)	7		2,634
Change in provisions	-	-	-	-	(32)	-	-		(32)
Net foreign exchange loss	(5)	-	33	-	-	-	2		30
Capital expenditure	9,637	954	410	56	46	493	14	-	11,610
Property, plant and equipment	123,412	10,651	75,580	10,306	160,122	13,811	3,337		397,219
Other segment assets	80,589	2,722	18,091	10,111	152	16,773	5,330		133,769
Investments in associates and joint ventures									1,238
Cash and bank balances									21,246
Unallocated assets									14,800
Total assets									**568,272**
Segment liabilities	16,070	1,270	4,678	1,352	1,817	6,316	749		32,253
Borrowings									37,937
Portion of net profit attributable to the State Budget of Ukraine									4,084
Provisions for litigations									14,770
Deferred tax liabilities									43,812
Unallocated liabilities									33,181
Total liabilities									**166,037**
Net working capital	**61,894**	**1,454**	**12,396**	**8,626**	**(1,666)**	**10,455**	**1,120**	**-**	**94,279**

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the three months ended 31 March 2018 is as follows:

In millions of Ukrainian hryvnias	**Integrated gas**	**Oil midstream and downstream**	**Gas transit**	**Gas domestic transmis-sion**	**Gas storage**	**Ukrnafta**	**Other**	**Elimi-nation**	**Total**
Sales – external	52,714	3,210	15,665	11,790	56	8,252	312	-	91,999
Sales to other segments	11,368	8	-	314	355	16	-	(12,062)	-
Total revenue	**64,082**	**3,218**	**15,665**	**12,104**	**411**	**8,268**	**312**	**(12,062)**	**91,999**
Segment result	**15,554**	**556**	**1,548**	**221**	**(533)**	**2,680**	**90**	**-**	**20,116**
Non-refundable VAT recognised according to the Gas Transit Arbitration									(4,751)
Change in provisions for litigations and other provisions									(786)
Finance costs, net									(1,133)
Share of after-tax results of associates and joint-ventures									(1,035)
Unallocated income/(expense), net									(98)
Profit before income tax									**12,313**
NOPLAT	**12,754**	**456**	**1,269**	**181**	**(533)**	**2,198**	**74**	**-**	**16,399**
Material non-cash items included in segment results:									
Depreciation, depletion and amortisation	3,150	384	6,877	938	306	393	53		12,101
Net movement in provision for trade and other receivables and prepayments made and other current assets	1,570	-	-	3,895	-	(74)	(13)		5,378
Net foreign exchange loss/(gain)	63	-	100	-	-	-	26		189
Capital expenditure	4,355	81	120	10	6	430	6		5,008
Property, plant and equipment	105,256	16,873	97,186	11,380	219,453	14,161	3,784		468,093
Other segment assets	71,903	5,740	17,540	12,385	204	2,940	8,190		118,902
Investments in associates and joint ventures									1,428
Cash and bank balances									30,804
Unallocated assets									16,975
Total assets									**636,202**
Segment liabilities	15,751	3,183	4,611	2,030	1,941	5,582	1,066		34,164
Borrowings									44,113
Portion of net profit attributable to the State Budget of Ukraine									29,498
Provisions for litigations									4,995
Deferred tax liabilities									63,750
Unallocated liabilities									28,762
Total liabilities									**205,283**
Net working capital	**54,506**	**2,542**	**11,978**	**10,216**	**(1,736)**	**(2,773)**	**967**	**-**	**75,700**

3. SEGMENT INFORMATION (Continued)

Geographical concentration of sales

In millions of Ukrainian hryvnias	**31 March 2019**	**31 March 2018**
Ukraine	67,855	75,265
Russian Federation	19,579	16,608
Europe	526	-
Egypt	89	126
Total revenue	**88,049**	**91,999**

Allocation of sales in the table above is made based on the country of residence of the Group's customers.

External customers concentration, exceeding 10% of total revenues

During the three months ended 31 March 2019 and 2018, the only external customer with concentration of revenue exceeding 10% of total revenues was Gazprom. Amount of revenue from Gazprom related to gas transit during three months ended 31 March 2019 amounted to UAH 18,668 million (2018: UAH 15,665 million).

4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

As described in the Note 1, the Group is ultimately controlled by the Government of Ukraine, and therefore, all state-controlled entities and institutions are considered as related parties under common control.

Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

Transactions with state-controlled entities and institutions. The Group performs significant transactions with entities and institutions controlled, jointly controlled or significantly influenced by the Government of Ukraine. These entities and institutions include State Savings Bank of Ukraine, Ukreximbank, Ukrgazbank, tax authorities, municipal heat generating entities, regional gas distribution entities and other entities.

For the three months ended 31 March 2019, about 30% of the Group's revenue (2018: 32%) were earned from transactions with the entities controlled, jointly controlled or influenced by the Government of Ukraine. Outstanding trade accounts receivable related to these transactions as at 31 March 2019 and 31 December 2018 were about 44% and 43%, respectively, of the total trade accounts receivable balance.

4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

Outstanding accounts payable, advances and other current liabilities with related parties as at 31 March 2019 and 31 December 2018 were about 61% and 58%, respectively, of the total balance of these liabilities.

Provisions in respect of the entities controlled by the Government of Ukraine as at 31 March 2019 and 31 December 2018 were about 39% and 37%, respectively, of the total provisions.

As at 31 March 2019 and 31 December 2018, about 98% and 96%, respectively, of cash and bank balances were placed in the banks controlled, jointly controlled or influenced by the Government of Ukraine and about 89% of borrowings were provided by these banks (31 December 2018: 76%). About 93% of finance income for the three months ended 31 March 2019 related to balances in these banks (2018: 78%) and about 93% of finance costs for the three months ended 31 March 2019 (2018: 78%) related to borrowings from these banks.

Pledges. As at 31 March 2019 and 31 December 2018, borrowings from related parties (State-owned banks) were secured by property, plant and equipment, inventories and proceeds from future sales (Note 11).

Guarantees. Amount of guarantees, provided by the Government of Ukraine, as at 31 March 2019 and 31 December 2018 equalled to UAH 6,240 million and UAH 15,443 million, respectively (Note 11).

Transactions with the State are further disclosed in Note 10.

5. PROPERTY, PLANT AND EQUIPMENT

Revaluation effect recognised for the three months ended 31 March 2019 relates to revaluation of cushion gas in the amount of UAH 39,216 million. Main factor affecting the amount of revaluation is fluctuation in purchase price for natural gas.

As at 31 March 2019 and 31 December 2018, the Group has pledged its property, plant and equipment with carrying amount of UAH 17,921 million and UAH 1,239 million, respectively, to secure its borrowings (Note 11).

6. OTHER NON-CURRENT ASSETS

The Group’s other non-current assets were as follows:

In millions of Ukrainian hryvnias	**31 March 2019**	**31 December 2018**
Accounts receivable on product sharing agreement	4,778	4,793
Restructured accounts receivable of gas consumers	3,348	1,645
Intangible assets	2,798	2,751
Other	3,229	3,545
Less: provision for impairment	(3,584)	(3,746)
Total	**10,569**	**8,988**

6. OTHER NON-CURRENT ASSETS (Continued)

Intangible assets. As at 31 March 2019 and 31 December 2018, included in intangible assets are licenses for exploration and extraction of oil and natural gas amounting to UAH 1,792 million and UAH 1,826 million, respectively.

Other. As at 31 March 2019 and 31 December 2018, included in other non-current assets are research and development expenditures amounting to UAH 1,277 million, respectively, that were incurred within the concession agreement for oil exploration and development with the EGPC, but not yet claimed for recovery.

Movements in provision for impairment of non-current accounts receivable were as follows:

In millions of Ukrainian hryvnias	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Balance at 1 January	**3,746**	**758**
Reversal of provision for impairment	(156)	-
Other movements	(6)	1
Balance at 31 March	**3,584**	**759**

Other movements in provision for impairment of non-current accounts receivable relate to reclassification of provision between current and non-current accounts receivable.

7. INVENTORIES

The Group's inventories were as follows:

In millions of Ukrainian hryvnias	**31 March 2019**	**31 December 2018**
Natural gas	32,066	52,461
Crude oil and petroleum products	5,516	6,039
Spare parts	2,086	1,976
Oil for industrial and technological needs	1,829	1,829
Raw materials	1,788	1,627
Other	1,627	1,639
Total	**44,912**	**65,571**

As at 31 March 2019 and 31 December 2018, inventories with carrying amount of UAH 23,553 million and UAH 43,287 million, respectively, were pledged as collateral for borrowings (Note 11).

8. TRADE ACCOUNTS RECEIVABLE

The Group's trade accounts receivable were as follows:

In millions of Ukrainian hryvnias	31 March 2019	31 December 2018
Accounts receivable for natural gas	79,149	74,683
Accounts receivable for gas balancing services	39,560	34,009
Accounts receivable for crude oil	14,643	13,693
Accounts receivable for gas transportation services	9,570	9,036
Other accounts receivable	4,615	4,296
Less: provision for impairment	(72,188)	(69,775)
Total	**75,349**	**65,942**

Movements in provision for impairment of trade accounts receivable were as follows:

In millions of Ukrainian hryvnias	Three months ended 31 March 2019	Three months ended 31 March 2018
Balance at 1 January	**69,775**	**49,919**
Effect of adoption of new standard	-	3,666
Provision for impairment recognised during the period	10,422	11,748
Reversal of provision for impairment	(7,559)	(6,296)
Amounts written off as uncollectible	(1)	-
Other movements	(449)	(1)
Balance at 31 March	**72,188**	**59,036**

Other movements in provision for impairment of trade accounts receivable relate to reclassification of provision between current and non-current accounts receivable and to difference in proportion of assets and profits consolidation related to joint ventures of one of the Group's subsidiaries, recognised in equity movement.

9. PREPAYMENTS MADE AND OTHER CURRENT ASSETS

The Group's prepayments made and other current assets were as follows:

In millions of Ukrainian hryvnias	31 March 2019	31 December 2018
Prepayments to suppliers for materials, works and services	10,713	10,549
State treasury bonds	3,417	-
Receivables under assignation agreements in respect of natural gas sales	1,588	1,618
Promissory notes receivable	1,431	1,436
VAT recoverable	1,415	1,950
Prepayments for pipelines construction	1,346	1,346
Prepayments to suppliers for natural gas	873	109
Taxes prepaid, other than income tax	733	876
Other	8,702	7,289
Less: Provision for impairment	(18,673)	(18,285)
Total	**11,545**	**6,888**

9. PREPAYMENTS MADE AND OTHER CURRENT ASSETS (Continued)

As at 31 March 2019 included in other current assets is gas balance of UAH 1,296 million (31 December 2018: UAH 991 million), arrested according to the court decision. The Company has also created a provision in respect of this court decision (Note 12).

Movements in the provision for impairment of prepayments made and other current assets were as follows:

In millions of Ukrainian hryvnias	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Balance at 1 January	**18,285**	**18,309**
Provision for impairment recognised during the period	40	1
Reversal of provision for impairment	(112)	(63)
Amounts written off as uncollectible	(4)	(60)
Other movements	464	20
Balance at 31 March	**18,673**	**18,207**

Other movements in provision for impairment of prepayments made and other current assets relate to reclassification of provision between current and non-current accounts receivable and to difference in proportion of assets and profits consolidation related to joint ventures of one of the Group's subsidiaries, recognised in equity movement.

10. SHARE CAPITAL

As at 31 March 2019 and 31 December 2018, nominal amount of registered, issued and fully paid share capital of the Company was UAH 190,150 million, comprising 190,150,481 ordinary shares, with a par value of UAH 1,000 per share.

Also, as at 31 March 2019 and 31 December 2018, share capital of the Company has been adjusted for the effect of hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" by UAH 4,157 million. Therefore the total amount of share capital of the Company as at 31 March 2019 and 31 December 2018 was UAH 194,307 million.

Distribution of profits

Profit available for distribution to the shareholders for each reporting period is determined by reference to the stand alone financial statements of the Company prepared in accordance with International Financial Reporting Standards. Under Ukrainian legislation, the amount of dividends is limited to net profit of the reporting period or other distributable reserves but not more than retained earnings as per the stand alone financial statements prepared in accordance with International Financial Reporting Standards.

According to the Resolutions of the Cabinet of Ministers of Ukraine #363 dated 24 April 2019, the Company should pay 90% of its net profit of the Company for 2018 as a portion of net profit attributable to the State Budget of Ukraine. This payment is due on 30 June 2019. To the date of these condensed consolidated interim financial statements, the Company has repaid dividends in amount of UAH 4,000 million.

11. BORROWINGS

The Group's borrowings were as follows:

In millions of Ukrainian hryvnias	**31 March 2019**	**31 December 2018**
Non-current		
Bank borrowings	5,081	11,425
Unamortised discount	(115)	(126)
Total non-current portion	*4,966*	*11,299*
Current		
Bank borrowings	32,542	44,153
Interest accrued	429	547
Total current portion	*32,971*	*44,700*
Total	**37,937**	**55,999**

The Company repaid EUR 79 million to the International Bank for Reconstruction and Development on 31 March 2019.

The effective interest rates and currency denomination of borrowings were as follows:

In millions of Ukrainian hryvnias	**31 March 2019**		**31 December 2018**	
	Balance	**% per annum**	**Balance**	**% per annum**
UAH	19,672	20%	24,815	20%
USD	14,117	8%	17,829	8%
EUR	4,148	1%	13,355	2%
Total	**37,937**		**55,999**	

Pledges

All the Group's borrowings were secured as at 31 March 2019 and 31 December 2018.

The Group's borrowings were secured by the following pledges:

	31 March 2019	**31 December 2018**
Proceeds from future sales	26,419	28,229
Inventories (Note 7)	17,921	1,239
Cash and bank balances	1,457	1,457
Property, plant and equipment (Note 5)	23,553	43,287
Total	**69,350**	**74,212**

Guarantees. As at 31 March 2019, the Group's borrowings in the amount of UAH 6,240 million were guaranteed by the State (31 December 2018: UAH 15,443 million).

12. PROVISIONS

Movements in provisions for the three months ended 31 March 2019 were as follows:

In millions of Ukrainian hryvnias	**Provisions for litigations**	**Employee benefit obligations**	**Decommissio-ning provision**	**Provision for fines and penalties**	**Portion of net profit attributable to the State Budget of Ukraine (Note 10)**	**Other provisions**	**Total**
Balance at 31 December 2018	**15,254**	**7,478**	**2,603**	**16,661**	**4,084**	**1,935**	**48,015**
Non-current	-	*4,403*	*2,540*	-	-	-	*6,943*
Current	*15,254*	*3,075*	*63*	*16,661*	*4,084*	*1,935*	*41,072*
(Reversed)/charged for the period	(481)	882	6	995	-	(20)	1,382
Unwinding of discount (Note 16)	-	159	63	-	-	-	222
Used or paid during the period	(3)	(1,128)	(1)	-	-	(10)	(1,142)
Balance at 31 March 2019	**14,770**	**7,391**	**2,671**	**17,656**	**4,084**	**1,905**	**48,477**
Non-current	-	*4,534*	*2,608*	-	-	-	*7,142*
Current	*14,770*	*2,857*	*63*	*17,656*	*4,084*	*1,905*	*41,335*

There were no specific regulation by the Cabinet of Ministers of Ukraine in respect of a portion of net profit attributable to the State Budget of Ukraine. Consequently, as at 31 December 2018 the Company has made a provision for 30% of net profit for 2018 to be paid to the State Budget in 2019, according to the Law of Ukraine “On Management of State Property Objects” #185-V dated 21 September 2006.

12. PROVISIONS (Continued)

Movements in provisions for the three months ended 31 March 2018 were as follows:

In millions of Ukrainian hryvnias	**Provisions for litigations**	**Employee benefit obligations**	**Decommissio-ning provision**	**Provision for fines and penalties**	**Portion of net profit attributable to the State Budget of Ukraine**	**Other provisions**	**Total**
Balance at 31 December 2017	**5,761**	**5,668**	**2,297**	**14,133**	**29,498**	**1,201**	**58,558**
Non-current	-	*3,907*	*2,100*	-	-	-	*6,007*
Current	*5,761*	*1,761*	*197*	*14,133*	*29,498*	*1,201*	*52,551*
(Reversed)/charged for the period	(161)	409	4	868	-	75	1,195
Unwinding of discount (Note 16)	-	87	57	-	-	-	144
Used or paid during the period	(605)	(597)	-	(1)	-	(100)	(1,303)
Balance at 31 March 2018	**4,995**	**5,567**	**2,358**	**15,000**	**29,498**	**1,176**	**58,594**
Non-current	-	*3,984*	*2,159*	-	-	-	*6,143*
Current	*4,995*	*1,583*	*199*	*15,000*	*29,498*	*1,176*	*52,451*

13. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

The Group's advances received and other current liabilities were as follows:

In millions of Ukrainian hryvnias	**31 March 2019**	**31 December 2018**
Advances for natural gas	1,288	1,560
Advances for natural gas transportation	315	338
Advances for oil transportation	262	302
Advances received for geophysical surveys	203	213
Advances for petroleum products	121	206
Other advances received	143	136
Total advances received	*2,332*	*2,755*
Taxes payable other than income tax	11,482	10,900
Liabilities for purchase of property, plant and equipment	4,341	4,178
VAT payable	3,599	2,350
Wages, salaries and related social charges payable	568	726
Dividends payable to non-controlling shareholders of "Ukrnafta" PJSC	429	431
Recognised liabilities for litigations	57	57
Other current liabilities	1,857	1,872
Total other current liabilities	*22,333*	*20,514*
Total	**24,665**	**23,269**

As at 31 March 2019, taxes payable other than income tax included UAH 11,220 million of subsoil royalty payable (31 December 2018: UAH 10,629 million).

14. COST OF SALES

In millions of Ukrainian hryvnias	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Cost of gas supplied	19,882	31,252
Subsoil royalty and other taxes other than on income	13,708	11,041
Depreciation, depletion and amortisation	10,794	11,951
Non-refundable VAT on gas transit via Ukraine in customs regime	3,734	3,184
Staff costs and related social charges	2,624	2,294
Cost of purchased oil and petroleum products	1,200	1,867
Repair and maintenance costs	209	220
Oil and gas transportation costs	32	94
Other	3,334	2,582
Total	**55,517**	**64,485**

Subsoil royalty and rent tax are calculated with reference to the volume of crude oil, gas condensate or natural gas produced, and volume of crude oil transportation.

15. OTHER OPERATING EXPENSES

In millions of Ukrainian hryvnias	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Net movement in provision for trade accounts receivable, prepayments made and other assets and direct write-offs	2,634	5,378
Staff costs and related social charges	1,670	1,309
Change in provisions for litigations and other provisions (Note 12)	496	786
Professional fees	343	206
Research, development and exploration costs	214	194
Depreciation and amortisation	164	150
Transportation costs	94	131
Fines and penalties	23	1,012
Non-refundable VAT recognised according to the Gas Transit Arbitration (Note 17)	-	4,751
Other	1,024	685
Total	**6,662**	**14,602**

16. FINANCE COSTS

In millions of Ukrainian hryvnias	**Three months ended 31 March 2019**	**Three months ended 31 March 2018**
Interest expense on bank borrowings	1,194	1,198
Loss on origination of long-term accounts receivable	595	35
Unwinding of discount on employee benefit obligations (Note 12)	159	87
Unwinding of discount of decommissioning provision (Note 12)	63	57
Other	74	80
Total	**2,085**	**1,457**

17. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Tax legislation. Ukraine’s tax environment is characterised by complexity in tax administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material.

Management believes that the Group has been in compliance with all requirements of the effective tax legislation. In the ordinary course of business the Group is engaged in transactions that may be interpreted differently by the Group and tax authorities. Where the risk of outflow of financial resources associated with this is deemed to be probable and the amount is measured with sufficient reliability, the Group provides for those liabilities. Where management of the Group estimates the risk of financial resources outflow as possible, the Group makes a disclosure of these contingent liabilities.

During 2015 “Ukrnafta” PJSC was engaged in transactions for petroleum products and crude oil sales, and made prepayments in respect of future supply of petroleum products. In 2017 National Anti-corruption Bureau of Ukraine initiated a claim in the court to declare such transactions invalid. The Group’s management believes that there is likelihood that certain transactions performed by “Ukrnafta” PJSC can be challenged or declared invalid in future, leading to additional tax obligations. The Group’s management cannot estimate impact of such potential obligations to the unaudited condensed consolidated interim financial statements reliably, and does not recognise any provision in this respect as at 31 March 2019 and 31 December 2018.

The Group conducts transactions with its subsidiaries. It is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities under the Tax Code of Ukraine, 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 Group exports refinery products and transportation services, performs intercompany transactions and is involved in transactions with related parties, which may potentially be in the scope of the new Ukrainian transfer pricing (“TP”) regulations. The report on controlled transactions for the year ended 31 December 2018 shall be prepared by the Group’s companies by 1 October 2019.

Management believes that the Group is in compliance with the TP requirements. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules may be subject to various interpretations, the impact of challenge of the Group’s companies transfer pricing positions by the tax authorities cannot be reliably estimated.

Arbitration with Gazprom. On 28 February 2018, the Tribunal rendered the Final Award in respect of the Gas Transit Arbitration, and supported Naftogaz’s position in respect of Gazprom failure to deliver minimum contractual volume of gas transit (underdeliveries) during 2009-2017. As a result, the Tribunal awarded USD 4,674 million to be paid in favour of Naftogaz by Gazprom as a compensation of losses in this respect. Further, the Tribunal performed a set-off in respect of amounts owing between the parties pursuant to the Gas Sales Arbitration and Gas Transit Arbitration, supporting a respective Naftogaz request. Consequently, the Tribunal ordered a single amount of USD 2,560 million payable by Gazprom in favour of Naftogaz. This amount also bears a late payment interest. As at 31 March 2019, amount due from Gazprom after the set-off comprises USD 2,769 million including interest.

17. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

There was no settlement of this amount performed by the date of these unaudited condensed consolidated financial statements. Taking that Gazprom has appealed the final award in the Gas Transit Arbitration, and the fact that the amount was not settled by the date of these unaudited condensed consolidated financial statements, management follows a prudent approach and does not recognise the amount owed by Gazprom after the set-off, as decided by the Tribunal, as receivable as at 31 March 2019 and 31 December 2018.

Despite the fact that the Tribunal has rejected Naftogaz's claim on reimbursement of VAT payable on compensation of losses for underdeliveries after 1 January 2016 in the Gas Transit Arbitration, Naftogaz treats the amount awarded as a contractual service price adjustment that is subject to VAT under the Tax Code of Ukraine. As a result, Naftogaz has recognised respective VAT liabilities amounting to UAH 4,751 million in March 2018, which were paid by 30 April 2018.

Additionally, according to the Final Award of the Tribunal in the Gas Sales Arbitration rendered on 22 December 2017, Gazprom is obliged to resume gas supplies to Naftogaz according to the effective Gas Sales Contract for 2009-2019 as amended by the Final Award. Following the Final Award in this case, in February 2018 Naftogaz made a prepayment of USD 128 million for gas deliveries to be made in March 2018. However, Gazprom returned this payment and refused to make gas supplies in March 2018. There were no gas supplies during 2018 and three month of 2019 from Gazprom to the Company up to the date of these unaudited condensed consolidated financial statements. Such actions from Gazprom currently prevent Naftogaz from fulfilling the Final Award requirements in respect of offtaking minimum annual quantities according to Gas Sales Contract in 2018 and 2019.

As stated above, after both Final Awards were rendered, Gazprom representatives officially declared a refusal to resume deliveries to Ukraine as ordered by the Tribunal in the Gas Sales Arbitration. Additionally, Gazprom refused to confirm its intention to settle outstanding amount as decided by the Tribunal in the Gas Transit Arbitration. Instead, on 20 April 2018 Gazprom filed a Request for Arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce requesting revision or, alternatively, setting aside of the specific provisions of the Gas Transit and Gas Sales Contracts for 2009-2019 because of alleged imbalance between the parties' obligations under the Contracts following Final Awards in both Gas Transit and Gas Sales Arbitration.

Naftogaz rejected Gazprom's claims and presented its counterclaims, the monetary value of which should be specified later. Naftogaz is also taking measures to enforce the Final Award in the Gas Transit Arbitration.

Gazprom has also brought a challenge against the Separate and Final Awards on Gas Sales Arbitration and the Final Award in Gas Transit Arbitration.

Based on the final awards and in view of the Gazprom's failure to comply with the awards Naftogaz has moved to attach Gazprom's assets in several jurisdictions, including the shares of Gazprom's subsidiaries Nord Stream AG and Nord Stream 2 AG in Switzerland.

17. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Additionally, on 6 July 2018, Naftogaz submitted a Request for Arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce seeking for transit tariff revision in the Gas Transit Contract for the period 2009-2019. Preliminary monetary claim is estimated at USD 11,580 million. Gazprom has submitted its answer on 14 August 2018, rejecting Naftogaz’s claim. Upon request from Gazprom, on 6 September 2018 the Stockholm Chamber of Commerce Board made a decision to consolidate both cases to the consolidated arbitration case. According to the agreed procedural schedule, the final award in the consolidated arbitration shall be rendered by 1 November 2021.

Claim to the Russian Federation regarding assets in Crimea. In October 2016, Naftogaz and its subsidiaries initiated arbitration proceeding against the Russian Federation seeking for reimbursement of losses caused by unlawful expropriation of Group’s assets in Crimea by the Russian Federation. This arbitration proceeding was initiated under the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on mutual encouragement and protection of investments.

On 15 September 2017, Naftogaz and its subsidiaries have submitted the Statement of Claim to the Tribunal under the auspices of the Permanent Court of Arbitration in The Hague. The amount of claim will be estimated following the Tribunals’ Partial Final Award.

On 22 February 2019, the Tribunal issued Partial Final Award on jurisdiction and responsibility in favour of the Group. The Tribunal acknowledged its jurisdiction over the claims and ruled that the Russian Federation is responsible for violation of the particular articles of the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on mutual encouragement and protection of investments, including article on prohibition of expropriation.

Legal proceedings. In the normal course of business, the Group is subject to claims. Where the risk of outflow of financial resources associated with such claims is assumed as probable, a respective liability is recognised as a component of provision for litigations (Note 12). Where management estimates the risk of outflow of financial resources associated with such claims as possible, or amount of outflow cannot be measured reliably, no provision is recognised, and respective amount is disclosed in the consolidated financial statements. Management believes that it has provided for all material losses in these unaudited condensed consolidated financial statements.

Joint operations with Misen Enterprises AB, and “Karpatygaz” LLC. As a part of determining the validity of the joint arrangement, in July 2016, the Group initiated legal proceedings in the Stockholm Arbitration on termination or recognition as invalid of this agreement.

In July 2018, the Arbitration Institute of the Stockholm Chamber of Commerce has issued a Partial Final Award regarding termination of the joint arrangement agreement. The Arbitral Tribunal found that the joint arrangement agreement had been violated by both Misen Enterprises AB and “Karpatygaz” LLC and is therefore terminated due to the change in circumstances and impossibility to continue the joint operation arrangement.

17. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Dispute with the non-controlling shareholders of “Ukrnafta” PJSC in respect of the validity and subsistence of shareholders agreement. In January 2010 Naftogaz and the non-controlling shareholders of “Ukrnafta” PJSC (“Ukrnafta”) signed a shareholders agreement that included, among other, setting the procedure of electing the Chairman of the Board, appointment of the Executive Board and the Supervisory board members. Under the shareholders agreement (until the agreement was amended in April 2019) the Chairman of the Board was to be elected from among the candidates nominated by the non-controlling shareholders, 6 of 11 Ukrnafta Supervisory board members, including Chairman, were to be nominated by Naftogaz, and remaining 5 members by the non-controlling shareholders.

Under the shareholders agreement, any dispute arising in connection with it is to be resolved exclusively by the London Court of International Arbitration and the shareholder agreement is governed by the English law.

In April 2018 Tribunal rendered the Partial Final Award by which it (i) acknowledged its jurisdiction over the claims, and declared that (ii) specific provisions of the shareholders agreement are unenforceable as a matter of English law by reason of their conflict with mandatory provisions of Ukrainian corporate law, but (iii) any such non-enforceability does not affect the enforceability of the shareholders agreement as a whole.

In order to bring the terms of the shareholders agreement in conformity with the Law of Ukraine “On Joint Stock Companies” Naftogaz, non-controling shareholders of Ukrnafta and Ukrnafta concluded the additional agreement to the shareholders agreement in April 2019, which amended Article 9 of the shareholders agreement. In particular, the parties agreed that the Supervisory Board of “Ukrnafta” PJSC consists of 11 members elected by cumulative voting at the general meeting of shareholders; and includes at least 6 independent directors as requires by the of the Law of Ukraine “On Joint Stock Companies”; the chairman of the Supervisory Board is elected by the Supervisory Board from amongst its members; proposals for the Supervisory Board candidates are formed by the parties independently in accordance with the Ukrnafta’s charter. Other provisions of the shareholders agreement, remain unchanged.

18. FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), concentration risk (Note 3), credit risk and liquidity risk. According to its risk management policy the Group identifies, assessed and develops actions to minimise the potential adverse effects on the Group’s financial performance for those risks.

These unaudited condensed consolidated interim financial statements do not include a complete set of financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2018. There have been no changes in the risk management function and risk management policies since 31 December 2018.

18. FINANCIAL RISK MANAGEMENT (Continued)

Major categories of financial instruments:

In millions of Ukrainian hryvnias	Note	31 March 2019	31 December 2018
Other non-current assets	6	6,442	4,594
Trade accounts receivable	8	75,349	65,942
Prepayments made and other current assets	9	5,175	1,189
Cash and bank balances		21,246	14,224
Restricted cash		967	1,338
Total financial assets		**109,179**	**87,287**

In millions of Ukrainian hryvnias	Note	31 March 2019	31 December 2018
Borrowings	11	(37,937)	(55,999)
Trade accounts payable		(4,817)	(5,500)
Advances received and other current liabilities	13	(5,587)	(5,441)
Other long-term liabilities		(1,485)	(216)
Total financial liabilities		**(49,826)**	**(67,156)**

Credit risk. The maximum exposure to credit risk as at 31 March 2019 is UAH 109,179 million (31 December 2018: UAH 87,287 million).

The Group holds a collateral in respect of gas debts restructuring agreements according to the Law of Ukraine #1730. Amount of such collateral as at 31 March 2019 amounted to UAH 1,890 million (31 December 2018: UAH 1,655 million) (Note 2).

Liquidity risk. There were no significant changes in the contractual undiscounted cash outflows for financial liabilities.

Gearing ratio. The gearing ratio at the end of the period was as following:

In millions of Ukrainian hryvnias	31 March 2019	31 December 2018
Total borrowings (Note 11)	37,937	55,999
Less: cash and cash equivalents	(20,291)	(12,759)
Total Net Debt	**17,646**	**43,240**
Total Equity	**402,235**	**413,858**
Gearing ratio	**0.04**	**0.08**

19. FAIR VALUE

There were no changes in valuation techniques during the period. There were no transfers between Level 2 and Level 3 during the period. During the three months ended 31 March 2019 there were no significant changes in the business and economic environment that affect the fair value of the Group's financial assets and liabilities.

20. SUBSEQUENT EVENTS

Amendments to the PSO Resolution. In April 2019 the Cabinet of Ministers of Ukraine issued Resolution #293 dated 3 April 2019 that changed a mechanism of calculation of the gas prices in accordance with public service obligations imposed on the Company (Note 2).

Distribution of net profit. According to the Resolutions of the Cabinet of Ministers of Ukraine #363 dated 24 April 2019, the Company should pay 90% of its net profit of the Company for 2018 as a portion of net profit attributable to the State Budget of Ukraine (Note 10). In June 2019 the Company has made a partial payment of dividends in amount of UAH 4,000 million.

Loans repayment. During April-May 2019 the Group repaid UAH 9,685 million of bank borrowings. Additionally, in May 2019 the Company has negotiated a prolongation of a loan repayment with one of the state-owned banks in amount of UAH 3,800 million from June 2019 to May-June 2020. In June 2019 Naftogaz has fully repaid USD 500 million received under loan agreements guaranteed by the World Bank and the Ukrainian government.

21. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the three months ended 31 March 2019 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all disclosures and information required for complete set of the annual consolidated financial statements, and should be read in conjunction with the latest annual consolidated financial statements as at and for the year ended 31 December 2018, which have been prepared in accordance with IFRS.

The exchange rates used for translating foreign currency balances as at the reporting dates were:

In Ukrainian hryvnias	**31 March 2019**	**31 December 2018**
USD 1.00	27.25	27.69
EUR 1.00	30.57	31.71

The average exchange rates for the three months ended 31 March were:

In Ukrainian hryvnias	**2019**	**2018**
USD 1.00	27.30	27.31
EUR 1.00	31.02	33.56

The accounting policies and accounting judgements applied during the three months ended 31 March 2019 are consistent with those described in the Group's consolidated financial statements referred above.