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

Unaudited Condensed Consolidated Interim
Financial Statements
as at and for the Nine Months Ended
30 September 2021

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

CONTENTS

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021

In millions of Ukrainian hryvnias	Note	30 September 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	5	227,501	211,134
Intangible assets		3,805	3,147
Investments in associates and joint ventures		719	772
Deferred tax assets		8,962	7,685
Consideration receivable under the SPA	6	-	63,432
Prepaid corporate income tax		6,618	9,375
Other non-current assets	7	2,951	2,892
Total non-current assets		**250,556**	**298,437**
Current assets			
Inventories	8	66,353	40,691
Trade accounts receivable	9	19,865	28,129
Prepayments made and other current assets	10	22,848	22,641
Consideration receivable under the SPA	6	3,200	17,626
Prepaid corporate income tax		244	702
Cash and bank balances		5,944	37,106
Restricted cash		7,552	659
Total current assets		**126,006**	**147,554**
TOTAL ASSETS		**376,562**	**445,991**
EQUITY			
Share capital		194,307	194,307
Revaluation reserve		153,207	140,171
Foreign currency translation reserve		3,737	4,069
Accumulated deficit		(112,717)	(27,801)
Equity attributable to owners of the Parent		**238,534**	**310,746**
Non-controlling interest in equity	11	**4,488**	**3,535**
TOTAL EQUITY		**243,022**	**314,281**
LIABILITIES			
Non-current liabilities			
Borrowings	12	42,233	56,547
Provisions	13	10,446	9,853
Deferred tax liabilities		14,934	12,910
Other long-term liabilities		2,557	3,354
Total non-current liabilities		**70,170**	**82,664**
Current liabilities			
Borrowings	12	20,086	9,795
Provisions	13	12,154	13,576
Trade accounts payable		5,240	3,585
Advances received and other current liabilities	14	24,688	20,277
Corporate income tax payable		1,202	1,813
Total current liabilities		**63,370**	**49,046**
TOTAL LIABILITIES		**133,540**	**131,710**
TOTAL LIABILITIES AND EQUITY		**376,562**	**445,991**

Yuriy Vitrenko /s/
Chairman of the Executive Board

Roman Chumak /s/
Member of the Executive Board

The accompanying notes are an integral part of these unaudited 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 FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

In millions of Ukrainian hryvnias	**Note**	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Revenue	3, 15	135,570	103,168
Interest and other income		1,125	1,361
Total revenue and other income		**136,695**	**104,529**
Production and manufacturing expenses	16	(43,959)	(33,420)
Purchases	17	(44,923)	(46,867)
Depreciation, depletion and amortisation	5	(8,487)	(11,903)
Research, development and exploration costs		(194)	(471)
Impairment losses of non-financial assets		(120)	(2,973)
Selling, general and administrative expenses	18	(13,842)	(14,269)
Finance costs	19	(4,184)	(5,221)
Net movement in provision for financial assets	9	(20,980)	(13,602)
Total expenditure		**(136,689)**	**(128,726)**
Foreign exchange gain		2,109	2,361
Share of after-tax results of associates and joint-ventures		(55)	(38)
Profit/(loss) before income tax		**2,060**	**(21,874)**
Income tax (expense)/benefit	20	(6,426)	4,840
Net loss		**(4,366)**	**(17,034)**
Net loss/(profit) is attributable to:			
Owners of the Company		(6,297)	(15,369)
Non-controlling interest		1,931	(1,665)
Net loss		**(4,366)**	**(17,034)**

The accompanying notes are an integral part of these unaudited 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 NINE MONTHS ENDED 30 SEPTEMBER 2021

In millions of Ukrainian hryvnias	**Note**	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Net loss		**(4,366)**	**(17,034)**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss, net of income tax:			
Gain/(loss) on revaluation of property, plant and equipment, net of income tax effect of UAH 2,905 million (2020: UAH 252 million)		13,234	(1,148)
Share of other comprehensive income/(loss) of associates, net of income tax effect of nil (2020: nil)		-	(146)
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation reserve		(332)	1,035
Other comprehensive income/(loss)		12,902	(259)
Total comprehensive income/(loss)		**8,536**	**(17,293)**
Total comprehensive income/(loss) is attributable to:			
Owners of the Company		6,614	(15,852)
Non-controlling interests		1,922	(1,441)
Total comprehensive income/(loss)		**8,536**	**(17,293)**

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS FOR THE FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

In millions of Ukrainian hryvnias	**Note**	**Three months ended 30 September 2021**	**Three months ended 30 September 2020**
Revenue	15	30,010	31,765
Interest and other income		458	209
Total revenue and other income		**30,468**	**31,974**
Production and manufacturing expenses	16	(10,424)	(9,975)
Purchases	17	(12,854)	(14,474)
Depreciation, depletion and amortisation		(1,027)	(2,837)
Research, development and exploration costs		(15)	(190)
Reversal of impairment/(impairment losses) of non-financial assets		(172)	(148)
Selling, general and administrative expenses	18	(5,913)	(5,084)
Finance costs	19	(1,351)	(1,678)
Net movement in provision for financial assets		(800)	(2,447)
Total expenditure		**(32,556)**	**(36,833)**
Foreign exchange gain		872	(1,058)
Share of after-tax results of associates and joint-ventures		(6)	(36)
Profit/(Loss) before income tax		(1,222)	**(5,953)**
Income tax (expense)/benefit		(1,494)	460
Net loss		**(2,716)**	**(5,493)**
Net (loss)/profit is attributable to:			
Owners of the Company		(3,931)	(5,283)
Non-controlling interest		1,215	(210)
Net loss		(2,716)	(5,493)

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

In millions of Ukrainian hryvnias	**Note**	**Three months ended 30 September 2021**	**Three months ended 30 September 2020**
Net loss		**(2,716)**	**(5,493)**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss, net of income tax:			
Gain/(loss) on revaluation of property, plant and equipment, net of income tax effect of UAH 1,073 million (2020: UAH 102 million)		4,892	465
Share of other comprehensive income/(loss) of associates, net of income tax effect of nil (2020: nil)		(9)	(46)
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Foreign currency translation reserve		(81)	391
Other comprehensive income		4,802	810
Total comprehensive income/(loss)		**2,086**	**(4,683)**
Total comprehensive income/(loss) is attributable to:			
Owners of the Company		878	(4,701)
Non-controlling interests		1,208	18
Total comprehensive income/(loss)		**2,086**	**(4,683)**

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	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 2020	**194,307**	**140,171**	**4,069**	**(27,801)**	**310,746**	**3,535**	**314,281**
Loss for the period	-	-	-	(6,297)	(6,297)	1,931	(4,366)
Other comprehensive income/(loss) for the period	-	13,243	(332)	-	12,911	(9)	12,902
Total comprehensive income/(loss)	**-**	**13,243**	**(332)**	**(6,297)**	**6,614**	**1,922**	**8,536**
Change in consideration receivable under the SPA (Note 6)	-	-	-	(77,858)	(77,858)	-	(77,858)
Transfer of revaluation reserve	-	(207)	-	207	-	-	-
Dividends payable (Note 11)	-	-	-	(966)	(966)	(966)	(1,932)
Other changes	-	-	-	(2)	(2)	(3)	(5)
Balance at 30 September 2021	**194,307**	**153,207**	**3,737**	**(112,717)**	**238,534**	**4,488**	**243,022**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	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 2019	**194,307**	**316,264**	**3,340**	**(123,234)**	**390,677**	**1,897**	**392,574**
Loss for the period	-	-	-	(15,369)	(15,369)	(1,665)	(17,034)
Other comprehensive (loss)/income for the period		(1,372)	1,035	(146)	(483)	224	(259)
Total comprehensive (loss)/income	**-**	**(1,372)**	**1,035**	**(15,515)**	**(15,852)**	**(1,441)**	**(17,293)**
Transfer of revaluation reserve	-	(161,189)	-	161,189	-	-	-
Profit share payable to the State Budget (Note 11)	-	-	-	(32,928)	(32,928)	-	(3,298)
Loss on disposal of subsidiary	-	-	-	(8,441)	(8,441)	-	(8,441)
Other changes	-	-	1	-	1	-	1
Balance at 30 September 2020	**194,307**	**153,703**	**4,376**	**(18,929)**	**333,457**	**456**	**333,913**

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

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

In millions of Ukrainian hryvnias	Note	Nine months ended 30 September 2021	Nine months ended 30 September 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before income tax		**2,060**	**(21,874)**
Adjustments for:			
Depreciation and depletion of property, plant and equipment and amortisation of intangible assets		8,487	11,903
Loss on disposal of property, plant and equipment		288	155
(Reversal of impairment)/impairment losses of non-financial assets		120	2,973
(Reversal of write down)/write down of inventories		138	2,513
Net movement in provision for trade accounts receivable, prepayments made and other assets		20,980	13,602
Loss/(gain) on disposal of investment		6	212
Fair value remeasurement of financial assets		2	(133)
Change in provisions		4,660	4,140
Write-off of accounts payable and other current liabilities		(5)	(26)
Share of after-tax results of associates and joint-ventures		55	38
Net foreign exchange gain		(2,110)	(2,361)
Finance costs (net of Interest and other income)		3,059	3,869
Operating cash flows before working capital changes		**37,740**	**15,011**
Increase in other non-current assets		337	(206)
(Increase)/decrease in inventories		(24,237)	8,123
(Increase)/decrease in trade accounts receivable		(13,504)	10,036
(Increase)/decrease in prepayments made and other current assets		(13,611)	2,831
(Decrease)/increase in other long-term liabilities		(777)	15
Provisions paid or used		(2,388)	(14,124)
(Decrease)/increase in trade accounts payable		1,728	(743)
Increase in advances received and other current liabilities		1,568	7,083
Cash (used)/generated from operations		**(13,144)**	**28,026**
Income taxes paid		(6,259)	(11,941)
Net cash (used)/generated by operating activities		**(19,403)**	**16,085**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(10,997)	(11,794)
Proceeds from sale of property, plant and equipment		7	9
Placement of restricted cash		(6,893)	(1,142)
Proceeds from sale of the State treasury bonds		11,490	22,392
Acquisition of the State treasury bonds		-	(22,211)
Purchase of subsidiary (net of subsidiary's cash)	2	(412)	-
Interest received		514	745
Net cash used in investing activities		**(6,291)**	**(12,001)**

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021 (CONTINUED)

In millions of Ukrainian hryvnias	**Note**	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	12	7,036	7,922
Repayment of borrowings	12	(6,377)	(12,003)
Interest paid	12	(3,757)	(5,066)
Profit share and dividends paid		(1)	(39,625)
Net cash used in financing activities		**(3,099)**	**(48,772)**
Net increase/(decrease) in cash and cash equivalents		**(28,793)**	**(44,688)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**37,106**	**77,593**
Effect of exchange rates change on cash and cash equivalents		(2,369)	12,907
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**5,944**	**45,812**

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 No.747 dated 25 May 1998.

Naftogaz is 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 and its subsidiaries (hereinafter collectively referred to as the "Group") is a vertically integrated oil and gas group of companies allowing optimisations across our portfolio. The Group is engaged in exploring for natural gas and oil, the development of new natural gas supplies, the transportation and storage of oil and gas and the sale of natural gas and liquefied petroleum gas to its 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.

On 28 April 2021, the Cabinet of Ministers announced the dismissal of Andriy Kobolyev, Chairman of the Executive Board, and appointed Yuriy Vitrenko to this position for one year. The powers of independent members and representatives of the State in the Supervisory Board were terminated with their subsequent re-election in full, from 30 April 2021. On 30 April 2021, the Supervisory Board notified the Cabinet of Ministers of Ukraine on the early termination of its powers from 14 May 2021.

On 19 May 2021, the Cabinet of Ministers of Ukraine reappointed Clare Spottiswoode, Bruno Lescoeur, Ludo Van der Heyden, Yuliya Kovaliv, and Nataliya Boyko as Naftogaz Supervisory Board members. Independent members and State representatives of the Supervisory Board were continue to exercise their powers until election and appointment of new Supervisory Board members, but no longer than one year. Further on 31 May 2021, the Cabinet of Ministers of Ukraine has appointed Yulia Svyrydenko as a State representative of the Supervisory Board member until election and appointment of new Supervisory Board members, but no longer than one year. On 7 September 2021 independent members of the Supervisory Board had notified the Cabinet of Ministers of Ukraine on the early termination of their powers from 22 September 2021.

On 20 September 2021, the Supervisory Board terminated the powers of Otto Waterlander and Peter Van Driel as Executive Board members. The powers of Sergiy Pereloma and Yaroslav Teklyuk as Executive Board members were terminated by the Cabinet of Ministers of Ukraine based on the Naftogaz CEO's submission on 28 September 2021. On 28 September 2021, the Cabinet of Ministers of Ukraine appointed Mavriky Kalugin, Olena Boichenko, Roman Chumak, and Vladyslav Volovyk as members to the Executive Board of Naftogaz.

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

These unaudited condensed consolidated interim financial statements were authorised for issue on 2 December 2021.

2. OPERATING ENVIRONMENT

Since early 2020 Ukrainian economy, like many others, was impacted by COVID-19 pandemic. In August 2021, Ukraine has received over USD 2.7 billion due to the allocation of Special Drawing Rights as part of the IMF's assistance to member countries in economic recovery from the COVID-19 pandemic.

The degree of macroeconomic uncertainty in Ukraine is still high due to a significant amount of public debt scheduled for repayment in 2021, which requires mobilising substantial domestic and external financing in a challenging financing environment for emerging markets. Further economic growth depends, to a large extent, upon success of the Ukrainian government in realisation of planned structural reforms and effective cooperation with the International Monetary Fund ("IMF").

Impact of COVID-19

The Group assessed the impact of COVID-19 on its asset's impairment, its revenue generating activities and its ability to generate sufficient cash flow to settle its liabilities when they are due and to maintain its operations in the foreseeable future. As of the date of the issuance of this unaudited condensed consolidated interim financial statements, the Group's operations have not been significantly impacted.

The ultimate impact of COVID-19 will depend on future developments, including, among others, the ultimate geographic spread and severity of new strains of the virus, the consequences of governmental and other measures designed to prevent the spread of the virus, the development of effective treatments, the duration of the outbreak, actions taken by governmental authorities, customers, suppliers and other third parties, workforce availability, and the timing and extent to which normal economic and operating conditions resume. Management continues to make efforts to identify, manage and mitigate the economic disruption impacts of the COVID-19 pandemic to the Group; however, there are factors beyond its knowledge or control, including the duration and severity of this outbreak, any such similar outbreak, as well as further governmental and regulatory actions taken.

Seasonality

The Group's gas sales and supply activities in Ukraine are subject to seasonality in both the demand and supply side. From the demand side it increases during the heating season (usually from mid-October up to early April each year). Contrary to the heating season, the summer period represents a period of low gas sales volumes and high volumes of gas purchases to prepare for meeting high demands in winter. Because of these fluctuations in cash inflows and outflows, additional financial resources are required to finance the injection of natural gas into underground gas storages during the summer months.

Gas market in Ukraine

The Company's public service obligations ("PSO") were terminated starting from 1 August 2020 in respect of gas sales for the needs of households and religious organisations and starting from 20 May 2021 in respect of heat generating entities. These changes have led to new contract terms with these groups of customers.

In March 2021, the Group developed one-year agreements for natural gas supply for the needs of households with regional gas supply companies with a fixed price of UAH 7.96 per cubic metre.

In May 2021, the Group developed a 3-year agreement for natural gas supply for heat generating entities with a fixed price for the first year of supply of UAH 7.42 per cubic metre.

2. OPERATING ENVIRONMENT (Continued)

In July 2021, the Government adopted a Law "On measures on crisis overcoming and ensuring financial stability in the natural gas market" ("Anti-Crisis Law") No.1639 aiming to settle certain debts among natural gas market participants. The Anti-Crisis Law anticipates, inter alia, receiving compensation of negative difference between actual heat tariffs and their cost to the heat generating entities, and further settlement of their outstanding debts to Naftogaz. This law also assumes a similar mechanism of settlements for regional gas supply entities. The Anti-Crisis Law was signed by the President of Ukraine in late August 2021, and before any settlements there should be a separate regulation issued by the Government of Ukraine setting on the detailed rules of the law execution (Notes 24 and 26).

Mid 2020 brought low natural gas prices, but they started to recover in the end of 2020 and demonstrated further increase during the nine months ended 30 September 2021. The average price at the Dutch Gas hub TTF for the nine months of 2021 was 30.5 Euro/MWh, which is almost 4.0 times higher than the same price in the previous year. This European upward trend contributed to the rise of Ukrainian VTP gas prices. The average market price during the nine months ended 30 September 2021 was about 10,256 UAH/tcm incl. VAT, which is 3.1 times higher than the same price of the previous year.

In October 2021, European gas prices hit record highs as the result of post-pandemic recovery of demand and low gas stocks in Europe. European gas prices also reflect broader global gas market dynamics, including the uncertainty over Nord Stream 2 supplies shortly before the start of the heating season and high prices for LNG in Asia.

As described in Note 6 and Note 24, in September 2021 the Cabinet of Ministers of Ukraine issued new strategic directives specifying a key role for the Group in provision of security of supply of gas in Ukraine, in particular addressing apparent market failures amidst the global gas crisis. In this regard, the management believes that the new agreement with "Gas Transmission System Operator of Ukraine" LLC for the compensation of underrecovered gas transmission revenue was signed and the payment of UAH 27,000 million was received by the Group in October 2021 (Note 6 and 24).

Acquisition of "Nadra Yuzivska" LLC

In January 2021, the Group acquired 100% of the corporate rights in the share capital of "Nadra Yuzivska LLC", which has the right to explore and extract hydrocarbons in the Yuzivka site located in Donetsk and Kharkiv region. The amount of consideration paid amounts to UAH 432 million. The amount of subsidiary's cash at the date of acquisition was UAH 20 million. To unlock this potential, significant investments are required.

Product sharing agreements

In late 2020 the Group concluded several product sharing agreements to increase its portfolio of exploration and production assets.

Additionally, in December 2020 "Ukrgasvydobuvannya" JSC concluded product sharing agreements with the State of Ukraine on development of four areas located in Kharkiv and Dnipropetrovsk regions of Ukraine. The State of Ukraine transfers rights for exploration, extraction and production on these areas to "Ukrgasvydobuvannya" JSC, and the latter is obliged to perform such works at its own expense and receive compensation and profit share of produced oil and gas. During the first five years of these agreements, "Ukrgasvydobuvannya" JSC will be focused on 3D-seismic works and drilling exploration wells.

2. OPERATING ENVIRONMENT (Continued)

Oil product pipeline management

On 30 June 2021, the Group’s subsidiary “Ukrtransnafta” JSC signed an agreement with the Asset Recovery and Management Agency (ARMA) to operate the Ukrainian part of the Samara - Western direction oil product pipeline. According to the terms of the agreement, the Group has the rights and obligations regarding the implementation of economic activities for the transportation, storage, transshipment of oil products to road and rail transport. The company also undertakes to provide at least UAH 1.1 million of monthly income to the State from the management of the oil product pipeline within 5 years. The transfer of assets was competed in July 2021.

3. SEGMENT INFORMATION

These unaudited condensed consolidated interim financial statements do not include a complete set of segment information required in the annual financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020.

Trading. Trading segment includes imports, sales, trading, wholesale supply of natural gas by the Group.

Retail. Retail segment includes supply of natural gas to households and gas distribution.

Exploration and production sales to other segments include oil and gas condensate produced by “Ukrgasvydobuvannya” JSC which is consumed by Oil midstream and downstream segment at intra-group prices.

Oil midstream and downstream sales to other segments include petroleum products produced by “Ukrgasvydobuvannya” JSC which is consumed by Exploration and evaluation segment at intra-group prices.

Segment assets are allocated based on the operations of the segment and the physical location of the asset.

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the nine months ended 30 September 2021 is as follows:

In millions of Ukrainian hryvnias	Exploration and production	Oil midstream and downstream	Trading	Retail	Gas storage	Ukrnafta	Gas transit organisation services	Other	Elimi-nation	Total
Sales – external (Note 15)	838	9,983	67,202	6,727	1,243	23,242	25,323	1,012	-	**135,570**
Sales to other segments	66,178	887	6,381	97	1,605	1,714	-	947	(77,809)	**-**
Total revenue	67,016	10,870	73,583	6,824	2,848	24,956	25,323	1,959	(77,809)	135,570
Segment adjusted EBITDA	**34,811**	**1,351**	**(25,129)**	**(124)**	**(2,800)**	**5,937**	**568**	**(2,179)**	**-**	**12,435**
Segment assets	108,807	17,808	83,100	2,734	86,055	27,532	2,426	12,969		**341,431**
Capital expenditure	6,211	577	24	37	359	739	-	3,050		**10,997**
Segment operating cash flows before working capital changes	34,677	1,430	(2,347)	35	991	5,402	578	(1,997)	-	**38,769**
Material non-cash items included in segment results:										
(Reversal of write down)/write down of inventories	147	(15)	-	-	-	-	-	(145)		**(13)**
Net movement in provision for financial assets	(2)	3	(22,620)	(159)	(7)	616	-	717		**(21,452)**
Material non-cash items excluded from segment results:										
Depreciation, depletion and amortisation	(5,410)	(940)	(55)	(62)	(373)	(1,492)	-	(155)		**(8,487)**
Net impairment losses	112	-	-	-	-	85	-	(326)		**(129)**

92% of Capital expenditure and 68% of segment assets in Other are attributable to projects performed by technical division for Exploration and production segment.

3. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the six months ended 30 September 2020 is as follows:

In millions of Ukrainian hryvnias	**Exploration and production**	**Oil midstream and downstream**	**Trading**	**Retail**	**Gas storage**	**Ukrnafta**	**Gas transit organisation services**	**Other**	**Elimi-nation**	**Total**
Sales – external (Note 15)	7	7,245	42,261	1,112	2,217	16,059	33,457	810	-	**103,168**
Sales to other segments	36,367	534	370	133	3,035	10	-	422	(40,871)	**-**
Total revenue	36,374	7,779	42,631	1,245	5,252	16,069	33,457	1,232	(40,871)	**103,168**
Segment adjusted EBITDA	**16,299**	**1,256**	**(15,846)**	**(419)**	**3,810**	**(2,152)**	**1,009**	**(5,193)**	**-**	**(1,236)**
Segment assets	117,142	18,680	71,352	1,958	80,146	31,082	4,166	12,300		**336,826**
Capital expenditure	9,097	601	24	78	40	608	-	1,346		**11,794**
Segment operating cash flows before working capital changes	17,367	1,372	(4,443)	(342)	3,614	(554)	1,024	(2,094)	-	**15,944**
Material non-cash items included in segment results:										
(Reversal of write down)/write down of inventories	(64)	3	-		-	(88)	-	-		**(149)**
Net movement in provision for financial assets	(6)	(1)	(9,088)		102	226	-	(2,351)		**(11,118)**
Material non-cash items excluded from segment results:										
Depreciation, depletion and amortisation	(9,039)	(564)	(110)		(362)	(1,784)	-	(44)		**(11,903)**
Net impairment losses	(1,750)	4	-		-	(128)	-	(1,099)		**(2,973)**

74% of Capital expenditure and 78% of segment assets in Other are attributable to projects performed by technical division for Exploration and production segment.

3. SEGMENT INFORMATION (Continued)

Reconciliations

The following tables include reconciliations of segment information to the aggregate numbers of the consolidated financial statements, taking into account items which are not directly attributable to a segment.

Segment result

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Segment adjusted EBITDA	12,435	(1,236)
Depreciation, depletion and amortisation	(8,487)	(11,903)
Impairment losses)	(120)	(2,973)
Interest and other income	1,125	1,361
Finance cost	(4,184)	(5,221)
Share of after-tax results of associates	(55)	(38)
Net foreign exchange gain	2,109	2,361
Unallocated income/(expense), net	(763)	(3,584)
Profit/(loss) before tax	**2,060**	**(21,874)**

Total assets

In millions of Ukrainian hryvnias	**30 September 2021**	**30 September 2020**
Segment assets	341,431	336,825
Deferred tax assets	8,962	13,165
Investments in associates and joint ventures	719	799
Cash and bank balances	5,944	45,812
Restricted cash	7,552	1,578
Consideration receivable under the SPA	3,200	84,964
Prepaid corporate income tax	6,618	722
Unallocated assets	2,136	2,013
Total assets	**376,562**	**485,878**

Net cash generated by/(used in) operating activities

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Segment operating cash flows before working capital changes	38,769	15,849
Working capital changes	(50,884)	13,016
Income taxes paid	(6,259)	(11,941)
Unallocated cash flows from operating activities	(1,029)	(839)
Net cash generated by operating activities	**(19,403)**	**16,085**

3. SEGMENT INFORMATION (Continued)

Geographical concentration of sales

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Ukraine	103,187	65,011
Russian Federation	27,801	35,782
Europe	3,543	2,213
Asia	802	-
Egypt	234	152
USA	3	10
Total revenue	**135,570**	**103 168**

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 nine months ended 30 September 2021 and 2020, the only external customer with concentration of revenue exceeding 10% of total revenues was Gazprom. Amount of revenue from Gazprom related to gas transit organisation services for nine months ended 30 September 2021 amounted to UAH 25,323 million (2020: UAH 21,743 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 may be 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, heating entities and other entities.

4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

Percentage of balances with related parties were as follows:

	30 September 2021	31 December 2020
Prepaid corporate income tax	100%	100%
Trade accounts receivable	36%	32%
Advances received and other current liabilities	42%	38%
Consideration receivable under the SPA	100%	100%
Cash and bank balances	84%	98%
Restricted cash	100%	98%
Provisions	14%	16%
Borrowings	30%	29%
Prepayments made and other current assets	81%	96%

Percentage of transactions with related parties for the period were as follows:

	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Revenue	16%	25%
Purchases	55%	69%
Interest income on bank balances	98%	100%
Interest expense	20%	42%

The percentage of purchases is calculated from Financial Statement line item - Purchases (including change in inventory). There were no significant purchases of property, plant and equipment from related parties.

As discussed in Note 2, in January 2021, the Group acquired 100% of the corporate rights in the share capital of “Nadra Yuzivska” LLC pursuant to an acquisition agreement between the Company, and subsidiary of “National Joint Stock Company “Nadra of Ukraine“ PJSC, “Ukrainian Geological Science and Production Center”.

Information on transactions with related parties is further disclosed in Note 11.

Pledges. As at 30 September 2021 and 31 December 2020, borrowings from related parties (State-owned banks) were secured by property, plant and equipment, inventories and proceeds from future sales (Note 12). As at 30 September 2021 95% pledges were related to the borrowings from State-owned banks (31 December 2020: 91%).

Guarantees. Guarantees, provided to the Group by the Government of Ukraine, as at 30 September 2021 and 31 December 2020 amounted to UAH 2,458 million and UAH 2,783 million, respectively (Note 12).

5. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2021 the Group acquired property, plant and equipment of UAH 12,058 million. These purchases were related mainly to gas and oil upstream business. For the nine months ended 30 September 2021, depreciation, depletion and amortisation expenses of UAH 8,185 million (2020: UAH 11,410 million) were presented in a separate line of the consolidated statement of profit or loss, UAH 1,447 million (2020: UAH 1,680 million) were capitalised in cost of property, plant and equipment. The decrease in depreciation, depletion and amortisation expenses is explained by valuation decrease in fair value of gas upstream assets recognised as at 31 December 2020.

During the nine months ended 30 September 2021 accrued interest in amount of UAH 192 million (2020: UAH 266 million) was capitalised in cost of non-current assets.

During the nine months ended 30 September 2021 there was no impairment loss recognised in respect of property, plant and equipment and capital investments in progress in respect of which (2020: UAH 3,857 million). Furthermore, management of the Group has assessed whether there has been a material change in the underlying fair value drivers at 30 September 2021 as compared to the fair values of the property, plant and equipment recorded at 31 December 2020, as described below.

Major assumptions used in estimating the recoverable amount include judgments regarding prices for gas, oil and other petroleum products, discount rates, UAH/EUR exchange rates, and estimated changes in volumes of gas and oil extraction, transit and transportation.

Certain value drivers impact the underlying fair value of the property, plant and equipment of exploration and production assets as at 30 September 2021, in particular change in gas prices and expected natural decline of individual oil and gas fields in Exploration and Production.

Taking abovementioned analysis, management concluded that there are no significant changes between carrying amount of property, plant and equipment and their fair values, except for cushion gas as described below. The Group plans to reassess the underlying fair value of its major groups of the property, plant and equipment as at 31 December 2021 with engagement of independent appraisers.

As at 30 September 2021 fair value of cushion gas changed significantly comparing to 31 December 2020 due to fluctuations in gas price forecasts, namely for Central European hub futures. For the nine months ended 30 September 2021 the revaluation of cushion gas in amount of UAH 16,170 million was recognised in other comprehensive income (2020: UAH nil).

As at 30 September 2021, no impairment indicators were identified by the Group, in addition, at that date the Group considered whether there were any triggers to reverse any impairment loss recognised in prior years.

As at 30 September 2021 and 31 December 2020, the Group has pledged its property, plant and equipment with carrying amount of UAH 2,113 million and UAH 3,134 million, respectively, to secure its borrowings (Note 12).

6. CONSIDERATION RECEIVABLE UNDER THE SPA

On 1 January 2020, the current mandate of “Ukrtransgaz” JSC to operate state-owned gas transmission infrastructure was terminated. All of 100% of the participatory rights of “Gas Transmission System Operator of Ukraine” LLC (“GTSOU”) were transferred to “Mahistralny gasoprovody Ukrainy” JSC (“MGU”) under a sale and purchase agreement (“SPA”). As specified in the SPA, the Group was entitled to receive an initial fixed payment in the amount of UAH 3,871 million and regular variable payments for 15 years based on a dynamic component of the SPA’s price calculated in accordance with the formula agreed by the parties. The Group received the initial fixed payment in the amount of UAH 3,851 million in late 2020. As at 1 January 2020, the remaining consideration receivable under the SPA was recognised as a financial asset at fair value through profit or loss. As at 31 December 2020 the fair value of consideration receivable under the SPA was determined in the amount of UAH 81,058 million. As at 31 December 2020, the Group determined this fair value of future expected cash flows with inputs based on management projections, analyst expectations and industry forecasts. Key inputs that impact the fair value calculation, inter alia, the period and volume of gas transit revenues and Regulated Asset Base tariffs of GTSOU, are unobservable and could be highly subjective.

During preparation of these unaudited condensed consolidated interim financial statements as at and for the six months ended 30 June 2021, management reflected on inputs which might reasonably have been expected to have been taken into account in the fair value assessment as at 31 December 2020, namely:

- The ability or otherwise of MGU to fulfill its obligations under the SPA because of the following facts:
  a) no neutrality principle on gas balancing services was introduced in 2021 as was expected before, resulting in significant losses for GTSOU because of unsettled imbalances and unauthorised off-takes from the gas transmission system;
  b) under the SPA, if GTSOU experiences a liquidity shortage, the dynamic component of the SPA due could be directed to cover gas transmission system capital expenditures. Such amounts would generate an interest charge calculated at the weighted average cost of capital (WACC) rate. While, in terms of time value of money alone, it might be indifferent whether to get the dynamic component of SPA’s price now or later with interest, given the substantial capital investments needed for modernisation of gas transmission system according to the 10-years development plan, approved by the National Commission for Regulation of Energy and Utilities (“NCREU” or “the Regulator”) in 2020, there was a risk that GTSOU would not be able to generate sufficient cash flows to remit dividends to MGU in order to meet the obligation of the latter to repay the dynamic component of the SPA when it becomes due;
  c) the estimate of any gas transit beyond 2024 is highly subjective and is not evidenced by any documents, that also supports the risk of insufficient cash flows to meet MGU’s obligations under the SPA;
  d) regulatory restrictions for GTSOU to its profit distribution could affect the amount, timing and certainty of dividend flow from GTSOU to MGU that are the main source for the latter to meet its obligations under the SPA. According to the Regulation of NCREU dated 30 September 2015 No. 2517 and Commission regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas, the records of differences between actually obtained revenues related to the provision of gas transmission services and allowed revenues for the transmission system operator (over- and underrecovery of gas transmission revenues in case of positive or negative difference, respectively), shall be aggregated on the regulatory account during the tariff period and hence cannot be remitted as dividend on demand;

6. CONSIDERATION RECEIVABLE UNDER THE SPA (Continued)

e) lack of evidence of the level and timing of compensation of underrecovered gas transmission revenues incorporated in the future expected cash flows for the period 2020-2024 and ability to recover it under the SPA agreement.

- It could be argued that there is no market for "Ukrtransgaz" JSC to sell the financial asset receivable from MGU even with a significant discount.

The above-stated information was available and should have been considered in the fair value calculation as at 31 December 2020, however, based on the current management's assessment, may not have been appropriately incorporated into the calculation which might have resulted in overstatement of the fair value as at that date.

In January 2021, MGU publicly contested its ability to fulfil the SPA and stated that GTSOU could not make the necessary capital investments according to it's 10-years development plan. The same month the Supervisory Board of MGU officially addressed the Cabinet of Ministers of Ukraine (the "CMU") with a request to revise the SPA. This event, while occurring in 2021, was driven by the factors above which existed already in 2020 and thus provided further evidence that MGU might not have been able to fulfil its obligations under the SPA in full as at 31 December 2020.

In April 2021, GTSOU declared a distribution of UAH 3,625 million as dividends to MGU, which was significantly lower compared to its net profit of UAH 20,354 million for 2020 due to regulatory and legal constraints described above. This significantly limited the ability of MGU to meet its obligations under the SPA.

In May 2021, the CMU issued a resolution which instructed the parties to the SPA to limit the consideration under the SPA to its fixed component which was already settled in December 2020 and to develop a revised arrangement. As a result, the dynamic component of the consideration receivable under the SPA was effectively cancelled by the CMU. Therefore, the fair value of the consideration receivable under the SPA as at 30 June 2021 was limited to the amount of UAH 3,200 million based on the amount of GTSOU dividends receivable by MGU and potentially available for payment to the Group. As the cancellation of the dynamic component of the consideration receivable under the SPA was approved by the CMU acting in the capacity of the ultimate owner of the Group and MGU, the respective impact is recognised directly in the consolidated statement of changes in equity.

Management consider that the events and conditions described above support the stance that the fair value amount previously determined as at 31 December 2020 was not recoverable in full. At the same time, management considers that it is impracticable to distinguish information that would have been available when the financial statements as at and for the year ended 31 December 2020 were authorised for issue and which provides additional evidence of circumstances that existed as at 31 December 2020 and information that relates to changes in circumstance after that date and corresponding subsequent changes in fair value. Therefore, the management concluded that it should not make any retrospective adjustments to the fair value of the consideration receivable under the SPA as at 31 December 2020 and instead should recognise any correction of the consideration receivable under the SPA in the consolidated statement of changes in equity during the six months ended 30 June 2021. Accordingly, together with the write down of the dynamic component of the consideration receivable under the SPA based on the CMU resolution described above, this resulted in the net change of consideration receivable under the SPA of UAH 77,858 million recognised directly in the consolidated statement of changes in equity.

6. CONSIDERATION RECEIVABLE UNDER THE SPA (Continued)

Since May 2021, management of the Group has been negotiating to recover the amount of consideration receivable or substitute it with some new instrument. As a result, in September 2021 the following agreement was reached and approved by the Resolution of the CMU:

- addendums to the SPA were developed providing that MGU should pay UAH 3,200 million as a single and final instalment within the SPA, due by 1 December 2021;
- "Ukrtransgaz" JSC entered into an agreement with GTSOU on compensation of underrecovered gas transmission revenue (Note 22), obliging the latter to compensate underrecovered gas transmission revenue for the 2020-2024 regulatory period in amount of UAH 47,943 million, receivable in instalments, of which UAH 27,000 million was received in October 2021 (Note 24), and the remaining part of UAH 20,943 million is due by 1 December 2021, but not earlier than GTSOU signs a loan agreement. If the loan agreement is not arranged, starting from December 2021 the remaining part is receivable in monthly instalments comprising 50% of GTSOU's proceeds from gas transit. According to this agreement, "Ukrtransgaz" JSC preserves its rights for the compensation of underrecovered gas transmission revenue, which was previously factored into the initial fair value of the SPA, if any such compensation is approved for GTSOU for the regulatory periods 2025-2034.

Management believes that significant support in establishing the agreement between "Ukrtransgaz" JSC and GTSOU on the compensation of underrecovered gas transmission revenue was contributed by the Government of Ukraine, the ultimate owner of both entities, and this support was provided to the Group alongside new strategic directives, issued in September 2021, which specify a key role for the Group in providing security of gas supply in Ukraine, in particular addressing apparent market failures amidst the global gas crisis. On this basis the Group recognised the compensation of under recovered gas transmission revenue under the agreement between "Ukrtransgaz" JSC and GTSOU directly in equity as a contribution from the owner.

7. OTHER NON-CURRENT ASSETS

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

In millions of Ukrainian hryvnias	30 September 2021	31 December 2020
Financial assets:		
Accounts receivable on product sharing agreement	4,532	5,250
Restructured accounts receivable of gas consumers	3,091	2,146
Other financial assets	103	88
Less: provision for impairment of financial assets	(5,563)	(5,406)
Total financial assets	**2,163**	**2,078**
Non-financial assets:		
Other non-financial assets	2,787	2,283
Less: provision for impairment of non-financial assets	(1,999)	(1,469)
Total non-financial assets	**788**	**814**
Total	**2,951**	**2,892**

7. OTHER NON-CURRENT ASSETS (Continued)

Restructured accounts receivable of gas consumers. During the nine months ended 30 September 2021, the Company signed amicable agreements with municipal heat generating entities in respect of the restructuring of accounts receivable for gas in amount of UAH 3,974 million. These accounts receivables were restructured for the period from 3 to 10 years and recognised at amortised cost using the effective interest rate method which, at the restructuring date, equalled from 6.96% to 8.03%. Loss on initial recognition of these restructured accounts receivable amounted to UAH 607 million and was included in selling, general and administrative expenses (Note 18).

Movements in provision for impairment of financial non-current assets were as follows:

In millions of Ukrainian hryvnias	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Balance at 1 January	**5,406**	**3,268**
Provision for impairment recognised during the period	952	2,283
Reversal of provision for impairment	(718)	-
Other movements	(77)	(15)
Balance at 30 September	**5,563**	**5,536**

8. INVENTORIES

The Group's inventories were as follows:

In millions of Ukrainian hryvnias	30 September 2021	31 December 2020
Natural gas	56,798	30,521
Crude oil	3,047	3,639
Petroleum products	2,201	2,243
Spare parts	1,792	1,964
Raw materials	1,199	1,169
Other	1,316	1,155
Total	**66,353**	**40,691**

For the nine months ended 30 September 2021, write-down adjustment amounted to UAH 112 million was included in purchases, UAH 15 million in selling, general and administrative expenses (2020: 2,364 million was included in purchases and UAH 149 million included in selling, general and administrative expenses).

As at 30 September 2021 and 31 December 2020, inventories with carrying amount of UAH 17,505 million and UAH 17,323 million, respectively, were pledged as collateral for borrowings (Note 12).

9. TRADE ACCOUNTS RECEIVABLE

The Group's trade accounts receivable were as follows:

In millions of Ukrainian hryvnias	**30 September 2021**	**31 December 2020**
Accounts receivable for natural gas	98,318	86,202
Accounts receivable for gas balancing services	42,465	43,622
Accounts receivable for petroleum products	16,042	12,909
Accounts receivable for crude oil	5,463	6,251
Accounts receivable for gas transportation services	2,507	3,347
Other accounts receivable	2,507	3,245
Less: provision for impairment	(147,437)	(127,447)
Total	**19,865**	**28,129**

As described in Note 26, management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of both individual accounts and groups of customers with similar characteristics. As at 30 September 2021 and 31 December 2020 the expected credit losses for receivables for gas were measured using the portfolio approach as described in Note 26. Expected credit losses for receivables other than for gas were measured using migration matrices based on portfolio of clients approach as at 30 September 2021 and 31 December 2020.

The following table provides information about the exposure to credit risk and expected credit losses for trade accounts receivable as at 30 September 2021 and 31 December 2020.

9. TRADE ACCOUNTS RECEIVABLE (Continued)

The expected credit losses are estimated using a portfolio approach (31 December 2020: migration matrix):

		30 September 2021			31 December 2020		
In millions of Ukrainian hryvnias	**days past due**	**Expected loss rate**	**Gross carrying amount**	**Provision for impairment**	**Expected loss rate**	**Gross carrying amount**	**Provision for impairment**
Accounts receivable from regional gas supply entities for natural gas	Not past due	20%	45	(9)	15%	46	(7)
	1 – 90	100%	1	(1)	50%	2	(1)
	91 – 180	67%	3	(2)	100%	913	(912)
	181 - 270	67%	3	(2)	100%	3,712	(3,711)
	271 - 365	67%	3	(2)	100%	10,971	(10,970)
	>365	100%	23,369	(23,366)	100%	7,862	(7,862)
Accounts receivable from heating entities for natural gas	Not past due	20%	1,338	(262)	17%	10,657	(1,801)
	1 – 90	91%	35	(32)	33%	6,582	(2,203)
	91 – 180	88%	11,194	(9,827)	62%	879	(547)
	181 – 270	87%	19,266	(16,770)	72%	2,277	(1,630)
	271 – 365	93%	1,120	(1,039)	89%	5,146	(4,587)
	>365	89%	22,808	(20,270)	100%	20,335	(20,335)
Accounts receivable from other consumers for natural gas	Not past due	12%	285	(35)	11%	3,028	(333)
	1 – 90	40%	10	(4)	56%	9	(5)
	91 – 180	71%	7	(5)	69%	32	(22)
	181 – 270	71%	7	(5)	75%	8	(6)
	271 – 365	86%	7	(6)	75%	8	(6)
	>365	100%	9,859	(9,859)	100%	9,758	(9,758)
Accounts receivable for gas balancing services	1 – 90	0%	1	-	-	-	-
	>365	100%	42,464	(42,419)	100%	43,285	(43,239)
Accounts receivable for petroleum products	Not past due	-	-	-	0%	13	-
	>365	100%	179	(179)	100%	191	(191)
Accounts receivable for crude oil	Not past due	0%	58	-	0%	46	-
	1 – 90	0%	25	-	0%	42	-
	91 – 180	-	-	-	0%	15	-
Accounts receivable for gas transportation services	Not past due	4%	53	(2)	0%	567	-
	1 – 90	14%	51	(7)	0%	274	-
	91 - 180	22%	46	(10)	-	-	-
	181 - 270	41%	32	(13)	-	-	-
	271 - 365	60%	5	(3)	-	-	-
	>365	100%	2,225	(2,222)	100%	2,373	(2,373)
Other accounts receivable	Not past due	0%	155	-	0%	190	-
	1 – 90	0%	5	-	4%	49	(2)
	91 - 180	6%	17	(1)	67%	3	(2)
	181 - 270	6%	16	(1)	-	-	-
	271 - 365	88%	24	(21)	95%	22	(21)
	>365	100%	1,425	(1,418)	100%	1,429	(1,422)
Total			**136,141**	**(127,792)**		**130,724**	**(111,946)**

9. TRADE ACCOUNTS RECEIVABLE (Continued)

The expected credit losses are estimated using an individual approach (Note 26):

In millions of Ukrainian hryvnias	**Expected loss rate**	**30 September 2021**		**31 December 2020**	
		Gross carrying amount	**Provision for impairment**	**Gross carrying amount**	**Provision for impairment**
Accounts receivable from regional gas supply entities for natural gas	0% to 30%	471	-	-	-
	50% to 100%	4,023	(4,023)	-	-
Accounts receivable from heating entities for natural gas	0% to 30%	92	-	-	-
	50% to 100%	-	-	2	(2)
Accounts receivable from other consumers for natural gas	0% to 30%	2,908	(254)	3,194	(77)
	30% to 50%	180	(61)	382	(136)
	50% to 100%	1,284	(1,279)	399	(375)
Accounts receivable for gas balancing services	50% to 100%	-	-	337	(337)
Accounts receivable for petroleum products	0% to 30%	1,120	(51)	2,905	(749)
	30% to 50%	6,733	(2,491)	-	-
	50% to 100%	8,010	(5,673)	9,800	(6,855)
Accounts receivable for crude oil	0% to 30%	71	(1)	24	-
	50% to 100%	5,309	(5,309)	6,124	(6,124)
Accounts receivable for gas transportation services	0% to 30%	21	(1)	47	-
	30% to 50%	-	-	33	(15)
	50% to 100%	74	(61)	53	(42)
Other accounts receivable	0% to 30%	317	(72)	256	(64)
	30% to 50%	207	(101)	949	(429)
	50% to 100%	341	(268)	347	(296)
Total		**31,161**	**(19,645)**	**24,852**	**(15,501)**

9. TRADE ACCOUNTS RECEIVABLE (Continued)

Movements in provision for impairment of trade accounts receivable for the nine months ended 30 September 2021 were as follows:

In millions of Ukrainian hryvnias	**Balance at 1 January**	Provision for impairment recognised during the period	Reversal of provision for impairment	Amounts written off during the year as uncollectible	Other movements	**Balance at 30 September**
Accounts receivable for gas balancing services	43,576	56	(372)	(703)	(138)	42,419
Accounts receivable from heating entities for natural gas	31,105	30,567	(13,542)	-	70	48,200
Accounts receivable from regional gas supply entities for natural gas	23,463	5,743	(1,801)	-	-	27,405
Accounts receivable from other consumers for natural gas	10,718	1,880	(1,097)	-	7	11,508
Accounts receivable for petroleum products	7,795	1,797	(1,187)	-	(11)	8,394
Accounts receivable for crude oil	6,124	1	(815)	-	-	5,310
Accounts receivable for gas transportation services	2,430	45	(156)	-	-	2,319
Other accounts receivable	2,236	24	(364)	(13)	(1)	1,882
Total	**127,447**	**40,113**	**(19,334)**	**(716)**	**(73)**	**147,437**

Movements in provision for impairment of trade accounts receivable for the nine months ended 30 September 2020 were as follows:

In millions of Ukrainian hryvnias	**Balance at 1 January**	Provision for impairment recognised during the period	Reversal of provision for impairment	Amounts written off during the year as uncollectible	Other movements	**Balance at 30 September**
Accounts receivable for gas balancing services	41,251	2,351	(244)	(266)	-	43,092
Accounts receivable from heating companies for natural gas	20,195	10,975	(5,831)	-	8	25,347
Accounts receivable from regional gas distribution entities for natural gas	346	5,725	(2,018)	-	-	4,053
Accounts receivable from other consumers for natural gas	10,290	396	(108)	(127)	8	10,459
Accounts receivable for petroleum products	4,790	2,289	(2,141)	-	306	5,244
Accounts receivable for crude oil	7,212	1	(819)	-	1	6,395
Accounts receivable for gas transportation services	2,237	308	(130)	-	(50)	2,365
Other accounts receivable	1,957	548	(369)	134	207	2,477
Total	**88,278**	**22,593**	**(11,660)**	**(259)**	**480**	**99,432**

10. PREPAYMENTS MADE AND OTHER CURRENT ASSETS

As at 31 December 2020 prepayments made and other current assets included UAH 11,483 of State treasury bonds matured in March 2021. As at 30 September 2021, prepayments made and other current assets included UAH 3,328 million of prepayment to suppliers for natural gas (31 December 2020: UAH 158 million).

11. EQUITY

Distribution of profits

Profit available for distribution to the shareholders for each reporting period is determined by reference to the standalone financial statements of the Company prepared in accordance with International Financial Reporting Standards. As at 31 December 2019, the Company accrued a provision of UAH 15,197 million in respect of the portion of net profit attributable to the State Budget of Ukraine in current provisions. Then, following the Resolution of the Cabinet of Ministers of Ukraine No.1339-r dated 26 December 2019, the Company has paid UAH 8,500 million out of this amount in December 2019 as dividends per results of 2019. In June 2020 the Company has additionally paid UAH 39,625 million to the State Budget. In total, the Company paid UAH 48,125 million or 95% of the Company’s net profit for 2019 to the State Budget.

For the year ended 31 December 2020, the obligatory profit amount accrued in current provisions in respect of the portion of net profit of “Ukrnafta” PJSC attributable to the State Budget amounted to UAH 1,921 million, to other equity holders – UAH 1,921 million. In 2021, “Ukrnafta” PJSC additionally accrued dividends in respect of net profit for the year ended 31 December 2018 in amount of UAH 966 million attributable to the State Budget and UAH 966 million attributable to other equity holders.

Non-controlling interest

Subsidiaries that have non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) accumulated amount of non-controlling interest in the subsidiary; and (iii) total assets, revenues, profit or loss and other comprehensive income of the respective subsidiaries.

The Group has one subsidiary which has non-controlling interest material to the Group, which is “Ukrnafta” PJSC. The summarised financial information of “Ukrnafta” PJSC (including the impact of consolidation adjustments, but before inter-company eliminations), was as follows as at 30 September 2021 and 31 December 2020.

In millions of Ukrainian hryvnias	**“Ukrnafta” PJSC**	
	30 September 2021	**31 December 2020**
Non-current assets	22,620	23,507
Current assets	14,336	12,164
Non-current liabilities	(15,230)	(23,864)
Current liabilities	(12,016)	(4,352)
Net assets	**9,710**	**7,455**
Non-controlling interest	**4,855**	**3,727**

11. EQUITY (Continued)

In millions of Ukrainian hryvnias	**"Ukrnafta” PJSC**	
	Nine months ended 30 September 2021	**Nine months ended 30 September 2020**
Profit/(Loss) for the period	6,165	(3,091)
Other comprehensive loss for the period	(18)	(16)
Total comprehensive income/(loss)	**6,147**	**(3,107)**
Net profit/(loss) is attributable to non-controlling interest	**3,073**	**(1,554)**
Dividends payable to non-controlling interest	**(966)**	**-**

In millions of Ukrainian hryvnias	**“Ukrnafta” PJSC**	
	Nine months ended 30 September 2021	**Nine months ended 30 September 2020**
Net cash generated by operating activities	1,272	(1,836)
Net cash used in investing activities	(618)	(442)
Net cash used in financing activities	(1)	2,405
Net increase/(decrease) in cash and cash equivalents	**652**	**128**

12. BORROWINGS

The Group’s borrowings were as follows:

In millions of Ukrainian hryvnias	**30 September 2021**	**31 December 2020**
Non-current		
Eurobonds	31,877	44,453
Bank borrowings	10,429	12,220
Unamortised discount	(73)	(126)
Total non-current portion	*42,233*	*56,547*
Current		
Eurobonds	8,903	-
Bank borrowings	10,204	8,427
Interest accrued	979	1,368
Total current portion	*20,086*	*9,795*
Total	**62,319**	**66,342**

12. BORROWINGS (Continued)

In 2019 the loan participation notes due in 2026 were issued by Kondor Finance plc (a public company with limited liability incorporated in England and Wales) on a limited recourse basis for the purpose of funding a loan to the Company. Eurobonds disclosed in the above table are represented by the loan obtained by the Group from Kondor Finance plc. The Group does not control or exercise significant influence over Kondor Finance plc.

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

In millions of Ukrainian hryvnias	30 September 2021		31 December 2020	
	Balance	**% per annum**	**Balance**	**% per annum**
USD	30,319	7.5	32,640	7.6
EUR	20,011	7.4	24,405	7.3
UAH	11,989	11.1	9,297	12.1
Total	**62,319**		**66,342**	

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

	30 September 2021	**31 December 2020**
Inventories (Note 8)	17,505	17,323
Proceeds from future sales	10,999	14,412
Property, plant and equipment (Note 5)	2,113	3,134
Total	**30,617**	**34,869**

Guarantees. As at 30 September 2021, the Group's borrowings in amount of UAH 2,458 million were guaranteed by the State (31 December 2020: UAH 2,783 million).

Reconciliation of financial liabilities from financing activities

In millions of Ukrainian hryvnias	**31 December 2020**	**Cash flows from financing activities**	**Non-cash transactions**	**Interest expense (Note 19)**	**30 September 2021**
Bank borrowings	20,751	(370)	(456)	826	20,751
Eurobonds	45,591	(2,728)	(3,764)	2,469	41,568
Total	**66,342**	**(3,098)**	**(4,220)**	**3,295**	**62,319**

In millions of Ukrainian hryvnias	**31 December 2019**	**Cash flows from financing activities**	**Non-cash transactions**	**Interest expense (Note 19)**	**30 September 2020**
Bank borrowings	24,169	(6,586)	1,527	2,025	21,135
Eurobonds	36,493	(2,561)	8,076	2,320	44,328
Total	**60,662**	**(9,147)**	**9,603**	**4,345**	**65,463**

Non-cash transactions relate to foreign exchange differences on borrowings and interest capitalisation.

13. PROVISIONS

As at 30 September 2021, the Group's provisions amounted to UAH 22,600 million (31 December 2020: UAH 23,429 million). The main changes in provisions are explained by the following:

Provision for net profit attributable to the State Budget of Ukraine

In June 2021 the profit share of "Ukrnafta" PJSC for the year ended 31 December 2020 was approved and the Group has reclassified the provision in amount of UAH 3,842 million to the advances received and other current liabilities. 50% of amount attributed to Group has recognized as the profit share payable to the State Budget, the other 50% of amount has recognised as the profit share payable to non-controlling shareholders of "Ukrnafta" PJSC (Note 11).

14. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

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

In millions of Ukrainian hryvnias	**30 September 2021**	**31 December 2020**
Financial liabilities:		
Profit share and dividends payable to non-controlling shareholders of "Ukrnafta" PJSC	3,311	427
Profit share and dividends payable to the State Budget	2,887	-
Liabilities for purchase of property, plant and equipment	1,352	2,281
Other current financial liabilities	2,193	1,849
Total financial liabilities	*9,743*	*4,557*
Non-financial liabilities:		
Taxes payable other than income tax	5,387	2,552
VAT payable	1,656	3,826
Wages, salaries and related social charges payable	570	514
Recognised liabilities for litigations	157	177
Other non-financial current liabilities	1,115	808
Advances for gas transit organisation services	2,498	2,673
Advances for natural gas	2,046	3,324
Advances for oil transportation	350	284
Advances received for geophysical surveys	177	177
Advances for petroleum products	189	173
Other advances received	799	1,212
Total non-financial liabilities	*14,944*	*15,720*
Total	**24,687**	**20,277**

15. REVENUE

In millions of Ukrainian hryvnias	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Gas	75,395	43,509
Petroleum products	26,399	17,726
Gas transit organisation services	25,323	33,457
Oil transit and transportation	2,916	2,693
Gas storage	1,243	2,217
Oil and gas condensate	1,097	789
Other	3,197	2,777
Total	**135,570**	**103,168**

16. PRODUCTION AND MANUFACTURING EXPENSES

In millions of Ukrainian hryvnias	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Subsoil royalty and other taxes other than on income	27,975	17,468
Staff costs and related social charges	5,096	5,000
Transportation of oil and natural gas	2,393	2,110
Materials	2,727	1,826
Crude oil processing services	1,920	2,770
Repair and maintenance costs	1,046	1,885
Utilities	1,054	780
Other	1,748	1,581
Total	**43,959**	**33,420**

During the nine months ended 30 September 2021, Subsoil royalty and other taxes other than on income included UAH 23,386 million of subsoil royalty (30 September 2020: UAH 13,313 million). 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. Subsoil royalty on gas produced is calculated with reference to gas import prices.

17. PURCHASES

In millions of Ukrainian hryvnias	Nine months ended 30 September 2021	Nine months ended 30 September 2020
Gas	17,712	12,506
Gas transit organisation services	24,731	32,408
Oil and petroleum products	2,334	1,877
Other	146	76
Total	**44,923**	**46,867**

Purchases of gas, oil and petroleum products reflect the costs related to the acquisition of inventories and the effects of the changes therein, and include associated costs incurred in conversion into finished or intermediate products.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Staff costs and related social charges	6,297	5,706
Change in provisions for litigations and other provisions	3,765	2,554
Non-refundable VAT	962	1,653
Fines and penalties paid	539	654
Professional fees	503	723
Transportation costs	352	359
Legal costs	254	263
Loss on initial recognition of financial instruments at amortised cost	410	23
Loss on disposal of assets	288	155
Contributions to trade unions	402	211
Charity and social infrastructure	197	663
Fines and penalties received	(866)	(456)
Other income	(745)	(1,471)
Other expenses	1,484	3,232
Total	**13,842**	**14,269**

19. FINANCE COSTS

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2021**	**Nine months ended 30 September 2020**
Interest expense	3,295	4,345
Unwinding of discount	787	796
Other	102	80
Total	**4,184**	**5,221**

20. INCOME TAX (EXPENSE)/BENEFIT

The income tax expense for the nine months ended 30 September 2021 amounted to UAH 6,425 million (2020: UAH 4,840 million of income tax benefit) was primarily attributable to the taxable profits for the nine months ended 30 September 2021 as compared to the tax losses accumulated during the nine months ended 30 September 2020. The effective tax rate was lower in 2020 due to additional deferred tax assets arising on provisions and tax losses carried forward not recognised as a deferred tax asset.

21. 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 September 2018 – March 2021 Naftogaz underwent planned tax inspection covering the period from 1 January 2015 until 30 June 2018. In March 2021 the results of this inspection were completed by the State Tax Service. The results include, inter alia, allegation of unrecorded gas sales to heating entities under PSO regime that resulted in the understatement of the Company's corporate income tax and VAT in the amount of UAH 1,857 million and UAH 2,760 million together with relevant penalties and fines, respectively. Management disagrees with the conclusions of the tax inspection due to the fact that the Company did not provide nominations for gas sale to these heating entities due to their failure to comply with certain conditions that should have been met to qualify for gas purchase under PSO regime, particularly maintaining a defined minimum level of settlements for gas already supplied. As certain heating entities did not maintain this minimum settlement level required under PSO regime at the time of supply, Naftogaz rejected further gas sales to them and notified by them of that matter. Management believes that it would be able to defend its position in court and creates no provision in this respect in these condensed consolidated financial statements.

Legal disputes with "Ukrnafta" PJSC. The Company is involved in disputes with "Ukrnafta" PJSC, a subsidiary of the Group, in respect of returning gas volume and/or recovering its value that was produced by "Ukrnafta" PJSC and subsequently sold by Naftogaz for the needs of the households during 2007-2013, without making payment to "Ukrnafta" PJSC. "Ukrtransgaz" JSC holds some 0.7 bcm of this volume in underground storage.

The Resolution of the Cabinet of Ministers of Ukraine No.1729 "On providing the natural gas to consumers", effective in the periods before 2016, envisaged that natural gas produced in Ukraine would be sold to the households. In turn, Naftogaz had to supply that natural gas to households via its subsidiary "Gas of Ukraine" SE that should have then resold it to regional gas supply companies and municipal heating entities. During the period mentioned above, the Company requested to sign gas sell-purchase agreements at regulated prices set at that time by the National Commission for Regulation of Energy and Utilities ("NCREU"), with "Ukrnafta" PJSC, however, the latter rejected to do so as it believed that there should be no regulation in gas prices for such gas sale. Moreover, "Ukrnafta" PJSC did not conclude a gas storage agreement with "Ukrtransgaz" JSC during that period.

As gas consumption is an on-going process, and households did have agreements on natural gas supply, there was no legal grounds for gas supply interruption for households, and Naftogaz deemed to use that source for meeting households' needs in gas.

21. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

As a result, each of Naftogaz , “Ukrnafta” PJSC, “Ukrtransgaz” JSC and non-controlling shareholders of “Ukrnafta” PJSC have initiated a large number of court proceedings in the Ukrainian courts and international arbitration proceedings, some of which remain pending. At the same time, “Ukrnafta” PJSC makes claims of a similar nature to different jurisdictions that may lead to duplicating its requests to return assets.

Ukrainian court proceedings

“Ukrnafta” PJSC filed several claims against the National Commission for Regulation of Energy that later was renamed to National Commission for Regulation of Energy and Utilities (the Regulator or NCREU) that was responsible for gas selling price setting at that time, before the Administrative court, in order to invalidate and set aside its regulations in respect of setting gas selling prices. The court supported these claims and invalidated certain regulations of the National Committee on Electricity in 2014-2020.

Naftogaz has claimed compelling conclusion of gas sell-purchase agreements by “Ukrnafta” PJSC. The court dismissed Naftogaz claims and established that the parties did not enter into such agreements, as the selling price was not agreed by the parties, thus, an agreement could not be deemed as concluded according to the Commercial Code of Ukraine.

“Ukrnafta” PJSC also filed a claim before the Commercial court against Naftogaz seeking recovery of gas in the total volume of 10 bcm that Naftogaz could have allegedly off taken. The case was postponed for three years and renewed upon request of “Ukrnafta” PJSC in April 2021 claiming 8 bcm of gas from Naftogaz with an estimated value of UAH 71.4 billion. In August 2021 “Ukrnafta” PJSC amended its claim to circa 9 bcm produced during 2007-2013.

The latest hearing was on 26 October 2021 in which the court ordered the parties to reconcile the claimed volumes with “Ukrtransgaz” JSC. There were no other hearings of this case by the date of these unaudited condensed consolidated interim financial statements.

There is a wide range of possible outcomes with inherent high uncertainty and therefore the possible amount of the outflows of resources cannot be estimated accurately as at the date of these unaudited condensed consolidated interim financial statements at 30 September 2021 and 31 December 2020. This dispute would have no impact on the Group’s performance other than allocation of profit and net assets between non-controlling interests and owners of the Parent. The amount of non-controlling interest in “Ukrnafta” PJSC in these unaudited condensed consolidated interim financial statements is based on the value of its assets related to this dispute at historical cost of gas production of “Ukrnafta” PJSC, that has been previously incorporated in “Ukrnafta” PJCS financial statements in the amount of UAH 3.4 billion and is not adjusted for any possible impact of this dispute.

Possible re-arrangement of interest in “Ukrnafta” PJSC

Parties are contemplating a re-arrangement of their interest in “Ukrnafta” PJSC. As part of the re-arrangement parties will have to come to an agreement on mutual claims. The re-arrangement will not only include the agreement on the claims but also a split of the assets, and settlement of prepayments made by Naftogaz for future deliveries of gas, and certain other assets and liabilities of “Ukrnafta” PJSC.

21. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

The arbitration proceedings commenced before the Stockholm Chamber of Commerce Arbitration

These proceedings were initiated by three Cyprus companies that are non-controlling shareholders of "Ukrnafta" PJSC against the State of Ukraine, claiming that Ukraine allegedly breached its obligations to protect non-controlling shareholders' investments by causing or allowing the Group to appropriate gas without making payment for it. The Request for Arbitration was submitted in June 2015. In February 2021 the Tribunal ruled that it did not have jurisdiction to hear the substantive claims of the non-controlling shareholders of "Ukrnafta" PJSC.

The arbitration proceedings commenced before the London Court of International Arbitration

These proceedings were initiated by the non-controlling shareholders of the "Ukrnafta" PJSC against Naftogaz in respect of (i) a declaratory award holding that the non-controlling shareholders' rights under the shareholders' agreement ("SHA") are valid and subsisting, (ii) a final injunction restraining Naftogaz from breaching its obligations pursuant to the SHA, and (iii) damages in relation to the alleged misappropriation by Naftogaz and Ukrtransgaz JSC in breach of the SHA and of a number of provisions of the Civil Code of Ukraine. Claims were initiated in 2015. The Tribunal issued its Partial Final Award on 26 April 2018, recognising its jurisdiction over the dispute, considering certain provisions of SHA as contradicting the applicable Ukrainian legislation, and declaring that the SHA is valid and subsisting. Naftogaz has recently made an application to file a counterclaim.

Management believes that it has provided for all material losses in these unaudited condensed consolidated interim financial statements.

Compensation of underrecovered gas transmission revenues. "Ukrtransgaz" JSC as predecessor TSO has a right for a compensation of an underrecovered gas transmission revenues from GTSOU as according to regulations of the NCREU, namely – Resolution dated 30 September 2015 No.2517. Such compensation should be performed based on a separate agreement between current TSO and "Ukrtransgaz" JSC. At the date of these unaudited condensed consolidated interim financial statements, and as described in Note 6, "Ukrtransgaz" JSC entered into an agreement with GTSOU in respect of compensation of underrecovered gas transmission revenues for the regulatory period of 2020-2024 of UAH 47,943 million, receivable in instalments, the first one of UAH 27,000 million by 4 October 2021 and the remaining part of UAH 20,943 million by 1 December 2021, but not earlier than OGTSU signs a loan agreement. If the loan agreement is not arranged, starting from December 2021 the remaining part is receivable in monthly instalments comprising 50% of proceeds from gas transit. According to this agreement, "Ukrtransgaz" JSC preserves its rights for the compensation of underrecovered revenue from gas transmission, if any is approved for OGTSU for the regulatory periods 2025-2034.

"Ukrtransgaz" JSC has already received UAH 27 billion as reimbursement of underrecovered gas transmission revenues on 4 October 2021 (Note 24). The Group does not recognise any asset related to this agreement as at 30 September 2021.

22. FINANCIAL RISK MANAGEMENT

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 2020. There have been no changes in the risk management function and risk management policies since 31 December 2020.

Credit risk. The maximum exposure to credit risk as at 30 September 2021 is UAH 41,090 million (31 December 2020: UAH 162,392 million).

Liquidity risk. Prudent liquidity management implies maintaining sufficient cash and the availability of funding to meet existing obligations as they fall due. The Group's objective is to maintain a balance between the continuity of funding and the use of flexible credit terms provided by suppliers and banks. Prepayments are commonly used to manage both liquidity and credit risks. The Group analyses ageing of its assets and maturity of its liabilities and plans liquidity depending on their expected repayment. The Group has capital construction programs which are funded both through existing business cash flows and borrowed funds. Borrowed funds are also used to finance the Group's working capital needs.

The following table analyses the Group's financial liabilities by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows of principal and interest payments.

The maturity analysis of financial liabilities as at 30 September 2021 was as follows:

In millions of Ukrainian hryvnias	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Borrowings	6,137	12,081	5,136	30,952	13,827	68,133
Trade accounts payable	5,240	-	-	-	-	5,240
Advances received and other current liabilities	9,743	-	-	-	-	9,743
Other long-term liabilities	38	-	400	2,453	-	2,891
Total	**21,158**	**12,081**	**5,536**	**33,405**	**13,827**	**86,007**

The maturity analysis of financial liabilities as at 31 December 2020 was as follows:

In millions of Ukrainian hryvnias	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Borrowings	7,147	6,478	17,653	37,282	15,295	83,855
Trade accounts payable	3,585	-	-	-	-	3,585
Advances received and other current liabilities	4,557	-	-	-	-	4,557
Other long-term liabilities	-	-	871	3,035	-	3,906
Total	**15,289**	**6,478**	**18,524**	**40,317**	**15,295**	**95,903**

22. FINANCIAL RISK MANAGEMENT (Continued)

Gearing ratio. This ratio is calculated as net debt divided by total capital plus net debt under management. Net debt is calculated as total borrowings (current and non-current as shown in the consolidated statement of financial position) less cash and bank balances. Total capital under management equals total equity as shown in the consolidated statement of financial position. The gearing ratio at the end of the period was as following:

In millions of Ukrainian hryvnias	30 September 2021	31 December 2020
Total borrowings (Note 12)	62,319	66,342
Less: cash and bank balances	(5,944)	(37,106)
Total Net Debt	**56,375**	**29,236**
Total Equity	**243,022**	**314,281**
Gearing ratio, %	**18.8**	**8.5**

Currency risk. The Group operates within Ukraine and its exposure to foreign currency risk is determined mainly by purchases of natural gas from foreign suppliers, which are denominated in USD and EUR. The Group also receives borrowings in foreign currencies. The Group does not hedge its foreign currency positions.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group’s entities.

	At 30 September 2021		At 31 December 2020	
In millions of Ukrainian hryvnias	Impact on profit or loss before income tax	Impact on equity net income tax	Impact on profit or loss before income tax	Impact on equity net income tax
USD strengthening by 10%	(499)	(409)	(506)	(415)
USD weakening by 10%	499	409	506	415
EUR strengthening by 10%	(1,665)	(1,365)	(1,666)	(1,366)
EUR weakening by 10%	1,665	1,365	1,666	1,366

23. FAIR VALUE

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Management believes that carrying amounts of financial assets and liabilities do not differ significantly from their fair values as at 30 September 2021 and 31 December 2020, except as disclosed below:

	30 September 2021		31 December 2020	
In million of Ukrainian hryvnias	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Eurobonds (net of unamortised discount)	40,727	43,407	44,383	48,456

23. FAIR VALUE (Continued)

The following table provides information about how the fair value of financial assets and financial liabilities was determined (in particular, the valuation techniques and inputs used):

Financial liabilities	**Fair value hierarchy**	**Valuation techniques and key inputs**
Eurobonds	1	Fair value of Eurobonds is measured at quoted prices in active markets using interest rates of 4.6%-7.6% p. a

There were no changes in valuation techniques during the period. There were no transfers between Level 2 and Level 3 during the period.

24. SUBSEQUENT EVENTS

Compensation of underrecovered gas transmission revenues. As described in Notes 6 and 21, "Ukrtransgaz" JSC received UAH 27,000 million as compensation of underrecovered gas transmission revenues on 4 October 2021.

25. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the nine months ended 30 September 2021 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 2020, 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	**30 September 2021**	**31 December 2020**
USD 1.00	26.58	28.27
EUR 1.00	30.98	34.74

The average exchange rates for the nine months ended 30 September were:

In Ukrainian hryvnias	**2021**	**2020**
USD 1.00	27.49	26.52
EUR 1.00	32.90	29.82

The accounting policies and accounting judgements applied during the nine months ended 30 September 2021 are consistent with those described in the Group's consolidated financial statements referred above, except for changes described below.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

25. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As discussed in Note 2, in January 2021, the Group acquired 100% of the corporate rights in the share capital of Nadra Yuzivska LLC Management accounts for this transaction as an asset acquisition as there were no employees or production operations acquired. In applying the concentration test under amended IFRS 3 Business Combinations, the fair value of the acquired licence for Yuzivka field (“Yuzivska Licence”) comprises about 90% of the consideration. The Yuzivska Licence is classified as intangible asset as at the acquisition date.

Consolidated Statement of Financial position. The Group changed its presentation of the consolidated statement of financial position as at 30 September 2021. The reason for such change was to better reflect the significant assets and align the Group’s presentation with other leading companies within the Group’s industry. As a result, the following key material changes to Consolidated Statement of Financial position were made:

- The new separate item Intangible assets was introduced, in which amounts were reclassified from the item Other non-current assets.

The effect of the retrospective change in presentation on the unaudited condensed consolidated interim statement of financial position as at 31 December 2020 was as follows:

In millions of Ukrainian hryvnias	31 December 2020, as previously reported	Effect of change in presentation	31 December 2020, as restated
Intangible assets	-	3,147	3,147
Other non-current assets	6,039	(3,147)	2,892

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group’s accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets (Note 9). Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of both individual accounts and portfolios of clients with similar characteristics. Factors taken into consideration include an aging analysis of trade and other receivables with reference to the payment history, expected events that could materially impact future payments, credit terms allowed to customers, and available market information regarding the counterparty’s ability to pay. Expected credit losses for trade receivables for gas estimated using a portfolio approach (Note 9). The Group distinguishes between the following portfolios of clients with trade receivables for gas:

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

- Regional gas supply entities, represented by gas supply entities that buy gas for further reselling to different groups of customers, mainly under PSO regime that was abolished on 1 August 2020,
- Heat generating entities, represented by municipal and other heat and electricity generating entities and industrial entities that buy gas for heat and electricity production both under and outside PSO. PSO was abolished for this portfolio of clients on 21 May 2021,
- Other entities mainly represented by industrial entities that buy gas for different purposes outside PSO.

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.

As at 31 December 2020, the Group accrued a provision for impairment of accounts receivable for gas sold to regional gas supply entities in full amount, as expected credit losses for these entities are estimated at 100%. Such estimate was done by management due to the fact that there were no settlements of outstanding debts for gas.

During assessment of provision for this portfolio of clients as at 30 September 2021, management considered possible settlements under the Anti-Crisis law, that assumes the mechanism of settlements for regional gas supply entities similar to the settlement for municipal heat generating entities as described below. However, as opposed to the situation with the heat generating entities where estimate of possible compensation is available, there is no reliable information on the potential compensation for regional gas supply companies and sources to fund such settlements in the State Budget. Respectively, given the uncertainties related to the Anti-Crisis Law execution and absence of the reliable information amount of the potential compensation, management believes that as at 30 September 2021 there is no enough arguments to support the decision to reverse any of the recorded previously provision for trade receivables from the regional gas supply entities.

As at 31 December 2020, the expected credit losses for heating entities were estimated using a simplified approach as permitted by IFRS 9. This approach was based on a migration matrix of aging of gas receivables and past default experience of the debtors.

Based on the migration matrix approach, default rates for trade accounts receivable of heating entities not past due and trade accounts receivable past due up to 90 days were estimated at 17% and 33%, respectively, as at 31 December 2020 compared to historical level of underpayments of 40%.

The management believes that the following factors might reasonably have been expected to have been considered in estimating expected credit losses for heating entities as at 31 December 2020:

(a) tariffs for heat and other utilities generated by this group of customers are regulated, these tariffs are insufficient to cover their costs and there were no working arrangements with the Government to compensate for such negative differences between actual tariffs and their economically justifiable level.

(b) regulations introduced in 2020-2021 limited ability of heating entities to raise their tariffs and to ensure a higher collection rate.

In particular, on 17 March 2020, as part of the COVID-19 measures introduced by the Law of Ukraine No. 540-IX heating entities were forbidden to cease supply of heat and other utilities or apply any penalties or interest in case of non-payment by the customers.

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

On 9 February 2021, the government, local authorities, NCREU and Naftogaz signed a memorandum according to which (i) tariffs for heat and hot water were not to be increased until the end of the 2020-2021 heating season; (ii) heating entities were guaranteed to receive gas for heat production for the needs of the households until the end of 2020-2021 heating season; and (iii) heating entities were provided with a deferral of payment for gas purchased for heat and electricity production for the needs of households in January-April 2021 up to 30 September 2021 on their request. The amounts deferred relate to the difference between the gas market price and gas prices included in the tariff for heat.

(c) Historically, heating entities have never been able to collect payments for heat and other utilities from their end customers in full.

(d) Under such conditions, heating entities had limited funds to pay for gas supplies, which resulted in accumulation of their debts. There is a risk that heat tariffs will not fully reflect their current costs in the foreseeable future, and that will not allow settling both current and overdue receivables for gas supplies.

According to the migration matrix approach, provisioning for outstanding debts is exercised during a longer period of time comparing to individual assessment.

Taking into account all of the above, in the first half of 2021 management concluded that the default rate applied by the Group was underestimated. At the same time, management considers that it is impracticable to distinguish information that would have been available when the financial statements as at and for the year ended 31 December 2020 were authorised for issue and which provides additional evidence of circumstances that existed as at 31 December 2020 and information that relates to changes in circumstance after that date and corresponding subsequent changes in expected credit losses.

Therefore, the management concluded that it should not make any retrospective adjustments to the provision for accounts receivable and instead recognised a reassessment of provision for this group of customers in the first quarter of 2021.

Management believes that the mechanism of debt settlement among the gas market participants suggested in the Draft Law No. 3508-d "On measures on crisis overcoming and ensuring financial stability in the natural gas market" ("Anti-Crisis law") registered in May 2021 can be seen as a positive development for the Group to expect certain level of settlements from the heating companies. The Anti-Crisis law implies compensation of difference between the heating companies' tariffs and those that would be concluded economically justifiable. The Group considers this to be as a feasible option with a material likelihood of successful implementation, and considers this positive development in assessing provision for the accounts receivable as at 30 September 2021.

As at 30 September 2021, lifetime expected credit losses of trade accounts receivable for gas were estimated based on weighted average probability for several scenarios to account for the market changes which occurred in the first half of 2021 and expected changes in legislation.

For the outstanding trade receivables for gas sold to municipal heat generating entities, management developed two scenarios. One scenario provides that heating entities cannot pay off their debts for gas at all, as explained above. Therefore, in accordance with this scenario, management expected 100% provision for such receivables as at 30 September 2021.

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

In the second scenario management considered possible settlements under the Anti-Crisis Law (Note 2). The Anti-Crisis Law anticipates, inter alia, receiving compensation of negative difference between actual heat tariffs and their cost reflective level to the municipal heat generating entities, and further settlement of their outstanding debts to the Group. The estimated amount of total compensation to the municipal heat producing entities is around UAH 30 billion as per preliminary information based on estimates of such heat generating entities. Management expects that around UAH 24 billion could be used to settle outstanding receivables to the Group, including receivables for gas used for the electricity production. The Anti-Crisis Law presumes that before any settlements occur the government should issue a separate regulation on setting the detailed rules of the Anti-Crisis Law execution.

Taking uncertainty with regard to the law enforcement date and period of settlements, and absence of detailed instructions of the law execution, management applies judgment to the probability of the realisation of the second scenario assuming settlements under Anti-Crisis Law to occur by the end of the year at the level of 30%. Respectively, 70% probability was applied to the first scenario where management assumed outstanding receivables from the municipal heat generating entities for gas sale under PSO regime will not be collected.

As a result of applying probability weighted average scenarios, management recorded UAH 48,200 million of provision for receivables from municipal heating entities for natural gas as at 30 September 2021, that comprises 86% of total gross trade receivables for this portfolio of clients (Note 9).

Should the management estimate on the probability of the second scenario realisation be lower/higher for 10%, the Group would have required to record an additional impairment / release recorded provision in the amount of UAH 2,163 million.

Expected credit losses for gas receivables estimated using an individual approach (Note 9). As a result of PSO abolishment, customer behaviour and market rules changed significantly (Notes 2 and 9). Particularly, the Group started using prepayment terms in gas supply contracts for the households needs and actively engaged bank guarantees as a means of credit enhancement of the deals. Moreover, there is no historical data available to build a trend of settlements under the new rules. As a result of these changes and lack of historical data, management does not consider the migration matrix based on the historical information for estimating impairment provision as at 30 September 2021 for outstanding receivables to represent a tool for accurate estimation of expected credit losses ("ECL"). To address this, management developed an individual approach to estimate expected credit losses for receivables for gas, according to which expected credit losses are determined by evaluating a range of possible outcomes.

ECL is measured as the product of the following credit risk parameters by the Group: Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"). EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, and assessed by the management at 100%. PD an estimate of the likelihood of default to occur over a given time period. The Group assesses the credit quality of the customer and related PD, considering its financial position, past experience and other factors. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. In order to reduce credit risk on receivables, the Group uses letters of credit and guarantees.

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The Group also holds collateral as security, and value and type of such collateral is also considered in ECL estimate. LGD is an estimate of the loss arising on default and is assessed by the management at 100%. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any credit enhancements. The expected losses are not discounted to present value at the end of the reporting period as the discounting effect is considered immaterial.

Revaluation and impairment of property, plant and equipment. Management performs assessment whether carrying amounts of property, plant and equipment accounted under the revaluation model, differ materially from their fair values. Consideration of necessity of revaluation procedures as at 30 September 2021 are described in Note 5.

Furthermore, management of the Group has assessed whether there has been a material change in the underlying fair value drivers at 30 September 2021 as compared to the fair values of the property, plant and equipment recorded as at 31 December 2020. As a result of this assessment, management of the Group has concluded that there is no need to update the fair values of property, plant and equipment other than cushion gas at 30 September 2021 as it was determined that there would not be material impact on the statement of profit and loss of the Group, comprehensive income or statement of financial position.