

**LLC KARPATNAFTOCHIM**

Financial statements  
as at and  
for the year ended 31 December 2020

*These financial statements contain 79 pages*

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## **MANAGEMENT REPORT 2020**

### **1. ORGANIZATION AND OPERATIONS**

**LLC KARPATNAFTOCHIM** (hereinafter “the Company”) was incorporated in October 2004.

The Company is located at 4 Promyslova Str, Kalush, Ivano-Frankivsk region, Ukraine, 77306.

Code in Unified state register of legal entities and self-employed individuals (EDRPOU) - 33129683.

KARPATY CHEMICAL B.V., a legal entity incorporated under legislation of the Kingdom of the Netherlands, is a single shareholder of the Company.

The Company is a highly developed business complex producing petrochemical and chemical products and is the only producer of ethylene, propylene, petrobenzene, pyrolysis fractions C4, C5, C6-C8, C9, polyethylene and suspension polyvinyl chloride in Ukraine using membrane method. In addition, the Company produces air separation products, including medical oxygen.

The technological scheme is based on the processes of high-temperature pyrolysis of crude hydrocarbons and low-temperature separation of pyrolysis products. The key raw materials of the Company are light distillates and liquefied hydro-carbon gases.

The Company, in addition to its own production of thermal energy (steam) for ethylene and polyethylene production, is supplied with thermal energy (steam) for other productions and structural units under contract with SE "KALUSKA TPP NOVA". Such thermal energy is transported through own networks of gas and steam supply shop.

Electricity is supplied under the contracts with independent suppliers at unregulated tariffs through own transformer substations PGV-31, PGV-32, and GPP-1 of electricity supply shop.

Natural gas is supplied under the contracts with independent suppliers through Kalush-2 GDS belonging to gas and steam supply shop directly from the main gas transmission pipeline of NJSC Naftogaz of Ukraine.

The Company has its own surface source of drinking and service water – alternative water intake facility on the Chechva river belonging to water supply and sewerage shop.

Treatment of sewage from Company's structural units, separate legal entities and neighborhood united territorial communities and Kalush territorial community is provided on contractual terms by own treatment facilities of neutralization and treatment of service wastewater shop of Production Support Department.

Raw materials and finished products are transported by the railway shop via the Company's own access railroads. There are two stations in the railway shop structure (Kropyvnyk - 10 railways and Khimik-Novyi - 11 railways), the total length of railway tracks is 52.9 km. There are 10 own locomotives and 194 tanks.

Extensive network of auto roads and railways, proximity to borders with Poland, Romania, Hungary, Slovakia, the Czech Republic, existence of ethylene pipeline between the Company and Tisza Chemical Plant in Hungary create favorable conditions for the Company's integration into the European production and trade system.

High quality of products is ensured by highly qualified personnel and compliance with international quality standards ISO 9001, ISO 14001, ONSAS 18001.

Due to COVID-19 spread during 2020, and in order to support government measures to combat the pandemic, the Company began production of new products - liquid medical oxygen and commercial-grade sodium hypochlorite, which were sold to government agencies and state entities, utility companies,

educational institutions, and health care institutions of the western region on a free basis.

During 2020, 149.04 tons of medical oxygen totaling to UAH 559,170 were sold, including 72.38 tons totaling to UAH 108,570 on a free basis.

During 2020, 145.65 tons of commercial-grade sodium hypochlorite, totaling to UAH 612,594 were sold, including 144.41 tons totaling to UAH 606,522 on a free basis.

The Company's mission has not changed and consists in dynamic sustainable development with increasing efficiency and competitiveness at best practice level adopted by global and domestic markets.

The Company believes that sustainable development can be understood as conducting the most efficient business through maintaining the best balance in implementation of short -, medium - and long-term strategic goals of the Company, with due consideration of market conditions.

In order to improve economic efficiency of the operations, the Company sees the following priorities in strategic goals of its development:

- efficient use of available production equipment and facilities to maximize, as far as possible, production of existing products;
- efficient use of raw materials due to advance processing through modernization of existing and creation of new production facilities;
- extension of product range due to development of new product production;
- establishment of stable, long-term partnerships with large suppliers of raw materials to ensure smooth operations and with consumers of the Company's products to ensure efficient distribution;
- diversification of sources of raw materials supply from different markets, with number of main strategic partners extended;
- more efficient use of financial resources;

- efficient use of raw materials, equipment, and workforce through comprehensive implementation of the latest automated systems of technological process management at planning stage and in production;
- entering more profitable markets for finished products, increasing product share in the domestic market in order to implement an import substitution policy.

Corporate core values include:

- **Social responsibility:** ensure safe working conditions for employees, protect employees' health and health of people living in the area affected by the Company's operations;
- **Environmental friendliness:** preserve favorable environment through implementation of resource-saving energy-efficient technologies, materials, increased automation of process management;
- **Reliability:** enhance industrial safety, labor and environment protection by increasing technological equipment reliability (including pipelines integrity), ensure smooth operation of equipment, use advances technologies and emergency systems;
- **Safety:** ensure readiness of management and personnel and emergency services and teams to response to potential accidents, fires and emergencies, ensure proper equipment of fire and rescue teams, etc.

## 2. SALES OF PRINCIPAL PRODUCTS DURING 2020 BY GEOGRAPHIC REGION

Product	Core market	% of sales
Benzene	Europe	93
Propylene	Europe	100

Fraction C <sub>4</sub>	Europe	100
Fraction C <sub>9</sub>	Europe	100
Pitch pyrolysis	Ukraine	80
Caustic soda	Ukraine	49
Polyethylene	Ukraine	45
Polyvinyl chloride	Ukraine	38

### 3. ORGANIZATION

- Supervisory Board;
- Management Office;
- Subunits of Management Office;
- Production Units;

Management Office includes:

- General Director Office;
- Office of First Deputy General Director-Chief Engineer;
- Office of Deputy General Director for Production;
- Office of Deputy General Director for Business and Finance
- Office of Deputy General Director for Commerce;
- Office of Deputy General Director for HR Management and Administrative Matters;
- Office of Deputy General Director for Security;
- Chief Accountant Office;
- Department of Service Safety, Labor and Environment Protection;

Production Units include:

- Production of polyvinylchloride resin, suspension and caustic soda;
- Production of ethylene and polyethylene;
- Production support department;
- Analytical control shop;
- Railway shop;

- Sanitary laboratory
- Electricity supply shop;
- Shop of control and measuring devices and automatic devices;
- Metrology service;
- Production equipment maintenance team;
- Repair department;
- Design department and technical supervision department;
- Design office (construction of pyrolysis fraction processing plant).

#### **4. THE RESULTS OF OPERATIONS**

During 2020, Company's sales revenue amounted to UAH 10,990.1 thousand, demonstrating 19% decrease against the previous year, while sales margin increased by 11.3% compared to the previous year and amounted to 16.4% for the reporting period.

The main factors that caused decrease in sales revenue during 2020 include:

1. Use of butylene-butadiene fraction (fraction C4) as a raw material for pyrolysis. During the previous reporting period, the total volume of butylene-butadiene fraction produced was sold to consumers as commercial products. In 2020, sales prices of butylene-butadiene fraction were unfavorable for the Company, which led to the decision to hydrogenate and reuse this product as raw material.
2. Suspension of polyethylene production during January-March 2020 due to unfavorable market conditions.

During 2020, there was a short-term shutdown of main production units for cleaning of heat exchange equipment in March and maintenance and repair of main production facilities in October-November 2020.



The total output decreased by 5.3 thousand tons compared to 2019. During 2020, production of pyrolysis resin increased by 8.4 thousand tons, polyvinyl chloride by 7.1 thousand tons, and caustic soda by 4.2 thousand tons. However, production of polyethylene decreased by 15.2 thousand tons, propylene by 6 thousand tons, C9 fraction by 3.3 thousand tons, and benzene by 0.5 thousand tons.

During 2020, gross profit increased by 147% versus the previous reporting period. There were no significant changes in administrative expenses, other operating income and expenses, distribution expenses compared to the previous period.

However, as a result of significant devaluation of the Ukrainian hryvnia against foreign currencies during 2020, the Company's financial result deteriorated significantly due to foreign exchange differences.

## 5. LIQUIDITY AND OBLIGATIONS

Liquidity of assets characterized by overall, current, and absolute liquidity ratios is a criterion for evaluating the Company's operations.

<b>Ratios</b>	<b>2019</b>	<b>2020</b>
Overall liquidity ratio, %	1.30	2.53
Current liquidity ratio, %	0.56	0.86
Absolute liquidity ratio, %	0.25	0.31

Compared to 2019, in 2020 the Company's liquidity significantly improved due to optimization of inventories and cash in accounts, reduction of outstanding loans, reduction of accounts payable, and normalization of accounts receivable.

The Company's liquidity is optimized through operational mechanism of financial stabilization - a system of measures aimed to decrease financial liabilities, on the one hand, and to increase monetary assets that provide for these liabilities, on the other hand, that includes:

- optimization of non-variable and semi-variable costs;
- management of accounts payable;
- management of accounts receivable;
- inventory management;
- planning of optimal volumes of raw and auxiliary materials;
- oversight of consistency between production plans and sales plans;
- rejection of inefficient agreements.

As at 31 December 2020, the Company had no contingent liabilities.

As at 31 December 2020, the Company has short-term and long-term liabilities to domestic creditor banks, PJSC JSB “UKRGASBANK” and JSC “State Savings Bank of Ukraine”, and to a related party under common control, as disclosed in the Balance sheet (Statement of financial position).

The Company's management believes that preparation of these 2020 financial statements on a going concern basis is appropriate in view of the following facts:

- operation in the scheduled regime in 2020 and achievement of the target export and domestic sales amidst global turmoil caused by COVID-19 pandemic;
- agreements were prolonged with major creditors on the extension of the terms of obligations to next reporting periods;
- based on forecasts on domestic and international markets for raw materials and products, implementation of investment projects, it is expected that the Company will be able to receive sufficient profit in next reporting periods to continue its operations.

## **6. ENVIRONMENTAL ASPECTS AND LABOR SAFETY**

To apply consistent approach to addressing environmental issues related to the Company's production activities and ensuring compliance with environmental legislation, the Company has Environmental Management System (EMS) in place, which is a part of the Company's overall management system.

EMS regulates organization of environmental activities in structural units, determines methodological and legal framework for such activities to ensure compliance of environmental management system with effective environmental legislation of Ukraine and international standards ISO 14001:2015.

Environmental management system determines rights, duties, and responsibilities of managers, professionals, and workers in organizing and performing actions to prevent and mitigate negative impact of the Company's operations on environment. Ultimate goal of development and implementation of environmental management system is to protect air, surface water and groundwater, soils, flora and fauna from pollution caused by industrial emissions, wastewater discharges, and the Company's waste, in compliance with effective environmental legislation of Ukraine.

The Company's operations are carried out based on permits for air pollutant emissions by stationary sources and permits for special water use.

Air protection activities of the Company are carried out in accordance with the Law of Ukraine "On Air Protection" of 16.10.1992 No. 2707-XII and other regulations.

Major emissions of air pollutants include nitrogen oxides, carbon monoxide, carbon dioxide, propylene, ethylene, benzene, substances in the form of suspended solids of undifferentiated composition.

Greenhouse gas emissions (CH<sub>4</sub>, N<sub>2</sub>O, CFC, except CO<sub>2</sub>) account for 0.93% of total emissions (except CO<sub>2</sub>) into atmosphere. During 2020, carbon

dioxide emissions account for 33 % of potential carbon dioxide emissions (ton/year).

Due to inclusion of air emission standards for industrial entities in the list of controlled parameters by the Company's shops, efficiency of standard management is improved, and responsibility of personnel is increased.

All air pollutants meet emission standards.

The Company's gas and dust treatment plants provide failure-free service, their efficiency is 99.5%.

The Company collects water from the Chechva river water reservoir in accordance with Permit for special water use No.25/ИФ/49Д-20 valid until 20 May 2023.

83.6% of collected water was used for own needs including:

- for production needs - 98.7%;
- for household and drinking needs - 1.3%;
- the remaining 16.4% of collected water was provided to third parties.

Actual water consumption during 2020 versus limits set is shown in the following table.

No.	Description	2020 actual, thousands of m <sup>3</sup>	Limit, thou- sands of m <sup>3</sup>	Departure	
				(+) overused	% of limit
				(-) saved	
1	2	3	4	5	6
<b>1.</b>	<b>Water extraction, total, incl.:</b>	<b>14,764.024</b>	<b>23,904.659</b>	-9,140.635	-38.2
1.1.	– from underground sources	0	0.95		
1.2.	– from surface sources	14,764.024	23,903.709		
1.2.1.	losses during transportation	812.573			
1.2.2	technology acquisition expenses	179.042			
<b>2.</b>	<b>Water used, total, incl.:</b>	<b>13,772.409</b>	<b>19,171.030</b>	-5,398.621	-28.2

2.1.	– from underground sources, for production needs	0	0.950		
2.2.	– from surface sources:	13,772.409	19,170.080		
2.2.1	for production needs	13,547.213	18,921.100	-5,373.887	-28.4
2.2.2	drinking and sanitary hygienic needs	225.196	248.980	-23.784	-9.6
2.3.	<b>LLC KARPATNAFTOCHIM, total, incl.:</b>	<b>11,349.427</b>			
2.3.1	for production needs	11,199.18			
2.3.2	drinking and sanitary hygienic needs	150.246			
2.4.	<b>Passed to external consumers, total, incl.:</b>	<b>2,422.982</b>			
2.4.1	for production needs	2,348.032			
2.4.2	drinking and sanitary hygienic needs	74.950			

Wastewater from production plants, depending on pollution nature and treatment methods, is transmitted through separate sewage collectors - organic, acid-alkaline, hypochlorite, domestic collectors – to sewage treatment plants, where it is treated biologically and mechanically.

Industrial and domestic wastewater from production shops, third parties and Kalush city is treated at the Company’s treatment facilities.

Wastewater treatment plants are a complex system of biological and physicochemical treatment of industrial and domestic wastewater generated not only by the Company, but also by Kalush city and neighborhood united territorial communities. Improvement of their operational efficiency by the Company is one of the most important factors in improvement of environment quality, protection of water reservoir from harmful substance pollution.

Effluent treated to standard quality and partially clean wastewater is ultimately discharged to the Dniester river. Design indicators of treatment facilities are maintained.

The Company generates waste of 1-4 hazard classes in the process of industrial production.

The Company has three wastewater final disposal sites: sludge storage of hypochlorite wastewater, sludge storage of industrial wastewater, landfill for solid technological and domestic waste.

Due to the fact that the Company has no waste disposal facilities, most of the generated waste is transferred to third-party licensed organizations for disposal, use, etc., a portion of waste is disposed of at waste disposal sites. During 2020, ratio of waste transferred to third parties and waste disposed of is 94%.

The Company accrues environmental tax for adverse effects on environment. In 2020, the tax was as follows

<b>Total environmental tax, including:</b>	<b>in thousands of Ukrainian hryvnias</b>	<b>2,493.0</b>
air pollutant emissions	in thousands of Ukrainian hryvnias	1,857.4
waste discharge to surface water	in thousands of Ukrainian hryvnias	605.6
waste disposal	in thousands of Ukrainian hryvnias	30.0

The Company has a sanitary laboratory, which continuously monitors the Company's environmental impact in accordance with analytical control

schedules; measurements and control cover concentrations of hazardous substances in air in working area and at sanitary zone boundary, return waters, surface water, groundwater, soils at waste disposal sites. Environmental professionals conduct daily assessment of the Company's operational impact on environment.

In 2018, the Company received Certificate No. UA 228913 dated 23 July 2018 for compliance with international standard ISO 14001:2015 *Environmental Management Systems. Requirements and Application* valid until 22.07.2021. During 2020, the Company had its second successful supervisory audit for compliance with the standard.

The Company continuously improves existing technologies, develops measures to reduce negative impact on environment.

In its production activities, the Company adheres to general production standards of energy resources use (natural gas, electricity, heat) that are approved by the Company on an annual basis.

The Company has labor protection service where employees work in compliance with Ukrainian legislation and regulations on industrial safety, labor and environment protection, and their job descriptions.

Employees of the labor protection service monitor preparation for high-risk work and its safe performance on a daily basis.

In addition, employees of the service also monitor:

- availability of personal safety devices for employees of structural units and proper use of such devices;
- implementation of Comprehensive measures to achieve established standards of safety, occupational health, and working environment, enhance labor protection, prevent occupational injuries, occupational diseases and accidents;
- preliminary (upon employment) and periodic (during employment) medical examination of employees;
- trainings on labor protection upon and during employment.

The Company's expenses related to labor protection and industrial safety for the year 2020 amounted to UAH **17,784.574 thousand** and can be presented as follows:

<b>Expenses</b>	<b>Measurement unit</b>	<b>Amount</b>
<b>1</b>	<b>2</b>	<b>3</b>
PSD (personal safety devices)	in thousands of Ukrainian hryvnias	1,078.124
Fire Department	in thousands of Ukrainian hryvnias	15,807.140
Emergency and rescue service	in thousands of Ukrainian hryvnias	404.310
Fire extinguisher maintenance and refilling	in thousands of Ukrainian hryvnias	495.00

To prevent occurrence and spread of COVID-19, the Company developed the following preventive and restrictive measures:

- all Company's employees (with no exception) are provided with respiratory protective equipment (protective masks) to be used when commuting in transport the Company provides to employees on contractual terms, and during performance by the employees of their job responsibilities at their workplaces on the Company's site;
- sanitation and hygiene rooms, dining rooms, and other amenity spaces are equipped with antiseptic and disinfectant devastators;
- systematic and regular treatment of industrial, amenity, and administrative premises with disinfectants;
- increased number of trips and vehicles for transportation of Company's employees to comply with "social distance" requirements;
- transportation of employees living in rural areas, including incentives on use of private vehicles;
- at entry checkpoints, monitoring of employees' temperature using non-contact thermometers;
- remote work arranged for the maximum possible number of employees;



- operation of canteens is suspended and “hot lunches” in disposable boxes are delivered to production units.

During 2020, the Company spent in total UAH 8,725 thousand on implementation of preventive and restrictive measures.

Preventive and restrictive measures are in force on a continuous basis for the entire period of quarantine established by the Cabinet of Ministers of Ukraine.

## 7. SOCIAL ASPECTS AND HUMAN RESOURCES MANAGEMENT

As at 31 December 2020, the Company has 2,504 employees including 515 managers, 13 % of which are females.

### Employee education, professional training and development:

Total employees having higher education	<b>1,164</b>
Total employees having intermediate vocational education	<b>609</b>
Total employees having initial vocational education, secondary education, lower secondary education	<b>731</b>

Total number of employees covered by trainings during 2020 was **2,607** persons (person/course) including:

- managers and professionals - **972** (person/course),
- workers - **1,635** (person/course).

**40** employees (person/course) were trained off-job.

**2,567** employees (person/course) were trained on-job, including:

- **936** managers and professionals (person/course) improved their skills;
- **1,631** workers completed reskilling courses, trainings, cross trainings, and advanced trainings.

To enhance employee motivation, the Company:

1. For young employees obtaining industry-specific university education in the Company's target areas in their off-work hours, reimburses up to 100 % cost of education on a contractual basis, if adequate financing is available, based on student's performance and obligation to return amounts reimbursed in case of his/her resignation within three years after graduation.

2. If necessary, ensures financing for arrangement and conducting of scientific and technical conferences, cultural and sports events for young employees.

As part of cooperation with the universities, in order to promote the Company, management and leading specialists of the Company were actively involved in the online meeting with the expert group of the National Agency for Higher Education Quality Assurance at the Ministry of Education of Ukraine that performed accreditation evaluation of educational program "Chemistry" of the II (Master's) level of higher education at the Department of Chemistry of Vasyl Stefanyk Precarpathian National University and in the online 33rd Career Fair 2020 arranged by the Employment and Industry Liaison Department of the National University "Lviv Polytechnic".

3. Young specialists (not locals) employed by the Company after graduating from higher or intermediate vocational education institutions are provided with housing during a year (dormitory in Higher professional school 7 based on agreement) or reimbursed for housing rent (in the amount of UAH 1,200 monthly), also one-time motivational payment (upon permit for independent work is obtained) and one-time payment for travel from place of residence to Kalush are made.

Due to COVID-19, the Company was not able to implement all plans related to improvement of social and human resources management policies, however, this area of activity remains a priority for the Company.

## 8. RISKS

During the reporting year 2020, the Company continued to be exposed to the following risks:

- interest rate risk caused by possible changes in interest rates on existing short-term and long-term liabilities. To minimize potential impact of this risk, management analyzes interest rates on an ongoing basis for more favorable rates for the Company before obtaining new loans or borrowings and conducts systematic work to reduce current interest rates;
- credit risk is the risk of financial loss resulting from counterparty's failure to perform its obligations and arises primarily from counterparties' receivables. To manage this risk, the Company's personnel applies credit policy that involves:
  - o analysis of each counterparty's business reputation in the market and creditworthiness,
  - o limitation of maximum payment period for sale of finished products,
  - o priority application of 100% prepayment;
  - o priority application of deferral of payment for purchased goods, work and services;
  - o recognition of provision for doubtful debt in the amount of expected credit losses from trade and other receivables,
  - o decisions on credit risk management to be made by Debtor Commission of the Company;
- insurance risk that arise when loss or damage of certain assets may have significant adverse effect on operations and financial position; this risk is partially reduced due to voluntary asset insurance contracts. This risk is partially reduced due to voluntary asset insurance contracts;
- liquidity risk (described in "Liquidity and obligations" section);
- market risk is the risk that changes in market prices for raw materials and finished products in both domestic and foreign markets and changes in

market rates such as foreign exchange rates, interest rates, and value of securities, may affect income or carrying amounts of financial instruments; impact of changes in market prices on raw materials and finished products in both domestic and foreign markets is partially mitigated by diversification of raw material supplies and availability of regular customers in different markets for finished products;

- currency risk arising from loans and borrowings and trade transactions denominated in foreign currencies - US dollars and Euro. More than 20 % weakening of the national currency during 2020 affected financial performance, however, management believes that such trends may be variable, and this may increase the impact of currency risk on assets and liabilities denominated in foreign currencies;
- political risk arising from unstable political situation and continuous armed conflict in some parts of Luhansk and Donetsk regions, and annexation of Crimea.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's management bodies oversee management compliance with risk management policies and procedures and analyze adequacy of risk management structure for risks faced.

Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Company's operations.

## **9. RESEARCH AND INNOVATIONS**

There were no research, development, and innovation activities in the Company during 2020.

## 10. FINANCIAL INVESTMENTS

During 2019, the Company made no financial investments in subsidiaries, joint ventures, or associates.

## 11. PROSPECTS FOR DEVELOPMENT

The Company undertakes further efforts to develop its technological and production capabilities, including, as priority, increase in processing at its own production facilities of products being currently final products. As a result, the Company expects to enter target markets for its new products both in Ukraine and abroad and to improve its financial and business performance.

For this purpose, the Company currently implements the following investment projects:

No.	Measures	Estimated commissioning term
1.	Construction of propylene oxide production plant with capacity of 2,700 ton per year	2020-2021
2.	Construction of pyrolysis fraction processing plant	2020-2022

Construction of propylene oxide production plant will allow to develop and implement technology for production of a new product, propylene oxide, and, based on this technology, provide further increase in capacity for processing entire volume of propylene produced by the Company, which in turn will increase economic efficiency of the Company's operations due to deeper processing of hydrocarbons to obtain propylene oxide, a product with higher added value, which is in stable demand in petrochemical products market.

Construction of pyrolysis fraction processing plant will allow to increase economic efficiency of the Company's operations due to deeper processing of

hydrocarbons to obtain 1.3-butadiene, which is in stable demand in petrochemical products market. The new plant for processing pyrolysis fraction with capacity of 110,000 tons per year for butylene-butadiene fraction (C<sub>4</sub>) will ensure production of high-quality raw materials for production of synthetic rubber.

## **12. INFORMATION ON SERVICES PROVIDED BY THE COMPANY'S AUDITOR**

In accordance with Article 29, Law of Ukraine "On Audit of Financial Statements and Auditing" No. 2258-VIII of 21 December 2017, on 29 November 2020, the Company announced a tender to select an auditor to perform mandatory audit of the first IFRS financial statements for the year 2020.

The procedures for holding the tender to select an auditor to perform mandatory audit of Company's IFRS financial statements for the year 2020 were approved by the resolution of the Supervisory Board (Minutes of 22 October 2020 w/o number).

The Supervisory Board issued the resolution (Minutes of 13 November 2020 (w/o number)) to approve the tender results and to appoint Private Joint Stock Company "KPMG Audit" (Code EDRPOU 31032100) located at: 32/2 Moskovska Street, 01010 Kyiv, Ukraine, as the auditor of the Company.

LLC KARPATNAFTOCHIM and PJSC KPMG Audit concluded Agreement No. 153-SA/2020 of 16 November 2020 on performing audit of the Company's financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

Information on services provided by PJSC KPMG Audit to the Company during the year ended 31 December 2020 is presented as follows:

- services comprising mandatory audit of the IFRS financial statements for the year 2020.

No non-mandatory audit, review, assurance or any other services were provided by PJSC KPMG Audit.



# Independent Auditors' Report

**To Participants of Limited Liability Company  
"KARPATNAFTOCHIM"**  
**Report on the Audit of the Financial Statements**

## Opinion

We have audited the financial statements of Limited Liability Company "KARPATNAFTOCHIM" (the "Company"), which comprise the balance sheet (statement of financial position) as at 31 December 2020, the income statement (statement of comprehensive income), the statement of changes in equity and the statement of cash flows for the year ended 31 December 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards (IFRS) and the requirements of Ukrainian legislation on financial reporting.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Entity: Limited Liability Company "KARPATNAFTOCHIM"

Registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine 33129683

Independent auditor: Private Joint-Stock Company KPMG Audit, a company incorporated under the Laws of Ukraine, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities and Entrepreneurs of Ukraine 31032100.

Registration No. in the Register of Auditors and Audit Organisations 2397.

Address: 32/2 Moskovska Str., Kyiv, 01010, Ukraine



**Key Audit Matters Incorporating the Most Significant Risks of Material Misstatements, Including Assessed Risk of Material Misstatements Due to Fraud**

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

Revenue recognition	
Please refer to the Note 5 and 24(a) in the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>In accordance with International Standards of Auditing there is a presumed fraud risk relating to revenue recognition.</p> <p>We considered that this risk is primarily focused on appropriateness of cut-off on transactions with customers taking into consideration the volume of sales recognised close to the year-end and the judgement in respect of the point of transfer of control to customers.</p>	<p>Our audit procedures to assess the recognition of revenue included the following:</p> <ul style="list-style-type: none"> <li>— Evaluating the design and implementation of key internal controls over revenue recognition.</li> <li>— Analysing the revenue recognition policies of the Company to determine whether they appropriately reflect the requirements of IFRS 15.</li> <li>— Inspecting sale agreements, on a sample basis, to understand the terms of delivery and assess whether the revenue had been recognised in accordance with the Company's accounting policies.</li> <li>— Comparing, on a sample basis, revenue transactions recorded during the year with the underlying primary documents.</li> <li>— Comparing, on a sample basis, specific revenue transactions recognized near the year-end with the underlying primary documents to determine whether the revenue had been recognised in the appropriate period.</li> </ul>

**Other Information**

Management is responsible for the other information. The other information comprises the Management Report but does not include the financial statements and our auditors' report thereon.





Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

### Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 14(4) of the Law of Ukraine on "Audit of the Financial Statements and the Audit Activity" we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

#### Appointment of the Auditor and Period of Engagement

We were appointed by the Supervisory Board on 13 November 2020 to audit the financial statements of the Company as at and for the year ended 31 December 2020. Our total uninterrupted period of audit engagements is 16 years, covering the years ended 31 December 2005 to 31 December 2020.



Limited Liability Company "KARPATNAFTOCHIM"  
Independent Auditors' Report  
Page 5

**Provision of Non-audit Services**

We declare that no prohibited non-audit services referred to in Article 6(4) of the Law of Ukraine on "Audit of the Financial Statements and the Audit Activity" were provided.

In addition, for the period to which our statutory audit relates, we have not provided any services to the Company in addition to the audit, which have not been disclosed in the Management Report or in the financial statements of the Company.

**Additional Report to the Supervisory Board**

We confirm that our auditors' report is consistent with the additional report to the Supervisory Board of the Company.

The engagement partner on the audit resulting in this independent auditors' report is:



Aleev Dmytro Anatoliyovych

Registration No. 101462 in the Register of Auditors and Audit Organisations

Deputy Director

JSC KPMG Audit

31 March 2021

Entity	<b>LLC KARPATNAFTOCHIM</b>	Date (year, month, day)	CODES		
Location	Ukraine	EDRPOU	2020	12	31
Form of ownership	Limited Liability Company	KOATUU	33129683		
Principal activity		KOPFG	2610400000		
Average number of employees	2,682	KVED	240		
Address	4 Promyslova street, Kalush, Ivano-Frankivsk region, 77306, tel.: 7-31-14		20.14		
Measurement unit:	thousand UAH without a decimal point				
Prepared in accordance with (put "v" where appropriate):					
National Accounting Standards					
International Financial Reporting Standards			V		

**Balance sheet (Statement of financial position)  
as at 31 December 2020**

Form No. 1		DKUD Code		1801001
Assets	Line Code	31 December 2020	31 December 2019	Note
1	2	3	4	6
<b>I. Non-current assets</b>				
Intangible assets:	1000	3,359	4,074	
historical cost	1001	19,033	19,000	
accumulated amortisation	1002	(15,674)	(14,926)	
Construction in progress	1005	15,616	194,289	10
Property, plant and equipment:	1010	1,610,136	1,419,340	10
historical cost	1011	3,290,219	2,911,069	
accumulated depreciation	1012	(1,680,083)	(1,491,729)	10
Investment property	1015	-	-	
Long-term biological assets	1020	-	-	
Historical cost of long-term biological assets	1021	-	-	
Accumulated amortisation of long-term biological assets	1022	-	-	
Long-term financial investments:				
accounted for using equity method	1030	-	-	
other financial investments	1035	-	-	
Non-current receivables	1040	751	-	
Deferred tax assets	1045	-	-	
Goodwill	1050	-	-	
Other non-current assets	1090	2,171	5,661	
<b>Total non-current assets</b>	<b>1095</b>	<b>1,632,033</b>	<b>1,623,364</b>	

The Balance sheet (Statement of financial position) are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

Assets	Line Code	31 December 2020	31 December 2019	Note
1	2	3	4	6
<b>II. Current assets</b>				
Inventories	1100	1,651,603	1,569,631	
Raw materials and consumables	1101	1,087,751	1,010,507	
Work in progress	1102	323,176	203,575	
Finished goods	1103	239,643	343,131	
Merchandise	1104	1,033	12,418	
Current biological assets	1110	-	-	
Trade accounts receivable	1125	117,208	130,934	13
Other receivables:				
prepayments made	1130	164,452	158,606	
taxes, including:	1135	90,140	332,783	12
income tax	1136	-	-	
Accrued income receivable	1140	-	-	
Receivables on internal settlements	1145	173,297	69	
Other current receivables	1155	870	1,689	
Current financial investments	1160	-	-	
Cash and cash equivalents	1165	304,424	519,329	
Cash at hand	1166	6	4	
Cash and cash equivalents in banks	1167	304,418	519,325	14
Deferred expenses	1170	1,715	1,729	
Other current assets	1190	2,156	27,447	
<b>Total current assets</b>	<b>1195</b>	<b>2,505,865</b>	<b>2,742,217</b>	
<b>III. Non-current assets held for sale, and disposal groups</b>	<b>1200</b>	-	7,000	
<b>Total assets</b>	<b>1300</b>	<b>4,137,898</b>	<b>4,372,581</b>	

The Balance sheet (Statement of financial position) are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.



**LLC KARPATNAFTOCHIM**  
*Financial statements as at and for the year ended 31 December 2020*  
*Balance sheet (Statement of financial position) as at 31 December 2020*  
*(continued)*

Equity and Liabilities	Line code	31 December 2020	31 December 2019	Notes
<b>I. Equity</b>				
Share capital	1400	2,321,013	2,321,013	15
Revaluation surplus	1405	-	-	
Additional capital	1410	6,681,066	6,681,066	15
Share premium	1411	-	-	
Accumulated foreign exchange differences	1412	-	-	
Reserve capital	1415	-	-	
Retained earnings (accumulated deficit)	1420	(29,495,449)	(24,882,507)	
Unpaid capital	1425	-	-	
Capital withdrawals	1430	-	-	
<b>Total equity</b>	<b>1495</b>	<b>(20,493,370)</b>	<b>(15,880,428)</b>	
<b>II. Non-current liabilities and provisions</b>				
Deferred tax liabilities	1500	-	-	
Post-employment benefit obligations	1505	194,099	191,951	17
Long-term bank loans	1510	-	-	
Other non-current liabilities*	1515	23,421,098	17,927,625	16
Long-term provisions	1520	26,260	24,611	
provisions for employee benefits	1521	26,260	24,611	
Target financing	1525	-	-	
<b>Total non-current liabilities and provisions s</b>	<b>1595</b>	<b>23,641,457</b>	<b>18,144,187</b>	
<b>III. Current liabilities and provisions</b>				
Short-term bank loans	1600	270,487	1,265,187	16
Current portion of long-term liabilities**	1610	2,412	586	
Trade accounts payable***	1615	382,000	346,852	
Taxes payable, including:	1620	10,190	10,461	
income tax	1621	-	-	
Insurance payable	1625	4,483	4,841	
Salaries payable	1630	14,846	15,603	
Prepayments received	1635	289,486	105,097	
Payables to participants	1640	-	-	
Payables on internal settlements	1645	1,561	4,212	
Payables on insurance activities	1650	-	-	
Current provisions	1660	-	-	
Deferred income	1665	-	-	

The Balance sheet (Statement of financial position) are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

**LLC KARPATNAFTOCHIM**  
*Financial statements as at and for the year ended 31 December 2020*  
*Balance sheet (Statement of financial position) as at 31 December 2020*  
*(continued)*

Other current liabilities	1690	14,346	355,983	18
<b>Total current liabilities and provisions</b>	<b>1695</b>	<b>989,811</b>	<b>2,108,822</b>	
<b>IV. Liabilities related to non-current assets held for sale and disposal groups</b>	<b>1700</b>	-	-	
<b>Total equity and liabilities</b>	<b>1900</b>	<b>4,137,898</b>	<b>4,372,581</b>	

\* Other non-current liabilities as at 31 December 2020 include loans from related parties (Note 16) amounting to UAH 23,419,411 thousand and long-term operating lease liabilities amounting to UAH 1,687 thousand (as at 31 December 2019: UAH 17,926,033 thousand and UAH 1,592 thousand, respectively).

\*\* Line "Current portion of long-term liabilities" includes current operating lease liabilities amounting to UAH 2,412 thousand as at 31 December 2020 (31 December 2019: UAH 586 thousand).

\*\*\* Trade accounts payable are mainly represented by trade accounts payable to third parties for raw materials and supplies.

\*\*\*\* Total liabilities and provisions is calculated as total of lines 1595 and 1695 amounting to UAH 24,631,268 thousand as at 31 December 2020 (31 December 2019: UAH 20,253,009 thousand).

**LLC KARPATNAFTOCHIM**  
*Financial statements as at and for the year ended 31 December 2020*  
*Income statement (Statement of comprehensive income) for the year ended 31 December 2020*

Entity	<u>LLC KARPATNAFTOCHIM</u>	Date (year, month, day)	CODES		
			2020	12	31
			EDRPOU 33129683		

**Income statement**  
**(Statement of comprehensive income)**  
**for the year ended 31 December 2020**

Form No. 2

DKUD Code

1801003
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Item	Line Code	2020	2019	Note
1	2	3	4	5
Net revenue	2000	10,990,106	13,616,623	5
Net insurance premiums earned	2010	-	-	
Insurance premiums written, gross	2011	-	-	
Premiums ceded to reinsurance	2012	-	-	
Changes in unearned premium reserve, gross	2013	-	-	
Change in reinsurers' share in unearned premium reserve	2014	-	-	
Cost of revenue	2050	(9,187,166)	(12,869,106)	
Net insurance claims paid	2070	-	-	
<b>Gross:</b>				
Profit	2090	1,802,940	747,517	
Loss	2095			
Gain (loss) from changes in provisions for long-term liabilities	2105	-	-	
Gain (loss) from changes in other insurance provisions	2110	-	-	
Changes in other insurance provisions, gross	2111	-	-	
Change in reinsurers' share in other insurance provisions	2112	-	-	
Other operating income, including:	2120	14,078	50,944	
Gain from change in value of assets measured at fair value	2121	-	-	
Gain from initial recognition of biological assets and agricultural products	2122	-	-	
Gain from use of tax-exempt funds	2123	-	-	
Administrative expenses	2130	(262,220)	(284,135)	
Sales and distribution expenses	2150	(41,232)	(49,491)	
Other operating expenses, including:	2180	(273,748)	(251,111)	6
Loss from change in value of assets measured at fair value	2181	-	-	
Loss from initial recognition of biological assets and agricultural products	2182	-	-	

The Income statement (Statement of comprehensive income) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.



Item	Line Code	2020	2019	Note
<b>Results from operating activities:</b>				
Profit	2190	1,239,818	213,724	
Loss	2195	-	-	
Share of profit of equity accounted investees	2200	-	-	
Other finance income	2220	9,351	3,192,681	7
Other income	2240	71	86	
including:				
Income from charity	2241	-	-	
Finance costs	2250	(5,867,857)	(2,085,574)	7
Share of loss of equity accounted investees	2255	-	-	
Other expenses	2270	(8,477)	(185)	
Profit (loss) from inflation impact on monetary items	2275	-	-	
<b>Financial result before tax:</b>				
Profit	2290	-	1,320,732	
Loss	2295	(4,627,094)	-	
Income tax benefit	2300	-	-	
Profit (loss) from discontinued operations after tax	2305	-	-	
<b>Net financial result:</b>				
Profit	2350	-	1,320,732	
Loss	2355	(4,627,094)	-	

## II. COMPREHENSIVE INCOME

Item	Line Code	2020	2019	Note
1	2	3	4	5
Revaluation increase (decrease) in non-current assets	2400	-	-	
Revaluation increase (decrease) in financial instruments	2405	-	-	
Accumulated foreign exchange differences	2410	-	-	
Share of other comprehensive income of associates and joint ventures	2415	-	-	
Other comprehensive income*	2445	14,152	36,761	17
<b>Other comprehensive income before tax</b>	<b>2450</b>	<b>14,152</b>	<b>36,761</b>	17
Income tax related to other comprehensive income (loss):	2455	-	-	
<b>Other comprehensive income (loss) after tax</b>	<b>2460</b>	<b>14,152</b>	<b>36,761</b>	17
<b>Comprehensive income (loss) (total of lines 2350, 2355, and 2460)</b>	<b>2465</b>	<b>(4,612,942)</b>	<b>1,357,493</b>	

\* Other comprehensive income will not be reclassified to profit or loss

\*\* Other comprehensive income for 2020 includes actuarial gains in the amount of UAH 15,923 thousand (Note 17(a), write-off of carrying value of raw materials and consumables

The Income statement (Statement of comprehensive income) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

of prior periods based on court judgement amounting to (UAH 1,811 thousand) and adjustment of financial expenses on leased asset for 2019 amounting to (UAH 40 thousand).

### III. OPERATING EXPENSES

Item	Line Code	2020	2019	Note
1	2	3	4	5
Materials	2500	8,087,016	11,514,955	
Salaries	2505	560,619	502,682	
Social charges	2510	114,801	111,767	
Depreciation and amortisation	2515	191,585	158,136	
Other operating expenses	2520	1,821,006	1,793,201	
<b>Total</b>	<b>2550</b>	<b>10,775,027</b>	<b>14,080,741</b>	

### IV. EARNINGS PER SHARE

Item	Line Code	2020	2019	Note
1	2	3	4	5
Weighted-average annual number of ordinary shares	2600	-	-	
Adjusted weighted-average annual number of ordinary shares	2605	-	-	
Basic earnings (loss) per ordinary share	2610	-	-	
Diluted earnings (loss) per ordinary share	2615	-	-	
Dividend per ordinary share	2650	-	-	

The Income statement (Statement of comprehensive income) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

Entity	<b>LLC KARPATNAFTOCHIM</b>	Date (year, month, day)	CODES		
			2020	12	31
			33129683		
		EDRPOU			

**Statement of cash flows (direct method)  
for the year ended 31 December 2020**

Form  
No. 3

DKUD Code

1801004

Item	Line Code	2020	2019	Note
1	2		3	4
<b>I. Cash flows from operating activities</b>				
Proceeds from:				
Sales of goods and services	3000	2,995,404	3,377,861	
Taxes recovered	3005	650,560	478,999	
including VAT	3006	650,560	478,698	
Target financing	3010	11,686	9,423	
Subsidies and subventions	3011	-	-	
Prepayments received	3015	8,957,244	10,826,214	
Prepayments returned	3020	54,602	538,217	
Interest on current accounts	3025	9,351	21,022	
Fines and penalties	3035	-	-	
Operating lease	3040	509	606	
Royalties	3045	-	-	
Other proceeds	3095	5,692	33,851	
Payments:				
Goods and services	3100	(6,074,298)	(3,218,050)	
Wages and salaries	3105	(451,705)	(401,718)	
Social charges	3110	(123,240)	(111,158)	
Taxes	3115	(713,383)	(811,129)	
Income tax	3116	-	-	
VAT	3117	(552,466)	(659,696)	
Other taxes	3118	(160,917)	(151,433)	
Prepayments made	3135	(3,970,589)	(9,197,104)	
Prepayments returned	3140	(53,193)	(63,435)	
Target contributions	3145	-	-	
Other payments	3190	(63,483)	(80,816)	
<b>Net cash flows from operating activities</b>	<b>3195</b>	<b>1,235,157</b>	<b>1,402,783</b>	

The Statement of cash flows (direct method) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

Item	Line Code	2020	2019	Note
<b>II. Cash flows from investing activities</b>				
Proceeds from sale of:				
financial investments	3200	-	-	
non-current assets	3205	441	25	
Proceeds from:				
Interests	3215	-	-	
Dividends	3220	-	-	
Proceeds from derivatives	3225	-	-	
Loans repaid	3230	-	-	
Other proceeds	3250	30	-	
Payments for acquisition of:				
financial investments	3255	-	-	
non-current assets	3260	(149,188)	(147,714)	
Payments on derivatives	3270	-	-	
Loans granted	3275	-	-	
Other payments	3290	-	-	
<b>Net cash flows from investing activities</b>	<b>3295</b>	<b>(148,717)</b>	<b>(147,689)</b>	
<b>III. Cash flows from financing activities</b>				
Proceeds from:				
Issue of share capital	3300	-	-	
Loans and borrowings	3305	1,197,469	2,818,293	16(c)
Other proceeds	3340	-	-	
Payments:				
Treasury shares purchased	3345	-	-	
Loans repaid	3350	(2,401,770)	(3,658,915)	16(c)
Dividends paid	3355	-	-	
Interest paid	3360	(107,629)	(196,459)	16(c)
Financial lease liabilities paid	3365	-	-	
Other payments	3390	(22,333)	-	16(c)
<b>Net cash flows from financing activities</b>	<b>3395</b>	<b>(1,334,263)</b>	<b>(1,037,081)</b>	
<b>Net cash flows for the reporting period</b>	<b>3400</b>	<b>(247,823)</b>	<b>218,013</b>	
Cash and cash equivalents as at the beginning of the year	3405	519,329	360,689	
Effect of movements in exchange rates on cash and cash equivalents	3410	32,918	(59,373)	
Cash and cash equivalents as at year end	3415	304,424	519,329	

\*During 2020, UAH 15,594 thousand of VAT were paid to resident companies (2019: UAH 23,335 thousand) as part of cost of non-current assets acquired; UAH 534,872 thousand of VAT were paid to customs authorities (2019: UAH 636,361 thousand) for customs clearance of goods (products). The above amounts of VAT are presented in the Statement of cash flows for 2020 and 2019 as VAT payments arising from operating activities (line 3117)

The Statement of cash flows (direct method) is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

		Date (year, month, day)	CODES		
Entity	<b>LLC KARPATNAFTOCHIM</b>	EDRPOU	2020	12	31
	<b>Statement of changes in equity for the year ended 31 December 2020</b>		33129683		
	Form No. 4	DKUD Code	1801005		

Item	Line Code	Attributable to Parent Company owners							Total
		Share capital	Revaluation sur- plus	Additional capi- tal	Reserve capital	Retained earn- ings (accumu- lated deficit)	Unpaid capital	Capital with- drawals	
<b>Balance as at the beginning of the year</b>	<b>4000</b>	2,321,013	-	6,681,066	-	(24,882,507)	-	-	(15,880,428)
<b>Adjustments for:</b>									
Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-
<b>Restated balance as at the beginning of the year</b>	<b>4095</b>	2,321,013	-	6,681,066	-	(24,882,507)	-	-	(15,880,428)
<b>Net profit (loss) for the reporting period</b>	<b>4100</b>	-	-	-	-	(4,627,094)	-	-	(4,627,094)
<b>Other comprehensive income for the reporting period*</b>	<b>4110</b>	-	-	-	-	14,152	-	-	14,152
Revaluation increase (decrease) in non-current assets	4111	-	-	-	-	-	-	-	-
Revaluation increase (decrease) in financial instruments	4112	-	-	-	-	-	-	-	-
Accumulated foreign exchange differences	4113	-	-	-	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures	4114	-	-	-	-	-	-	-	-
Other comprehensive income	4116	-	-	-	-	-	-	-	-
<b>Retained earnings distributed:</b>									
Distributions to owners (dividends)	4200	-	-	-	-	-	-	-	-
Reinvestment in share capital	4205	-	-	-	-	-	-	-	-
Allocations to reserve capital	4210	-	-	-	-	-	-	-	-
Net profit allocated to budget under legislation	4215	-	-	-	-	-	-	-	-
Net profit used to set up special (target) funds	4220	-	-	-	-	-	-	-	-
Net profit used to pay benefits	4225	-	-	-	-	-	-	-	-

The Statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

Item	Line Code	Attributable to Parent Company owners							Total
		Share capital	Revaluation sur- plus	Additional capi- tal	Reserve capital	Retained earn- ings (accumu- lated deficit)	Unpaid capital	Capital with- drawals	
<b>Capital withdrawals:</b>			-		-		-	-	-
Contributions to share capital	4240	-	-	-	-	-	-	-	-
Repayment of capital obligations	4245	-	-	-	-	-	-	-	-
<b>Capital withdrawals:</b>			-		-		-	-	-
Treasury shares purchased	4260	-	-	-	-	-	-	-	-
Treasury shares sold	4265	-	-	-	-	-	-	-	-
Annulment of treasury shares purchased	4270	-	-	-	-	-	-	-	-
Capital withdrawals	4275	-	-	-	-	-	-	-	-
Decrease in nominal value of shares	4280								
Other changes in equity	4290	-	-	-	-	-	-	-	-
Non-controlling interest in subsidiary purchased (sold)	4291								
<b>Total changes in equity</b>	<b>4295</b>	-	-	-	-	(4,612,942)	-	-	(4,612,942)
<b>Balance as at year end</b>	<b>4300</b>	<b>2,321,013</b>	-	<b>6,681,066</b>	-	<b>(29,495,449)</b>	-	-	<b>(20,493,370)</b>

\* Other comprehensive income for 2020 includes actuarial gains in the amount of UAH 15,923 thousand (Note 17(a), write-off of carrying value of raw materials and consumables of prior periods based on court judgement amounting to (UAH 1,811 thousand) and adjustment of financial expenses on leased asset for 2019 amounting to (UAH 40 thousand).

Entity	LLC KARPATNAFTOCHIM	Date (year, month, day)	CODES		
			2019	12	31
			33129683		
		EDRPOU			
<b>Statement of changes in equity for the year ended 31 December 2019</b>					
			Form No. 4	DKUD Code	1801005

Item	Line Code	Attributable to Parent Company owners							Total
		Share capital	Revaluation surplus	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Capital with-drawals	
<b>Balance as at the beginning of the year</b>	<b>4000</b>	2,321,013	-	5,123,775	-	(26,477,366)	-	-	(19,032,578)
<b>Adjustments for:</b>			-		-		-	-	
Changes in accounting policies	4005	-	-	(47,314)	-	218,307	-	-	170,993
Correction of errors	4010	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-
<b>Restated balance as at the beginning of the year</b>	<b>4095</b>	2,321,013	-	5,076,461	-	(26,259,059)	-	-	(18,861,585)
<b>Net profit (loss) for the reporting period</b>	<b>4100</b>	-	-	-	-	1,320,732	-	-	1,320,732
<b>Other comprehensive income for the reporting period (Note 17)</b>	<b>4110</b>	-	-	-	-	36,761	-	-	36,761
Revaluation increase (decrease) in non-current assets	4111	-	-	-	-	-	-	-	-
Revaluation increase (decrease) in financial instruments	4112	-	-	-	-	-	-	-	-
Accumulated foreign exchange differences	4113	-	-	-	-	-	-	-	-
Share of other comprehensive income of associates and joint ventures	4114	-	-	-	-	-	-	-	-
Other comprehensive income	4116	-	-	-	-	-	-	-	-
<b>Retained earnings distributed:</b>			-	-	-	-	-	-	-
Distributions to owners (dividends)	4200	-	-	-	-	-	-	-	-
Reinvestment in share capital	4205	-	-	-	-	-	-	-	-
Allocations to reserve capital	4210	-	-	-	-	-	-	-	-
Net profit allocated to budget under legislation	4215	-	-	-	-	-	-	-	-
Net profit used to set up special (target) funds	4220	-	-	-	-	-	-	-	-
Net profit used to pay benefits	4225	-	-	-	-	-	-	-	-

The Statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.

Item	Line Code	Attributable to Parent Company owners							Total
		Share capital	Revaluation surplus	Additional capital	Reserve capital	Retained earnings (accumulated deficit)	Unpaid capital	Capital withdrawals	
<b>Capital withdrawals:</b>			-		-		-	-	-
Contributions to share capital	4240	-	-	-	-	-	-	-	-
Repayment of capital obligations	4245	-	-	-	-	-	-	-	-
<b>Capital withdrawals:</b>			-		-		-	-	
Treasury shares purchased	4260	-	-	-	-	-	-	-	-
Treasury shares sold	4265	-	-	-	-	-	-	-	-
Annulment of treasury shares purchased	4270	-	-	-	-	-	-	-	-
Capital withdrawals	4275	-	-	-	-	-	-	-	-
Decrease in nominal value of shares	4280								
Other changes in equity (Notes 16 (a), 17(a))	4290	-	-	1,604,605	-	19,059	-	-	1,623,664
Non-controlling interest in subsidiary purchased (sold)	4291								
<b>Total changes in equity</b>	<b>4295</b>	-	-	1,604,605	-	1,376,552	-	-	2,981,157
<b>Balance as at year end</b>	<b>4300</b>	2,321,013	-	6,681,066	-	(24,882,507)	-	-	(15,880,428)

The Statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 41 to 79.



## **1 Reporting entity**

### **(a) Business environment**

The Company's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and a part of Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Russian Federation, which was not recognized by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

After economic crisis in 2014-2015, the Ukrainian economy recovered considerably in the last couple of years, with a slowed down inflation, stable Ukrainian hryvnia exchange rate, growing GDP, and general revival in business activity.

In 2019, a new law on currency and currency transactions came into force. The new law abolished a number of restrictions, defined new principles of currency operations, currency regulation and supervision, and resulted in significant liberalization of foreign currency transactions and capital movements. In particular, the requirement of mandatory sale of foreign currency proceeds on the interbank market was cancelled, while the settlement period for export-import transactions in foreign currency was increased considerably. Also, all restrictions on payment of dividends abroad were lifted.

The International Monetary Fund (the "IMF") continued to support the Ukrainian government under the fourteen-month Stand-By Arrangement approved in December 2018. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms, including anticorruption, corporate law, land reform and gradual liberalization of the energy sector.

In 2019, following the presidential and parliamentary elections a new government was formed which aims to continue reforming the Ukrainian economy, stimulate economic growth and fight corruption.

In September 2020, S&P and Fitch reaffirmed Ukraine's credit rating as B, with a stable outlook. In June 2020, Moody's upgraded Ukraine's credit rating to B3, with a stable outlook, which reflects improved access to fiscal and external financing, macroeconomic stability, and reduction of sovereign debt. Further stabilisation of economic and political environment depends, to a larger extent, on the continued

implementation of structural reforms, cooperation with the IMF and refinancing of public debt falling due in the next years.

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices, as well as a depreciation of the Ukrainian Hryvnia. Those changes even further increase the level of uncertainty in the Ukrainian business environment. Whilst management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Company's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

## **(b) Organization and operations**

LIMITED LIABILITY COMPANY KARPATNAFTOCHIM (the "Company") was incorporated in accordance with the Ukrainian legislation on 5 November 2004.

The Company's registered office is 4 Promyslova Str, Kalush, Ivano-Frankivsk region, Ukraine.

The Company's principal activity is producing and selling ethylene, propylene, pyrolysis fractions, petrobenzene, polyethylene, suspension polyvinyl chloride, vinyl chloride, caustic soda, and liquid air rectification products, including medical oxygen. The Company's products are sold in Ukraine and abroad.

The Company's Parent is KARPATY CHEMICAL B.V., a resident of the Kingdom of the Netherlands, owing 100% of shares.

The Company's beneficiary owners include:

- An individual, Mr. Ilham Jalal ogli Mamedov, the Chairman of the Supervisory Board, with indirect 51% ownership, who is the Company's ultimate controlling party.
- An individual, Mr. Igor Valentynovych Shutsky, a Ukrainian citizen, Deputy Chairman of the Supervisory Board, with indirect 49% ownership.

## **2 Basis of preparation**

### **(a) Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Ukrainian legislation on financial reporting.

## (b) Liquidity management

As at 31 December 2020, the Company has negative equity amounting to UAH 20,493,370 thousand (31 December 2019: UAH 15,880,428 thousand).

Management believes that the going concern basis for preparing these financial statements is appropriate based on the following:

- During 2018 and 2019, the Company concluded additional agreements with a related party, according to which loans and borrowings were restructured and payments of principal and accrued interest were prolonged till 2022-2023.
- As at 31 December 2020, current assets exceed current liabilities by UAH 1,516,054 thousand.
- The Company has positive cash flows from operating activities amounting to UAH 1,235,157 thousand for the year ended 31 December 2020.
- Based on analysis of financial performance in 2020, the Company's investment plans and forecasts for development of Ukrainian and international markets for the Company's products, management expects the Company will be able to generate operating profit in future periods.

Management believes that the Company will be able to achieve a sufficient level of profitability in the future periods to continue its operations and repay loans and borrowings. Therefore, these financial statements are prepared on a going concern basis, which contemplates realization of assets and settlement of liabilities in the normal course of business.

## (c) Basis of measurement

The financial statements are prepared on the historical cost basis.

## 3 Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia ("UAH"), which is the Company's functional currency and the currency in which these financial statements are presented. All financial information presented in UAH has been rounded to the nearest thousands, except when otherwise indicated.

The principal UAH exchange rates are as follows:

Currency	31 December 2020	31 December 2019
USD	28.2746	23.6862
EUR	34.7396	26.4220

As at the date when these financial statements were issued, 31 March 2021, the exchange rates were UAH 27.8852 for USD 1 and UAH 32.7233 for EUR 1.

#### 4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information on critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 16(a) – initial measurement of loans and borrowings from related parties.

#### *Measurement of fair values*

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When estimating fair value of an asset or a liability, the Company uses, as far as possible, observable market data. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or the liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer occurred.

Further information about the assumptions made in measuring fair values is included in Note 19.

#### *Changes in accounting policies*

There were no changes in the accounting policies in 2020.

## 5 Net revenue

'000 UAH	2020	2019
Sales of finished goods	10,916,785	13,542,824
Sales of merchandise	30,888	32,859
Services	42,433	40,940
<b>Total</b>	<b>10,990,106</b>	<b>13,616,623</b>

Sales of finished goods for the years ended 31 December are presented as follows:

'000 UAH	2020	2019
Suspension polyvinyl chloride	5,398,251	4,854,443
Polyethylene	1,741,883	2,609,695
Propylene	1,605,418	2,164,358
Caustic soda	1,173,360	1,325,626
Petrobenezene	618,683	1,108,020
Other	379,190	1,480,682
<b>Total</b>	<b>10,916,785</b>	<b>13,542,824</b>

The Company recognizes sales when control is transferred, namely when goods are transferred to the customer in the agreed point and the customer assumes all costs and risks associated with the goods. The Company mainly sells goods to third parties located in the EU and other countries.

### *Contract balances*

The following table presents receivables and contract liabilities from contracts with customers:

'000 UAH	31 December 2020	31 December 2019
Trade accounts receivable	117,208	130,934
Contract liabilities	(289,486)	(105,097)
<b>Total</b>	<b>(172,278)</b>	<b>25,837</b>

Contract liabilities are represented by prepayments for finished products received from customers. Prepayments recognized in contract liabilities as at the beginning of the period were recognized as revenue from sales for the period ended 31 December 2020 and 2019, respectively.

## **6 Other operating expenses**

Other operating expenses of the Company are presented as follows:

'000 UAH	<b>2020</b>	2019
Sales of other current assets	<b>5,348</b>	47,485
Fines and penalties recognized	<b>28</b>	1,023
Shortfall and loss from damaged and spoiled goods	<b>304</b>	2,677
Bad and doubtful debts	<b>12,099</b>	14,929
Write-down of inventories to net realizable value	<b>19,865</b>	18,699
Technical maintenance and repairs	<b>170,759</b>	139,938
Measures taken during COVID-19 quarantine	<b>6,753</b>	-
One-time payments to employees on dismissal	<b>11,924</b>	1,397
Material assistance to employees (including former employees)	<b>1,953</b>	1,424
Sponsorship	<b>18,665</b>	966
Other operating expenses	<b>26,050</b>	22,573
<b>Total other expenses</b>	<b>273,748</b>	251,111

## 7 Net finance income (expenses)

'000 UAH	Note	2020	2019
Interest income		9,351	21,022
Foreign exchange gain		-	3,171,659
<b>Total finance income</b>		<b>9,351</b>	<b>3,192,681</b>
Interest expense	16(c)	(2,044,684)	(2,063,654)
Foreign exchange loss		(3,781,727)	-
Fees for servicing loans, unsecured letters of credit and counter-guarantees	16(c)	(22,383)	-
Interest expense related to lease payments		(122)	-
Interest expense (discounting of non-current receivables)		(322)	-
Interest cost on post-employment employee benefit obligations	17(a)	(18,619)	(21,920)
<b>Total finance expenses</b>		<b>(5,867,857)</b>	<b>(2,085,574)</b>
<b>Net finance income (expenses)</b>		<b>(5,858,506)</b>	<b>1,107,107</b>

## 8 Personnel costs

'000 UAH	2020	2019
Salaries	549,911	491,228
Salary related charges	112,445	102,944
<b>Total personnel costs</b>	<b>662,356</b>	<b>594,172</b>

During 2020, personnel costs were recognized in profit or loss as follows: costs amounting to UAH 497,758 thousand were recognized in cost of revenue (2019: UAH 440,059 thousand); costs amounting to UAH 2,916 thousand were capitalized in finished goods (2019: UAH 20,736 thousand); costs amounting to UAH 115,581 thousand were recognized in administrative expenses (2019: UAH 108,022 thousand); costs amounting to UAH 9,956 thousand were recognized in sales and distribution expenses (2019: UAH 8,440 thousand); and costs amounting to UAH 36,145 thousand were recognized in other expenses (2019: UAH 16,915 thousand).

## 9 Income tax

### (a) Income tax expense/(benefit)

The applicable income tax rate for the Company in 2019, 2020 and in subsequent periods is 18%.

The difference between the total expected income tax expense computed by applying the statutory income tax rates to profit/(loss) before taxation and the reported income tax (benefit) expense is as follows:

'000 UAH	Year ended 31 December 2020	
	Amount	Percentage
<b>Profit (loss) before tax</b>	<b>(4,627,094)</b>	<b>(100%)</b>
Income tax at applicable tax rate	<b>(832,877)</b>	<b>(18%)</b>
Change in unrecognized deferred tax assets	<b>803,519</b>	<b>17%</b>
Tax effect of non-deductible items	<b>29,358</b>	<b>1%</b>
<b>Total income tax (benefit) expense</b>	<b>0</b>	<b>0</b>
'000 UAH	Year ended 31 December 2019	
	Amount	Percentage
Profit before tax	1,320,732	100%
Income tax at applicable tax rate	237,732	18%
Change in unrecognized deferred tax assets	168,026	13%
Tax effect of transition to IFRS	(665,824)	(50%)
Adjustments to previous period	260,066	20%
Total income tax (benefit) expense	-	-

As at 31 December 2018, the Company had loans from related parties, with difference between nominal value and amortized cost amounting to UAH 3,699,021 thousand. As a result of transition from NAS to IFRS used as financial information for taxable income calculation, deferred tax liabilities amounting to UAH 665,824 thousand attributable to the difference between nominal value and amortized cost of loans were derecognized.

There were no adjustments to prior periods in 2020.

#### **(b) Unrecognized deferred tax assets**

Overall economic and political situation in Ukraine remains unstable, and fluctuations of UAH exchange rates are difficult to predict. Also, the Company's financial result for the recent years was negative and comprised foreign exchange loss. Additionally, due to changes in legislation described in Note 25, starting from 2019, the Company applies IFRS in preparing its financial statements, which are the basis for income tax assessment, however, the requirements to transfers of accumulated temporary differences are not always clear. This indicates uncertainty related to the



assumption that future taxable profit will be available against which the Company can utilize the related tax benefits.

Based on the above, management decided not to recognize deferred tax asset attributable to the following items as at 31 December 2020 and 31 December 2019:

'000 UAH	31 December 2020	change in unrecognized temporary differences	31 December 2019
Property, plant and equipment	130,503	(10,816)	141,319
Trade and other receivables	12,156	3,184	8,972
Post-employment benefit obligations	34,938	387	34,551
Tax losses carried forward	4,245,319	810,764	3,434,555
<b>Total unrecognized deferred tax assets</b>	<b>4,422,916</b>	<b>803,519</b>	<b>3,619,397</b>

'000 UAH	31 December 2019	change in unrecognized temporary differences	1 January 2019
Property, plant and equipment	141,319	(11,818)	153,137
Trade and other receivables	8,972	2,327	6,645
Post-employment benefit obligations	34,551	(6,792)	41,343
Tax losses carried forward	3,434,555	184,309	3,250,246
<b>Total unrecognized deferred tax assets</b>	<b>3,619,397</b>	<b>168,026</b>	<b>3,451,371</b>

10 **Property, plant and equipment and construction in progress**

'000 UAH	Land and buildings	Plant and equipment	Motor vehicles	Office equipment and furniture	Construction in progress	Total
<i>Cost</i>						
Balance as at 31 December 2018	1,426,053	1,383,170	36,799	9,743	15,695	2,871,460
Additions	2,139	5,786	-	152	241,215	249,292
Transfers	683	50,011	8,384	1,674	(60,752)	-
Disposals	-	(13,352)	-	(173)	(1,869)	(15,394)
Balance as at 31 December 2019	1,428,875	1,425,615	45,183	11,396	194,289	3,105,358
Additions	2,743	108,829	5,680	2,589	82,356	202,197
Transfers	99,948	161,081	-	-	(261,029)	-
Disposals	(1,109)	20	(615)	(16)	-	(1,720)
<b>Balance as at 31 December 2020</b>	<b>1,530,457</b>	<b>1,695,545</b>	<b>50,248</b>	<b>13,969</b>	<b>15,616</b>	<b>3,305,835</b>

<i>Depreciation and impairment losses</i>						
Balance as at 31 December 2018	(611,793)	(689,391)	(28,880)	(6,965)	-	(1,337,029)
Depreciation for the year	(59,267)	(91,442)	(2,794)	(1,779)	-	(155,282)
Disposals	-	423	-	159	-	582
Balance as at 31 December 2019	(671,060)	(780,410)	(31,674)	(8,585)	-	(1,491,729)
Depreciation for the year	(63,225)	(120,552)	(2,966)	(1,898)	-	(188,641)
Disposals	5	(20)	288	14	-	287
<b>Balance as at 31 December 2020</b>	<b>(734,280)</b>	<b>(900,982)</b>	<b>(34,352)</b>	<b>(10,469)</b>	<b>-</b>	<b>(1,680,083)</b>
<i>Carrying amounts</i>						
As at 31 December 2019	757,815	645,205	13,509	2,811	194,289	1,613,629
<b>As at 31 December 2020</b>	<b>796,177</b>	<b>794,563</b>	<b>15,896</b>	<b>3,500</b>	<b>15,616</b>	<b>1,625,752</b>

Depreciation expenses on property, plant and equipment for the year ended 31 December 2020 were allocated between cost of sales, administrative expenses and other expenses in the amount of UAH 165,201 thousand, UAH 3,408 thousand and UAH 18,080 thousand, respectively (2019: UAH 140,967 thousand, UAH 2,404 thousand and UAH 5,268 thousand), UAH 1,952 thousand were capitalized in finished goods (2019: UAH 6,643 thousand).

During the audit, the Company adjusted corresponding figures as at 31 December 2018 and 2019 for the total amount of UAH 561,242 thousand, which corresponds to historical cost and accumulated depreciation of items of property, plant and equipment with zero net book value as at the date of first application of IFRS.

On 24 March 2020, the Company obtained Certificate IY No.163200840632 issued by the State Architectural and Construction Inspectorate of Ukraine, which certifies that completed construction of the facility (stage, separate start-up complex) complies with project documentation and confirms that facility “New construction of propylene oxide production plant with capacity of 2,700 tons/year” is ready for operation. Based on the Certificate, historical cost of certain items of property, plant and equipment was calculated and recognized, and depreciation of these items commenced.

As the propylene oxide production technology outlined in the investment project has no analogues, during 2020 the Company continued to recognize (capitalize) additional expenses incurred on construction and installation work to improve design and technical characteristics of certain items of the unit in cost of constructed property, plant and equipment.

As at 31 December 2020, property, plant and equipment with book value of UAH 221,485 thousand are accounted for within the investment project “New construction of propylene oxide production plant with capacity of 2,700 tons/year”.

At 31 December 2020 inventories with a carrying amount of UAH 1,032,317 thousand (31 December 2019: UAH 1,105,572 thousand) are pledged to secure loans and borrowings (Note 16(b)).

## **11 Inventories**

During 2020, inventories amounting to UAH 7,994,135 thousand were recognized in profit or loss as cost of sales (2019: UAH 10,300,574 thousand). In 2020 transportation expenses incurred when the goods were delivered to the customers were recognized as cost of sales in the amount of UAH 524,435 thousand (2019: UAH 578,900 thousand).

In 2020 the write-down of inventories to net realizable value amounted to UAH 19,865 thousand (2019: UAH 18,699 thousand) (Note 6).

In 2019 raw materials and supplies amounting to UAH 5,348 thousand were recognized in other operating expenses through write-off or sale (2019: UAH 48,484 thousand).

At 31 December 2020 inventories with a carrying amount of UAH 172,350 thousand (31 December 2019: UAH 172,350 thousand) are pledged to secure loans and borrowings (Note 16(b)).

## 12 Taxes receivable

As at each reporting date, taxes receivable are represented mainly by value-added tax receivable.

'000 UAH	31 December 2020	31 December 2019
Taxes receivable	94,064	336,707
Provision for income tax	(3,924)	(3,924)
<b>Total taxes receivable</b>	<b>90,140</b>	332,783
Incl. recoverable VAT	90,032	332,711

During 2020, VAT was recovered by the tax authorities in a timely manner based on results of in-office and/or unscheduled on-site documentary tax audits.

As at 31 December 2020, VAT amounts per tax returns for November and December 2020 were not recovered, these amounts were recovered in February 2021.

## 13 Trade accounts receivable

Trade accounts receivable from related parties (Note 22(c)) and from other unrelated entities are presented separately in the Balance sheet (Statement of financial position):

'000 UAH	31 December 2020	31 December 2019
Trade receivables	179,063	180,779
Allowance for impairment	(61,855)	(49,845)
<b>Total trade accounts receivable</b>	<b>117,208</b>	130,934

The receivables are considered to be held within a held-to-collect business model consistent with the Company's continuing recognition of the receivables.

The Company's exposure to credit risk and impairment losses related to trade and other receivables is disclosed in Note 19(c).

## 14 Cash and cash equivalents

At each reporting date, cash and cash equivalents are represented by bank balances that are neither impaired nor past due.

The long-term credit ratings by Moody's Investors Service or its equivalent of banks at which cash and cash equivalents are held are presented below:

UAH, mln	31 December 2020
B3 (Moody's)	47,517
B (Fitch Ratings)	256,901

<b>Total bank balances</b>	304,418
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UAH, mln	31 December 2019
Caa1	240,006
Unrated	279,319
<b>Total bank balances</b>	519,325

The Company's exposure to currency risk related to cash and cash equivalents is disclosed in Note 19(e)(i).

## 15 Equity

### (a) Share capital

Participants in a limited liability company have voting, profit distribution, and capital repayment rights proportionally to the size of their contribution to the share capital.

The structure of the Company's share capital is as follows:

'000 UAH	31 December 2020	31 December 2019
Karpaty Chemical B.V.	2,321,013	2,321,013
<b>Total share capital</b>	<b>2,321,013</b>	2,321,013

As at all mentioned balance sheet dates, the Company is ultimately owned by two individuals indicated in Note 1(b).

### (b) Additional paid-in capital

As at 31 December 2020 and 31 December 2019 additional paid-in capital includes the effect of recognition at fair value of low-interest loans from related parties under common control and the Company's immediate parent (see Note 16(a)). Related party transactions are disclosed in Note 22.

The Company also recognized accumulated deficit of LLC "Lukoil Energiya Gas Kalush", which merged with the Company in 2017, amounting to UAH 164,034 thousand within additional paid-in capital.

### (c) Dividends

Current Ukrainian legislation limits the amounts of distributable dividends to retained earnings determined in accordance with IFRS.

In 2020 and 2019, the Company did not make distributions to owners. No other dividends have been announced by the Company.

The amendment "Puttable Financial Instruments and Obligations Arising on Liquidation", issued in February 2008, amended International Financial Reporting Standard IAS 32 *Financial Instruments: Presentation* and International Financial

Reporting Standard IAS 1 *Presentation of Financial Statements*. The amendments became effective for annual periods beginning on or after 1 January 2009. Prior to the amendment, IAS 32 required shareholders' interests in limited liability companies to be classified as liabilities because such companies are obliged to pay a withdrawing shareholder its share of the company's net assets. Following amendment, IAS 32 requires such interests to be classified as equity, rather than liabilities, if, as well as other criteria being met, the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in recognized net assets or the change in the fair value of the recognized and unrecognized net assets over the life of the instrument and there are no other instruments issued that have cash flows based substantially on the total cash flows of the above items or restrict or fix the residual return to the puttable instrument holders.

The Company does not consider it necessary to develop a separate policy for capital management since management seeks to maintain a sufficient capital base for meeting the Company's operational and strategic needs. This is achieved with efficient cash management, constant monitoring of the Company's revenues and profit, and long-term investment plans mainly financed by the Company's operating cash flows and bank loans. With these measures the Company aims for steady profits growth.

Participants in a limited liability company have voting, profit distribution, and capital repayment rights proportionally to the size of their contribution, including the right of unilateral withdrawal of their share of the company's net assets determined in accordance with IFRS.

## 16 Loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risks, see Note 19.

'000 UAH	31 December 2020	31 December 2019
<i>Non-current liabilities and provisions</i>		
Other non-current liabilities/ Loans from related parties	23,419,411	17,926,033
<b>Total non-current loans and borrowings</b>	<b>23,419,411</b>	17,926,033
<i>Current liabilities and provisions</i>		
Current payables per: non-current liabilities/ Loans from related parties	-	-
Short-term bank loans	270,487	1,265,187
<b>Total short-term loans and borrowings</b>	<b>270,487</b>	1,265,187
<b>Total loans and borrowings</b>	<b>23,689,898</b>	19,191,220

### (a) Terms and debt repayment schedule

As at 31 December 2020, terms and debt repayment schedule of loans and borrowings are as follows:

<b>'000 UAH</b>	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Carrying amounts</b>
Related party loan	USD	LIBOR 1 month + 2%	2022-2023	<b>17,904,358</b>	<b>15,612,307</b>
Related party loan	USD	5.0%	2022-2023	<b>8,536,349</b>	<b>7,602,099</b>
Related party loan	USD	LIBOR 3 months + 4%	2022	<b>221,513</b>	<b>205,005</b>
Secured bank loans	USD	7.5%-8.2%	2021	<b>270,487</b>	<b>270,487</b>
<b>Total loans and borrowings</b>				<b>26,932,707</b>	<b>23,689,898</b>

*Secured bank loans*

In 2020, the Company has short-term loan agreements with PJSC JSB “Ukrzazbank” and PJSC “State Savings Bank of Ukraine” with total outstanding payable balance of UAH 270,487 thousand as at 31 December 2020 (31 December 2019: UAH 1,265,187). The Company has collateralized these credit facilities by pledging property, plant and equipment and inventory items with the carrying amount of UAH 1,204,677 thousand as at 31 December 2020 (31 December 2019: UAH 1,277,922 thousand) (Note 16(b)).

As at 31 December 2020, the Company complied with all financial covenants stipulated by the loan agreement with PJSC “State Savings Bank of Ukraine”. Financial covenants stipulated by loan agreement with PJSC JSB “Ukrzazbank” have been complied with only partially, in particular, the Company has generated 96% of the contractual amount of the net revenue from sales of products. Subsequent to 31 December 2020 and till the date of these financial statements the banks did not demand early repayment of the loans.

*Related party loans*

As at 31 December 2020 As at 31 December 2019, the Company has loans from related parties amounting to UAH 23,419,411 thousand, including interest payable of UAH 5,336,207 thousand (31 December 2019: UAH 17,926,033 thousand and UAH 3,868,287 thousand, respectively). These amounts are recognized initially at fair value, discounted under a prevailing market interest rate of 10.5%. During 2019 and 2018, the Company concluded additional agreements with a related party, according to which loans and borrowings were restructured and payments of principal and accrued interest were prolonged till 2022-2023. There were no pledged assets in connection with these loans.

**(b) Pledged assets**

Assets with the following carrying amount are pledged to secure bank loans and borrowings:

‘000 UAH	Note	31 December 2020	31 December 2019
Property, plant and equipment	10	1,032,317	1,105,572
Inventories	11	172,350	172,350
<b>Total pledged assets</b>		<b>1,204,667</b>	1,277,922

**(c) Reconciliation of movements of liabilities to cash flows from financing activities**

‘000 UAH	Note	Liabilities
		Loans, borrowings, and other current liabilities
Balance as at 1 January 2019		22,972,794
<i>Changes in financing cash flows</i>		
Proceeds from loans and borrowings		2,818,293
Repayment of bank loans and borrowings		(3,658,915)
<b>Net cash flow changes</b>		<b>(840,622)</b>
<i>Changes in other liabilities and equity related movements</i>		
Effect of low-interest loans recognized at fair value	22(c)	(1,604,605)
Net foreign exchange loss on loans and borrowings		(3,203,542)
Interest accrued	7	2,063,654
Interest paid		(196,459)
Opened unsecured letter of credit	18	355,125
<b>Net changes in other items</b>		<b>(2,585,827)</b>
<b>Balance as at 31 December 2019</b>		<b>19,546,345</b>
		<i>(continued)</i>
<i>Changes in financing cash flows</i>		
Proceeds from loans and borrowings		1,197,469
Repayment of bank loans and borrowings		(2,401,770)
<b>Net cash flow changes</b>		<b>(1,204,301)</b>
<i>Changes in other liabilities and equity related movements</i>		
Effect of low-interest loans recognized at fair value		
Net foreign exchange loss (gain) on loans and borrowings		3,765,874
Interest accrued	7	2,044,684



Accrued fees for servicing loans, unsecured letters of credit and counter-guarantees	7	22,383
Interest paid		(107,629)
Fees and commissions paid		(22,333)
Closure of unsecured letter of credit	18	(355,125)
<b>Net changes in other items</b>		<b>5,347,854</b>
<b>Balance as at 31 December 2020</b>		<b>23,689,898</b>

## 17 Post-employment benefit obligations

The post-employment benefit obligations recognized in the statement of financial position are as follows:

€000 UAH	31 December 2020	31 December 2019
Post-employment benefit obligations	194,099	191,951

### (a) Movements in present value of defined benefit obligations

Movements in the liability recognized in the statement of financial position during the year ended 31 December are as follows:

€000 UAH	Note	2020	2019
<b>Net liability as at 1 January</b>		<b>191,951</b>	229,683
Interest expense recognized in profit or loss	7	18,619	21,920
Benefits paid		(8,433)	(7,273)
Actuarial gain recognized in other comprehensive income		(15,923)	(36,761)
Current service cost		7,885	3,441
Past service income		-	(19,059)
			(continued)
<b>Net liability as at 31 December</b>		<b>194,099</b>	191,951

### (b) Actuarial assumptions

€000 UAH	31 December 2020	31 December 2019
Discount rate	10.07%	9.70%
Future salary increase rate	5.5-8.7%	5.5-12.4%
Staff turnover rate	6.0%	6.0%

The Company engages a qualified actuary on a contractual basis to reliably assess the defined benefit obligations.

Since reliable market data are not generally available in Ukraine, management uses its own internal assumptions in calculating the liability related to these obligations at

each reporting date. Actual results could significantly differ from estimates made as at the reporting date.

Salary increase rate is estimated based on budgeted and projected salary increases for employees.

Staff turnover rate is estimated based on expected staff turnover in future years.

Assumptions with respect to future mortality are based on published statistical and demographic mortality tables.

Potential changes in the above key assumptions would not result in significant changes in carrying value of post-employment employee benefit obligations.

## **18 Other current liabilities**

Other current liabilities as at 31 December 2019 are mainly represented by an unsecured letter of credit in the amount of UAH 355,125 thousand (USD 14,993 thousand) opened with JSC Ukgazbank at an interest rate of 9.35% per annum. The letter of credit was opened to guarantee repayment of accounts payable due from LLC KARPATNAFTOCHIM for the supply of raw materials, which were repaid by a non-resident bank in full. The obligations under the letter of credit were fulfilled in February 2020.

Tax credit amounting to UAH 13,678 thousand accounts for the major part of other current liabilities as at 31 December 2020.

## **19 Fair values and risk management**

### **(a) Determination of fair values**

IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies, at year-end, and are not indicative of the fair value of those instruments at the date these financial statements are prepared or distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument.

Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Management believes that for all the financial assets and liabilities the carrying amount is estimated to approximate the fair value as at 31 December 2020 and 31 December 2019.

## **(b) Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. The Supervisory Board of the Company oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks.

The Company's risk management policies are established to identify and analyze the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

## **(c) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from receivables from customers (counterparties).

### **(i) *Exposure to credit risk***

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance sheet (Statement of financial position).

### **(ii) *Trade and other receivables***

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry, in which customers operate, as these factors may have an influence on credit risk, particularly in the currently challenging economic circumstances.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes internal ratings, when available.

Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period for customers of one to three months. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Company and existence of previous financial difficulties.

The Company does not require collateral in respect of trade and other receivables. The Company establishes an allowance for impairment that represents its estimate of expected credit losses (ECL) in respect of trade and other receivables. The estimated ECLs were calculated based on actual credit loss experience over the past three years.

The ageing of trade accounts receivable is as follows:

'000 UAH	31 December 2020		31 December 2019	
	Gross	Impairment	Gross	Impairment
Neither past due nor impaired	117,208	-	130,934	-
Past due and impaired	61,855	(61,855)	49,845	(49,845)
<b>Total trade accounts receivable</b>	<b>179,063</b>	<b>(61,855)</b>	<b>180,779</b>	<b>(49,845)</b>

#### (d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, to the maximum extent possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

'000 UAH	Carrying amounts	Contractual cash flows	Less than 1 year	From 1 to 2 years	From 2 to 5 years
<b>31 December 2020</b>					
<i>Non-derivative financial liabilities</i>					
Loans and borrowings	23,689,898	28,990,375	270,487	8,610,232	20,109,656
Current trade accounts payable	382,000	382,000	382,000	-	-
Other current liabilities	14,346	14,346	14,346	-	-
	<b>24,086,244</b>	<b>29,386,721</b>	<b>666,833</b>	<b>8,610,232</b>	<b>20,109,656</b>

'000 UAH	Carrying amounts	Contractual cash flows	Less than 1 year	From 1 to 2 years	From 2 to 5 years
<b>31 December 2019</b>					
<i>Non-derivative financial liabilities</i>					
Loans and borrowings	19,191,220	25,566,005	1,265,187	-	24,300,818
Current trade accounts payable	346,852	346,852	346,852	-	-
Other current liabilities	355,983	355,983	355,983	-	-
	19,894,055	26,268,840	1,968,022	-	24,300,818

During 2019 and 2018, the Company concluded additional agreements with its major creditor, a related party, according to which loans and borrowings were restructured and payments of principal and accrued interest were prolonged till 2022-2023.

### (e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the carrying value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

#### (i) (i) Currency risk

The Company is primarily exposed to currency risk through loans and borrowings that are denominated in USD. Also, the Company is exposed to currency risk on sales and purchases that are denominated in a currency other than Ukrainian hryvnias. The currencies in which these transactions are primarily denominated are Euro and USD.

Ukrainian legislation restricts the ability of Ukrainian companies to hedge their exposure to foreign currency risk, and, accordingly, the Company does not hedge its exposure to foreign currency exchange risk.

#### *Exposure to currency risk*

The Company's exposure to foreign currency risk was as follows based on carrying values:

'000 UAH	31 December 2020	
	USD	EUR
<b>Current assets</b>		
Trade accounts receivable	90,265	9,983
Cash and cash equivalents	19,380	224,825
<b>Current liabilities</b>		
Loans and borrowings	(270,487)	-
Current trade accounts payable	(332,359)	(9,382)
Other current liabilities	-	-
<b>Non-current liabilities</b>		
Loans and borrowings	(23,419,411)	-

Net exposure	(23,912,612)	225,426
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‘000 UAH	31 December 2019	
	USD	EUR
<b>Current assets</b>		
Trade accounts receivable	23,064	52,715
Cash and cash equivalents	227,062	166,978
<b>Current liabilities</b>		
Loans and borrowings	(1,265,187)	-
		(continued)
Current trade accounts payable	(279,814)	(23,800)
Other current liabilities	(355,125)	-
<b>Non-current liabilities</b>		
Loans and borrowings	(17,926,033)	-
<b>Net exposure</b>	<b>(19,576,033)</b>	<b>195,893</b>

#### *Sensitivity analysis*

A 10 percent weakening of the Ukrainian hryvnia against the following currencies would have (decreased)/increased the Company’s net profit by the amounts presented below in 2020. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of each reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis is performed on the same basis for the prior period reporting date.

‘000 UAH	31 December 2020	31 December 2019
USD	(1,960,834)	(1,605,235)
EUR	18,485	16,063

A 10 percent strengthening of the Ukrainian hryvnia against these currencies at 31 December 2020 and 31 December 2019 would have had the equal but opposite effect on the Company’s net profit by the amounts shown above, on the basis that all other variables remain constant.

#### **(ii) Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). At the time of raising new borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Company over the expected period until maturity.

*000 UAH	31 December 2020	31 December 2019
<b>Fixed rate instruments</b>		
Loans and borrowings	<b>7,872,586</b>	7,026,897
<b>Variable rate instruments</b>		
Loans and borrowings	<b>15,817,312</b>	12,164,323
<b>Total loans and borrowings</b>	<b>23,689,898</b>	19,191,220

A 100 basis points increase in interest rates as at 31 December 2020 would have increased loss and increased negative equity by UAH 129,702 thousand (31 December 2019: UAH 99,747 thousand). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and has applied to floating rate interest bearing liability based on the assumption that the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

The Company does not account for any fixed rate financial instruments as fair value through profit or loss (FVTPL). Therefore, a change in interest rates at the reporting date would not have an effect on profit or loss or on equity.

## 20 Commitments

### (a) Capital commitments

As at each reporting date, the Company has no significant contractual commitments to purchase property, plant and equipment.

### (b) Social commitments

The Company makes contributions to mandatory and voluntary social programs. Its social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Company's employees.

Management expects that the Company will continue to fund the social programs through the foreseeable future. These costs are expensed in the period they are actually incurred.

## 21 Contingencies

### (a) Insurance

The insurance industry in Ukraine is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on the Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

## **(b) Litigations**

The Company is subject to legal actions and complaints in its ordinary course of business. Management believes that it is unlikely that a significant settlement or loss of assets will arise out of such lawsuits and no respective provision is required in the Company's financial statements as at the reporting date.

## **(c) Taxation**

The Company performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## **22 Related party transactions**

Related parties comprise the participants of the Company, companies which are under common control, key management personnel of the Company, members of the Supervisory Board and companies that are controlled or significantly influenced by the participants.

### **(a) Parent and ultimate controlling party**

The Company's immediate participants and ultimate controlling party are disclosed in Note 1(b).

No publicly available financial statements are produced by the Company's parent company.

### **(b) Transactions with key management personnel**

Remuneration of key management personnel is represented by short-term employee benefits which include salary and bonuses payable in cash amounting to UAH 29,901 thousand for the year ended 31 December 2020 (31 December 2019: UAH 32,808 thousand).



### (c) Other related party transactions

Balances with related parties, which are represented by entities under common control, are as follows:

'000 UAH	31 December 2020	31 December 2019
Trade receivables	49,113	-
Advances paid	124,184	412
Current trade accounts payable	1,561	4,212
Loans and borrowings	23,419,411	17,926,033

All outstanding balances with related parties are to be settled in cash.

Transactions with related parties, which are represented by entities under common control, are as follows:

'000 UAH	Note	2020	2019
Revenue from sales of products		64,735	-
Purchase of goods and services		42,456	134,550
Interest on borrowings		1,945,405	1,872,826
Effect of recognition at fair value low-interest loans from related parties under common control, before tax	17(c)	-	(1,604,605)

## 23 Subsequent events

In March 2021, the Company concluded additional agreements with FANLO HOLDINGS LIMITED (Cyprus), a related party, according to which loans and borrowings were restructured and payments of principal and accrued interest were prolonged till 2025-2026.

The above-mentioned modification in loan agreements was recognized by the Company's management as substantive. Therefore, the existing loans will be derecognized, and new loans will be recognized at their fair value in the financial statements for 2021.

From the beginning of 2021, the Ukrainian government authorities' measures to counteract the spread of COVID-19 continued to be in effect. The Ukrainian government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home.

From 8 to 24 January 2021, public authorities introduced a strict lockdown to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters, museums, sport and other facilities.

In some European countries, including Italy, Spain, Germany, France and others, after easing the restrictive measures and resumption of business, such measures have been reintroduced with varying degrees of restrictions.

The Ukrainian government extended the adaptive quarantine until 30 April 2021.

Over the last few weeks the Company's sales remained on its stable levels and its operations including supplies were not interrupted. Based on the publicly available information at the date these financial statements were authorized for issue, management has considered the potential development of the outbreak and its expected impact on the Company and economic environment, in which the Company operates, including the measures already taken by the Ukrainian government and governments in other countries, where the Company's major business partners and customers are located.

Taking into account the above-mentioned measures and the Company's current operational and financial performance along with other currently available public information, we do not anticipate an immediate significant adverse impact of the COVID-19 outbreak on the Company's financial position and operating results. However, we cannot preclude the possibility that extended lockdown periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the Company in the medium and longer term.

## **24 Significant accounting policies**

The accounting policies set out below have been applied consistently to the period presented in these financial statements.

### **(a) Revenue**

The Company generates revenue from sales of finished products listed in Note 5, as well as from performance of a range of services, including services on treatment of industrial and domestic wastewater.

The Company defines the contract with the customer as an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity's customary business practices.

#### **(i) Sales of goods**

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to a customer. Revenue is presented net of refunds executed and discounts granted to customers.

The Company sells goods using the contracts with different terms of delivery and terms of transfer of risks and rewards.

The Company recognizes sales of goods when a customer obtains control for them. The indicators that control has passed are assessed by the management for each contract and include the customer having:

- a present obligation to pay;
- physical possession;
- legal title;
- the risks and rewards of ownership; and
- accepted the asset.

For contracts that permit the customer to return an item, revenue is recognized to the extent that it is highly probable that a significant reversal in cumulative revenue will not occur. Therefore, revenue recognized is adjusted for expected returns, which are estimated based on historical data for specific types of products.

For the majority of its sales of goods, the Company transfers control and recognizes a sale once the goods have been placed at the customer's disposal at the specified location, the customer is then responsible for all costs and risks related to the goods. Related shipping and handling activities occur before control of the goods has been transferred to the customer and no separate performance obligation in respect of shipping and handling activities is recognized.

If the Company retains significant risks and rewards of ownership of the asset, the transaction is not a sale and revenue is not recognized.

**(ii) *Services rendered/work performed***

Total consideration in the service/work contracts is allocated to all services rendered/works performed based on their standalone selling prices.

The stand-alone selling prices are determined based on the prices at which the Company would sell these services/work in separate transactions.

Based on the Company's assessment, the fair value and the stand-alone selling prices of the services/work are broadly similar.

Revenue from services should be recognized when all of the following criteria are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Methods for determining the stage of completion of services/work may include:

- cost-to-cost approach (the percentage of completion based on the costs incurred to the estimated total cost to complete the project);
- percentage-of-completion method (revenues recognised in proportion to the completeness of the contracted project).

The percentage-of-completion method is preferable.

When the outcome of a transaction involving provision of services/performance of work cannot be measured reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.

**(iii) Financing components**

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any transaction prices for the effects of a significant financing component.

**(b) Finance income and expenses**

Finance income and finance expenses comprise interest expense on borrowings, interest income, foreign exchange gain or loss on financial assets and financial liabilities.

Borrowing costs, directly attributable to purchase, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur using the effective interest method. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign exchange gains and losses are reported on a net basis as either finance income or finance expenses depending on whether foreign currency movements are in a net gain or net loss position.

**(c) Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

## **(d) Financial instruments**

### **(i) Recognition, initial measurement and derecognition**

Trade receivables are initially recognized when they are originated.

All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of financial position but retains either all or substantially all the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

### **(ii) Classification and subsequent measurement of financial assets**

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company's financial assets comprise trade and other receivables and cash and cash equivalents and are classified into the financial assets at amortized cost category. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

### **(iii) Classification and subsequent measurement of financial liabilities**

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company measures all of its financial liabilities including loans and borrowings, bank overdrafts, and trade and other payables at amortized cost.

### **(iv) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company currently has a legally enforceable right to set off and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and

enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

**(e) Employee benefits**

**(i) *Defined contribution state pension and other benefits plan***

The Company makes contributions for the benefit of employees to the State Fiscal Authorities of Ukraine that are responsible for administration of such benefits. Those amounts are expensed as incurred.

**(ii) *Defined contribution state pension obligation plan***

The Company is obliged to compensate the Ukrainian state for pensions that are paid by the state to employees who worked in a hazardous environment or in heavy-load conditions and, therefore, are eligible for early retirement and pensions until the normal retirement age as defined by the statutory regulations.

The Company's net obligation in respect of defined benefit pension plan is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

The discount rate is determined considering various sources of information, including yields at the reporting date on Ukrainian government and high quality long-term corporate bonds.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans - in cost of revenues in profit or loss.

**(f) Income tax**

Income tax expense consists of current and deferred taxes. Current and deferred taxes are recognized in profit or loss for the period in which recognized transactions that led to their occurrence are recognized.

**(i) Current tax**

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

**(ii) Deferred tax**

Deferred tax is recognized for the estimated future tax effects of temporary differences and tax loss carry-forwards.

Temporary difference is the difference between the tax carrying amount of an asset or liability and its carrying amount in the financial statement that will result in taxable or deductible amounts in future periods when the carrying amount is recovered or settled.

Deferred tax liabilities are the amount of tax, which will have to be paid in future periods due to a temporary timing difference between the carrying value and the tax base of an asset or a liability. Deferred tax assets are the amount of tax recoverable in future periods in respect of:

- Deductible temporary timing differences;
- The carry-forward of unused tax losses.

Timing differences originate in one period and reverse in one or more subsequent periods. Examples include the tax effect of accelerated depreciation, deductibility of provisions and recognition of bad debts.

**(g) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, except for land are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.



Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

**(ii) Subsequent expenditure**

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

**(iii) Depreciation and amortisation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant groups of property, plant and equipment for the current and comparative periods are as follows:

- Buildings 10-50 years;
- Plant and equipment 2-25 years;
- Motor vehicles 5-30 years;
- Office equipment and furniture 3 -10 years.

Low-value slow moving items are fully depreciated in the first month of their operation.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(h) Leases**

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all

of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used the period of use the period of use.

There are optional expedients for accounting for short-term leases (less than 12 months) and leases of low-value assets that may be not the subject of the lease under IFRS 16 *Leases*.

At the initial assessment or after the reassessment of a contract containing a lease component, the Company shall allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for a lease of land and buildings as a lessee, the Company decided not to separate non-lease components and account for the lease components and non-lease components as a separate lease component.

**(i) As a lessee**

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'other non-current liabilities' or 'other current liabilities' in the statement of financial position.

**(ii) *Short-term lease and lease of low-value assets***

The Company decided not to recognize the right-of-use assets and lease liabilities relating to property, plant and equipment with a lease term of 12 months or less, and lease of low-value assets. The Company recognizes lease payments under such contracts as expenses using the straight-line method over the lease term.

**(i) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## (j) Impairment

### (i) *Impairment - Financial assets and contractual assets*

The Company uses 'expected credit loss' (ECL) model. This impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

#### *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is

'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

*Presentation of impairment*

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

**(ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit ("CGU").

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(k) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that

reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

## **(l) Other expenses**

### **(i) Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

## **25 Changes in accounting policies**

As a public interest entity, the Company is required to prepare and submit its financial statements to the public authorities and other users at their request based on the taxonomy of IFRS financial statements in a single electronic format determined by the central executive body responsible for drafting and implementing the state policy in the area of accounting.

The Company is required to publish a full set of financial statements together with the auditors' report on its website no later than on 1 June 2021.

## **26 New standards and interpretations not yet adopted**

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*.
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*.
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*.
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*.
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards.
- *Amendments to References to Conceptual Framework in IFRS Standards*.
- *Definition of a Business (Amendments to IFRS 3)*.
- *Definition of Material (Amendments to IAS 1 and IAS 8)*.
- *COVID-19-Related Rent Concessions – Amendment to IFRS 16*

These financial statements were approved by management on 31 March 2021  
and were signed on its behalf by:

**General Director**  
**Pidsadiuk I.M.**

**Chief Accountant**  
**Kulyk R.V.**



The image shows two handwritten signatures in blue ink. The signature on the left is for the General Director, and the signature on the right is for the Chief Accountant. A blue circular official stamp is positioned between the two signatures. The stamp contains the following text: "КРАЇНА УКРАЇНА" (Ukraine) at the top, "ТОВАРИСТВО З ОБМЕЖЕНОЮ ВІДПОВІДАЛЬНІСТЮ" (Limited Liability Company) in the middle, "КАРПАТНАФТОХІМ" (KARPATNAFTOCHIM) in the center, "ІДЕНТИФІКАЦІЙНИЙ КОД 33129683" (Identification Code 33129683) at the bottom, and "Львівська область, Миколаївський район" (Lviv region, Mykolaiv district) at the very bottom.