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

Consolidated Financial Statements
as at and for the Year Ended
31 December 2016

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

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Public Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine":

Qualified Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the paragraphs 1-2b and 3 of the *Basis for Qualified Opinion* section of our report, and except for the effects of the matters described in the paragraphs 2c and 2d of the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

1) Financial information of "Ukrnafta" PJSC

As discussed in Note 22 to the consolidated financial statements, the Group gained control over "Ukrnafta" PJSC ("Ukrnafta") and starting from 22 July 2015 ("the date of control transfer") its financial information is consolidated into the Group's financial statements. Until 22 July 2015 the Group used equity method to account for its investment into Ukrnafta. As at the date of control transfer the Group measured assets and liabilities of Ukrnafta and remeasured the Group's investment into Ukrnafta at their fair values.

We were unable to obtain sufficient and appropriate audit evidence regarding:

a. Recognition and measurement of revenue, cost of sales, prepayments made and trade accounts receivable related to sales of petroleum products by the joint operation of Ukrnafta in 2016 and sales of crude oil and prepayments made for the purchases of oil products by Ukrnafta in 2015, as well as impact of these transactions on other operating expenses, finance costs, finance income and deferred tax assets as at 31 December 2016 and 2015 and for the years then ended.
b. Classification of prepayments for the purchases of oil products made by Ukrnafta in 2015 as current assets.
c. Quantities and valuation of inventories owned by the joint operation of Ukrnafta and held by a third party as at 31 December 2015, as we could not observe the counting of physical inventories or satisfy ourselves by alternative means concerning the inventory quantities as of that date.

d. Measurement of the fair value of property, plant and equipment as at the date of control transfer and the related loss on remeasurement of the Group's previously held interest in Ukrnafta.

As a result, we were unable to determine whether any adjustments to the following amounts related to Ukrnafta were necessary:

Line item in the consolidated financial statements	**31 December 2016, UAH million**	**31 December 2015, UAH million**
Consolidated statement of financial position as at		
Deferred tax assets	3,768	-
Prepayments made and other current assets	2,552	5,640
Trade accounts receivable	-	3,394
Inventories	-	1,191
Consolidated statement of profit or loss for the year ended		
Revenue	771	2,468
Cost of sales	(1,662)	-
Other operating expenses	(9,807)	(1,523)
Finance income	2,811	701
Finance costs	-	(809)
Share of after-tax results of associates and joint ventures	-	(1,224)
Remeasurement of previously held interest on transfer to subsidiary	-	(1,430)

2) Investments in associates and joint operations

As discussed in Notes 7 and 27 to the consolidated financial statements, the Group has investments in associates and joint operations. These investments are accounted for using the equity method of accounting and proportional consolidation, respectively. We were unable to:

a. Obtain sufficient and appropriate audit evidence regarding recoverability of trade and other receivables of the Group's associate "Ukrtatnafta" PJSC as at 31 December 2015 with the Group's share amounting to UAH 611 million included in the carrying amount of investments in associates.

b. Obtain sufficient and appropriate audit evidence regarding the Group's share in assets, liabilities, revenue and expenses of joint operations, where other parties in the joint arrangements with the Group subsidiary, "Ukrgasvydobyvannia" PJSC are responsible for maintaining accounting records, since we were unable to obtain access to their audited financial statements and financial information prepared in accordance with IFRS as at 31 December 2016 and for the year then ended as presented below:

Line item in the consolidated financial statements	**31 December 2016, UAH million**
Consolidated statement of financial position as at:	
Property, plant and equipment	1,540
Other non-current assets	3
Inventories	130
Trade accounts receivable	60
Cash and bank balances	14
Prepayments made and other current assets	58
Borrowings	90
Provisions	111
Trade accounts payable	50
Advances received and other current liabilities	109
Consolidated statement of profit or loss for the year ended:	
Revenue	1,712
Cost of sales	(1,472)

c. Determine the effect of the departure from IFRS 11 "Joint Arrangements" as the Group's investments in joint operations were accounted for using the equity method. These investments were stated at UAH 40 million and UAH 2 million as at 31 December 2016 and 2015, respectively. In our opinion, these investments should be accounted for as joint operations that requires recognition by the Group of its share in each category of assets and liabilities of the joint operations as at 31 December 2016 and 2015 and its share in the joint operations' revenues and expenses for the years then ended.

d. Determine the effect of the departure from the uniform accounting policy of the Group to use the revaluation model for measurement of property, plant and equipment by "Ukrtatnafta" PJSC and the joint operations of "Ukrgasvydobyvannya" PJSC, Misen Enterprises AB and LLC "Carpatygaz".

3) Purchases classification and presentation

As discussed in Note 27, the following expenditures were incurred by "Ukrtransgaz" PJSC during the year ended 31 December 2016:

- Capital expenditures included into property, plant and equipment amounting to UAH 1,872 million; and
- Expenditures for purchases of services and inventories amounting to UAH 4,279 million.

Additionally, "Ukrtransgaz" PJSC, "Ukrgasvydobyvannia" PJSC and "Ukrtransnafta" OJSC incurred capital expenditures and expenditures for purchases of services and inventories amounting to UAH 473 million and UAH 967 million, respectively, during the year ended 31 December 2015.

As stated in Note 27, the substance of these expenditures may differ from their legal form according to the primary documents. We were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the amounts and nature of the above expenditures and their classification in the consolidated financial statements for the years ended 31 December 2016 and 2015. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matters

Operating environment

We draw your attention to Note 2 to the consolidated financial statements, which describes that the impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group.

Ongoing litigations

We also draw your attention to Note 22 to the consolidated financial statements, which describes material uncertainty with regard to the claim in the Arbitration Institute of the Stockholm Chamber of Commerce issued by the Company to JSC "Gazprom" and counterclaim from JSC "Gazprom" to the Company.

Retrospective restatement

We further draw attention to Note 3 to the consolidated financial statements which describes the restatement of corresponding figures for the year ended 31 December 2015.

Our opinion is not modified in respect of these matters.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated 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 consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Deloitte & Touche

Товариство з обмеженою відповідальністю "Приватне акціонерне" м. Київ Україна "Делойт енд Туш Юкрейніан Сервісез Компані" Ідентифікаційний код 25642478

4 May 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

In millions of Ukrainian hryvnias	Note	31 December 2016	31 December 2015 (as restated, Note 3)	31 December 2014 (as restated, Note 3)
ASSETS				
Non-current assets				
Property, plant and equipment	6	551,661	559,796	445,076
Investments in associates and joint ventures	7	1,328	1,548	9,761
Prepaid corporate income tax		1,317	1,317	1,195
Deferred tax assets	21	6,415	-	-
Other non-current assets	8	9,326	8,722	4,486
Total non-current assets		**570,047**	**571,383**	**460,518**
Current assets				
Inventories	9	50,244	34,149	12,114
Trade accounts receivable	10	49,209	33,208	15,489
Prepayments made and other current assets	11	12,051	9,176	12,628
Prepaid corporate income tax		22	588	942
Cash and bank balances	12	22,336	11,791	4,535
Restricted cash		680	600	394
Total current assets		**134,542**	**89,512**	**46,102**
TOTAL ASSETS		**704,589**	**660,895**	**506,620**
EQUITY				
Share capital	13	164,607	164,607	59,997
Revaluation reserve		437,510	430,503	336,527
Unregistered contributed capital	13	29,700	29,700	104,610
Cumulative exchange difference		3,164	2,086	1,405
Accumulated deficit		(175,873)	(188,421)	(153,241)
Equity attributable to owners of the Parent		**459,108**	**438,475**	**349,298**
Non-controlling interest in equity		**1,164**	**5,287**	**20**
TOTAL EQUITY		**460,272**	**443,762**	**349,318**
LIABILITIES				
Non-current liabilities				
Borrowings	14	23,100	34,825	26,199
Provisions	15	12,416	7,387	2,235
Deferred tax liabilities	21	82,088	83,677	66,964
Other long-term liabilities		4	8	323
Total non-current liabilities		**117,608**	**125,897**	**95,721**
Current liabilities				
Borrowings	14	47,744	36,939	35,062
Provisions	15	31,116	10,883	1,142
Trade accounts payable		16,234	19,102	13,872
Advances received and other current liabilities	16	28,328	20,961	11,074
Corporate income tax payable		3,287	3,351	431
Total current liabilities		**126,709**	**91,236**	**61,581**
TOTAL LIABILITIES		**244,317**	**217,133**	**157,302**
TOTAL LIABIITIES AND EQUITY		**704,589**	**660,895**	**506,620**

These consolidated financial statements were authorised for issue on 4 May 2017.

Andriy Kobolyev
Chairman of the Executive Board

Sergiy Konovets
Deputy Chairman of the Executive Board

The accompanying notes are integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of Ukrainian hryvnias	**Note**	**2016**	**2015 (as restated, Note 3)**
Revenue	4	192,764	130,267
Cost of sales	17	(121,804)	(121,810)
Gross profit		**70,960**	**8,457**
Other operating income		2,627	3,911
Other operating expenses	18	(41,752)	(18,341)
Operating profit/(loss)		**31,835**	**(5,973)**
Finance costs	19	(9,581)	(11,521)
Finance income	20	4,672	1,804
Share of after-tax results of associates and joint-ventures	7	(99)	(627)
Remeasurement of previously held interest on transfer to subsidiary	7, 23	-	(1,430)
Net foreign exchange loss		(5,790)	(19,034)
Profit/(loss) before income tax		**21,037**	**(36,781)**
Income tax benefit	21	1,495	1,719
Net profit/(loss) for the year		**22,532**	**(35,062)**
Net profit/(loss) is attributable to:			
Equity holders of the Company		26,652	(32,792)
Non-controlling interest		(4,120)	(2,270)
Net profit/(loss) for the year		**22,532**	**(35,062)**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of Ukrainian hryvnias	**Note**	**2016**	**2015 (as restated, Note 3)**
Net profit/(loss) for the year		**22,532**	**(35,062)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss, net of income tax:			
Gain on revaluation of property, plant and equipment (net of income tax of UAH 1,585 million (2015: UAH 20,995 million)		7,220	95,647
Share of other comprehensive income of associates (net of income tax of nil (2015: nil)	7	2	311
Remeasurement of defined benefit obligation (net of income tax of UAH 31 million (2015: UAH 82 million)	15	(142)	(369)
Remeasurement of decommissioning liability (net of income tax of UAH 21 million (2015: UAH 56 million)	15	(95)	(253)
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Cumulative exchange difference		1,078	681
Reclassification adjustments relating to regaining of control over subsidiary	23	-	116
Other comprehensive income for the year		8,063	96,133
Total comprehensive income for the year		**30,595**	**61,071**
Total comprehensive income/(loss) is attributable to:			
Equity holder of the Company		34,818	62,299
Non-controlling interests		(4,223)	(1,228)
Total comprehensive income for the year		**30,595**	**61,071**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of Ukrainian hryvnias	Share capital	Revaluation reserve	Unregistered contributed capital	Cumulative exchange difference	Accumulated deficit	Total	Non-controlling interest	Total equity
Balance at 31 December 2014 (as restated, Note 3)	**59,997**	**336,527**	**104,610**	**1,405**	**(153,241)**	**349,298**	**20**	**349,318**
Loss for the year	-	-	-	-	(32,792)	(32,792)	(2,270)	(35,062)
Other comprehensive income/(loss) for the year	-	94,682	-	681	(272)	95,091	1,042	96,133
Total comprehensive income/(loss) for the year	**-**	**94,682**	**-**	**681**	**(33,064)**	**62,299**	**(1,228)**	**61,071**
Acquisition of subsidiary (Note 23)	-	-	-	-	-	-	7,127	7,127
Transfer of revaluation reserve	-	(706)	-	-	706	-	-	-
State treasury bonds received (Note 13)	-	-	29,700	-	-	29,700	-	29,700
Registration of shares (Note 13)	104,610	-	(104,610)	-	-	-	-	-
Profit share payable to the State Budget and dividends declared (Note 13)	-	-	-	-	(2,822)	(2,822)	(632)	(3,454)
Balance at 31 December 2015 (as restated, Note 3)	**164,607**	**430,503**	**29,700**	**2,086**	**(188,421)**	**438,475**	**5,287**	**443,762**
Profit/(loss) for the year	-	-	-	-	26,652	26,652	(4,120)	22,532
Other comprehensive income for the year	-	7,176	-	1,078	(88)	8,166	(103)	8,063
Total comprehensive income/(loss) for the year	**-**	**7,176**	**-**	**1,078**	**26,564**	**34,818**	**(4,223)**	**30,595**
Transfer of revaluation reserve	-	(169)	-	-	169	-	-	-
Change in investments in joint operations	-	-	-	-	100	100	100	200
Provision for dividends payable to the State Budget (Notes 13 and 15)	-	-	-	-	(13,264)	(13,264)	-	(13,264)
Profit share payable to the State Budget and dividends declared (Note 13)	-	-	-	-	(1,021)	(1,021)	-	(1,021)
Balance at 31 December 2016	**164,607**	**437,510**	**29,700**	**3,164**	**(175,873)**	**459,108**	**1,164**	**460,272**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of Ukrainian hryvnias	Note	2016	2015 (as restated, Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before income tax		**21,037**	**(36,781)**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		23,452	20,214
Loss on disposal of property, plant and equipment	18	406	304
Impairment/(reversal of impairment) of property, plant and equipment	6	1,231	(1,144)
Write down of inventories	9	1,693	7,601
Net movement in provision for trade accounts receivable and prepayments made, other current assets, financial investments and VAT balances	18	20,863	1,938
Change in provisions	15	12,067	8,387
Write off of accounts payable and other current liabilities		(101)	(141)
Share of after-tax results of associates and joint-ventures	7, 23	99	627
Remeasurement of previously held interest on transfer to subsidiary	7, 23	-	1,430
Foreign exchange loss		5,790	20,489
Finance costs, net		4,909	9,717
Operating cash flows before working capital changes		**91,446**	**32,641**
Decrease in other non-current assets		554	496
Increase in inventories		(17,788)	(27,278)
Increase in trade accounts receivable		(31,249)	(5,953)
Decrease in prepayments made and other current assets		8,623	5,839
Decrease in other long-term liabilities		(106)	(315)
Provisions paid or used	15	(873)	(334)
Decrease in trade accounts payable		(4,042)	(502)
Increase/(decrease) in advances received and other current liabilities		7,080	(2,739)
Cash generated from operations		**53,645**	**1,855**
Income taxes paid		(7,522)	(859)
Interest received		1,182	699
Net cash generated by operating activities		**47,305**	**1,695**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(7,680)	(4,546)
Proceeds from sale of property, plant and equipment		4	68
Cash acquired in business combination	23	-	654
Withdrawal/(placement) of bank deposits	12	2,315	(864)
Dividends received		123	32
Net cash used in investing activities		**(5,238)**	**(4,656)**

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016

In millions of Ukrainian hryvnias	**Note**	**2016**	**2015 (as restated, Note 3)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		19,348	19,968
Repayment of borrowings		(40,183)	(29,361)
Interest paid		(8,711)	(9,127)
Profit share and dividends paid	13	(1,021)	(2,851)
Net proceeds from sale of the State treasury bonds contributed to share capital		-	29,700
Net cash (used in)/generated from financing activities		**(30,567)**	**8,329**
Net increase in cash and cash equivalents		**11,500**	**5,368**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**9,256**	**3,314**
Effect of exchange rates change on cash and cash equivalents		1,097	574
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	**21,853**	**9,256**

Significant Non-Cash Transactions

In millions of Ukrainian hryvnias	**Note**	**2016**	**2015**
Contribution of the State treasury bonds to the share capital	13	-	29,700
Direct payment by a lending bank for gas purchased by the Group		13,636	1,140
Dividends paid by associates directly to the State Budget		-	1,780

1. THE ORGANISATION AND ITS OPERATIONS

Public Joint Stock Company "National Joint Stock Company "Naftogaz of Ukraine" ("Naftogaz of Ukraine", the "Parent" or the "Company") was founded in 1998 in accordance with the Resolution of the Cabinet of Ministers of Ukraine №747 dated 25 May 1998.

Naftogaz of Ukraine and its subsidiaries (hereinafter collectively referred to as the "Group") are beneficially owned by the State of Ukraine. The Government of Ukraine, as represented by the Cabinet of Ministers of Ukraine, controls the Company through participation in the shareholders' meetings and the Supervisory Board meetings, as well as through the appointment of the Chairman of the Executive Board and the Executive Board members.

Naftogaz of Ukraine is a vertically integrated oil and gas company engaged in full cycle of operations in gas and oil field exploration and development, exploratory drilling and production, gas and oil transportation and storage, supply of natural gas and liquefied petroleum gas ("LPG") to customers.

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

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

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

	% Interest held as at 31 December		
Name/Segment	**2016**	**2015**	**Country of registration**
Production of gas, oil and refinery products			
Ukrgasvydobyvannia, PJSC	100.00	100.00	Ukraine
Ukrnafta, PJSC	50.00+1 share	50.00+1 share	Ukraine
Petrosannan Company, Joint operations with the Arab Republic of Egypt and Egyptian General Petroleum Corporation	50.00	50.00	Egypt
Zakordonnaftogaz, Subsidiary Enterprise	100.00	100.00	Ukraine
Carpatygaz LLC, Joint operations with Misen Enterprises AB	49.99	49.99	Ukraine
Oil and gas transportation			
Ukrtransgaz, PJSC	100.00	100.00	Ukraine
Ukrtransnafta, PJSC	100.00	100.00	Ukraine
Ukrspetstransgaz, PJSC	100.00	100.00	Ukraine
Wholesale and retail distribution of oil, gas and refinery products			
Gaz Ukraiiny, Subsidiary Enterprise	100.00	100.00	Ukraine
Naftogaz Trading Europe S.A. (former Naftogaz Overseas S.A.)	100.00	100.00	Switzerland
Kirovogradgaz, Open JSC	51.00	51.00	Ukraine
Ukravtogaz, Subsidiary Enterprise	100.00	100.00	Ukraine
Other			
Vuglesyntezgaz Ukraiiny, Subsidiary Enterprise	100.00	100.00	Ukraine
Ukrnaftogazkomplekt, Subsidiary Enterprise	100.00	100.00	Ukraine

2. OPERATING ENVIRONMENT

During recent years Ukraine has been in a political and economic turmoil. Autonomous Republic of Crimea within Ukraine was unlawfully annexed by the Russian Federation. During 2016 certain areas in Luhansk and Donetsk regions continued to experience military actions. These actions led to rapid inflation, national currency devaluation against major foreign currencies, drop in GDP, illiquidity and volatility at the financial markets. In January 2016 agreement on Deep and Comprehensive Free Trade Area between Ukraine and the EU came into force. As a result, the Russian Federation imposed trade embargo or import duties on main Ukrainian export goods. In return, Ukraine imposed similar measures as to Russian goods.

In 2016 inflation was 12.4% compared to 43.3% in 2015. Despite cumulative inflation in Ukraine was slightly above 100% during recent three years, management believes that Ukrainian economy is not hyperinflationary because of inflation level slow-down in 2016 and absence of hyperinflationary economic environment.

Economic situation stabilisation started in 2016 with GDP growth of 1% and Ukrainian hryvnia strengthening. These events allowed the National Bank of Ukraine to ease certain restrictions on foreign currency transactions that were imposed in 2014-2015, including decrease of compulsory conversion level down to 65% and permission of dividend distribution abroad. Nevertheless, certain restrictions were further prolonged.

Significant external financing is needed to support the economy. During 2015 and 2016 Ukraine received first tranches within the Extended Fund Facility programme, agreed with the International Monetary Fund ("IMF"). Further economic and political progress depends essentially from the Ukrainian Government actions. At the same time, development in the economic and political areas remains uncertain.

Before 1 October 2015, the Company was a guaranteed supplier of natural gas in Ukraine to certain groups of customers, while its ability to adjust prices to end customers, reflecting increased prices for the imported gas, was limited, since such prices were regulated at each stage from exploration to end customers by the National Commission for Regulation of Energy and Utilities (the "NCREU", before 27 August 2014 – the National Commission for Regulation of Energy, the "NCRE"). During 2016 and 2015, there were significant fluctuations in natural gas purchase prices in UAH equivalent, due to the Ukrainian hryvnia devaluation against foreign currencies.

Starting from 1 October 2015, the Law of Ukraine "On Natural Gas Market" # 329-VIII dated 9 April 2015 came into force that launched the gas sector reform. The Law, on the one hand, stipulates for the state regulation of the monopoly market (transportation, distribution, storage, and LNG installation services) and, on the other hand, fosters the development of free fair competition in the natural gas commodity market. Thus, starting from 1 October 2015, the wholesale and the retail natural gas markets introduced the principle of free pricing and freedom of choice regarding sources of the natural gas supplies, except for the cases when the Cabinet of Ministers of Ukraine imposes specific obligations on the natural gas market participants.

2. OPERATING ENVIRONMENT (Continued)

The Government and the Group are undertaking significant measures in the open European natural gas market development that is required by the Memorandum on Economic and Financial Policy agreed with the IMF, provisions of the Coalition Agreement, the "Ukraine-2020" Sustainable Development Strategy, the Corporate Governance Action Plan, and the Plan for Implementation of the Gas Sector Reform approved by the Resolution of the Cabinet of Ministers of Ukraine # 375-p. These measures introduce conceptual changes to the legal framework and functioning of the natural gas market, to certain aspects of operations of the Company and also will have significant impact on the performance of the Company and the Group as a whole.

On 9 November 2016 the Cabinet of Ministers of Ukraine has approved incorporation of "Mahistralny gasoprovody Ukrainy" PJSC with its Resolution #801.

This decision was taken within the Company's Corporate Governance Restructuring Plan that assumes gas transportation and storage activities unbundling. Unbundling was also approved by the Resolution of the Cabinet of Ministers of Ukraine # 496 dated 1 July 2016. As at the date of these consolidated financial statements the list of assets to be transferred to "Mahistralny gasoprovody Ukrainy" PJSC has been not yet defined.

The Government has also approved the Corporate Governance Plan for "Mahistralny gasoprovody Ukrainy" PJSC, taking into account requirements of the European Bank for Reconstruction and Development and Energy community.

Further the Government approved amendments to the Company's Corporate Governance Restructuring Plan with its Resolution #800. Amendments include actions in respect of gas transportation and storage activities unbundling process.

State regulation of gas market in Ukraine

Before 1 October 2015, state regulation of gas market in Ukraine was performed by the Cabinet of Ministers of Ukraine and the NCREU.

State regulation covered both technical and financial aspects of the market functioning. Technical measures related to the effective use of gas resources, ensuring secure technical exploitation of the gas transportation system, maintaining correct and safe supply, distribution, and consumption of natural gas. Financial measures mainly related to tariff and price setting and maintaining correct financial means for natural gas allocation among market participants.

Gas trading and supply

NCREU was responsible for regulating activities of the natural gas market participants and providing tariff and price setting policy on natural gas market as stipulated by the Law of Ukraine "On Natural Gas Market" # 2467-VI dated 08 July 2010 and NCREU Charter approved by the Presidential Decree # 715/2014 dated 10 September 2014 and the Resolution of the Cabinet of Ministers of Ukraine "On competence of executive authorities and local government bodies in respect of price and tariff regulation". Natural gas prices were calculated according to the NCREU guidelines and principles of the Law of Ukraine "On Prices and Price Setting" # 5007-VI dated 21 June 2012.

2. OPERATING ENVIRONMENT (Continued)

Accordingly, NCREU approved the maximum sales price of natural gas for entities financed from the State and local budgets, the maximum sales price of natural gas for industrial customers and other entities (including district heating companies producing heat for households), retail sales prices of natural gas for households, tariffs for transportation services via transmission and distribution pipelines within Ukraine, tariffs for distribution and supply of natural gas under the regulated tariffs, tariffs for storage and pumping services. Additionally, NCREU was responsible for customer rights protection in the area of tariff setting, security of supplies and quality of services.

Starting from 1 October 2015, the Law changed model of the gas market to the principles of free, fair competition and ensuring a high level of protection of customer rights and interests.

At the same time, the Cabinet of Ministers of Ukraine has issued Resolution #758 dated 1 October 2015, imposing public service obligations on the Company during the transitional period from 1 October 2015 to 31 March 2017 in respect of gas purchase of domestic production from "Ukrgasvydobyvannia" PJSC and gas supply for the needs of households, district heating companies and religious organisations, and starting from 23 December 2016 – for the needs of budget financed entities. Additionally, gas supply to the "Odessa Port Plant" PJSC up to 31 December 2016 was included to the public service obligations of the Company.

Additionally, this Resolution defines natural gas selling prices for the needs of households, religious organisations (except gas volumes used for commercial purposes) and district heating companies for heat produced for households and religious organisations needs during the period from 1 October 2015 up to 31 March 2017.

Other customers outside the Resolution buy imported natural gas under the prices set discretionary by the gas market participants, including the Company.

At the same time, gas supply tariffs were not applied starting from 1 October 2015. Maximum trade mark-up of gas supplier with public service obligations is set instead as stipulated in the Resolution. Additionally, starting from 1 January 2016 natural gas tariff surcharge is not applied.

According to the Law of Ukraine "On principles of natural gas market functioning" that was effective prior to 1 October 2015, total volume of natural gas produced in Ukraine, net of natural gas used for technological purposes and other needs as stipulated by this law, by the entities owned 50% and more by the State, had to be sold for the needs of households via the Company at regulated prices. If the demand of the households exceeded the domestic production volumes, it was satisfied by imports.

2. OPERATING ENVIRONMENT (Continued)

As described above in this Note, according to the Resolution of the Cabinet of Ministers of Ukraine, starting from 1 October 2015 public service obligations were imposed on the Company during the transitional period from 1 October 2015 to 31 March 2017 regarding purchase of gas of domestic production from "Ukrgasvydobyvannia" PJSC and the sale of natural gas for the needs of households, district heating companies and religious organisations. This Resolution also assumes the Company to purchase natural gas from wholesale gas suppliers, including foreign suppliers, in case the volume sold by "Ukrgasvydobyvannia" PJSC does not cover the needs of households, religious organisations and district heating companies for heat produced for households. Gas volumes consumed by households are reported via the gas meters. If no meters are available, the sales volume is reported at the average normal consumption rates set by the respective regulations.

Households settle their debts on natural gas consumed via special purpose bank accounts. The list of banks creating such accounts is approved by the Cabinet of Ministers of Ukraine. According to the current procedure, gas suppliers with public service obligations open special purpose bank accounts to receive payments for natural gas consumed. Amounts accumulated on the special purpose bank accounts were allocated to current accounts of the transmission system operator, distribution system operators and gas supplier with public service obligations according to ratios calculated by the gas suppliers with specific obligations and approved by NCREU. Balances on the special purpose accounts cannot be arrested or blocked.

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

In November 2016 the Law of Ukraine "On measures to settle the debts for the natural gas consumed by district heat generating and distribution and water supplying companies" #1730 was adopted. The principles of district heat generating and distribution and water supply companies payables for gas settling are set in this Law. Among other, the Law assumes writing off penalties and fines implied for overdue debts for gas supplied, and restructuring of payables to the Company on gas consumed.

The list of companies entitled for debt settling procedures should be approved by the central body of the government executive authority responsible for pursuing the State policy in housing and utilities. This list should be approved as a separate register of companies. Additionally, gas debts restructuring should be performed according to a standard pro forma contract approved by the separate resolution of the Cabinet of Ministers of Ukraine. As at 31 December 2016, neither separate register of companies nor standard pro forma contract were approved. At the date of these consolidated financial statements register of companies was still under development.

2. OPERATING ENVIRONMENT (Continued)

Gas transmission and distribution

Before 1 January 2016 tariffs for gas transit were set by negotiations between two parties, and gas transmission and distribution tariffs were set by NCREU.

Starting from 1 January 2016, Ukraine has changed its gas transmission pricing policy to harmonise Ukrainian legislation with the European energy regulations, introducing a new system regulating tariffs for gas transmission. According to the Law of Ukraine "On Natural Gas Market", gas transmission tariffs are set by NCREU for entry/exit points. New tariffs are set using regulatory asset base (RAB) methodology that assumes setting appropriate return on assets to stimulate gas operators to invest in infrastructure development. The new tariffs allow compensating for acceptable return on RAB, depreciation and operating expenses. Depreciation included in the tariff was calculated based on the assumption that there would not be any transit flows starting from 1 January 2020 ("accelerated depreciation").

Currently JSC "Gazprom" ("Gazprom") still pays gas transmission tariffs as set in the current agreement on gas transit. Following disagreement of Gazprom to book entry capacities starting from 1 January 2016 based on the new tariffs, NCREU temporarily suspended the application of new tariffs for gas transit pending the award of the Arbitral Tribunal under the auspices of the Arbitration Institute of the Stockholm Chamber of Commerce (Note 22). Naftogaz expects that the NCREU following the award will apply the new tariffs for gas transit with retroactive effect from 1 January 2016.

Had new tariffs been enforced starting from 1 January 2016, and assuming that Gazprom would not book any transit capacities beyond 2019, the Group would have applied the revenue from gas transmission based on the new tariffs and accelerated depreciation.

2. OPERATING ENVIRONMENT (Continued)

The following tariffs and prices were set:

	31 December 2016	31 December 2015
Prior to 1 May 2016 **retail prices for natural gas for households** were differentiated depending on the type and volume of consumption (UAH per cubic meter), including VAT, duties in the form of additional levy to the existing tariffs, and tariffs for gas transmission and distribution. Effective from 1 May 2016 single retail price for households was set at the level of import parity, with possibility of quarterly review up to 31 March 2017 as set up in the Resolution of the Cabinet of Ministers of Ukraine # 315 dated 27 April 2016.	From 1 May 2016 to 31 March 2017: **UAH 6.88** per cubic meter	From 1 October 2015: **UAH 7.19** per cubic meter; **UAH 3.6** per cubic meter within the range of 1,200 cubic meters (on the basis of 200 cubic meters per month) for customers using gas in a single package
Natural gas prices for entities generating heat for household needs, UAH per cubic meter, net of VAT and other taxes and duties. Effective from 1 April 2015, regulated prices are applied, net of VAT, duties in the form of additional levy to the existing tariffs, and tariffs for gas transmission and distribution.	From 1 May 2016 to 31 March 2017: **UAH 4.94** per cubic meter	From 1 October 2015 to 30 April 2016: **UAH 1.84** for the entities directly connected to gas transmission system, and **UAH 1.77** for other entities
Selling prices for gas sold to industrial and other customers, net of VAT, duties in the form of additional levy to the existing tariffs, and tariffs for gas transmission and distribution. Effective from 1 October 2015, the said prices are determined by the Company on a monthly basis individually and are differentiated based on the monthly volumes of gas consumption and terms and conditions of payment for it by a customer.	From **UAH 6,484** to **UAH 7,148** per 1,000 cubic meter	From **UAH 5,845** to **UAH 6,474** per 1,000 cubic meter
General tariff for gas storage (storage, injection, and withdrawal), net of VAT, UAH per thousand cubic meters for one season of storage.	**UAH 112.0**	**UAH 112.0**
General gas transportation tariff via transmission and distribution pipelines within Ukraine, net of VAT, UAH per thousand cubic meters.	**UAH 732.70**	**UAH 689.10**
Tariff for entry and exit points of Ukrainian gas transmission network, net of VAT, USD per thousand cubic meters	From 1 January 2016: **USD 12.47**	n/a

2. OPERATING ENVIRONMENT (Continued)

Compensation of price difference between sales tariffs and price of imported gas and other types of financial support by the State

In accordance with Para 7, Article 11 of the Law of Ukraine "On Natural Gas Market", a gas market player with public service obligations is eligible for compensation of economically justified expenditures incurred by such player, less any income obtained in the course of fulfilling such obligations plus adequate margin. The level of margin should be calculated following the relevant resolution by the Cabinet of Ministers of Ukraine. As at the date of these consolidated financial statements such resolution has not been adopted.

Accordingly, the Company did not receive any compensation as a gas market player with public service obligations during 2016.

In 2015 the Company received UAH 29,700 million in the State treasury bonds as a contribution to its share capital (Note 13). Means received were used to cover liquidity gap of the Company.

Assets located at temporarily occupied areas

In early 2014, Ukraine suffered from the military aggression of the Russian Federation which resulted in the occupation of the Autonomous Republic of Crimea ("Crimea") and unlawful military take-over of certain areas in Luhansk and Donetsk regions by armed terrorist groups that are controlled, directed, and financed by the Russian Federation, as well as a result of the unconcealed intrusion of regular armed forces of the Russian Federation.

Additionally, Ukraine suffered from the separatist movements and the collapse of law enforcement in Luhansk and Donetsk regions in 2014. As a result, the Group recognised provision for impairment for assets located on anti-terrorist operation area (ATO) as stipulated by the Law of Ukraine "On Provisional Measures during ATO" # 1669 dated 2 September 2014. Losses incurred at the occupied territories during 2015 include loss on unauthorised natural gas withdrawal and the respective VAT and amounted to UAH 2,142 million (Note 18).

Management of the Group continues to undertake all possible legal and diplomatic measures to reimburse for losses and recover control of the Group's assets in Crimea.

3. RESTATEMENT OF COMPARATIVE INFORMATION

The Group has issued the consolidated financial statements as at and for the year ended 31 December 2015 on 29 July 2016. Subsequently to that date the Group identified matters requiring correction and changed certain accounting policies. The respective corrections were made retrospectively in these consolidated financial statements.

The effect of the retrospective corrections on the consolidated statement of financial position as at 31 December 2014 was as follows:

In millions of Ukrainian hryvnias	**Note**	**31 December 2014, as previously reported**	**Effect of the restatement**	**31 December 2014, as restated**
Property, plant and equipment	3.1	456,548	(11,472)	445,076
Other non-current assets	3.6	4,428	58	4,486
Inventories	3.1	10,123	1,991	12,114
Revaluation reserve	3.1, 3.3	363,958	(27,431)	336,527
Accumulated deficit	3.1, 3.3	(173,012)	19,771	(153,241)
Deferred tax liabilities	3.1	68,726	(1,762)	66,964
Provisions	3.4	2,671	706	3,377
Trade accounts payable	3.4	14,242	(370)	13,872
Advances received and other current liabilities	3.4	11,411	(337)	11,074

The effect of the retrospective corrections to the consolidated statement of financial position as at 31 December 2015 was as follows:

In millions of Ukrainian hryvnias	**Note**	**31 December 2015, as previously reported**	**Effect of the restatement**	**31 December 2015, as restated**
Property, plant and equipment	3.1, 3.3	571,054	(11,258)	559,796
Investments in associates and joint ventures	3.2	1,550	(2)	1,548
Other non-current assets	3.2	7,907	815	8,722
Inventories	3.1, 3.2	32,066	2,083	34,149
Trade accounts receivable	3.2	33,601	(393)	33,208
Prepayments made and other current assets	3.2	9,219	(43)	9,176
Prepaid corporate income tax	3.2	590	(2)	588
Cash and bank balances	3.2	11,796	(5)	11,791
Revaluation reserve	3.1, 3.3	456,967	(26,464)	430,503
Cumulative exchange difference	3.5	2,960	(874)	2,086
Accumulated deficit	3.1, 3.3	(209,063)	20,642	(188,421)
Deferred tax liabilities	3.1	85,154	(1,477)	83,677
Other long-term liabilities	3.2	227	(219)	8
Borrowings		71,819	(55)	71,764
Provisions	3.4	17,268	1,002	18,270
Trade accounts payable	3.2	19,895	(793)	19,102
Advances received and other current liabilities	3.4	21,611	(650)	20,961
Corporate income tax payable		3,268	83	3,351

3. RESTATEMENT OF COMPARATIVE INFORMATION (Continued)

The effect of the retrospective corrections on the consolidated statement of profit or loss for the year ended 31 December 2015 was as follows:

In millions of Ukrainian hryvnias	**Note**	**2015, as previously reported**	**Effect of the restatement**	**2015, as restated**
Revenue	3.2	131,248	(981)	130,267
Cost of sales	3.2	(122,727)	917	(121,810)
Other operating income	3.2	3,773	138	3,911
Other operating expense	3.3, 3.4	(19,323)	982	(18,341)
Finance costs	3.4	(10,988)	(533)	(11,521)
Share of after-tax results of associates and joint ventures	3.2	(652)	25	(627)
Net foreign exchange loss	3.5	(19,908)	874	(19,034)
Income tax benefit	3.3	1,880	(161)	1,719

The effect of the retrospective corrections on the consolidated statement of cash flow for the year ended 31 December 2015 was as follows:

In millions of Ukrainian hryvnias	**Note**	**2015, as previously reported**	**Effect of the restatement**	**2015, as restated**
Loss on disposal of property, plant and equipment	3.2	289	15	304
Reversal of impairment of property, plant and equipment	3.3	(1,032)	(112)	(1,144)
Net movement in provision for trade accounts receivable and prepayments made, other current assets, financial investments and VAT balances		2,071	(133)	1,938
Change in provisions	3.4	8,132	255	8,387
Share of after-tax results of associates and joint-ventures	3.2	652	(25)	627
Finance costs, net	3.4	9,184	533	9,717
Decrease in other non-current assets	3.2, 3.4, 3.5	1,718	(1,222)	496
Decrease in inventories	3.2	(27,186)	(92)	(27,278)
Increase in trade accounts receivable	3.2	(6,346)	393	(5,953)
Decrease in prepayments made and other current assets	3.2	5,758	81	5,839
Decrease in other long-term liabilities	3.2	(96)	(219)	(315)
Decrease in trade accounts payable	3.2	(78)	(424)	(502)
Decrease in advances received and other current liabilities	3.4	(1,940)	(799)	(2,739)
Purchase of property, plant and equipment and intangible assets	3.2	(4,868)	322	(4,546)

3. RESTATEMENT OF COMPARATIVE INFORMATION (Continued)

3.1. Change in accounting policy for technological oil

Before 1 January 2016, the Group accounted for technological oil as part of property, plant and equipment, as main portion of oil transit operations were conducted with the same quantity and grade of oil. The Group decided to change this accounting policy starting from 1 January 2016, and switched to presentation of technological oil as part of inventory. The Group believes that such presentation provides more relevant information to the users of the financial statements, as it reflects change in the Group's operations and respective increase in variety of the transported oil grades. The change in the accounting policy has also resulted in a decrease of the carrying amount of technological oil that was previously accounted for under the revaluation model in property, plant and equipment while in inventories the same technological oil is accounted for at cost. The change resulted in a decrease of property, plant and equipment amounts as at 31 December 2015 and 2014 for UAH 10,575 million and UAH 11,472 million, respectively, and in increase of inventories for UAH 1,976 million and UAH 1,991 million as at 31 December 2015 and 2014, respectively.

3.2. Joint arrangements

One of the Group's subsidiaries is involved in joint arrangements that were previously accounted for as joint operations in consolidated financial statements as at and for the year ended 31 December 2015, where other parties in the joint arrangements are responsible for maintaining accounting records. Due to unavailability of reliable financial information in accordance with IFRS, the Group decided to account for such operations using equity method. The Group has recalculated the retrospective effect on its consolidated financial position and consolidated statement of profit and loss and consolidated statement of cash flows as at and for the year ended 31 December 2015.

3.3. Revaluation reserve

Following revaluation of property, plant and equipment performed as at 31 December 2015, the Group has performed verification of revaluation reserve on an item-by-item basis. As a result, revaluation reserve as at 31 December 2014 was adjusted by UAH 18,875 million with a corresponding transfer to accumulated deficit.

Additionally, the Group identified certain inaccuracies in revaluation of property, plant and equipment and made respective adjustment to carrying amount of property, plant and equipment as at 31 December 2015 by UAH 161 million with respective adjustments to consolidated statement of cash flow.

3.4. Changes in presentation

The Group changed presentation of certain employee related accruals from other current liabilities to current provisions. As a result, the Group's other current liabilities and current provisions were changed by UAH 650 million and UAH 337 million as at 31 December 2015 and 2014, respectively with respective adjustments to consolidated statement of cash flow.

The Group has also changed presentation of certain provisions for one of its litigations from trade accounts payable and current provisions to non-current provisions. Reclassification relates to a single litigation involving the Company as a defendant. As a result, the Group's trade accounts payable and current provisions were decreased by UAH 370 million and UAH 2,145 million, respectively, and non-current provisions were increased by UAH 2,515 million as at 31 December 2015.

3. RESTATEMENT OF COMPARATIVE INFORMATION (Continued)

Additionally, the Group changed presentation of interest on late payment of subsoil royalty amounting to UAH 588 million for the year ended 31 December 2015 from other operating expense to finance costs.

The Group's management believes that the amended presentation provides more relevant information to users of financial statements.

3.5. Foreign exchange differences on joint operations

The Group has identified discrepancies in accounting for foreign exchange differences related to a concession agreement with the Arab Republic of Egypt. Accordingly, the Company has decreased other operating expense and cumulative exchange differences in the other comprehensive income by UAH 874 million, respectively.

3.6. Other changes

There were other individually insignificant adjustments included to the effects of restatements and reclassifications described above.

4. SEGMENT INFORMATION

The Executive Board is the Group's chief operating decision maker. Management has determined the operating segments used for disclosure by the Group based on reports reviewed by the Executive Board for assessing the Group's financial performance.

Management assesses the performance of the operating segments based on the amount of net profit (loss) before income tax. Reportable segments are defined by management in accordance with the type of activity as follows:

- *Gas upstream.* Natural gas production is mainly performed in Poltava, Kharkiv, Sumy, Dnipro, Lviv and Zakarpattya regions. Exploration works are mainly performed in Carpathian and Dnipro-Donetsk regions. The Group controls about 70% of all natural gas produced in Ukraine.
- *Oil and gas condensate upstream.* Oil exploration is performed by "Ukrnafta" PJSC and "Ukrgasvydobyvannia" PJSC. Production of gas condensate is performed in the area of natural gas exploration.
- *Gas transmission and distribution.* This segment is presented by the gas transmission and distribution pipelines operated by the Group. Ukrainian gas transportation system is one of the largest in the world in terms of its transportation capacities. The total length of gas transmission pipelines in Ukraine is 38.5 thousand km. Over 40% of natural gas supplied from the Russian Federation to European countries was transported through Ukrainian transmission gas pipelines in 2015, increasing this level to more than 46% in 2016. Starting from 1 October 2015 this segment also includes result of market-based gas balancing operations introduced by the Code of the gas transmission system. Market-based gas balancing operations is an activity to balance gas volumes entered the gas transmission system at entry point and volumes taken out at exit point. Gas balancing services are provided to consumers of gas transmission services based on respective allocation. Currently this type of activities is provided by "Ukrtransgas" PJSC.
- *Gas storage.* Ukrainian gas transportation system includes 11 underground gas storage facilities located in mainland Ukraine. The total capacity of the underground gas storage system located in Ukraine is 31 billion cubic meters of gas.
- *Crude oil transportation.* This segment is presented by the transmission oil pipelines operated by the Group. Total length of oil transmission pipelines in Ukraine is 4.7 thousand km. Segment also includes oil storage, presented by 11 oil reservoirs with total capacity of 1.1 million tonnes of oil.
- *Crude oil and gas condensate refinery and petroleum products trading.* This segment is presented by 8 oil and gas refineries. The refinery products mainly include gasoline and diesel fuel, and LPG. Revenue of this segment also include revenues from sales of chemical products.
- *Gas trading and supply.* As described in the Note 2 above, the natural gas producers in Ukraine, owned 50% and more by the State, should sell total volume of natural gas produced, net of natural gas used for technological purposes and other needs as stipulated by the law, to the households via the Company.
- *Other.* Revenues of this segment include revenues from sales of materials and services.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 27.

4. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2016 is as follows:

In millions of Ukrainian hryvnias	**Gas upstream**	**Oil and gas condensate upstream**	**Gas transmis-sion and distribution**	**Gas storage**	**Crude oil transpor-tation**	**Crude oil and gas condensate refinery and petroleum products trading**	**Gas trading and supply**	**Other**	**Elimination**	**Total**
Sales – external	2,987	11,478	75,109	61	3,428	15,770	83,060	871	-	192,764
Sales to other segments	49,020	-	2,624	926	-	40	16,712	73	(69,395)	-
Total revenue	**52,007**	**11,478**	**77,733**	**987**	**3,428**	**15,810**	**99,772**	**944**	**(69,395)**	**192,764**
Segment result	**15,298**	**(6,766)**	**26,207**	**(1,578)**	**1,628**	**1,720**	**(3,472)**	**(725)**	**(182)**	**32,130**
Share of after-tax results of associates										(99)
Remeasurement of previously held interest on transfer to subsidiary										-
Unallocated income/ (expense), net										(10,994)
Profit before income tax										**21,037**

4. SEGMENT INFORMATION (Continued)

In millions of Ukrainian hryvnias	Gas upstream	Oil and gas condensate upstream	Gas transmis-sion and distribution	Gas storage	Crude oil transpor-tation	Crude oil and gas condensate refinery and petroleum products trading	Gas trading and supply	Other	Elimination	Total
Material non-cash items included in segment results:										
Depreciation, depletion and amortisation	(5,397)	(1,083)	(13,127)	(1,935)	(674)	(1,001)	(56)	(179)	-	(23,452)
Net movement in provision for trade and other receivables and prepayments made and other current assets	(400)	(6,610)	(4,683)	-	-	(4,203)	(4,547)	-	-	(20,443)
Net foreign exchange (loss)/gain	(212)	-	518	-	275	-	(6,329)	(183)	-	(5,931)
Capital expenditure	5,623	885	2,059	58	373	101	47	548	-	9,694
Segment assets	67,173	15,627	283,797	186,209	18,415	17,099	76,435	4,391	-	669,146
Investments in associates and joint ventures										1,328
Cash and bank balances										22,336
Unallocated assets										11,779
Total assets										**704,589**

4. SEGMENT INFORMATION (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2015 is as follows:

In millions of Ukrainian hryvnias	**Gas upstream**	**Oil and gas condensate upstream**	**Gas transmis-sion and distribution**	**Gas storage**	**Crude oil transpor-tation**	**Crude oil and gas condensate refinery and petroleum products trading**	**Gas trading and supply**	**Other**	**Elimination**	**Total**
Sales – external	4,836	6,262	49,883	401	3,252	6,599	57,265	1,769	-	130,267
Sales to other segments	16,362	-	112	1,152	17	44	9,616	45	(27,348)	-
Total revenue	**21,198**	**6,262**	**49,995**	**1,553**	**3,269**	**6,643**	**66,881**	**1,814**	**(27,348)**	**130,267**
Segment result	**2,218**	**(1,340)**	**21,200**	**(2,176)**	**1,636**	**2,067**	**(52,257)**	**(2,194)**	**(607)**	**(31,453)**
Share of after-tax results of associates and joint ventures										(627)
Remeasurement of previously held interest on transfer to subsidiary										(1,430)
Unallocated income/ (expense), net										(3,271)
Loss before income tax										**(36,781)**

4. SEGMENT INFORMATION (Continued)

In millions of Ukrainian hryvnias	Gas upstream	Oil and gas condensate upstream	Gas transmis-sion and distribution	Gas storage	Crude oil transpor-tation	Crude oil and gas condensate refinery and petroleum products trading	Gas trading and supply	Other	Elimination	Total
Material non-cash items included in segment results:										
Depreciation, depletion and amortisation	(2,773)	(610)	(13,456)	(2,047)	(473)	(143)	(6)	(346)	-	(19,854)
Net movement in provision for trade and other receivables and prepayments made and other current assets	(6)	-	(107)	-	(2)	(138)	(1,057)	46	-	(1,264)
Net foreign exchange (loss)/gain	(552)	720	666	-	457	-	(20,408)	28	-	(19,089)
Capital expenditure	4,196	-	1,085	73	207	207	298	457	-	6,523
Segment assets	77,112	17,365	289,244	180,935	17,918	8,200	38,747	13,670	-	643,191
Investments in associates and joint ventures										1,548
Cash and bank balances										11,791
Unallocated assets										4,365
Total assets										**660,895**

4. SEGMENT INFORMATION (Continued)

Geographical information

In millions of Ukrainian hryvnias	**2016**	**2015**
Ukraine	128,909	86,307
The Russian Federation	63,322	43,533
Egypt	398	425
Europe	135	2
Total revenue and Compensation of price difference	**192,764**	**130,267**

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

External customers concentration, exceeding 10% of total revenues

During the years ended 31 December 2016 and 2015, the only external customer with concentration of revenue exceeding 10% of total revenues was Gazprom. Amount of revenue from Gazprom related to gas transmission in 2016 amounted to UAH 59,986 million (2015: UAH 40,341 million).

Revenues, gross profit and receivables of the segment "Gas transmission and distribution" by main types of transportation services are as follows:

31 December 2016

In millions of Ukrainian hryvnias	**Revenue**	**Gross profit**	**Trade accounts receivable, carrying amount**
International transit	59,986	28,532	6,354
Domestic transmission and distribution	8,881	2,645	1,466
Gas balancing operations	6,242	417	2,565
Total	**75,109**	**31,594**	**10,385**

31 December 2015

In millions of Ukrainian hryvnias	**Revenue**	**Gross profit**	**Trade accounts receivable, carrying amount**
International transit	40,341	20,486	4,717
Domestic transmission and distribution	9,288	2,213	1,174
Gas balancing operations	254	43	106
Total	**49,883**	**22,742**	**5,997**

4. SEGMENT INFORMATION (Continued)

Revenues, gross (loss)/profit, profit/(loss) before tax and accounts receivable of gas trading and supply segment by main groups of customers are as follows:

31 December 2016

In millions of Ukrainian hryvnias	Revenue	Gross (loss)/ profit	(Loss) / profit before income tax	Trade accounts receivable		
				gross amount	provision for impairment	carrying amount
District heating companies for the needs of households	18,871	(267)	(3,779)	14,145	(3,085)	11,060
Regional gas distribution companies for resale to households	50,140	11,710	3,819	21,796	(176)	21,621
District heating companies for the needs of budget entities	2,255	368	128	1,497	-	1,497
Odessa Port Plant	1,146	191	(1,310)	1,375	(1,375)	-
Total public service obligations performance (Note 2)	*72,412*	*12,002*	*(1,142)*	*38,813*	*(4,636)*	*34,178*
District heating companies for the needs of other customers	4,763	657	(119)	7,244	(6,464)	780
Regional gas distribution companies for resale to other customers	548	49	(37)	293	(202)	91
Industrial and other customers	5,337	2,375	(2,174)	10,808	(10,205)	603
Total performance of gas trading at non-regulated prices for the needs of other customers	*10,648*	*3,081*	*(2,330)*	*18,345*	*(16,871)*	*1,474*
Total	**83,060**	**15,083**	**(3,472)**	**57,158**	**(21,507)**	**35,652**

4. SEGMENT INFORMATION (Continued)

31 December 2015

In millions of Ukrainian hryvnias	Revenue	Gross (loss)/ profit	(Loss) / profit before income tax	Trade accounts receivable gross amount	Trade accounts receivable provision for impairment	Trade accounts receivable carrying amount
District heating companies for the needs of households	6,963	(27,312)	(36,239)	6,762	(3,264)	3,498
Regional gas distribution companies for resale to households	20,340	3,802	(11,239)	3,236	(100)	3,136
Total for household needs and public service obligations performance (Note 2)	*27,303*	*(23,510)*	*(47,478)*	*9,998*	*(3,364)*	*6,634*
District heating companies for the needs of other customers	7,594	1,384	(2,452)	7,699	(5,871)	1,828
Regional gas distribution companies for resale to other customers	2,318	513	(74)	235	(115)	120
Industrial and other customers	20,050	1,817	(2,253)	14,758	(8,064)	6,694
Total performance of gas trading for the needs of other customers	*29,962*	*3,714*	*(4,779)*	*22,692*	*(14,050)*	*8,642*
Total	**57,265**	**(19,796)**	**(52,257)**	**32,690**	**(17,414)**	**15,276**

Main selling prices and tariffs for the Group's sales of natural gas are set out in Note 2.

5. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

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

Transactions with state-controlled entities. The Group performs significant transactions with the entities controlled, jointly controlled or significantly influenced by the Government of Ukraine. These entities include State Savings Bank of Ukraine, Ukreximbank, Ukrgazbank, district heating companies, regional gas distribution entities and other entities.

For the year ended 31 December 2016, about 32% of Group's revenue (2015: 25%) were earned from transactions with the entities controlled, jointly controlled or influenced by the Government of Ukraine. Outstanding trade accounts receivable related to these transactions as at 31 December 2016 and 2015 are about 44% and 30%, respectively, of the total trade accounts receivable balance.

Outstanding accounts payable, advances and other current liabilities as at 31 December 2016 and 2015 are about 60% and 40%, respectively, of the total balance of these liabilities.

Provisions in respect of the entities controlled by the Government of Ukraine as at 31 December 2016 and 2015 are about 80% and 62%, respectively, of the total provisions.

As at 31 December 2016 and 2015, about 95% and 90%, respectively, of cash and bank balances were placed in the banks controlled, jointly controlled or influenced by the Government of Ukraine and about 54% of borrowings were provided by these banks (2015: 50%). About 23% of finance income in 2016 relate to balances in these banks (2015: 10%) and about 68% of finance costs for the year ended 31 December 2016 (2015: 35%) relate to borrowings from these banks.

During 2016 the Group has prolonged maturity of its bonds amounting to UAH 4,800 million for one year without changes in interest rate. In June 2015, the Group concluded supplementary agreements for the amount of UAH 18,387 million to borrowings agreements with the bank, which is its related party, that envisaged the increase in interest rates and revised repayment schedules of debt, with the postpone of final maturities until June 2020.

Pledges. As at 31 December 2016 and 2015, borrowings from related parties (State-owned banks) were secured by property, plant and equipment, inventories and proceeds from future sales.

Guarantees. Amount of guarantees, provided by the Government of Ukraine, as at 31 December 2016 and 2015 equalled to UAH 28,912 million and UAH 20,539 million, respectively (Note 14).

Transactions with the State are further disclosed in Note 13.

Key management remuneration. During 2016 key management personnel consisted on average of 4 Executive Board members and 6 directors (2015: 4 Executive Board members and 4 directors). Compensation to the key management personnel included into other operating expense consists of salary and additional current bonuses and comprises UAH 87 million in 2016 (2015: UAH 7 million).

During 2016 the Company also performed payments on operations of the Supervisory Board totalling UAH 20 million, including UAH 15 million of fixed service fees.

6. PROPERTY, PLANT AND EQUIPMENT

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

In millions of Ukrainian hryvnias	Pipelines and related equipment	Oil and gas producing properties	Machinery and equipment	Buildings	Cushion gas	Drilling and exploration equipment	Other fixed assets	Construc-tion in progress	Total
At 31 December 2014 (as restated, Note 3)									
Cost or valuation	166,259	30,668	69,056	46,216	120,754	317	6,231	11,097	**450,598**
Accumulated depreciation and impairment	(833)	-	(229)	(69)	-	-	(293)	(4,098)	**(5,522)**
Net book value at 31 December 2014 (as restated, Note 3)	**165,426**	**30,668**	**68,827**	**46,147**	**120,754**	**317**	**5,938**	**6,999**	**445,076**
Acquired though business combination (Note 23)	-	6,250	1,737	4,010	-	145	229	744	13,113
Additions and transfers	(2,621)	1,642	3,133	4,214	(1,176)	113	(2,268)	1,552	4,589
Revaluation	53,385	17,151	10,566	12,388	22,471	113	701	-	116,775
Disposals	(89)	(13)	(31)	(15)	-	-	(27)	(111)	(286)
Depreciation charge	(5,498)	(2,861)	(8,774)	(2,520)	(304)	(91)	(523)	-	(20,571)
Impairment/reversal of impairment	179	568	462	(1,832)	395	(15)	(150)	1,491	1,098
Net book value at 31 December 2015 (as restated, Note 3)	**210,782**	**53,405**	**75,920**	**62,392**	**142,140**	**582**	**3,900**	**10,675**	**559,796**
Cost or valuation	212,066	53,826	76,593	63,439	142,140	861	5,122	11,617	565,664
Accumulated depreciation and impairment	(1,283)	(420)	(673)	(1,047)	-	(279)	(1,224)	(942)	(5,868)
Additions and transfers	(12,549)	5,487	38,019	(22,236)	-	790	(2,588)	1,851	8,774
Revaluation	-	-	-	-	13,282	-	-	-	13,282
Disposals	(3)	(33)	(16)	(68)	-	(34)	(1)	(247)	(402)
Depreciation charge	(7,137)	(5,719)	(7,104)	(3,521)	-	(295)	(307)	-	(24,083)
Impairment/reversal of impairment	(20)	(799)	(1)	(2,156)	(1,856)	(91)	-	(783)	(5,706)
Net book value at 31 December 2016	**191,074**	**52,342**	**106,818**	**34,411**	**153,566**	**952**	**1,002**	**11,496**	**551,661**
Cost or valuation	199,270	59,300	116,533	39,194	155,422	1,447	2,724	13,117	587,007
Accumulated depreciation and impairment	(8,196)	(6,958)	(9,715)	(4,783)	(1,856)	(495)	(1,722)	(1,621)	(35,346)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group engaged independent appraisers to determine the fair value of its property, plant and equipment as at 31 December 2015. Fair value was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

Taking into account the nature of the Group's property, plant and equipment, fair value was determined using depreciated replacement cost for specialised assets, and using market-based evidence for non-specialised assets. Consequently, the fair value of main producing properties and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional and economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of available market information for similar property, plant and equipment (published information, catalogues, statistical data etc), and industry experts and suppliers.

In 2016, the depreciation and depletion expenses of UAH 22,387 million (2015: UAH 19,739 million) was included in cost of sales, UAH 1,065 million (2015: UAH 475 million) in other operating expense, and UAH 631 million (2015: UAH 357 million) were capitalised in the cost of property, plant and equipment.

Reversal of impairment of property, plant and equipment is included in other operating income in consolidated statement of profit or loss.

As at 31 December 2016 and 2015, the Group has pledged its property, plant and equipment with carrying amount of UAH 10,536 million and UAH 24,003 million, respectively, to secure its borrowings (Note 14).

Included in property, plant and equipment in 2016 are capital expenditures of UAH 1,872 million, for which nature of expenditures could be different from their legal form according to primary documents (2015: UAH 473 million) (Note 27). These expenditures were presented on the basis of the relevant primary documents in the consolidated financial statements as at and for the years ended 31 December 2016 and 2015. In respect of certain expenditures primary documents were withdrawn by the state prosecutor officials. In respect of certain expenditures management of the Group has initiated a corporate investigation in 2016.

Had the Group's property, plant and equipment been measured on a historical cost basis, their carrying amounts would have been as shown in the table below:

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015**
Oil and gas producing properties	11,751	9,384
Machinery and equipment	9,149	7,068
Pipelines and related equipment	7,237	6,711
Buildings	4,693	5,976
Cushion gas	212	217
Drilling and exploration equipment	354	298
Other fixed assets	482	1,075
Total	**33,878**	**30,729**

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Details of each of the Group's associates and joint ventures as at 31 December 2016 are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest	Share of (loss)/profit	Share of other comprehensive income	Dividends received from the associate	Carrying amount of investment
"Ukrtatnafta" PJSC	Oil refinery	Ukraine	43.05%	(241)	2	-	-
"Gaztransit" PJSC	Construction works	Ukraine	40.2%	93	-	(123)	**1,022**
Other	miscellaneous	Ukraine	miscellaneous	49	-	-	**306**
				(99)	**2**	**(123)**	**1,328**

Details of each of the Group's associates and joint ventures as 31 December 2015 are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest	Share of (loss)/ profit	Share of other comprehensive (loss)/income	Dividends received from the associate	Remeasurement of previously held interest on transfer to subsidiary (Note 23)	Transfer to subsidiary (Note 23)	Acquired in business combination (Note 23)	Carrying amount of investment
"Ukrnafta" PJSC	Oil and gas production	Ukraine	50.00%+1 share	(1,224)	(66)	(1,780)	(1,314)	(4,926)	-	-
"Ukrtatnafta" PJSC	Oil refinery	Ukraine	43.05%	(178)	(12)	-	-	-	-	**239**
"Gaztransit" PJSC	Construction works	Ukraine	40.2%	694	390	(32)	-	-	-	**1,052**
Other associates	miscellaneous	Ukraine	miscellaneous	18	(1)	-	-	-	-	**17**
Joint ventures	miscellaneous	Ukraine	miscellaneous	63	-	-	-	-	197	**240**
				(627)	**311**	**(1,812)**	**(1,314)**	**(4,926)**	**197**	**1,548**

All of the above associates are accounted for using the equity method in these consolidated financial statements.

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

The Group's investments in associates and joint ventures were as follows:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015 (as restated, Note 3)
Investments in associates	1,047	1,308
Investments in joint ventures	281	240
Total	**1,328**	**1,548**

"Ukrnafta" PJSC

As discussed further in Note 23, the investment in "Ukrnafta" PJSC was transferred from investment in associates to investments in subsidiary starting from 22 July 2015. Until that date, the investment in "Ukrnafta" PJSC was accounted for using the equity method in these consolidated financial statements.

Summarised financial information for "Ukrnafta" PJSC as at 22 July 2015 is presented in Note 23.

8. OTHER NON-CURRENT ASSETS

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015 (as restated, Note 3)
Accounts receivable on product sharing agreement	4,204	3,960
Restructured accounts receivable of gas consumers	1,340	1,100
Intangible assets	977	837
Other	2,805	2,825
Total	**9,326**	**8,722**

Accounts receivable on product sharing agreement. The Company entered into a concession agreement for oil exploration and development with the Arab Republic of Egypt and Egyptian General Petroleum Corporation ("EGPC") on 13 December 2006. Under the terms of the concession agreement the Company has the right to recover all exploration and development costs incurred in connection with the concession agreement (Note 27). The amount presented in the table above represents such costs claimed by the Group for recovery, and which are expected to be refunded after one year since the reporting date.

Restructured accounts receivable of gas consumers. In May 2011, the Law of Ukraine "On certain matters on indebtedness for natural gas and electricity consumed" #3319-VI was approved. According to this Law, accounts receivable due from entities supplying natural gas under the regulated tariff that were originated in 2010, were restructured for the period from 1 to 20 years and are stated at amortised cost using effective interest rate which at the restructuring dates varied from 15% to 24% per annum.

8. OTHER NON-CURRENT ASSETS (Continued)

Other. As at 31 December 2015, included in other non-current assets are gas volumes that will be pumped out from the underground gas storages during the period of more than one year. As at 31 December 2016 the Group plans to pump this volume of gas out within next 12 months and classifies this gas as inventory.

As at 31 December 2016 and 2015, included in other non-current assets are research and development expenditures amounting to UAH 1,443 million and UAH 906 million, respectively, that were incurred within the concession agreement for oil exploration and development with the EGPC on 13 December 2006, but not yet claimed for recovery (Note 27).

9. INVENTORIES

The Group's inventories were as follows:

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015 (as restated, Note 3)**	**31 December 2014 (as restated, Note 3)**
Natural gas	38,792	26,999	7,885
Crude oil and petroleum products	3,378	1,482	363
Spare parts	2,843	1,099	844
Technological oil	1,976	1,976	1,991
Raw materials	1,760	1,234	327
Other	1,495	1,359	704
Total	**50,244**	**34,149**	**12,114**

Management estimates the necessity of write-down of inventories to their net realisable value taking into consideration indicators of economical and physical obsolescence. In 2016 write-down adjustment amounted to UAH 1,655 million was included in cost of sales and UAH 38 million was included in other operating expense (2015: UAH 4,922 million included in cost of sales and UAH 2,679 million included in other operating expense). Amount included in cost of sales represents write down adjustment to imported gas subsequently sold for household needs at regulated prices.

As at 31 December 2016 and 2015, inventories with carrying amount of UAH 37,698 million and UAH 23,104 million, respectively, were pledged as collateral for borrowings (Note 14).

10. TRADE ACCOUNTS RECEIVABLE

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015 (as restated, Note 3)**
Trade accounts receivable	86,438	53,761
Less: provision for impairment	(37,229)	(20,553)
Total	**49,209**	**33,208**

Out of total carrying amount of trade accounts receivable as at 31 December 2016 there are UAH 35,652 million of accounts receivable for gas supply (31 December 2015: UAH 15,276 million) (Note 4).

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

In millions of Ukrainian hryvnias	**2016**	**2015**
Balance at 1 January	**20,553**	**19,003**
Provision for impairment recognised during the year	18,497	5,043
Reversal of provision	(1,757)	(3,654)
Amounts written off during the year as uncollectible	(64)	(184)
Acquired in business combination (Note 23)	-	345
Balance at 31 December	**37,229**	**20,553**

Analysis of credit quality of trade accounts receivable is as follows:

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015 (as restated, Note 3)**
Neither past due nor impaired	29,774	17,247
Past due but not impaired:		
Less than 30 days overdue	13,220	4,843
31 to 90 days overdue	3,221	1,520
91 to 180 days overdue	265	997
181 to 365 days overdue	2,415	2,986
Over 365 days overdue	314	135
Past due and individually impaired (gross):		
Less than 30 days overdue	2,858	37
31 to 90 days overdue	820	1,141
91 to 180 days overdue	738	3,987
181 to 365 days overdue	3,102	3,884
Over 365 days overdue	29,711	16,984
Less: provision for impairment	(37,229)	(20,553)
Total	**49,209**	**33,208**

11. PREPAYMENTS MADE AND OTHER CURRENT ASSETS

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

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015 (as restated, Note 3)
Prepayments to suppliers for materials, works and services	9,984	8,616
Prepayments to suppliers for natural gas	5,731	1,311
VAT recoverable	2,242	2,743
Receivables under assignation agreements in respect of natural gas sales	1,690	1,787
Promissory notes receivable	1,471	1,609
Prepayments for pipelines construction	1,412	1,312
Amounts receivable under legal claims	609	624
Taxes prepaid, other than income tax	84	955
Other	3,997	1,733
Less: Provision for impairment	(15,169)	(11,514)
Total	**12,051**	**9,176**

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

In millions of Ukrainian hryvnias	2016	2015
Balance at 1 January	**11,514**	**8,116**
Provision for impairment recognised during the year	4,206	219
Reversal of provision	(355)	(424)
Amounts written off during the year as uncollectible	(16)	(246)
Acquired in business combination (Note 23)	-	3,513
Other movements	(180)	336
Balance at 31 December	**15,169**	**11,514**

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

12. CASH AND BANK BALANCES

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015 (as restated, Note 3)
Cash in banks	20,024	8,696
Term deposits	2,163	3,021
Other	149	74
Total	**22,336**	**11,791**

As at 31 December 2016, included in term deposits are bank deposits amounting to UAH 483 million (31 December 2015: UAH 2,535 million) with original maturity of more than three months and less than one year, which are excluded from cash and cash equivalents for the purpose of cash flow statement.

13. SHARE CAPITAL

As at 31 December 2016 and 2015, the registered, issued and fully paid share capital of the Company was UAH 164,607 million, comprising 160,450,481 ordinary shares with a par value of UAH 1,000 per share.

As at 31 December 2016 and 2015, share capital of the Company has been adjusted for the effect of hyperinflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" by UAH 4,156 million.

During 2015 the Company has completed a new share issue, started in 2014, of UAH 104,610 million to the Government of Ukraine in return for the State treasury bonds with maturities in 2018-2024 with nominal coupon rates in a range of 12.5%-14.3% per annum.

Unregistered contributed capital

In 2015, according to the Resolutions of the Cabinet of Ministers of Ukraine, the Government issued UAH 29,700 million of the State treasury bonds in exchange to the new share issue of the Company. The State treasury bonds mature in 2020 and bear 14.5% coupon rate. As at 31 December 2015 the Company has sold these State treasury bonds for cash at price equal to face value or above.

As at 31 December 2016 and 2015, the Company obtained a temporary share issue registration certificate on these shares. As at 31 December 2016 and 2015 a new share issue was not registered and presented as unregistered contributed capital. Subsequent to 31 December 2016 the Company has registered a new share issue (Note 26).

Profit share payable to the State Budget of Ukraine

For the year ended 31 December 2016, the profit share paid to the State Budget of Ukraine amounted to UAH 1,021 million (2015: UAH 2,822 million).

Distribution of profits

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

At the date of these consolidated financial statements, basic allowance for profit distribution per results of 2016 was set at 50% of net profit (2015: 30%). The Group has accrued respective provision in respect of the portion of net profit attributable to the State Budget of Ukraine in current provisions (Note 15). According to the Ukrainian legislation, all companies that fall under the Law of Ukraine "On Management of the State Property" have to make a decision in respect of their profit distribution up to 30 April, and make payment to the State Budget of Ukraine up to 30 June of the year following the reporting year.

During 2015, one of the Group's subsidiaries paid dividends amounting to UAH 29 million, taking total amount of profit share paid to the State Budget and dividends paid by the Group to UAH 2,851 million.

14. BORROWINGS

The Group's borrowings were as follows:

In millions of Ukrainian hryvnias	31 December 2016	31 December 2015 (as restated, Note 3)
Non-current		
Bank borrowings	23,275	34,825
Unamortised discount	(175)	-
Total non-current portion	*23,100*	*34,825*
Current		
Bank borrowings	47,099	36,200
Financial leasing	-	21
Interest accrued	645	718
Total current portion	*47,744*	*36,939*
Total	**70,844**	**71,764**

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

In millions of Ukrainian hryvnias	31 December 2016		31 December 2015	
	Balance	**% per annum**	**Balance**	**% per annum**
UAH	27,315	19%	24,407	20%
US Dollars	43,316	8%	47,352	9%
EUR	213	7%	5	12%
Total	**70,844**		**71,764**	

Pledges

All the Group's borrowings were secured as at 31 December 2016 and 2015.

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

	31 December 2016	31 December 2015
Proceeds from future sales	143,965	122,918
Property, plant and equipment (Note 6)	10,536	24,003
Inventories (Note 9)	37,698	23,104
Total	**192,199**	**170,025**

Guarantees. As at 31 December 2016, the Group's borrowings were guaranteed by the State in the amount of UAH 28,912 million (31 December 2015: UAH 20,539 million).

15. PROVISIONS

Movements in provisions for the years were as follows:

In millions of Ukrainian hryvnias	Provisions for litigations	Employee benefit obligations	Decommissio-ning provision	Provision for fines and penalties	Portion of net profit attri-butable to the State Budget of Ukraine (Note 13)	Other provisions	Total
Balance at 31 December 2014 (as restated, Note 3)	**1,173**	**2,062**	**142**	**-**	**-**	**-**	**3,377**
Charge for the year	2,895	350	119	4,050	-	973	8,387
Assumed in business combination (Note 23)	1,270	676	820	3,028	-	-	5,794
Unwinding of discount (Note 19)	-	253	34	-	-	-	287
Used or paid during the year	(158)	(176)	-	-	-	-	(334)
Remeasurements	-	451	308	-	-	-	759
Balance at 31 December 2015 (as restated, Note 3)	**5,180**	**3,616**	**1,423**	**7,078**	**-**	**973**	**18,270**
Non-current	*3,042*	*3,034*	*1,311*	-	-	-	*7,387*
Current	*2,138*	*582*	*112*	*7,078*	-	*973*	*10,883*
Provision for dividends payable to the State Budget (Note 13)	-	-	-	-	13,264	-	13,264
Charge for the year	6,728	1,111	109	4,099	-	21	12,068
Unwinding of discount (Note 19)	-	379	134	-	-	-	513
Used or paid during the year	(64)	(770)	(11)	(23)	-	(5)	(873)
Remeasurements	-	174	116	-	-	-	290
Balance at 31 December 2016	**11,844**	**4,510**	**1,771**	**11,154**	**13,264**	**989**	**43,532**
Non-current	*7,670*	*3,447*	*1,299*	-	-	-	*12,416*
Current	*4,174*	*1,063*	*472*	*11,154*	*13,264*	*989*	*31,116*

15. PROVISIONS (Continued)

Provisions for Litigations

The Group is involved into a number of litigations both as a plaintiff and as a defendant. Provision for litigations represents management assessment of the probable outflow of the Group's resources arising from a negative (adverse) outcome of the court and arbitration procedures.

Employee Benefit Obligations

The Group companies have certain obligations to its employees according to the collective agreements.

Current provisions for employee benefits include provision for performance bonuses and provision for employees' unused vacations.

Non-current provisions for employee benefits include lump sum benefits payable upon retirement and post-retirement benefit programs. These benefits plans are not funded, and there are no plan assets.

The principal actuarial assumptions used were as follows:

	2016	**2015**
Nominal discount rate, %	14.7-14.9	12.9-15.9
Long-term inflation, %	7.7	7.0
Nominal salary increase rate, %	10.0-36.0	7.7-20.2
Staff turnover ratio, %	1.5-5.7	1.9-5.4

The sensitivity of the non-current employee benefit obligations to changes in the principal assumptions is as follows:

	2016	**2015**
Nominal discount rate increase/decrease by 1%, %	(7.60) / 8.75	(8.15) / 9.44
Nominal salary increase/decrease by 1%, %	6.54 / (5.93)	5.63 / (5.13)
Staff turnover increase/decrease by 1%, %	(3.96) / 4.58	(4.25) / 4.98

The sensitivity analysis presented above may not be representative of the actual change in the non-current employee benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the employee benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the obligation recognised in the consolidated statement of financial position.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Decommissioning Provision

In accordance with the legislation requirements, the Group is obliged to restore the lands that underwent changes in the relief structure, environmental state of soils and parent rocks, as well as hydrological regime due to drilling, geological survey, constructing and other works. The decommissioning provision represents present value of decommissioning costs relating to oil and gas properties.

15. PROVISIONS (Continued)

Provision for fines and penalties

As a result of non-payment and late payment by "Ukrnafta" PJSC of subsoil royalty, income tax, VAT and dividends, the Group had accrued provision for possible fines, penalties and late payment interest.

16. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

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

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015 (as restated, Note 3)**
Advances from customers for natural gas	1,130	1,427
Advances for natural gas transportation	316	166
Advances for oil transportation	303	268
Advances received for geophysical surveys	240	315
Advances for petroleum products	205	218
Other advances received	132	370
Total advances received	*2,326*	*2,764*
Taxes payable other than income tax	13,768	8,838
VAT payable	6,195	3,059
Dividends payable to non-controlling shareholders of "Ukrnafta" PJSC	2,781	2,805
Liabilities for purchase of property, plant and equipment	1,050	1,025
Recognised liabilities for litigations	482	469
Wages, salaries and related social charges payable	343	403
Other current liabilities	1,383	1,598
Total other current liabilities	*26,002*	*18,197*
Total	**28,328**	**20,961**

As at 31 December 2016, taxes payable other than income tax include UAH 13,450 million of subsoil royalty payable (31 December 2015: UAH 8,230 million). Subsoil royalty is calculated with reference to the volume of crude oil, gas condensate or natural gas produced, and volume of crude oil and natural gas transportation.

17. COST OF SALES

In millions of Ukrainian hryvnias	**2016**	**2015 (as restated, Note 3)**
Subsoil royalty and other taxes other than on income	34,873	23,715
Cost of gas supplied	30,880	65,919
Depreciation, depletion and amortisation	22,387	19,739
Non-reimbursable VAT on gas transit	11,998	-
Cost of purchased oil and petroleum products	6,877	1,864
Staff costs and related social charges	6,332	4,454
Repair and maintenance costs	276	1,219
Other	8,181	4,900
Total	**121,804**	**121,810**

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

Starting from 1 January 2016 VAT is levied on gas transit via Ukraine according to the Tax Code of Ukraine. Thus, gas transit services via transmission pipelines of Ukraine in customs regime provided to JSC "Gazprom" are subject to VAT at standard rate of 20%. Additionally, there were amendments to the paragraph 256 of the Tax Code of Ukraine stating that starting from 1 January 2016 rent tax for gas transit is not applied.

Included in cost of sales for 2015 are expenses of UAH 745 million, for which their nature could be different from their legal form according to primary documents (Note 27). In respect of certain expenses primary documents were withdrawn by the state prosecutor officials. In respect of certain expenses management of the Group has initiated a corporate investigation in 2016.

18. OTHER OPERATING EXPENSES

In millions of Ukrainian hryvnias	**2016**	**2015 (as restated, Note 3)**
Net movement in provision for trade accounts receivable, prepayments made and other current assets and direct write-offs	20,591	1,253
Change in provisions for litigations and other provisions (Note 15)	10,957	8,037
Staff costs and related social charges	3,861	1,940
Impairment of property, plant and equipment	1,231	-
Depreciation and amortisation	1,065	475
Professional fees	618	317
Loss on disposal of property, plant and equipment	406	304
Fines and penalties	354	818
VAT liabilities written off	279	173
Research, development and exploration costs	250	239
Write down on inventories to net realisable value	38	1,050
Losses incurred on occupied territories (Note 2)	-	2,142
Other	2,102	1,593
Total	**41,752**	**18,341**

18. OTHER OPERATING EXPENSE (Continued)

During 2015, the Group recognised losses incurred on occupied territories, including write down on inventories of UAH 1,629 million, VAT written off of UAH 635 million, and reversal of provision for trade accounts receivable, prepayments made and other current assets of UAH 122 million.

Both losses incurred on occupied territories in Crimea, Luhansk and Donetsk regions were recognised by the Group as a result of the armed aggression of the Russian Federation including the occupation of Crimea and military invasion and occupation of Luhansk and Donetsk regions in early 2014 (Note 2).

In 2015 there were services on oil storage purchased by "Ukrtransnafta" PJSC in amount of UAH 222 million included in other operating expenses. Management of the Group believes that these costs are overstated as a result of subsidiary's management override of controls. Subsidiary's management was replaced in the first half of 2015 (Note 27).

19. FINANCE COSTS

In millions of Ukrainian hryvnias	**2016**	**2015 (as restated, Note 3)**
Interest expense on bank borrowings	8,634	9,243
Unwinding of discount on employee benefit obligations	379	253
Interest expense on restructured tax liabilities	225	1,053
Unwinding of discount of decommissioning provision	134	34
Unwinding of discount on long-term accounts payable	102	-
Loss on origination of accounts receivable, prepayments for financial instruments and non-interest bearing borrowings	78	883
Other	29	55
Total	**9,581**	**11,521**

20. FINANCE INCOME

In millions of Ukrainian hryvnias	**2016**	**2015**
Unwinding of discount on long-term accounts receivable, prepayments for financial instruments	3,087	1,060
Interest income on cash in banks and term deposits	1,182	460
Other	403	284
Total	**4,672**	**1,804**

During the year ended 31 December 2016, one of the Group's subsidiaries has earlier repaid a loan at a discount of UAH 262 million, included in other finance income.

21. INCOME TAX

The components of income tax expense for the years ended 31 December were as follows:

In millions of Ukrainian hryvnias	**2016**	**2015 (as restated, Note 3)**
Current tax expense	8,042	2,964
Deferred tax benefit	(9,537)	(4,683)
Income tax benefit	**(1,495)**	**(1,719)**

The Group is subject to taxation in Ukraine. In 2016 and 2015 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18%.

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

In millions of Ukrainian hryvnias	**2016**	**2015**
Profit/(loss) before income tax	**21,037**	**(36,781)**
Income tax at statutory rate of 18%	**3,787**	**(6,621)**
Effect of changes in tax legislation	(924)	4,517
Tax effect of items not deductible or assessable for taxation purposes:		
- Non-deductible expenses	1,876	1,096
- Non-taxable income	(133)	(80)
Change in unrecognised deferred tax asset	(6,101)	(631)
Income tax benefit	**(1,495)**	**(1,719)**

In 2015, amendments to the Tax Code of Ukraine (the "Code") came into effect regarding the determination of a corporate income tax payer. In accordance with those amendments, the taxable item shall be determined based on the before tax financial result in accordance with the accounting framework accepted by the entity (for the Company, "IFRS") adjusted by the Code defined list of adjustments. The new version of the Code does not contain a full list of temporary differences available in the Group's companies before those amendments came into force. Thus, certain temporary differences were reversed.

Parent and its subsidiaries are separate tax payers and, therefore, the deferred tax assets and liabilities are presented on an individual basis. The deferred tax liabilities and assets reflected in the consolidated statement of financial position after appropriate set off are as follows:

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015**
Deferred tax assets	6,415	-
Deferred tax liabilities	(82,088)	(83,677)
Net deferred tax liability	**(75,673)**	**(83,677)**

21. INCOME TAX (Continued)

Net deferred tax liabilities as at 31 December 2016 related to the following:

In millions of Ukrainian hryvnias	**31 December 2015 (as restated, Note 3)**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2016**
Property, plant and equipment	(89,265)	3,208	(1,564)	(87,621)
Trade accounts receivable	120	1,649	-	1,769
Investments in associates and joint ventures	14	-	-	14
Advances received and other current liabilities	398	-	-	398
Provisions	2,454	1,155	31	3,640
Inventories	2,346	(274)	-	2,072
Prepayments made and other current assets	(48)	1,140	-	1,092
Trade accounts payable	(25)	24	-	(1)
Other non-current assets	(1)	2	-	1
Unused tax losses	330	2,633	-	2,963
Net deferred tax liability	**(83,677)**	**9,537**	**(1,533)**	**(75,673)**

Net deferred tax liability as at 31 December 2015 related to the following:

In millions of Ukrainian hryvnias	**31 December 2014 (as restated Note 3)**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquired in business combination (Note 22)**	**31 December 2015 (as restated, Note 3)**
Property, plant and equipment	(70,575)	3,602	(20,939)	(1,353)	(89,265)
Trade accounts receivable	2,935	(2,815)	-	-	120
Investments in associates and joint ventures	(473)	487	-	-	14
Advances received and other current liabilities	423	(25)	-	-	398
Provisions	345	1,213	82	814	2,454
Inventories	299	2,047	-	-	2,346
Prepayments made and other current assets	73	(121)	-	-	(48)
Trade accounts payable	5	(30)	-	-	(25)
Other non-current assets	4	(5)	-	-	(1)
Unused tax losses	-	330	-	-	330
Net deferred tax liability	**(66,964)**	**4,683**	**(20,857)**	**(539)**	**(83,677)**

21. INCOME TAX (Continued)

As at 31 December 2016 and 2015, unrecognised deductible temporary differences and unused tax losses are as follows:

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015**
Tax losses carried forward	11,723	58,373
Provisions	8,645	2,753
Inventories	11,145	181
Trade accounts payable	-	1,867
Trade accounts receivable, prepayments made and other current assets	-	1,542
Property, plant and equipment	-	57
Other	-	635
	31,513	**65,408**

According to provisions of the Tax Code of Ukraine tax losses accumulated by the Group as at 31 December 2016 and 2015 can be carried forward for unlimited periods of time.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Tax legislation. Ukraine's tax environment is characterised by complexity in tax administering, arbitrary interpretation by tax authorities of tax laws and regulations that, inter alia, can increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigation which, as a consequence, may result in the imposition of additional taxes, penalties, and interest, and these amounts could be material. Facing current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting the Law of Ukraine "On Amending the Tax Code of Ukraine and Certain Laws of Ukraine" which is effective from 1 January 2015, except for certain provisions which will take effect at a later date.

Management believes that the Group has been in compliance with all requirements of the effective tax legislation. In the ordinary course of business the Group is engaged in transactions that may be interpreted differently by the Group and tax authorities. Where the risk of outflow of financial resources associated with this is deemed to be probable and the amount is measured with sufficient reliability, the Group provides for those liabilities. Where management of the Group estimates the risk of financial resources outflow as possible, the Group makes a disclosure of these contingent liabilities. As at 31 December 2016, management estimated possible tax exposures in total amount of UAH 6,300 million, including different taxes exposure of UAH 5,802 million and related penalties of UAH 498 million (2015: UAH 9,043 million and UAH 1,685 million, respectively).

Management believes that it is not likely that any significant settlement will arise from the above cases and, therefore, the Group's consolidated financial statements do not include any amount of provision in this respect.

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

The Group exports refinery products and transportation services, performs intercompany transactions and is involved in transactions with related parties, which may potentially be in the scope of the new Ukrainian transfer pricing ("TP") regulations. The Group's companies have submitted the controlled transaction report for the year ended 31 December 2015 within the required deadline. The report on controlled transactions for the year ended 31 December 2016 shall be prepared by the Group's companies by 1 October 2017.

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

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Arbitral Tribunal requests. Naftogaz and JSC "Gazprom" have initiated the Gas Sales Arbitration and the Gas Transit Arbitration ("the Arbitrations") under the auspices of the Arbitration Institute of the Stockholm Chamber of Commerce. The Gas Sales Arbitration was initiated by both Naftogaz and Gazprom on 16 June 2014. In its Request for Arbitration, Gazprom claimed payment of unpaid invoices in an amount of approximately USD 4.5 billion for gas delivered under the Gas Sales Contract from November 2013 to May 2014, while Naftogaz claimed a retroactive revision of the price under the Gas Sales Contract, resulting in a claim for payment by Gazprom to Naftogaz of more than USD 12 billion as compensation for previous overpayments. Gazprom has subsequently updated its payment claims, which at the date these consolidated financial statements stands at approximately USD 2.9 billion including interest (USD 2.2 billion excluding interest).

In addition, Gazprom has later added a claim for payment of gas which Gazprom did not deliver, but which Naftogaz allegedly nevertheless was obliged to pay for under the Contract (the "take or pay" claim), which at the date these consolidated financial statements stands at approximately USD 42.9 billion including interest (up to USD 34.5 billion excluding interest). Naftogaz has subsequently updated its claim for overpayments to approximately around USD 17.9 billion including interest (approximately USD 14.1 billion excluding interest).

Naftogaz initiated the Gas Transit Arbitration on 13 October 2014. In its Statement of Claim, Naftogaz claimed a revision of the transit tariff with retroactive effect, compensation for underdeliveries and other adjustments of the Gas Transit Contract. Naftogaz's monetary claim stands at approximately USD 12.2 billion including interest (up to USD 10.6 billion excluding interest). Gazprom has submitted a counterclaim in amount of approximately USD 5.3 million excluding interest, but has reserved the right to make additional counterclaims after receiving the award in the Gas Sales Arbitration.

Both the Gas Sales Arbitration and the Gas Transit Arbitration were initiated by Naftogaz following unsuccessful efforts to reach agreement with Gazprom in negotiations. The monetary claims in the Arbitrations are being updated on a continuous basis until the awards, inter alia in respect of interest calculations.

Naftogaz's main objectives in both Arbitrations are to (i) revise or interpret both contracts in line with European standards and requirements for gas sales and gas transit agreements; (ii) achieve competitive pricing for the gas purchased from Gazprom; and (iii) achieve a cost-reflective tariff for the transit of Russian gas through Ukraine. These objectives are in line with the stated purpose of both parties when the Contracts were negotiated and concluded in January 2009, namely in price revision and tariff revision clauses. At the same time, both Contracts contain clauses which deviate from European standards. Notably, the volume and take or pay provisions in the Gas Sales Contract are in breach of European and Ukrainian competition law, lack important standard features, and combine with an illegal destination clause to amount to an abuse of dominant position.

Gazprom has taken the same approach in both cases, which is essentially that the Contracts shall be "untouchable", and shall be enforced based on Gazprom's construction.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

The deadline for the award in the Gas Sales Arbitration and the Gas Transit Arbitration is currently 30 June 2017. This date may be subject to adjustment by the Arbitration Institute of the Stockholm Chamber of Commerce at the request of the Tribunal. The awards taken by the Tribunal are final and enforceable even if challenged, although enforceability in case of challenge depends on the legislation in the jurisdiction where enforcement is sought. The awards may be challenged on very limited grounds, essentially on the basis of grave procedural errors, or breach of public policy. The possibility of challenge proceedings can obviously not be properly assessed before the awards have been rendered.

Legal proceedings. From time to time and in the normal course of business, claims against the Group arise. Where the risk of outflow of financial resources associated with such claims is assumed as probable, a respective liability is recognised as a component of provision for litigations (Note 15). Where management estimates the risk of outflow of financial resources associated with such claims as possible, or amount of outflow cannot be measured reliably, no provision is recognised, and respective amount is disclosed in the consolidated financial statements. Management believes that it has provided for all material losses in these consolidated financial statements.

The Group and certain natural gas suppliers have disputes in respect of volumes and/or prices for natural gas supplied to the Group and other disputes. Management assesses its contingent liabilities under such disputes at the level of UAH 3,928 million (2015: UAH 1,380 million). Management cannot reliably estimate amount of potential losses on these obligations, if any.

Dispute with the non-controlling shareholders of "Ukrnafta" PJSC in respect of the validity and fulfilment of shareholders agreement. In January 2010 Naftogaz and the non-controlling shareholders of "Ukrnafta" PJSC ("Ukrnafta") signed a shareholders agreement that included, among other, setting the procedure of electing the Chairman of the Board, the Executive Board, the Supervisory board members and quorum for their meetings. Under the shareholders agreement the Chairman of the Board is to be elected from among the candidates nominated by the non-controlling shareholders, 6 of 11 Ukrnafta Supervisory board members, including Chairman, are to be nominated by Naftogaz, and remaining 5 members by the non-controlling shareholders. The Supervisory board meetings are deemed to be quorate if 8 of 11 members are present. This was actually allowed by the Law of Ukraine "On Joint-Stock Companies" effective before March 2015. However, as a result of subsequent amendments to the Law in March 2015, the quorum for the supervisory boards was lowered to the simple majority of votes.

Under the shareholders agreement, any dispute arising in connection with it is to be resolved exclusively by the London Court of International Arbitration and the shareholder agreement is governed by the UK law. In June 2015, the non-controlling shareholders of Ukrnafta started an action before the London Court of International Arbitration claiming (1) to acknowledge the shareholders agreement valid and enforceable and (2) to oblige Naftogaz to stick to the provisions of the shareholders agreement even in those instances where the provisions of the shareholders agreement substantially reduce the right of Naftogaz as a majority shareholder in comparison with the scope of rights provided for by the Law.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Uncertainty as to the ability of "Ukrnafta" PJSC to continue as a going concern. Following recent decline in oil prices, accumulated debts to the State Budget since 2014 of UAH 24,379 million as at 31 December 2016 (31 December 2015: UAH 17,473 million), limited ability to collect accounts receivable and settle prepayments made to suppliers with gross amount of UAH 22,680 million as at 31 December 2016 (31 December 2015: UAH 17,144 million), Ukrnafta had insufficient funds to satisfy its working capital needs and settle its tax payments as they fall due. Consequently, as at 31 December 2016 and 2015 Ukrnafta had a negative working capital and incurred net loss for the year then ended.

In 2016 the State Fiscal Authority of Ukraine initiated the suspension of certain oil and gas producing licenses and arrested Ukrnafta's assets as a lien against overdue liabilities of Ukrnafta in respect of subsoil royalty and other taxes. These events limit Ukrnafta in its actions regarding sales of assets, however, do not affect its ability to continue its operating activities. In March 2016 Ukrnafta announced its intention to commence a pre-court financial rehabilitation to legally restrict ability of past due creditors in payment enforcement. Financial rehabilitation plan, among other, assumes a 12 months period for Ukrnafta and its creditors, including the State Fiscal Authority of Ukraine as a primary creditor, to agree the restructuring of its obligations. The commencement of the financial rehabilitation plan is dependent on pre-approval by the Ukrnafta's Supervisory Board and approval by the Ukrnafta's General Shareholders' Meeting, Creditors Committee and respective court decision. None of the abovementioned approvals were obtained as of the date of these consolidated financial statements.

Despite the material uncertainties described above, and taking into account Ukrnafta's management actions in improving its liquidity, production and sales activities, management of the Group believes that application of the going concern assumption in respect of Ukrnafta is appropriate for the purpose of these consolidated financial statements.

Possible transfer of the Company's equity interest in the subsidiaries to the State. In 1998, upon creation of the Company, the Government of Ukraine contributed certain shares of joint-stock companies to the share capital of the Company. These joint-stock companies included JSC Long-Distance Pipeline "Druzhba" and JSC "Prydniprovskiy" Long-Distance Pipeline that were reorganised in 2001 into JSC "Ukrtransnafta", JSC "Ukrspetstransgaz", "Chornomornaftogaz" National JSC, JSC "Ukrnafta" and fifty-four regional gas distribution entities.

The Government of Ukraine may transfer ownership or control over all or part of the Company's equity interest in those joint-stock companies and/or other state-owned oil and gas transportation and storage facilities to other companies or Government agencies, and those actions could have a material adverse effect to the Company's operations.

State property not subject to privatisation. In 1998, the Company entered into an agreement "On use of the State owned property not subject to privatisation" ("Agreement") with the State Property Fund of Ukraine, and received oil and gas transportation system into the operational control. The Agreement was signed for one year, and its term is prolonged automatically for one year, unless terminated by notice from either party, and is binding on the legal successor of each party. Historically, the agreement has been prolonged automatically, as neither party initiated its termination. As the State property not subject to privatisation forms an essential part of the Group's business, the future operations and financial performance of the Group depends on the prolongation of the Agreement. The Group's management believes that the Group will continue to operate with this property in the foreseeable future.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Pursuant to the Agreement, the Company is required, inter alia, to handle oil and gas transmission and distribution pipelines owned by the State of Ukraine, keep the state property in adequate operational condition, and transfer 50% share of profits received from using those assets to the State. The amount of such transfer could be reduced by the amount of capital investments in those assets. The Agreement does not provide a mechanism of such calculations, and historically there were no payments from the Group to the State in respect of using such assets. The Group believes that had the mechanism for calculating the state share in profits from using the assets been determined by the State, the capital investments performed by the Group would be greater, and no payment in favour of the State would occur. Accordingly, no liability for such payment was recognised in these consolidated financial statements.

***Capital commitments*.** Capital commitments for purchase of property, plant and equipment, and exploration and development of oil and gas fields comprise UAH 1,260 million as at 31 December 2016 (31 December 2015: UAH 144 million).

23. BUSINESS COMBINATION

At 31 December 2016 and 2015, the Group holds 50% + 1 share of voting rights in "Ukrnafta" PJSC.

In March 2015, according to changes in the Law of Ukraine "On Joint-Stock Companies", quorum of the General meetings of shareholders was lowered from 60%+1 share down to 50%+1 share. Following those changes, new Supervisory Board of "Ukrnafta" PJSC was appointed on 22 July 2015. Starting from that date the Company has a unilateral ability to conduct legitimate General Meetings of Shareholders at "Ukrnafta" PJSC.

Following such changes, management of the Company believes that control over "Ukrnafta" PJSC was regained. Accordingly, the investment in "Ukrnafta" PJSC was transferred from investment in associates to investments in subsidiary starting from that date (Note 28). As a result of the revaluation of previously held interest to fair value at the date of acquisition, UAH 1,430 million loss was recognised in the consolidated statement of profit or loss (Note 7), and previously recognised share in other comprehensive income amounting to UAH 116 million was transferred to accumulated deficit in the statement of changes in equity.

23. BUSINESS COMBINATION (Continued)

The following table summarises the fair values of the net assets acquired at the date of regaining control. Fair values of property, plant and equipment at 30 June 2015 were determined by independent appraisers. Fair values of all assets and liabilities at date of acquisition were determined by management.

In millions of Ukrainian hryvnias	**As at 22 July 2015**
Property, plant and equipment (Note 6)	13,113
Investments in joint ventures (Note 7)	197
Other non-current assets	3,716
Inventories	2,358
Trade accounts receivable (net of provision for impairment of UAH 345 million and unamortised discount of UAH 245 million)	8,423
Prepayments made and other current assets (net of provision for impairment of UAH 3,513 million)	5,149
Cash and bank balances	654
Provisions (Note 15)	(5,794)
Deferred tax liabilities (Note 21)	(539)
Trade accounts payable	(1,520)
Advances received and other current liabilities	(12,786)
Corporate income tax payable	(918)
Fair value of 100% of net assets acquired	**12,053**
50%-1 share non-controlling interest	**(7,127)**
Share of net assets acquired	**4,926**
Purchase consideration:	
Fair value of previously held interest (50%+1 share)	**4,926**
Goodwill	**-**
Cash flow on acquisition of the subsidiary:	
Cash and cash equivalents of the subsidiary	**654**

The non-controlling interest represents the share of the net assets of the acquiree attributable to owners of the non-controlling interest.

As at 22 July 2015, advances received and other current liabilities include dividends payable attributable to the owners of the non-controlling interest in amount of UAH 2,201 million.

Revenue and net loss of "Ukrnafta" PJSC included in the consolidated financial statements from the date of acquisition amounted to UAH 10,494 million and UAH 4,498 million, respectively. If the acquisition had been completed on 1 January 2015, revenues of the Group would be UAH 18,269 million higher and net loss of the Group would be UAH 2,446 million higher.

24. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), concentration risk, credit risk and liquidity risk. The Group reviews and agrees risk management policies to minimise the potential adverse effects on the Group's financial performance for those risks.

Major categories of financial instruments:

In millions of Ukrainian hryvnias	**Note**	**31 December 2016**	**31 December 2015 (as restated, Note 3)**
Other non-current assets	8	5,832	5,209
Trade accounts receivable	10	49,209	33,208
Prepayments made and other current assets	11	4,150	1,226
Cash and bank balances	12	22,336	11,791
Restricted cash		680	600
Total financial assets		**82,207**	**52,034**

In millions of Ukrainian hryvnias	**Note**	**31 December 2016**	**31 December 2015 (as restated, Note 3)**
Borrowings	14	(70,844)	(71,764)
Trade accounts payable		(16,234)	(19,102)
Advances received and other current liabilities	16	(2,777)	(2,903)
Other long-term liabilities		(4)	(8)
Total financial liabilities		**(89,859)**	**(93,777)**

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investments, all of which are exposed to general and specific market movements.

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

24. FINANCIAL RISK MANAGEMENT (Continued)

The Group's exposure to foreign currency risk is as follows, based on carrying amounts of respective currency assets and liabilities:

In millions of Ukrainian hryvnias	31 December 2016			31 December 2015		
	USD	**EUR**	**Others**	**USD**	**EUR**	**Others**
Restricted cash	680	-	-	600	-	-
Cash and bank balances	14,998	2,740	67	3,523	2,733	29
Trade accounts receivable	6,642	-	-	5,753	2,108	-
Prepayments made and other current assets	684	7	-	154	1	-
Other non-current assets	-	245	-	-	211	-
Borrowings	(43,316)	(213)	-	(47,352)	(5)	-
Trade accounts payable	(13,602)	(268)	(10)	(11,764)	(2,014)	-
Advances received and other current liabilities	(85)	-	1	(484)	(46)	(4)
Net (short)/long currency position	**(33,999)**	**2,511**	**58**	**(49,570)**	**2,988**	**25**

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the reporting date, with all other variables held constant.

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

	At 31 December 2016		At 31 December 2015	
In millions of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
USD strengthening by 10%	(3,400)	(3,400)	(4,957)	(4,957)
USD weakening by 10%	3,400	3,400	4,957	4,957
EUR strengthening by 10%	251	251	299	299
EUR weakening by 10%	(251)	(251)	(299)	(299)

***Interest rate risk*.** The Group normally has no significant interest bearing assets, and its income and operating cash flows are substantially independent of changes in market interest rate. The Group's interest rate risk exposure arises from borrowings at variable interest rates. Borrowings at fixed rate expose the Group to fair value interest rate risk.

The Group predominantly attracts borrowings at fixed rates.

The borrowing activities are reviewed on an annual basis. Long-term investing activities and associated funding are considered separately, and are subject to the Government of Ukraine approval.

The maturity dates of financial liabilities are further disclosed in this Note.

24. FINANCIAL RISK MANAGEMENT (Continued)

***Concentration risk*.** The Group is exposed to concentration risk on revenues from natural gas transportation, and trade accounts payable as 75% of trade accounts payable as at 31 December 2016 (31 December 2015: 54%) comprise trade payables to a single supplier. Concentration on revenues from natural gas transportation is disclosed in Note 4.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets. The Group's policy is that the customers that wish to pay on credit terms are subject to the solvency check. Significant outstanding balances are also reviewed on an ongoing basis. At the same time, the Group must follow the state regulations within public service obligations in respect of gas sales to certain gas market participants irrespective whether they are delinquent or not.

The Group establishes a provision for impairment that represents its estimate of incurred losses in respect of trade accounts receivable. The main component of this provision is a specific loss component that relates to individually significant exposures.

The maximum exposure to credit risk as at 31 December 2016 is UAH 82,207 million (31 December 2015: UAH 52,432 million).

The Group does not hold any collateral as security.

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

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

24. FINANCIAL RISK MANAGEMENT (Continued)

The maturity analysis of financial liabilities as at 31 December 2016 was as follows:

In millions of Ukrainian hryvnias	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Borrowings	33,684	19,706	16,349	12,123	-	81,862
Other long-term liabilities	4	-	-	-	-	4
Trade accounts payable	16,234	-	-	-	-	16,234
Advances received and other current liabilities	2,775	1	1	-	-	2,777
Financial guarantees	1,745	-	-	-	-	1,745
Total	**54,442**	**19,707**	**16,350**	**12,123**	**-**	**102,622**

The maturity analysis of financial liabilities as at 31 December 2015 was as follows:

In millions of Ukrainian hryvnias	**Up to 6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Borrowings	25,314	17,982	17,510	27,881	-	88,687
Other long-term liabilities	-	-	8	-	-	8
Trade accounts payable	19,102	-	-	-	-	19,102
Advances received and other current liabilities	2,256	647	-	-	-	2,903
Total	**46,672**	**18,629**	**17,518**	**27,881**	**-**	**110,700**

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

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

In millions of Ukrainian hryvnias	**31 December 2016**	**31 December 2015 (as restated, Note 3)**
Total borrowings (Note 14)	70,844	71,764
Less: cash and cash equivalents (Note 12)	(21,853)	(9,256)
Total Net Debt	**48,991**	**62,508**
Total Equity	**460,272**	**443,762**
Gearing ratio	**0.11**	**0.14**

25. FAIR VALUE

IFRS defines 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.

The estimated fair values have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument or pay in the transfer of liabilities.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis and fair value of property, plant and equipment

The Group's available-for-sale investments and property, plant and equipment are measured at fair value at the end of each reporting period. The following table provides information about how the fair values of these assets are determined (in particular, the valuation techniques and inputs used):

Assets	**Fair value hierarchy**	**Valuation techniques and key inputs**
Property, plant and equipment	3	The Group engages professional independent appraisers to determine the fair value of its property, plant and equipment by using a replacement cost method for the majority of groups. The fair value is determined as the cost of construction of these items at current prices less the economic obsolescence and physical tear and wear to date. The main parameter used in this valuation technique are current prices on construction. For items for which there are market analogues (mainly buildings), the sales comparison method is used, the prices of market-based sales of comparable properties in the immediate proximity are adjusted with reference to differences in main parameters (such as floor space of the property). The main parameter used in this valuation technique is the price per square meter of a property.
Property, plant and equipment	2	The fair value of cushion gas is determined by application of the market price of gas at the end of the reporting date to the volume of cushion gas. The main parameters used in this valuation technique are market prices for gas at the end of the reporting period. The market value of the cushion gas equals to the market price of gas less costs of its pumping and transportation to the point of sale.

25. FAIR VALUE (Continued)

The following table summarises property, plant and equipment recognised at fair value after initial recognition using a fair value hierarchy:

31 December 2016

In millions of Ukrainian hryvnias	**Level 2**	**Level 3**	**Total**
Property, plant and equipment	153,566	386,599	540,165
Total	**153,566**	**386,599**	**540,165**

31 December 2015 (as restated, Note 3)

In millions of Ukrainian hryvnias	**Level 2**	**Level 3**	**Total**
Property, plant and equipment	142,140	406,981	549,121
Total	**142,140**	**406,981**	**549,121**

There were no transfers between Level 2 and Level 3 during the year.

25. FAIR VALUE (Continued)

Details of the Group's property, plant and equipment and information about the fair value hierarchy as at 31 December 2015 are as follows:

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
Gas transmission system and gas storages	Pipelines and related equipment Buildings Machinery and equipment Other fixed assets	Depreciated replacement cost method using the income approach for economic obsolescence determination	Date of implementation of incentive tariff regulation system	Regulatory Asset Base (RAB) start in 2015 for transportation and 2018 for storage.	The later the implementation of new tariff system, the lower the fair value
			Rates of return on Regulatory Asset Base	15.13%	The higher the rate, the higher the fair value
			Nominal WACC for USD-denominated cash flow	10.59%	The higher the WACC, the lower the fair value
Gas extraction assets	Pipelines and related equipment Buildings Machinery and equipment Other fixed assets	Depreciated replacement cost method using the income approach for economic obsolescence determination	The remaining period of the deposit extraction, years (based on proven and probable reserves determined by independent expert)	0-50	The lower the period, the lower the fair value because of lower remaining useful life of infrastructure assets

25. FAIR VALUE (Continued)

Description	Group of assets	Valuation technique	Unobservable inputs	Range of unobservable inputs	Interrelationship between key unobservable inputs and fair value measurement
			Gas sale price	Market price for the period from 2016 till the first quarter of 2017 is formed based on forecast gas price on German hub NCG less transportation costs to Ukrainian western border. Market price for further periods is formed based on forecast gas price on German hub NCG less transportation costs to Ukrainian border.	The higher the gas sale price, the higher the fair value
			Subsoil royalty rate long-term projection	Natural gas – 29% Oil and gas condensate – 45%	The higher the tax rate, the lower the fair value
			Nominal WACC for UAH-denominated cash flow	21.04%	The higher the WACC, the lower the fair value
Oil transmission system and storages	Pipelines and related equipment Building Machinery and equipment Other fixed assets	Depreciated replacement cost method using the income approach for economic obsolescence determination	Cumulative factor of physical and functional depreciations	0.75	The higher the factor, the lower the fair value
			Nominal WACC for UAH-denominated cash flow	17.08%	The higher the WACC, the lower the fair value

25. FAIR VALUE (Continued)

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

The Group's management believes that, the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values as at 31 December 2016 and 2015.

26. SUBSEQUENT EVENTS

Financing facility under the International Bank for Reconstruction and Development guarantee. On 30 December 2016 financing facility was signed by the Company and the Ministry of Finance of Ukraine on one side, and the International Bank for Reconstruction and Development ("IBRD") and two banks-non-residents on the other side. Financing should be provided according to the loan agreement in the form of revolving credit line amounting to EUR 478 million, and under the guarantees of the IBRD. Drawdown of the facility should be made within 2 years from the date of the loan agreement, repayment – during three years. Financing can be used as mean to settle obligations under the letters of credit as well as direct payments to suppliers. During February 2017 the Company has fulfilled preliminary requirements before the loan agreement came into force, including obtaining the resolution of the Ministry of Justice of Ukraine in respect of effectiveness and binding power of the agreement on providing the guarantee between the Ministry of Finance of Ukraine and the IBRD. As a result, on 17 February 2017 notices of effectiveness of the loan agreement from the IBRD and bank-agent under the loan agreement were received. During February-April 2017 letters of credit to gas suppliers amounting to over EUR 447 million were issued within this facility. Settlement of such letters of credits is planned for April-May 2017.

Extension of the Regulations on public service obligations. The Cabinet of Ministers of Ukraine Resolution #187 has approved the Regulations for public service obligations for certain gas market participants ("Regulations") on 22 March 2017. The Regulation's duration period starts from 1 April 2017 and lasts until 1 April 2018 and contains, amongst others, a series of differences, in particular:

- In addition to gas purchase from "Ukrgasvydobyvannia" PJSC, "Chornomornftogas" PJSC is also obliged to sell gas to the Company for the needs of households, heat generating entities and religious organisations.
- the Company is obliged to sale gas to district heating companies for all groups of customers, as well as for producing electricity by these companies.
- Starting from 1 April 2017 the Company will sell gas for the needs of households, religious organisations and district heating companies at the price of UAH 4,942 for 1,000 cubic meters. (excluding VAT, transportation and distribution tariffs and trade mark-up).
- In setting wholesale price for religious organisations and district heating companies for the needs of religious organisations a ratio of 0.5 is applied to the price defined above; in setting wholesale price for gas for district heating companies for all customers, except for the needs of religious organisations and households, and for electricity production by district heating companies a ratio of 1.6 is applied.

26. SUBSEQUENT EVENTS (Continued)

- In case gas wholesale price calculated at 100% import parity before 1 July 2017 is more than 10% higher than currently effective price, selling price should be calculated at 100% import parity for the period from 1 October 2017 up to 1 April 2018 for gas sales to households, religious organisations and district heating companies. Concurrently with resolution on Company's gas sales price change for specified categories, gas purchase price from PJSC "Ukrgasvydobyvannia" and PJSC "Chornomornftogas" should be revised.

Change of the Supervisory Board chairman. In April 2017, Paul Warwick was elected as chairman of the Supervisory Board and Volodymyr Demchyshyn as Deputy chairman. The new Supervisory Board chairman was elected following the resignation of Yulia Kovaliv.

Registration of share capital increase. In April 2017 the Company has registered a new share capital issue amounting to UAH 29,700 million out of unregistered share capital existed as at 31 December 2016 (Note 13).

Loans repayment and prolongation. During January-April 2017 the Group repaid UAH 12,159 million of bank loans. Additionally, in April 2017 the Company has prolonged maturity of loan with one of the state-owned banks in amount of about USD 390 million. Under amended repayment schedule loan should be repaid in several instalments by the end of April 2018.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation. The consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment that are measured at revalued amounts at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique.

These policies have been consistently applied to all periods presented, unless otherwise stated.

Purchases classification and presentation. During 2016 "Ukrtransgas" PJSC purchased inventories and services in the amount of UAH 4,279 million and performed capital expenditures of UAH 1,872 million, included in property, plant and equipment or construction in progress (2015: UAH 520 million and UAH 316 million, respectively).

During 2015 "Ukrgasvydobyvannia" PJSC purchased materials in the amount of UAH 225 million, included in cost of sales, and performed capital expenditures of UAH 157 million, included in property, plant and equipment. The source documents for these transactions were sequestered and are under investigation by the office of the State Prosecutor of Ukraine.

During 2015 "Ukrtransnafta" PJSC purchased services on oil storage amounting to UAH 222 million, included in other operating expense.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of these expenses and expenditures could be different from their legal form according to primary documents. These expenses and expenditures were presented on the basis of the relevant primary documents in the consolidated financial statements as at and for the years ended 31 December 2016 and 2015.

Functional and presentation currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group's entities operate ("the functional currency"). The consolidated financial statements are presented in Ukrainian hryvnias ("UAH"), which is the Company's functional and the Group's presentation currency. All amounts presented in the consolidated financial statements are presented in UAH, rounded to the nearest million, if not otherwise stated.

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

As at 31 December, the exchange rates used for translating foreign currency balances were:

In Ukrainian hryvnias	**2016**	**2015**
USD 1.00	27.19	24.00
EUR 1.00	28.42	26.22

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign receivables within 120 days of sales and to the compulsory conversion of 65% of proceeds in foreign currency to Ukrainian hryvnia starting from 9 June 2016 (2015: 90 days and 75%, respectively). Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, UAH is not freely convertible outside Ukraine.

Basis for consolidation. Subsidiaries are those companies over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains or losses on transactions between the Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When the Group has more than a majority of the voting rights of an investee, it still considers whether the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally and, thus, has the power over the investee.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Business combinations. Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payments at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill. Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

***Transactions with non-controlling interests*.** The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, the retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

***Investments in associates*.** Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting. The Group's investment in associate includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution of gains and losses arising on investments in associates are recognised in the consolidated statement of profit or loss.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Interest in joint ventures*.** A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group recognises its interest in the joint venture using the equity method applied as described above in the paragraph *Investment in associate*s.

***Interest in joint operations*.** A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation;
- Its share of the revenue from the sale of the output by the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

***Concession agreement (product sharing agreement)*.** The Company entered into a concession agreement for oil exploration and development ("Concession Agreement") with the Arab Republic of Egypt and the Egyptian General Petroleum Corporation ("EGPC") on 13 December 2006.

The Concession Agreement includes the following conditions:

- Subject to the auditing provisions under the Concession Agreement, the Company shall recover on a quarterly basis all exploration and development costs to the extent and out of 25% of all petroleum produced and saved from all production areas and not used in petroleum operations ("Cost Recovery"). Petroleum products under the Concession Agreement include crude oil or gas and LPG.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Remaining 75% of the petroleum produced is shared by the Company and EGPC depending on the volume of production and the product type (crude oil or gas and LPG). The Company's share varies from 15% to 19%.
- EGPC shall become the owner of all the Company's assets acquired and owned within the Concession Agreement, which assets were charged to Cost Recovery by the Company in connection with the operations carried out by the Company: land shall become the property of EGPC as soon as it is purchased; title to fixed and movable assets shall be transferred automatically and gradually from the Company to EGPC as they become subject to the Cost Recovery.

The development period under the Concession Agreement is limited to maximum 25 years from the date of commercial oil discovery or from the date of first gas deliveries, started in 2011.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, results or assets are ten percent or more of all the segments are reported separately. Segments falling below this threshold can be reported separately at management decision.

Property, plant and equipment. The Group uses the revaluation model to measure property, plant and equipment, except construction in process which is carried at cost. Fair value was based on valuations made by external independent valuers. The frequence of revaluation depends on the movements in the fair values of the assets being revalued. The last independent valuation of the fair value of the Group's property, plant and equipment was performed as at 31 December 2015. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Cost of acquired and self-constructed qualifying assets includes borrowing costs.

Any increase in the carrying amounts resulting from revaluations are credited to revaluation reserve in equity through other comprehensive income. Decreases that offset previsouly recognised increases of the same asset are charged against revaluation reserve in equity through other comprehensive income; all other decreases are charged to the consolidated statement of profit or loss. To the extent that an impairment loss on the same revalued asset was previously recognised in the consolidated statement of profit or loss, a reversal of that impairment loss is also recognised in the consolidated statement of profit or loss.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being derecognised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred. Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to be received from the continued use of the asset. Gains and losses on disposal determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated statement of profit or loss. When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

Property, plant and equipment includes cushion gas which is required to be held in the pipelines and storage facilities for the operating activities of the Group company in transportation of gas and gas storage segments, respectively.

Cushion gas is gas intended for maintaining pressure in underground storage facilities of the Group and protecting them from flooding. Cushion gas is considered to be fully recoverable based on an engineering analysis, and at any time that the storage facility is closed will be available for sale or other use. Cushion gas is revalued when there is an indication that its carrying amount as of the reporting date is materially different from its fair value.

Construction in progress includes also prepayments for property, plant and equipment.

Exploration expenses. Exploration expenses comprise the costs associated with unproved reserves. These include geological and geophysical costs for the identification and investigation of areas with possible oil and gas reserves and administrative, legal and consulting costs in connection with exploration. They also include all impairments on exploration wells where no proved reserves could be demonstrated.

Research and development expenses. Research and development (R&D) expenses include all direct and indirect materials, personnel and external services costs incurred in connection with the focused search for new development techniques and significant improvements in products, services and processes and in connection with research activities. Expenditures related to research activities is shown as R&D expenses in the period in which they are incurred. Development costs are capitalised if the recognition criteria according to IAS 38 Intangible Assets are fulfilled.

Exploration and evaluation assets. Oil and gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Costs directy associated with an exploration well, and exploration and proprety leasehold acquisition costs, are capitalised as long as the following conditions are satisfied:

- Sufficient oil and gas reserves have been discovered that would justify completion as a production well;
- Sufficient progress is being made in assessing the economic and technical feasibility to justify beginning field development in the near future.

If it is determined that commercial exploitation could not been achieved, these costs are charged to expense.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expenditures related to the following activities are initially measured at cost and capitalised within property, plant and equipment in the consolidated statement of financial position:

- Acquisition of rights to explore;
- Topographical, geological, geochemical and geophysical studies;
- Exploratory drilling;
- Trenching, sampling; and
- Activities in relation to evaluating technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation assets are carried forward during the exploration and evaluation stage and are not amortised but assessed for impairment in accordance with the indicators of impairment as set out in IFRS 6 Exploration for and Evaluation of Mineral Resources. In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the period. No amortisation is charged prior to the commencement of production.

In circumstances where a property is identified as containing economically recoverable resources then the accumulated exploration and evaluation costs associated with that property are transferred to oil and gas producing properties and are presented within the property, plant and equipment in the consolidated statement of financial position.

***Depreciation and depletion*.** Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis to allocate costs of individual assets to their residual value over their estimated useful lives. Depreciation commences on the date of acquisition or, in respect of self-constructed assets, from the time an asset is completed and ready for use.

Oil and gas assets, including oil and gas producing properties are depleted using a unit-of-production method. The cost of producing wells is amortised over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortised over total proved and probable reserves.

Other property, plant and equipment are depreciated on a straight line basis over its expected useful life. The typical useful lives of the Group's other property, plant and equipment are as follows:

	Useful lives in years
Pipelines and related equipment	9-60
Machinery and equipment	3-60
Buildings	3-60
Drilling and exploration equipment	3-30
Other fixed assets	3-30

Construction in progress and cushion gas are not depreciated.

***Intangible assets*.** Intangible assets have definite useful lives and primarily include capitalised computer software. Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring it to use. Intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

***Decommissioning liabilities*.** The Group's assessment of the decommissioning liabilities is based on the estimated future costs expected to be incurred in respect of the decommissioning and site restoration, adjusted for the effect of the projected inflation for the upcoming periods and discounted using interest rates applicable to the provision. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired, and corresponding obligation is recognised. Changes in the measurement of an existing decommissioning liability, that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate used for measurement, are recognised in the consolidated statement of profit or loss or, to the extent of any revaluation balance existence in respect of the related asset, other reserves. Provisions in respect of decommissioning activities are evaluated and re-estimated annually, and are included in the consolidated financial statements at each reporting date at their expected present value, using discount rates which reflect the economic environment in which the Group operates.

Interest expense related to the provision is included in finance costs in profit or loss.

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

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

***Classification of financial assets*.** The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets.

Loans and receivables include financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term, or which are quoted in an active market. Loans and receivables comprise primarily loans, trade accounts receivable including purchased loans and promissory notes. All other financial assets are included in the available-for-sale category.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification as debt or equity. Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities. Financial liabilities are classified as either financial liabilities "at fair value through profit or loss (FVTPL)" or "other financial liabilities".

Initial recognition of financial instruments. Financial assets and financial liabilities are initially measured at fair value.

The Group's principal financial instruments comprise available-for-sale investments, borrowings, cash and bank balances. The Group has various other financial instruments, such as trade receivables and trade payables, which arise directly from its operations.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date basis, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost, and recognised in equity for assets classified as available-for-sale.

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group's financial liabilities, loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in other comprehensive income. In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the reporting date.

When available-for-sale assets are sold or otherwise disposed of, the cumulative gain or loss recognised in other comprehensive income is included in the determination of net profit. When a decline in fair value of available-for-sale assets has been recognised in equity and there is objective evidence that the assets are impaired, the loss recognised in other comprehensive income is removed and included in the determination of net profit, even though the assets have not been derecognised.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in the consolidated statement of profit or loss. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss when the Group's right to receive payment is established and the inflow of economic benefits is probable. Impairment losses are recognised in the consolidated statement of profit or loss when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated statement of profit or loss, is removed from equity and recognised in the consolidated statement of profit or loss.

Impairment losses on equity instruments are not reversed through the consolidated statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through current period's consolidated statement of profit or loss.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that loans and receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the consolidated statement of profit or loss. When receivables is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of profit or loss.

Derecognition of financial instruments. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

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

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost of manufactured inventories includes an appropriate share of production overheads based on normal operating capacity. The cost of inventories is determined on the first in first out basis for all inventories except for natural gas and pipeline fill. Weighted average cost formula is used for natural gas and pipeline fill. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

***Trade accounts receivable*.** Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

***Prepayments made and other current assets*.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying amount of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the consolidated statement of profit or loss.

***Promissory notes*.** Some purchases may be settled by promissory notes or bills of exchange, which are negotiable debt instruments. Purchases settled by promissory notes are recognised based on management's estimate of the fair value to be given up in such settlements. The fair value is determined with reference to observable market information.

***Cash and bank balances*.** Cash and bank balances include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and bank balances are carried at amortised cost using the effective interest method. Restricted balances that do not qualify for cash and cash equivalents are excluded from cash and cash equivalents for the purposes of the consolidated cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in restricted cash.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends and mandatory budget contribution of profit share. Dividends and mandatory budget contribution of profit share are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

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

Borrowings. Borrowings include bank borrowings and bonds.

Borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Bank overdrafts are included into borrowings line item in the consolidated statement of financial position.

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

Advances received. Advances received are carried at amounts originally received. Amounts of advances received are expected to be realised through the revenue received from usual activities of the Group.

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The expense on any provision is presented in the consolidated statement of profit or loss net of any reimbursement. If the effect of time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognised as a finance cost.

***Other liabilities*.** Other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost using the effective interest method. Other non-financial liabilities are measured at cost.

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

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

***Revenue recognition*.** Revenue is measured at the fair value of the consideration received or receivable, and are shown net of value added tax and discounts. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

If the goods are transported to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenue from sales of services is recognised when:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The stage of completion of the transaction at the reporting date can be measured reliably;
- The costs incurred on the transaction and the costs to complete the transaction can be measured reliably.

Revenue gross versus net presentation. When the Group acts as a principal, revenue and cost of sales are reported on a gross basis. If the Group sells goods or services as an agent, revenue is recorded on a net basis, representing the margin/commission earned. Whether the Group is considered to be principal or agent in a transaction depends on analysis of both legal form and substance of the agreement the Group enters in.

27. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Key indicators that Group acts as an agent in a transaction are:

- Another party and not the Group is a primary obligor for delivering goods or services;
- Absence or limited general inventory risk;
- No exposure to significant risks and rewards associated with the sale of goods or services;
- Earnings from a transaction are represented by fixed amount; and
- Lack of discretion to select suppliers and ability to establish a selling price.

Recognition of expenses. Expenses are recorded on an accrual basis. Cost of sales comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on funds invested, income or loss on origination of financial instruments, unwinding of interest of the pension obligation and provisions.

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchased receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

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

Employee benefits: Defined Benefit Plan. The Group provides lump sum benefits, payments on reaching certain age, and other benefits as prescribed by the collective agreement. The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using the projected unit credit method.

Present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the consolidated statement of profit or loss.

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

***Critical judgements in applying accounting policies*.** The following are the critical judgements, apart from those involving estimations, that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Investment in "Ukrnafta" PJSC. The Group holds 50% + 1 share of voting rights in "Ukrnafta" PJSC. The rest is owned by limited number of investors. In March 2015, according to changes in the Law of Ukraine "On Joint-Stock Companies", quorum of the General meetings of shareholders was lowered from 60%+1 share down to 50%+1 share. Following those changes and changes in the Supervisory Board of "Ukrnafta" PJSC in July 2015, the Company has regained control over "Ukrnafta" PJSC starting from 22 July 2015. Accordingly, the investment in "Ukrnafta" PJSC is accounted for as investment in subsidiary starting from that date (Note 23). The Company considers this change as a business combination and applied acquisition method of accounting, respectively.

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

Employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the projected unit credit method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and expected salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations. Since there are no long-term, high quality corporate or government bonds issued in Ukrainian hryvnias, significant judgement is needed in assessing an appropriate discount rate. Key assumptions are presented in Note 15.

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

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 22).

Decommissioning costs. The decommissioning provision represents the present value of the decommissioning costs relating to oil and gas properties, which are expected to be incurred in the future (Note 15). These provisions were recognised, based on Group's internal estimates.

Main estimates include future market prices for the necessary decommissioning costs, and are based on market conditions and factors. Additional uncertainties relate to the timing of the decommissioning costs, which depends on depletion of the fields, future oil and gas prices and as a result – expected point of time, when there are no further economic benefits in the production.

Changes in these estimates can lead to the material changes in the provisions recognised in the consolidated statement of financial position.

Depreciation of the gas transit assets and depletion of the oil and gas assets. Oil and gas assets are depleted using a unit-of-production method. The cost of producing wells is amortised over proved developed reserves. Licence acquisition, common facilities and future decommissioning costs are amortised over total proved reserves. Changes in estimates regarding the volumes of production, proved developed reserves and total proved reserves either downward or upward, can result in the change of related assets utilisation accounting. A reduction in proved developed reserves, as result of future inspections and production will increase depreciation, depletion and amortisation expenses.

The Group currently depreciates gas transit assets using a straight line method. After the award of the Arbitral Tribunal under the auspices of the Arbitration Institute of the Stockholm Chamber of Commerce (see Note 22) and assuming enforcement of the new tariffs, and that Gazprom would not book any transit capacities beyond 2019, the Group will revise its depreciation method or shorten useful lives of its transit assets. However, should the assumption of no transit flows from 1 January 2020 change, this may provide a basis for a reduction of the tariff due to an extension of the useful life of gas transit assets, and the straight line method could continue to apply.

Estimation of oil and gas reserves. Reserves are the quantities of oil and gas which are anticipated to be commercially recovered from known accumulations from a given date forward under defined conditions. Proved and probable reserves used in depletion rate calculation are determined using estimates of known oil and gas reservoirs, recovery factors, operating conditions, future oil and gas prices and government regulations. Latest assessment of gas reserves was performed as at 31 December 2014, and major part of oil reserves was estimated as at 30 June 2016. Reserves estimates involve some degree of uncertainty, and their estimates are revised as additional geologic and engineering data becomes available or as economic conditions change. Accordingly, depletion rates and discounted cash flows for revaluation and impairment of property, plant and equipment may be also revised.

28. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Revaluation and impairment of property, plant and equipment. Management performs assessment whether carrying amounts of property, plant and equipment accounted under the revaluation model, differ materially from their fair values. Such assessment is performed on an annual basis, and involves analysis of prices, price indices, changes in technology, foreign exchange rates and other relevant factors. In case such assessment identifies that carrying amounts of items of property, plant and equipment differ materially from their fair values, management engages independent appraisers to perform property, plant and equipment revaluation.

Per results of relevant assessment made as at 31 December 2016 management decided that carrying amounts of property, plant and equipment accounted under the revaluation model, do not differ materially from their fair values, and no revaluation was performed at this date. Latest revaluation made by the independent appraisers took place as at 31 December 2015.

Management also reviews carrying amounts of property, plant and equipment to determine whether there are any indicators that these assets are impaired. In making the assessment for general impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Indicators of a potential impairment include analysis of market conditions, asset utilisation and the ability to utilise the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater than the recoverable amount. Management did not identify any general indicators of impairment as at 31 December 2016.

Useful lives of other property, plant and equipment. The Group's property, plant and equipment, except oil and gas assets are depreciated using straight-line method over their estimated useful lives, which are based on management's business plans and operational estimates.

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in estimated useful life or residual value is recorded on a prospective basis from the date of the change.

Impairment of trade accounts receivable and prepayments made. Management estimates the likelihood of the collection of trade accounts receivable based on an analysis of individual accounts. Factors taken into consideration include an ageing analysis of trade accounts receivable in comparison with the payment history, credit terms allowed to customers and available market information regarding the counterparty's ability to pay. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

Inventory valuation. Inventory are stated at lower of cost or net realisable value. In assessing the net realisable value of its inventories, management bases its estimates on various assumptions including current market prices. At each reporting date, the Group evaluates its inventories for excess quantities and obsolescence and, if necessary, records an allowance to reduce inventories for obsolete and slow-moving goods. This allowance requires assumptions related to future inventories use. These assumptions are based on inventories ageing and forecasted demand. Any changes in the estimates may impact the amount of the allowances for inventory that may be required.

29. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of new and revised International Financial Reporting Standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Amendments to IFRS 12 "Disclosure of Interests in Other Entities";
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for acquisition of interest in joint arrangements;
- Amendments to IAS 1 "Presentation of Financial Statements"– Initiative as to the disclosure of information;
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Clarification in respect of applying depreciation and amortisation formulas;
- IFRS 14 "Regulatory Deferred Accounts";
- Amendments to IAS 27 "Separate Financial Statements"– applying equity method in separate financial statements;
- Annual Improvements to IFRSs 2012-2014 Cycle.

The adoption of amendments to standards did not have any effect on the financial position or performance reported in the consolidated financial statements and had not resulted in any changes to the Group's accounting policies and the amounts reported for the current or prior years.

Standards and Interpretations in issue, but not yet effective. At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to Standards were in issue but not yet effective:

Standards/Interpretations	**Effective for annual accounting period beginning on or after**
Amendments to IAS 12 "Income Taxes" – Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative	1 January 2017
IFRS 15 "Revenue from Contracts with Customers"	1 January 2018
IFRS 9 "Financial Instruments"	1 January 2018
Amendments to IFRS 2 "Share-based Payment" – Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16 "Leases"	1 January 2019
Amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determined
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
Amendments to IFRS 4 "Applying IFRS 9 "Financial Instruments" with IFRS 4 „Insurance Contracts"	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2018

Management is currently evaluating the impact of the adoption of Amendments to IAS 1: Disclosure Initiative, Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, Amendments to IFRS 11, Amendments resulting from Annual Improvements Cycles, IFRS 15 Revenue from contracts with customers and IFRS 9 Financial Instruments. For other Standards and Interpretations management anticipates that their adoption in future periods will not have a material effect on the consolidated financial statements of the Group in future periods.