

**Private Joint Stock Company
“National Power Company
“Ukrenergo”**

**Second Power Transmission
Project**

Special Purpose Project Financial Statements
for the Year Ended 31 December 2019

**PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"
SECOND POWER TRANSMISSION PROJECT**

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**PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"
SECOND POWER TRANSMISSION PROJECT**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL
OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

Management is responsible for the preparation of the special purpose project financial statements of the Second Power Transmission Project (the "Project") financed by the International Bank for Reconstruction and Development (the "IBRD") loans under the Loan Agreements # 8462-UA and TF017661 dated 10 February 2015 and amendments between the IBRD and Ukraine, whose executor is Private Joint Stock Company "National Power Company "Ukrenergo" (the "Company"), which comprise the special purpose statement of sources and uses of funds for the year ended 31 December 2019, the special purpose statement on expenditure detail for the year ended 31 December 2019 and a summary of significant accounting policies and other explanatory information (the "special purpose project financial statements"), which are prepared in accordance with the basis of accounting, described in Note 3.

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures and supplementary schedules when compliance with the requirements of the basis of accounting, described in Note 3, are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the special purpose project financial statements; and
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the special purpose project financial statements comply with the basis of accounting, described in Note 3;
- Maintaining accounting records in compliance with the legislation and accounting standards of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2019 were approved by management on 30 June 2020.

On behalf of management:



V. D. Kudrytskyi,
Acting Chairman of the Management Board



L.V. Opalko,
Deputy Chief Accountant

INDEPENDENT AUDITOR'S REPORT

To Management of Private Joint Stock Company "National Power Company "Ukrenergo":

Opinion

We have audited the accompanying special purpose project financial statements of the Second Power Transmission Project (the "Project") financed by the International Bank for Reconstruction and Development (the "IBRD") loans under the Loan Agreements # 8462-UA and TF017661 dated 10 February 2015 and amendments between the IBRD and Ukraine, whose executor is Private Joint Stock Company "National Power Company "Ukrenergo" (the "Company"), which comprise the special purpose statement of sources and uses of funds for the year ended 31 December 2019, the special purpose statement on expenditure detail for the year ended 31 December 2019 and a summary of significant accounting policies and other explanatory information (the "special purpose project financial statements"), which are prepared in accordance with the basis of accounting, described in Note 3.

In our opinion, the accompanying special purpose project financial statements are prepared, in all material respects, in accordance with the basis of accounting, described in Note 3.

Basis for Opinion

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

Emphasis of Matter – Operating Environment

We draw your attention to Note 2 to the special purpose project financial statements, which describes that the impact of the ongoing political and economic situation in Ukraine is unpredictable and may have significant effect on the Ukrainian economy and the operations of the Company. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 3 to the special purpose project financial statements, which describes the basis of accounting. The accompanying special purpose project financial statements are prepared to assist the Project in complying with the requirements of the IBRD. As a result, the special purpose project financial statements may not be suitable for another purposes.

This report is intended solely for use by management of Private Joint Stock Company "National Power Company "Ukrenergo" in communicating to the IBRD, the Ministry of Finance of Ukraine, the Ministry of Energy and Coal Industry of Ukraine and the National Commission for State Energy and Public Utilities Regulation about Company's compliance with the basis of accounting, described in Note 3. This report is not intended for the benefit of the IBRD, the Ministry of Finance of Ukraine, the Ministry of Energy and Coal Industry of Ukraine and the National Commission for State Energy and Public Utilities Regulation or any other third parties and we accept no responsibility or liability to any party other than the Company in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Project Financial Statements

Management is responsible for the preparation of the special purpose project financial statements in accordance with the basis of accounting, described in Note 3, and for such internal control as management determines is necessary to enable the preparation of the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose project 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 special purpose project financial statements.

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

- Identify and assess the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company's to cease to continue as a going concern.

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.

LLC "Deloitte & Touche VSC"

30 June 2020

**PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"
SECOND POWER TRANSMISSION PROJECT**

**SPECIAL PURPOSE STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2019 AND CUMULATIVE AS OF 31 DECEMBER 2019
In USD**

	Cumulative amount as of 1 January 2019	From 1 January to 31 December 2019	Cumulative amount as of 31 December 2019
Financing:			
Direct payments from the IBRD's loans account	13,162,783	20,270,170	33,432,953
Transfers from the IBRD loan accounts to disbursement account	16,500,000	16,200,000	32,700,000
Own funds	<u>4,168,924</u>	<u>3,010,079</u>	<u>7,179,003</u>
Total financing	<u>33,831,707</u>	<u>39,480,249</u>	<u>73,311,956</u>
Project expenditure:			
Construction works and equipment	21,131,899	32,974,467	54,106,366
Services	1,764,914	1,545,005	3,309,919
Finance cost	<u>4,618,246</u>	<u>2,170,558</u>	<u>6,788,804</u>
Total Project expenditure	<u>27,515,059</u>	<u>36,690,030</u>	<u>64,205,089</u>

On behalf of management:

V. D. Kudrytskyi,
Acting Chairman of the Management Board

L.V. Opalko,
Deputy Chief Accountant

**PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO"
SECOND POWER TRANSMISSION PROJECT**

**SPECIAL PURPOSE STATEMENT ON EXPENDITURE DETAIL
FOR THE YEAR ENDED 31 DECEMBER 2019 AND CUMULATIVE AS OF 31 DECEMBER 2019
In USD**

	<u>Cumulative amount as of 1 January 2019</u>	<u>From 1 January to 31 December 2019</u>	<u>Cumulative amount as of 31 December 2019</u>
Construction works and equipment:			
Construction works and equipment – the IBRD loans	<u>21,131,899</u>	<u>32,974,467</u>	<u>54,106,366</u>
	<u>21,131,899</u>	<u>32,974,467</u>	<u>54,106,366</u>
Assistance services:			
Services – the IBRD loans	<u>1,177,589</u>	<u>705,484</u>	<u>1,883,073</u>
Services – own funds	<u>587,325</u>	<u>839,521</u>	<u>1,426,846</u>
	<u>1,764,914</u>	<u>1,545,005</u>	<u>3,309,919</u>
Finance costs:			
Front-end-fee – the IBRD loans	<u>1,036,647</u>	<u>-</u>	<u>1,036,647</u>
Interest and commitment charges on the IBRD loans – own funds	<u>3,581,599</u>	<u>2,170,558</u>	<u>5,752,157</u>
	<u>4,618,246</u>	<u>2,170,558</u>	<u>6,788,804</u>
Total Project expenditure	<u>27,515,059</u>	<u>36,690,030</u>	<u>64,205,089</u>

On behalf of management:



V. D. Kudrytskyi,
Acting Chairman of the Management Board



L.V. Opalko,
Deputy Chief Accountant

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO" SECOND POWER TRANSMISSION PROJECT

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

In USD

1. BACKGROUND

The International Bank for Reconstruction and Development (the "IBRD") and the Government of Ukraine (the "Borrower") entered into Loan Agreements # 8462-UA and TF017661 dated 10 February 2015 to finance the Second Power Transmission Project (the "Project"). The objectives of the Project is to enhance security, reliability and effectiveness of electricity transmission, improve compensation of reactive capacity in power grids to create technical conditions for approximation of integration of the Integrated power system of Ukraine into the European Network of Electricity Transmission System Operators (ENTSO-E) and allow Ukraine to become an important, full-fledged player in European electricity markets.

Private Joint Stock Company "National Power Company "Ukrenergo" (the "Company") was appointed by the Borrower as the Project's executor. Ministry of Finance of Ukraine was appointed by the Borrower as its representative. In order to provide the Company with access to IBRD funds, Sub-loan Agreements #13010-05/53 and #13010-05/54 dated 25 May 2015 have been signed between the Borrower, the Ministry of Finance of Ukraine, the Ministry of Energy and Coal Industry of Ukraine, National Commission for State Energy and Public Utilities Regulation and the Company. In accordance with terms and conditions of Sub-loan Agreements the Borrower transfers a portion of funds under loan # 8462-UA in amount of USD 327,493,734 and loan TF017661 in amount of USD 48,425,000 to the Company. The Company agreed to undertake the obligation to repay loan and interest on the outstanding loan principal to the Borrower and margin to Ministry of Finance of Ukraine (Note 5).

According to the original terms and conditions of the Project, its final completion is scheduled to 30 June 2020. In 2019, the Borrower and the IBRD signed amendments to Loan Agreements # 8462-UA and TF017661, according to which they agreed to reduce the amount of borrowing funds per loan # 8462-UA by USD 60,000,000 and extend the final completion of the Project from 30 June 2020 to 29 June 2022. The Company can obtain tranches per the loan agreements up to 29 June 2022. The loan # 8462-UA is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 January 2020 to 15 July 2032. The loan TF017661 is repayable in accordance with the settlement schedule specified in the agreement, starting from 15 January 2025 to 15 July 2034.

The initial cost of the Project was estimated in the amount of USD 378,425,000, which includes the IBRD's loans to the Borrower # 8462-UA in the amount of USD 330,000,000 and loan TF017661 in the amount of USD 48,425,000. As a result of signed amendments to Loan Agreement # 8462-UA, the amended cost of the Project is estimated at USD 318,425,000.

2. OPERATING ENVIRONMENT

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of the national currency (appreciation of the national currency by around 5% to USD and 11% to EUR comparing to previous year averages).

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. As a result of this, the Ukrainian economy is refocusing on the European Union (the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (the "NBU") starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019 and gradually decreased the discount rate for the first time during the recent two years, from 18.0% in April 2019 to 6.0% in June 2020.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO" SECOND POWER TRANSMISSION PROJECT

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

In USD

The degree of macroeconomic uncertainty in Ukraine in 2019 still remains high due to a significant amount of public debt scheduled for repayment in 2019–2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through the period of presidential and parliamentary elections. All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from "B-" to "B", with a positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the "IMF").

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Company may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Company's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

The Company, together with the NCREU and other government authorities, works on measures aimed at mitigating consequences of a possible drop in volumes of electric energy transmission and possible deterioration of its counterparties' solvency, in particular: changes in the Market Rules, including a change in the mechanism of assigning public service obligations, a revision of tariffs on electric energy transmission and dispatcher (operating and technical) management. At the same time, the Company negotiates on attracting additional borrowings to finance its working capital and fulfill public service obligations, monitors on a consistent basis its liquidity, controls its operating and other expense, and maintains capital investments at the minimum required level. Until this uncertainty with the adverse consequences of COVID-19 persists, the Company will continue tracking carefully the situation and mitigating potential negative consequences.

3. BASIS OF ACCOUNTING

The special purpose statement of sources and uses of funds and the special purpose statement on expenditure detail are prepared on the cash basis of accounting. Financing by sources is recognised when received rather than earned, and expenditures are recognised when paid rather than incurred.

Accruals for interest and commitment charges on the IBRD loans are not recorded in the special purpose project financial statements, except for the finance costs actually paid to the IBRD on the loan account.

The reporting currency is US Dollar ("USD"). Items included in the special purpose project financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company (the "functional currency"). The functional currency of the Project is USD.

Transactions in other currencies are translated to USD at the exchange rates prevailing at the dates of relevant transactions. Cash balances in other currencies are translated to USD at the period end exchange rate.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO" SECOND POWER TRANSMISSION PROJECT

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

In USD

4. FUND WITHDRAWAL PROCEDURES

IBRD loans

Funds from the IBRD loan account are distributed by means of special accounts, letters of credit and direct payments to suppliers' accounts.

Special accounts are deposit accounts in JSC "The State Export-Import Bank of Ukraine" in United States dollars and Ukrainian hryvnias, which are opened and controlled by the Ministry of Finance of Ukraine. All disbursements to suppliers from the special accounts must be approved by the IBRD as eligible expenditures for the Project.

Letters of credit are issued to suppliers of the Company in accordance with the terms of contracts for goods and services as approved by the IBRD. The Company does not pay any commissions on these letters of credit.

In accordance with the payment request sent to the IBRD by the Company, the IBRD makes direct payments to suppliers' accounts in accordance with the terms of contracts for goods and services as approved by the IBRD.

Terms and conditions of the loan agreements with IBRD and other creditors require that the Company comply with certain financial covenants. Financial covenants are calculated based on the information from most recent financial statement of the Company prepared under International Financial Reporting Standards.

As of 31 December 2019, the Company complied with the financial covenants under the IBRD loan agreements.

Own funds

The amount represents own funds of the Company incurred in the course of the Project's preparation, implementation and execution.

5. LOAN REPAYMENT PROCEDURES

IBRD loan # 8462-UA

Upon signing the loan agreement # 8462-UA, the Company paid from loan funds the front-end fee in the amount of USD 818,734, representing 0.25% of the loan amount.

The Company pays interest charged on the outstanding loan principal at a floating interest rate based on LIBOR plus a variable spread. During the year ended 31 December 2019 the average annual interest rate for the loan was 3.24%, plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. In addition, the Company pays the IBRD a commission of 0.25% on the unused loan balance. The interest on the outstanding loan principal, margin to the Ministry of Finance of Ukraine and commission on the unused loan balance are repayable on the semi-annual basis on 15 January and 15 July. For the year ended 31 December 2019 the total amount of interest, commission and margin on the loan paid by the Company to the Ministry of Finance of Ukraine was USD 2,164,482.

PRIVATE JOINT STOCK COMPANY "NATIONAL POWER COMPANY "UKRENERGO" SECOND POWER TRANSMISSION PROJECT

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

In USD

The repayment of the outstanding loan principal will be also performed on a semi-annual basis on 15 January and 15 July beginning from 15 January 2020. As of 31 December 2019 the balance of actually used and not repaid the IBRD loan amounted to USD 65,651,103 (31 December 2018: USD 29,444,871).

IBRD loan TF017661

Upon signing the loan agreement TF017661, the Company paid from loan funds a front-end fee in the amount of USD 217,913, representing 0.45% of the loan amount.

The Company pays interest charged on the outstanding loan principal at a fixed interest rate of 0.75% plus a margin of 2.00% payable to the Ministry of Finance of Ukraine. The interest on the outstanding loan principal and margin to the Ministry of Finance of Ukraine are repayable on the semi-annual basis on 15 January and 15 July. For the year ended 31 December 2019 the total amount of interest and margin on the loan paid by the Company to the Ministry of Finance of Ukraine was USD 6,076.

The repayment of the outstanding loan principal will be also performed on a semi-annual basis on 15 January and 15 July beginning from 15 January 2025. As of 31 December 2019 the balance of actually used and not repaid the IBRD loan amounted to USD 481,851 (31 December 2018: USD 217,913).

6. DISBURSEMENT ACCOUNT STATEMENT

Special accounts have been opened by the Ministry of Finance of Ukraine in JSC "The State Export-Import Bank of Ukraine" (transit accounts in United States dollar and Ukrainian hryvnia).

Movements on the disbursement account for the year ended 31 December 2019 were as follows:

	<u>USD</u>
Opening balance as of 1 January 2019	6,316,648
Movements during the period	
Transfers from the IBRD loan accounts to disbursement account	16,200,000
Expenditures paid	(13,398,159)
Bank charges	(11,622)
	<u>2,790,219</u>
Net change in cash balance on the account	2,790,219
Closing balance as of 31 December 2019	<u>9,106,867</u>

7. APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were approved by the Company's management and authorised for issue on 30 June 2020.