

**UKRAINIAN SAWMILL HOLDING COMPANY
LIMITED**

**Financial statements in accordance with International
Financial Reporting Standards** for the year ended 31 December
2021 with Management report and Independent auditor's report

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I. COMPANY'S ORGANIZATION AND OPERATIONS

Company's background information

UKRAINIAN SAWMILL HOLDING COMPANY Limited Liability Company (EDRPOU 39325379) ("the Company") was established and registered according to the legislation on 29 July 2014. Legal entity location is 01054 Kyiv, 38 Yaroslaviv Val Street. Production facilities location is 11501, Zhytomyr oblast, Korosten, 11-T S. Kemskoh Street. The Company's production facilities are among the largest in Europe and are located on the area of 51.6377 hectares.

The Company's main activity under KVED 16.10 is "Sawmilling and planing of wood". As at the report date, the Company has no separate divisions, branches, etc. There are no securities.

Since 01 October 2021, a project has been launched to produce new types of finished products, namely:

- Planed board – lamella;
- Joined board;
- Joined beam;

Since 01 October 2021, a project has been launched to produce new types of finished products, namely:

- CLT;

Since 16 December 2021, a project has been launched to produce new types of finished products, namely:

- Pellet.

The project completion provides for the merger of REZULT HOUSE LLC and BF PROJECT LLC under the procedure of liquidation of a legal entity by merger during 2022.

The Company's share capital amounts to UAH 943,673 thousand and is distributed among the participants as follows:

Participant's name	Participant's share in the authorized capital (UAH'000)	% in the authorized capital
Giourousef Leonidas	47,498	5.0334%
Yurusheva Nataliya Dmytrivna	47,500	5.0335%
Zholynska Anastasiya Leonidivna	47,500	5.0335%
Yurusheva Yelizaveta Leonidivna	47,500	5.0335%
Unibudinvest PJC	753,675	79.8661%
TOTAL:	943,673	100%

The Company's ultimate beneficial owners are:

Giourousef Leonidas, a citizen of Greece

Yurusheva Nataliya Dmytrivna, a citizen of Ukraine

Zholynska Anastasiya Leonidivna, a citizen of Ukraine

Yurusheva Yelizaveta Leonidivna, a citizen of Ukraine

Company's operations and products

The Company's main activities are:

KVED 16.10 Sawmilling and planing of wood (main);

KVED 16.23 Manufacture of other builders' carpentry and joinery;

KVED 46.13 Agents involved in the sale of timber, building materials and sanitary products;

KVED 80.10 Private security activities;

KVED 46.73 Wholesale of wood, construction materials and sanitary equipment;

KVED 46.90 Non-specialized wholesale trade;

KVED 49.41 Freight transport by road;

KVED 68.20 Rental and operating of own or leased real estate;

KVED 35.30 Steam, hot water and air conditioning supply.

The main products manufactured by the Company are edged lumber: board, squared timber, beam, etc.

- Board is lumber up to 100 mm thick having the width of more than twice the thickness. Squared timber is lumber up to 100 mm thick having the width of not more than twice the thickness. Beam is lumber with thickness and width of 100 mm or more. Lumber is produced in 1-5 grades, with length varying from 840 mm to 5,100 mm, thickness from 16 mm to 190 mm, and width from 60 mm to 305 mm. Gradation in thickness and width is 1 mm, in length 5 mm. Lumber is produced with a moisture content of 8% - 20%.
- Glued panels are relatively wide and thin non-structural wood products. They are made from narrow pieces of wood glued together at their edges to provide for more width.
- Wooden formwork beams are superior to solid lumber in all strength capacities. Unlike other wood products, glulam can be exposed to many different types of finishing. Its advantages: minimal deformation, environmental safety, minimal shrinkage and cracking, minimization of construction timing.
- CLT is a wooden panel made of an odd number of layers of lamellas glued together in perpendicular directions. The lamellas are made of coniferous lumber (pine) – solid or finger-jointed along the length. All wood is FSC certified.

The by-products of the Company's sawmill production are technological wood chips, sawdust, which are the raw materials for producing biofuel – pellets. Pellets are cylindrical granules of standard size. High-quality pellets are used for heating residential buildings by burning in solid fuel boilers, stoves and fireplaces.

Applicability of lumber produced by the Company.

Edged lumber plays a special role in construction works as the one easy to expose to mechanical processing. Edged lumber is used in the construction of houses and bath-houses, for roofing works, for decorating works, to make doors, windows, floors, walls and stairs. Also, the Company's materials are used in furniture production, to make packaging products. Some products are suitable for laying the floor, some for load-bearing structures, and some are appropriate for decoration of residential and non-residential buildings. The applicability of lumber depends on its size and grade. Each grade has its properties: resistance to moisture, to drying; strength.

Pine lumber is very easy to use. Its specific properties are:

- light weight (no additional load on the foundation);
- high strength (can be used both for processing and for creating load-bearing structures);
- easy and convenient installation;
- easy processing (allows making parts of various shapes with ease);
- excellent sound insulation;
- low thermal conductivity;
- resistance to deformation and decay;
- resistance to moisture.

The Company's products are exported to more than 20 countries worldwide; the shares of the key product buyer countries are given below:

India	Estonia	Japan	Korea	Turkey	Germany	The Philippines	Latvia	Israel	Taiwan	Romania	Other
26.3%	20.3%	6.3%	6.2%	5.6%	4.9%	3.3%	3.1%	2.9%	2.7%	2.6%	15.8%

The Company's main competitors are:

1. West Fraser Timber Co LTD – Canada, USA.
2. Canfor – Canada, USA.
3. Stora Enso – Poland, Sweden, Latvia, Russia, Finland, Lithuania, Estonia, the Czech Republic;
4. Interfor – Canada, USA;
5. Arauco – Chile, Argentina, Uruguay;
6. HS Timber Productions – Romania;
7. Binder Holts – Austria;
8. Ilim Group – Russia;
9. Metsa group – Finland;
10. Igirma Tairicu – Russia;
11. UPM – Sweden;
12. Ukrainian Sawmills LLC – Ukraine, Rivne oblast, Kostopil;
13. Vanesa LLC – Ukraine, Chernihiv oblast, Koryukivka;
14. JSC Slovyanski Shpalery - KFTP – Ukraine, Chernihiv oblast, Koryukivka;
15. Polissya 2002 LLC – Ukraine, Zhytomyr oblast, Malyn;

16. Forest Technology LLC – Ukraine, Zhytomyr oblast, Malyn district;
17. Verba-VV LLC – Ukraine, Volyn oblast;
18. MGA GROUP LLC – Ukraine, Zhytomyr;
19. Baobab Group Privately-Owned Business – Ukraine, Zhytomyr oblast, Narodytyskiy district;
20. Barlinek LLC – Ukraine, Vinnytsia oblast.

Raw material purchases

The Company purchases its forest raw materials from the state and municipal forest farms in 9 oblasts of Ukraine: Zhytomyr, Kyiv, Rivne, Chernihiv, Khmelnytskyi, Volyn, Sumy, Poltava oblasts. In 2021, forest raw materials were sourced from 82 forest farms.

Since 18 March 2021, Ukrainian Sawmill Holding Company LLC is included in the multi-site FSC certification, in which all participating sites have a single FSC certificate code: FC-COC-804480. The below standards were followed during the 2021 multi-site certification: FSC-STD-40-004 V3-0 – *Chain of Custody Certification*; FSC-STD-40-003 V2-1 – *Chain of Custody Certification of Multiple Sites*.

UHLK LLC monitors the validity of the suppliers' certificates during the recognition of forest raw materials. During 2021, the ratio of forest raw material supply amounts was: 70% - FSC certified, and 30% - non-certified.

Round lumber sourcing by geography.

No.	Forest farm	No.	Forest farm
1	"Slovechne Forest Farm" State-Owned Enterprise	16	"Klavdiyevе Forest Farm" State-Owned Enterprise
2	"Malyn Forest Farm" State-Owned Enterprise	17	"Korosten Forest and Hunting Farm" State-Owned Enterprise
3	"Narodychi Special-Purpose Forest Farm" State-Owned Enterprise	18	"Oster Forest Farm" State-Owned Enterprise
4	"Ovruch Forest Farm" State-Owned Enterprise	19	"Zarichne Forest Farm" State-Owned Enterprise
5	"Luhyny Forest Farm" State-Owned Enterprise	20	"Sarny Forest Farm" State-Owned Enterprise
6	"Dymer Forest Farm" State-Owned Enterprise	21	"Oster Military Forest Farm" State-Owned Enterprise
7	"Novohrad-Volynsky Experimental Forest Farm" State-Owned Enterprise	22	"Korostyshiv Forest Farm" State-Owned Enterprise
8	"Yemilchynske Forest Farm" State-Owned Enterprise	23	"Slavuta Forest Farm" State-Owned Enterprise
9	"Ovruch Special-Purpose Forest Farm" State-Owned Enterprise	24	"Nizhyn Forest Farm" State-Owned Enterprise
10	"Radomyshl Forest Farm" State-Owned Enterprise	25	"Pereyaslav-Khmelnitsky Forest Farm" State-Owned Enterprise
11	"Baranivka Forest and Hunting Farm" State-Owned Enterprise	26	"Vyschedubechanske Forest Farm" State-Owned Enterprise
12	"Korosten Forest Farm APK" Subsidiary Company	27	"Teterivske Forest Farm" State-Owned Enterprise
13	"Horodnytsya Forest Farm" State-Owned Enterprise	28	"Kyiv Forest Research Station" State-Owned Enterprise
14	"Malynivka Forest Farm APK" Subsidiary Company	29	"Fastiv Forest Farm" State-Owned Enterprise
15	"Zhytomyr Forest Farm" State-Owned Enterprise	30	"Polissya Forest Farm" State-Owned Enterprise



Process of purchasing of forest raw materials

CHART of purchasing of forest raw materials at UHLK	
Getting a task to source forest raw materials	
Monitoring of a possibility to purchase the forest raw materials from tenders and reverse auctions	
Purchasing the forest raw materials from tenders	Purchasing the forest raw materials from reverse auctions
Monitoring the tenders on tender marketplace websites and in mass media	Analysis and financial substantiation of forest raw material sourcing; analysis of prices, quality and logistics
Financial substantiation of how reasonable it is to participate in the tender; analysis of listing prices, raw material quality, and logistics	
Making a bid and paying the tender contributions	Making and having an electronic reverse auction in the electronic trade system of "Forestry Innovation and Analysis Center" State-Owned Enterprise
Participation in the tender	
Concluding agreements with the forest raw material suppliers	
Agreeing the date and timing of forest raw material supplies	
Paying and controlling the forest raw material supplies to the company	
Accepting and accounting the forest raw materials at the company's warehouse	

The Company was designed with the participation of the world's leading developers and owns the most modern equipment, including:

- Boiler unit with water heating boilers operating on "URBAS" biofuel, manufactured in Austria, installed in 2016. Power 20 m.W.
- Boiler unit with water heating boilers operating on "Politehnick" biofuel, manufactured in Austria, installed in 2021. Power 20 m.W.
- HOLTEK automated round lumber grade line, manufactured in Germany, installed in 2016. Production capacity is 1,200 thousand cubic meters of round materials per year.
- LINCK automated round lumber sawing line, manufactured in Germany, installed in 2016. Production capacity of sawing is 1,200 thousand cubic meters of round materials per year. Planned yield of edged lumber – 54%.
- SPRINGER automated green and dried lumber grade line, manufactured in Austria, installed in 2016. Production capacity of grading is 600 thousand cubic meters of green lumber per year.
- MUHLBOCK automated kilns, manufactured in Austria, installed in 2016-2018. Production capacity for kiln-drying is 300 thousand cubic meters of lumber per year.
- VOLLMER and GOCKEL automatic machines to sharpen cutting tools, manufactured in Germany, installed in 2016.
- WACO MAXI automated line of a planing machine, manufactured in Germany, installed in 2018. Production capacity is up to 78,600 cubic meters per year.
- BOTTENE automated end-jointing line, manufactured in Italy, installed in 2019. Production capacity is up to 12,000 cubic meters per year.
- LEDINEK automated end-jointing line, manufactured in Slovenia, installed in 2018. Production capacity is up to 42,600 cubic meters per year.
- LEDINEK automated glued beam line, manufactured in Slovenia, installed in 2018. Production capacity is up to 12,300 cubic meters per year.
- Kuoming automated pressing line, manufactured in China, installed in 2020. Production capacity is up to 3,270 cubic meters per year.
- ORMAMACCHINE automated hot pressing line for making glued panels, manufactured in Italy, installed in 2021. Production capacity is 3,100 cubic meters per year.
- LEDINEK automated CLT line, manufactured in Slovenia, installed in 2020. Production capacity is up to 72,000 cubic meters per year.

The Company's organizational structure

The Company's management:

The Company's management:

Director; persons subordinate to the Director:

- Production Director: persons subordinate to the Production Director are shift supervisor, formwork panel production section, shop No.5; supervisor, beam production section, shop No.5; production supervisor, CLT production section, shop No.5;
- Chief Mechanic: persons subordinate to the Chief Mechanic are deputy chief mechanic; chief mechanic of shops No.5 and No.7; group mechanical engineer; head of the repair team; senior production mechanic; senior mechanic of the mechanical repair sector, shop No.3;
- Chief Industrial Engineer: persons subordinate to the Chief Industrial Engineer are deputy head of the forest raw material sourcing department;
- Financial and Economic Security Analyst;
- Chief Accountant: persons subordinate to the Chief Accountant are deputy chief accountant, accountant;
- Director of Production Section, shop No.3: persons subordinate to the Director of Production Section, shop No.3, are deputy director of production section, shop No.3; chief industrial engineer;
- Head of Lumber Grading Section: persons subordinate to the Head of Lumber Grading Section are shift supervisor;
- Head of Lumber Production Section: persons subordinate to the Head of Lumber Production Section are head of the lumber warehouse; production planning sector expert;

- Chief Power Engineer; persons subordinate to the Chief Power Engineer: senior power engineer; head of the automation service; senior specialist in information technologies; heating engineer of the boiler house; engineer for the operation of structures and equipment of the water and sewage utilities;
- Acting Head of Truck Fleet – Transportation and Freight Forwarding Manager;
- Head of Occupational Safety and Health Department: persons subordinate to the Head of Occupational Safety and Health Department are occupational safety engineer; ecologist; paramedic; senior medical nurse; medical nurse;
- Acting Head of Fire and Rescue Department – Senior Fire Safety Specialist;
- Head of HR Department: persons subordinate to the Head of HR Department are HR manager;
- Head of Commerce Department; persons subordinate to the Head of Commerce Department are logistics specialist; foreign economic activity manager; senior agent for customs clearance of cargoes and goods; supply manager; supply specialist;
- Deputy Director for Business Issues;
- Head of Legal Department;
- Head of Treasury Department;
- Deputy Director for Business Issues;
- Head of Quality Control Department – quality control department specialist; head of laboratory;
- Head of Inventory Stock;
- Head of Security Service;
- Head of Production Scheduling and Financial Department: persons subordinate to the Head of Production Scheduling and Financial Department are economist; specialist;
- Pellet Production Director, shop No.7: persons subordinate to the Pellet Production Director, shop No.7, are Chief Industrial Engineer;
- Civil Engineer;
- Construction Supervision Engineer;
- Archivist;
- Assistant Director.

The Company consists of:

1. Lumber Production Section, which consists of:
 - 1.1 production planning sector;
 - 1.2 production sector of lumber sawing;
 - 1.3 production sector of grading and packing;
 - 1.4 production sector of kilns;
 - 1.5 pallet manufacture section;
 - 1.6 lumber warehouse;
 - 1.7 sharpening sector;
 - 1.8 pallet manufacture sector.
2. Lumber sorting section;
3. Chief Power Engineer Department, which consists of:
 - 3.1. Automation Service;
 - 3.2. Power Supply Service;
 - 3.3. Information Technology Service;
 - 3.4. Boiler house;
 - 3.5. Energy sector, shop No.3.
4. Mechanical Service, which consists of:
 - 4.1 mechanical repair sector, shop No.3;
 - 4.2 mechanical repair sector, shop No.5;
 - 4.3 mechanical repair sector, shop No.7;
5. Administration;
6. Truck Fleet;
7. Environment and Labor Safety Department;
8. Fire and Rescue Department;
9. HR Department;
10. Commerce Department;
11. Forest Raw Material Sourcing Department;

12. Treasury Department;
13. Department of Business Issues;
14. Legal Department;
15. Quality Control Department;
16. Accounting Department;
17. Inventory Stock;
18. Security Service;
19. Production Scheduling and Financial Department;
20. Production section of shop No.3, which consists of:
 - 20.1 Ledinek end-jointing section;
 - 20.2 Salvador optimization section;
 - 20.3 Waco section;
 - 20.4 Bottene end-jointing section;
 - 20.5 glued panel section;
21. Production section of shop No.5, which consists of:
 - 21.1 formwork panel production section;
 - 21.2 beam production section;
 - 21.3 CLT production section;
22. Pellet production shop No.7, which consists of:
 - 22.1 pellet production section;
 - 22.2 pellet packing section;

The Company's management bodies according to the Charter

The highest management body of the Company is the General Meeting of participants. It consists of the Company's participants or their representatives.

The representatives can be appointed by the Company's participants permanently or for some specific period. Each participant may replace their representative at the General Meeting of participants at any time notifying other participants thereof. Any participant of the Company may transfer their powers at the meeting to another Company's participant or this participant's representative. The participants have the number of votes proportional to the size of their shares in the authorized capital. The Company's General Meeting of participants appoints the Company's CEO.

The exclusive competence of the General Meeting of the Company's Participants is to:

Determination of the Company's main areas of operations, and approval of the respective plans and reporting on their implementation:

- 1) determination of the Company's main areas of operations;
 - 2) making amendments to the Company's charter, making a decision on the Company's operations to be based on the model charter;
 - 3) changing of the size of the Company's share capital;
 - 4) approval of the monetary valuation of the participant's in-kind contribution;
 - 5) re-allocating of the shares among the Company's participants where provided for by the Law;
 - 6) electing the sole executive body of the Company or members of the collective executive body (all, or one or more of them separately), setting the amount of remuneration payable to the members of the Company's executive body;
 - 7) determining the forms of control and supervision over the activities of the Company's executive body;
 - 8) initiating the other bodies of the Company, determining their operational procedure;
 - 9) making a decision on the Company's acquisition of a participant's share (in full or in part);
 - 10) approving the Company's operational performance results for a year or other period;
 - 11) distributing the Company's net profit, making a decision to pay dividends;
 - 12) making decisions on separation, merger, division, consolidation, liquidation and transformation of the Company, appointing the termination (liquidation) commission, approving the procedure for the Company's termination, approving the procedure for the distribution of the residual property among the participants of the Company in the event of the Company's liquidation after the satisfaction of all creditors' claims, approving the Company's liquidation balance sheet;
 - 13) making other decisions the legislation attributes to the competence of the General Meeting of participants.
- The exclusive competence of the General Meeting of the Company's participants may include other issues.

The executive body of the Company, which manages its current operations, is the Director.

The Director addresses all issues of the Company's activities, except for those that fall within the exclusive competence of the General Meeting of participants. The General Meeting of the Company's participants may decide to transfer part of their powers to the competence of the Director.

The Director is accountable to the General Meeting of participants and provides for the implementation of their decisions. The Director does not have the right to make any decisions that are binding on the Company's participants.

The Director is elected for a one (1) year term. Annually, the General Meeting of the Company's participants decides on the Director's appointment or removal or extension of the Director's powers. The Director acts on behalf of the Company within the limits established by the law of Ukraine and the constituent documents.

The Director has the right to act on behalf of the Company without a power of attorney.

The Director may not be the chairperson of the General Meeting of the Company's Participants at the same time.

The Company Director's competence is to:

- ensuring the implementing the decisions of the General Meeting of participants;
- making the current plans of the Company's activities and working out the measures necessary to address their tasks;
- approving the annual budget, staffing schedule and salaries of employees, setting the performance indicators, terms and amounts of their bonus payments;
- hiring and firing employees, applying incentives to and imposing fines on employees;
- approving the product prices and service tariffs;
- issuing orders and regulations that govern the relations between the Company's divisions and branches;
- submitting the Company's annual report and balance sheet for approval to the General Meeting of Participants;
- representing the interests of the Company in relations with other companies, institutions, organizations, government bodies, citizens, foreign counterparties without a power of attorney;
- disposing of the Company's property and funds within the limits determined by the General Meeting of the Company's Participants;
- issuing powers of attorney to perform any actions on behalf of the Company, signing the financial documents, receiving goods, services and other actions;
- opening the current and other bank accounts;
- have the right to sign the Company's financial documents;
- substantiate the procedure for distribution of profit, dividends, loss recovery funds;
- performing other actions aimed at achieving the Company's goal within the rights granted to the Company's Director by the General Meeting of Participants.

The Company's Director or the person replacing the Company's Director, without the prior written permission of the General Meeting of the Company's Participants, may not:

- enter into agreements on behalf of the Company, which one-time amount exceeds UAH 500,000 (five hundred thousand hryvnias);
- conclude on behalf of the Company and terminate contracts on the Company's providing of guarantees or sureties and on transfer of the Company's property as collateral;
- conclude on behalf of the Company and terminate loan agreements, credit agreements, lease agreements for real estate items (premises, rooms, structures, buildings, land plots, etc.) for a period exceeding two (2) years.

It is the General Meeting of the Company's Participants that controls the activities of the Company's Director.

The Company's strategies and goals

The Company's development strategy is aimed at strengthening the Company's position on the international lumber market and ensuring the sustainable development of the Company's business.

The Company's main goals are:

- increasing of sales volumes;
- improvement of product quality;
- increasing of product competitiveness;
- operational efficiency of business by reducing the production costs and optimizing expenses;
- increasing of product margin by rising the share of products with high added value.

II. BUSINESS PERFORMANCE

The Company's key performance indicators

Item	Year ended 31 December		Change, 2021 vs 2020	
	2021	2020	Absolute	Relative, %
Net revenue from sales of goods (merchandise, works, services), UAH'000	924,552	762,321	162,231	21%
Volume of products sold, thousand m ³	108	120	-12	-10%
Cost of goods sold, UAH'000	803,765	711,063	92,702	13%
Volume of commercial output, UAH m ³	102	130	-28	-22%
Gross profit, UAH'000	120,787	51,258	69,529	136%
Net profit (loss), UAH'000	43,578	-341,653	385,231	-113%

III. LIQUIDITY AND LIABILITIES

Aggregated structure of the Company's assets as at 31 December:

Item	2021	2020	Absolute change	Relative change, %
Property, plant and equipment and capital investments in progress	1,718,726	1,819,123	-100,397	-6%
Investment property	313,915	320,047	-6,132	-2%
Other non-current assets	12,344	20,055	-7,711	-38%
Total non-current assets	2,044,985	2,159,225	-114,240	-5%
Inventories	385,118	42,156	342,962	814%
Accounts receivables for goods, works, services	99,441	113,355	-13,914	-12%
Cash and cash equivalents	8,208	67,171	-58,963	-88%
Accounts receivable on prepayments made	20,100	7,528	12,572	167%
Accounts receivable on settlements with budget	86,105	4,093	82,012	2,004%
Other current assets	63,621	2,083	61,538	2,954%
Total current assets	662,593	236,386	426,207	180%
Total assets	2,707,578	2,395,611	311,967	13%

Aggregated structure of the Company's liabilities as at 31 December:

Item	2021	2020	Absolute change	Relative change, %
Other non-current liabilities	2,889	6,263	-3374	-54%
Total long-term liabilities	2,889	6,263	-3,374	-54%
Current liabilities for current portion of non-current liabilities	5,489	6,599	-1,110	-17%
Current liabilities on internal settlements	2,466,204	2,244,323	221,881	10%
Current liabilities for goods, works and services	87,425	63,474	23,951	38%
Current liabilities for advances received	33,291	15,581	17,710	114%
Wages	3,847	1,058	2,789	264%
Other current liabilities	10,840	4,254	6,586	155%
Total current liabilities	2,607,096	2,335,289	271,807	12%
Total liabilities	2,609,985	2,341,552	268,433	11%

Ratio analysis of the Company's liquidity:

Ratio	As at the end of 2021	As at the end of 2020	Change
Current liquidity ratio (debt settlement)	0.258	0.101	Positive
Absolute liquidity ratio (money reserves ratio)	0.003	0.029	Negative
Quick (acid) liquidity ratio	0.110	0.083	Positive

IV. ENVIRONMENTAL ASPECTS

The Company is a business entity that emits pollutants into the atmosphere on the basis of Emission Permits: No.1810700000-116 and No.1810700000 - 116a in observance of the established maximum allowable emissions.

The Pollutants originate from:

- HOLTEC lumber accepting and grading line
- LINCK sawing line
- Rudnick&Enners waste removal and chips and sawdust transportation line
- Springer grading line with a packing function
- Mülhböck kilns
- Boiler house with Urbas hot water boilers where 2 units are operating on biofuel.

According to the report on the inventory of pollutant emissions, the Company has 31 sources of pollutant emissions, including: 19 stationary organized and 12 stationary unorganized.

The main pollutants generated in the process of production activities are:

- Substances in the form of suspended solid particles (fiber microparticles) – amounted to 17.000 tons in 2021;
- Nitrogen compounds – amounted to 20.712 tons in 2021;
- Sulphur dioxide and other sulphur compounds – amounted to 0.024 tons in 2021;
- Carbon monoxide – amounted to 36.658 tons in 2021;
- Methane – which amounted to 0.939 tons for 2021;
- In addition, carbon dioxide – amounted to 5,288.37 tons in 2021.

During 2021, according to the agreement with Vodokanal, 11.76 thousand cubic meters of wastewater were discharged into the city network; the concentrations of pollutants (pH, temperature, total iron, sulfates, chlorides, ammonium nitrogen, BOD5, COD, suspended solids, dry residue, phosphates) do not exceed the established maximum allowable emissions.

The Company takes measures to reduce the use of water for domestic and industrial needs by improving and adjusting the existing water treatment system and further using the treated wastewater for its own needs (for filling fire tanks, irrigation of the territory and green spaces watering). The analysis of water volumes used for business and production needs shows that there is no significant difference compared to 2020.

During 2021, in the process of its production activities, the Company generated and transferred the following waste for disposal:

- Substandard abrasive products – 0.022 tons;
- Wiping materials spoiled, used or contaminated – 0.460 tons;
- Filtering materials spoiled, used or contaminated – 0.200 tons;
- Tires spoiled before the start of operation, used, damaged or contaminated during operation – 8.160 tons;
- Protective clothing spoiled, used or contaminated – 0.149 tons;
- Used metal containers, including small ones (cans, etc.), except for waste containers generated during transportation – 0.490 tons;
- Other substandard plastic products – 0.014 tons;
- Wood and wood products spoiled or used – 0.016 tons;
- Sand spoiled, contaminated or unidentified, its residues that cannot be used for their intended purpose – 0.049 tons;
- Waste obtained in welding processes – 0.007 tons;
- Plastic packaging materials spoiled, used or contaminated – 2.260 tons;
- Small plastic containers used – 0.200 tons;
- Lead batteries spoiled or used – 0.560 tons;
- Motor, transmission and other oils and greases spoiled or used – 0.750 tons;

and delivered to the waste landfill in the village of Grozino to the place of disposal and burial:

- Fuel slag - 269.000 tons.
- Municipal (urban) mixed waste, including garbage from bins – 611.160 tons.

The Company's environmental activities are aimed at preserving the quality of the environment at a level that ensures the biosphere sustainability. The payment for environmental pollution (environmental tax) for 2021 is UAH 108.8 thousand.

Water resources protection and rational use

Improvement of production processes and equipment, ensuring annual maintenance of wastewater treatment facilities, creation of recycling systems of industrial water supply, introduction of energy and resource-saving technologies, control of wastewater treatment efficiency through constant monitoring of wastewater quality, etc., are implemented by the Company.

Ambient air protection

The Company ensures uninterrupted efficient operation and maintains the good condition of buildings, equipment and facilities for cleaning emissions and reducing the effect of physical and biological factors;

- controls the volume and composition of pollutants emitted into the atmosphere and the levels of physical impact and keeps their continuous accounting;
- develops special measures to protect the ambient air in case of man-made and natural emergency situations;
- ensures instrumental and laboratory measurements for the parameters of pollutants emitted by stationary and mobile sources and for the efficiency of gas treatment plants;
- uses metrologically certified measurement methods and calibrated meters to determine the parameters of the gas and dust flow and concentrations of pollutants in the ambient air and in emissions of stationary and mobile sources;
- controls over the design, construction and operation of facilities, equipment and apparatus for cleaning of gas and dust flow from pollutants and reducing the impact of physical and biological factors, equipping them with measuring equipment necessary for continuous monitoring of the cleaning efficiency, compliance with the standards of maximum allowable emissions of pollutants and levels of exposure to physical and biological factors and other requirements of the ambient air protection law.

Waste management at the Company

- The Company develops and implements the plans and programs to reduce the waste generation;
- ensures acceptance and disposal of used packaging materials and containers, in which the Company's products are packed, by concluding agreements with the appropriate organizations for their collection and disposal;
- determines the composition and properties of the generated waste, as well as the level of potential danger of waste to the natural environment and human health in accordance with the regulations approved by the central executive body, which ensures making the state policy for sanitary and epidemic welfare of the population, as agreed with the central executive body that ensures making the state policy for the natural environment protection;
- relying upon the resource and raw material balances of manufacture, identifies and keeps primary current records of the amount, type and composition of the waste generated, collected, transported, stored, processed, disposed of, neutralized and removed, and submits statistical reports as applicable;
- ensures complete collection, proper storage and prevention of destruction and deterioration of the waste, for which disposal there is an appropriate technology in Ukraine that meets the environmental safety requirements;
- takes organizational, scientific, technical and technological measures to maximize the waste disposal, to sell or transfer the waste to other consumers or companies, institutions and organizations engaged in collection, processing and disposal of waste, and provides at its own expense for the environmentally sound removal of the wastes not subject to disposal;
- does not allow waste mixing;
- does not allow storage and disposal of waste in unauthorized places or facilities;
- pays the environmental tax for waste disposal in a timely manner as applicable;
- provides information on waste and related activities to local executive bodies and local self-government authorities and the authorized executive bodies for environmental protection;
- has specially assigned persons responsible for waste management who are appointed on a mandatory basis;

- has plans in place outlining the waste management steps to take, which are prepared and followed as applicable;
- provides for professional and advanced training and certification of waste management specialists;
- agrees an action plan with the authorized executive bodies, which is to be followed in the event of an emergency related to hazardous waste treatment.

Measures are taken to ensure environmental monitoring in the sanitary protection zone. To reduce the harmful impact on the environment, the Company uses only certified raw and auxiliary materials.

The Company, within its competence, implements and supports a unified state policy in the area of environmental protection and rational use of resources.

The Company adheres to the principles of rational environmental management, which allows to develop environmental protection measures, restore the disturbed relationships in ecosystems, and prevent the aggravation of environmental situations.

To prevent a negative impact on the environment, the Company takes the following measures:

- ensures uninterrupted efficient operation and maintains the good condition of buildings, equipment and facilities for cleaning emissions and reducing the effect of physical and biological factors;
- controls the volume and composition of pollutants emitted into the atmosphere and the levels of physical impact, and keeps their continuous accounting;
- makes instrumental and laboratory measurements for the parameters of pollutants emitted by stationary and mobile sources and for the efficiency of gas treatment plants under agreements with organizations that have the right to operate in this area, in accordance with the effective permits and industry-specific documents;
- ensures technical training of engineering, technical and maintenance personnel involved in the operation of GP;
- controls the design, construction and operation of facilities, equipment and apparatus for cleaning of gas and dust flow from pollutants and reducing the impact of physical and biological factors, carries out works to furnish them with the measuring equipment necessary for continuous monitoring of the cleaning efficiency, compliance with the standards of maximum allowable emissions of pollutants and levels of exposure to physical and biological factors and other requirements of the ambient air protection law;
- pays the environmental tax on time and in full;
- in case of changes in raw materials or GP parameters, makes an inventory of pollutant emissions into the atmosphere, with the appropriate amendments to the existing permits;
- develops special measures to protect the ambient air in case of man-made and natural emergency situations.

V. SOCIAL ASPECTS AND HR POLICY

As at 31 December 2021, the total number of employees was 727, of which 74 employees are in managerial positions, including 16 women, which is 22% of all managers. In 2021, payroll expenses amounted to UAH 62,492 thousand (for 2020 UAH 59,516 thousand).

The educational level of the Company's personnel is presented in the table below:

Type of education	Managers, professionals and specialists	Workers	Total
Complete and basic higher education	97	50	147
Incomplete higher education	39	115	154
Vocational and technical education	16	234	250
General secondary education and other	4	172	176
TOTAL	156	571	727

Encouragement and motivation of the Company's employees

Material incentives are:

- bonus to employees for the high-quality performance of their functional duties was paid monthly during 2020;
- bonus to the Day of March 8 was paid to all women of the Company;
- bonus for Easter was paid in April;
- bonus to the Day of Forest Worker was paid to all employees of the Company in September.

Financial assistance for medical treatment and burial allowance was provided to 27 employees during the year. The average salary of the Company's employees is UAH 13,501.75, the average in the oblast for 2021 is UAH 11,633.33.

The system of encouragement and motivation of the Company's employees involves financial and non-financial motivation. The Company has a first-aid post. The Company's employees have periodic medical examinations at the Korosten City Polyclinic at the expense of the Company.

During 2021, the Company increased the average salary by 14.9% compared to 2020. The change in the average monthly salary at the Company, compared to the movements in the average salary in the oblast and Ukraine as a whole, is provided below

Item, UAH	2021	2020	Absolute change	Relative change %
Actual average monthly salary at the Company	13,501.75	11,755.89	1,745.86	14.9%
Average monthly salary in Zhytomyr oblast	11,633.33	9,571.58	2,061.75	21.5%

Health & Safety

Ensuring technological and occupational safety in all areas of production is one of the Company's key priorities. In 2021, same as in 2020, the Company recorded 1 accident with disability.

During 2021, there was a change in the sickness rate of the Company's employees, as indicated below:

Item	2021	2020	Absolute change
Total number of sickness cases	586	369	217
Total number of calendar days of lost working capacity	4,461	2,385	2,076
Number of sickness cases per 100 employees	81	103	22

In 2021, no occupational diseases were registered at the Company (2020: 0 diseases).

Every year, the Company carries out occupational health and safety measures, which include, in particular, the maintenance of sanitary and amenity facilities, mandatory preliminary and periodic medical examinations, drug and psychiatric examinations of employees, preventive measures against viral diseases, occupational health and safety training (during 2021 588 persons were trained in occupational health and safety (2020: 233 persons)).

VI. RISKS

Operating environment in Ukraine

In February 2022, Russia launched a full-scale military invasion of Ukraine, which caused, among other, a significant reduction in business operations, considerable damage to infrastructure, and disruption of logistical relations. Since the war continues, it is currently impossible to make accurate estimates of the damage to the Ukrainian economy, but according to the International Bank's forecasts, the hostilities will result in a sharp GDP drop.

Significant changes in the operating environment and business conditions that occurred as a result of the military invasion of the Russian Federation, which has started on 24 February 2022 and is currently ongoing, are described in Notes 1 and 2 of the Financial Statements.

Company's operational risks and their management

Commercial risk

It arises in the process of selling goods and is associated with unfavorable changes in the price of manufactured products due to excess supply in the world lumber market and results in a decrease in the Company's revenues and profits. To minimize the impact of this risk, the Company concluded long-term agreements with fixed prices, constantly monitors markets to find niche markets with more favorable conditions. In addition, the Company constantly monitors the quality of its manufactured products and expands their range.

Risk of rising prices for energy resources and raw materials

Since raw materials and energy resources constitute a significant cost component, the impact of this risk is material. To diversify the risks, in addition to regular participation in auctions for the purchase of lumber, the Company monitors the price offers of the main Ukrainian suppliers, concludes agreements for the supply of significant volumes with trusted suppliers. The Company has implemented tender procedures in place, a tender commission is constantly operating, and this allows to ensure minimum purchase prices with proper quality of raw materials. The Company implements programs of production optimization, resource saving, reduction of fixed costs to ensure the required profitability level.

Currency risk

According to the NBU's forecast, based on the consensus of forecasts of changes in the exchange rate of UAH to the currencies, in which payment for the products is made, considering the ratio of sales and purchases in the world market to sales and purchases in the Ukrainian market, the absence of mandatory sale of foreign currency earnings, the impact of currency risk on the Company's activities is insignificant.

Credit risk

Credit risk is the risk that the Company will incur financial losses due to the failure of its counterparties to meet their obligations for certain reasons. To prevent the impact of this risk, the Company makes most of its sales on a prepayment basis or cooperates with trusted counterparties with a constant monitoring of financial condition of the latter. The selection of servicing banks and the level of cooperation with them is based primarily on the reliability of the latter.

Liquidity risk

This risk arises from the Company's inability to meet its obligations when due without incurring unacceptable losses. This risk is managed by planning cash flows in accordance with the expected timing of liabilities settlement by analyzing its assets and liabilities on the relevant instruments to ensure that sufficient funds are available to meet creditors' requirements on an ongoing basis.

Subsequent to 31 December 2021, the management received a written confirmation from the Company's shareholders that they did not intend to require the Company to repay in 2022-2023 the loan in the amount of UAH 2,400,685 thousand in full, as described in Notes 2 and 16 of the Financial Statements.

VII. RESEARCH AND INNOVATION

In its activities, the Company is guided by the following basic principles:

- compliance of the final product with customer requirements;
- compliance of the production technical level with the best world analogues;
- use of the results of modern world research and development.

The Company cooperates on a regular basis with leading experts - consultants of the EU countries in technology improvement and implementation of innovations in the industry at the European countries level.

The Company extensively introduces new production, energy and resource saving technologies.

VIII. FINANCIAL INVESTMENTS

The Company is the founder of the following entities:

- BF ENGINEERING – share in % and UAH – 10%, UAH 5 thousand;
- BF PARKET – share in % and UAH – 1.623%, UAH 64.35 thousand;
- BF PROFILE – share in % and UAH – 2.32%, UAH 26.1 thousand;
- BF LIGNOTEST – share in % and UAH – 10%, UAH 0.1 thousand;

IX. DEVELOPMENT PROSPECTS

The Company's operations are adversely affected by the Russian invasion of Ukraine, which began in February 2022. The extent of the impact of this invasion cannot be reliably predicted at this time as the war is ongoing. Although the Company does not expect any reduction in revenues in 2022 compared to 2021, the historical dynamics of organic growth is likely to slow down significantly. Despite this, the Company is actively working and shaping its development prospects for 2022 and beyond, which are based on the following:

- Macroeconomic forecasts of Ukraine's development;
- Lumber market development in Ukraine and worldwide;
- Sustainable development of tending to the increased processing and sales volumes due to the Company's efficiency improvement.

Company's strategy and plans

The Company's development strategy is aimed at strengthening the Company's position in the international lumber market by ensuring sustainable development of the Company's business and improving its efficiency. To minimize the impact of risks, considerable attention is paid to placing orders for the full cycle of lumber processing at related entities located at the production site.

The main goals of the Company are:

- increase in production and sales volumes, including through the sale of lumber to the entities located at the production site, in which UHLK has shares;
- improvement of product quality;
- increase in product competitiveness;
- operational efficiency by reducing production costs and optimizing expenses;
- increase in product margin by increasing the share of products with high added value.

Considering the undoubtedly favorable geographical location of the Company in the Zhytomyr oblast, where there are no active hostilities, as well as taking into account the proximity to the borders of NATO member states (Poland, Slovakia, Romania, etc.), the Company successfully manages the risks and challenges arising in the course of its business activity. In the foreseeable future, the Company expects the results not lower than the results of previous years and continues to operate in a normal operating mode and takes the necessary measures for further effective work. After Ukraine's victory in the war, stabilization and further growth are expected.

Director
30 December 2022



S. V. Yurashev

Independent auditor's report

To the Participants of Ukrainian Sawmill Holding Company Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ukrainian Sawmill Holding Company Limited (the Company), which are presented on pages 1 to 31 and comprise the statement of financial position as at 31 December 2021, and the statement of financial results (statement of comprehensive income), statement of cash flows and equity statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

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 financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Notes 2 and 31 to the financial statements, which indicate that since 24 February 2022, the Company's operations have been negatively affected by the ongoing military actions in Ukraine, with the magnitude of further developments or the timing of their cessation being uncertain. These events and conditions, along with other matters as

set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the section *Material Uncertainty Related to Going Concern*, we have determined that the matters described below are a key audit matters that should be reflected in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>We identified revenue recognition as one of the matters of most significance in our audit because the amount of revenue is significant to the financial statements and due to the risk that revenue may be overstated because of the pressure on management to achieve performance targets. Revenue is also an important element of how the Company measures its performance.</p> <p>Information about accounting policy on revenue recognition is disclosed in Note 4 to the financial statements and disclosures related to revenue are included into Note 20 to the financial statements.</p>	<p>We examined the revenue recognition process and tested controls over the capturing of data used in the recognition of revenue from sales.</p> <p>We analysed the Company's accounting policy in respect of revenue recognition against the requirements of IFRS 15 "Revenue from contracts with customers", including the criteria for revenue recognition.</p> <p>We analysed sales contracts terms in respect of transfer of control over goods. On a sample basis, we compared the date of transfer of control with the date of revenue recognition.</p> <p>We performed analytical procedures in respect of revenue that included, among others, the analysis of monthly sales to detect unusual fluctuations and trends by type of goods and services, analysis and reconciliation with comparative information for prior periods and anticipated results of the Company.</p> <p>For the services rendered, we compared the period when revenue was recognised to the period services were actually provided.</p> <p>(ii)</p>

We compared revenue recognised in accounting system with relevant supporting documentation.

We assessed the disclosure of revenue in the financial statements.

Transactions with related parties

The Company has high volume of transactions with related parties and major portion of the Company's revenue and purchases is generated from transactions with related parties. Therefore, we identified transactions with related parties and dependence on prolongation and terms of financing by related parties as one of the matters of most significance to our audit.

Information about transactions with related parties is disclosed in Note 28 to the financial statements.

We obtained an understanding of the Company's policies and procedures in respect of recording related party transactions.

We analysed sales and purchases agreements and conditions of sales and purchases to/from related parties. We analysed the loan agreements with the related parties.

We obtained understanding of balances with related parties and assessed ageing structure of receivables and payables and subsequent cash receipts and payments.

We analysed related party disclosures in the financial statements.

We obtained and analyzed documentary evidence of prolongation of financing by related parties during 2022 - 2023.

Other information included in the Company's Management Report for 2021

Other information comprises the information included in the Company's Management Report for 2021, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the Participants of the Company for the financial statements

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

(iii)

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

The Participants are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

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

- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with the Participants, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Company's financial statements on 1 June 2020 by the General meeting of the participants. Our appointment has been renewed annually by the Participants. The period of total uninterrupted engagement for performing the statutory audit of the Company is three years.

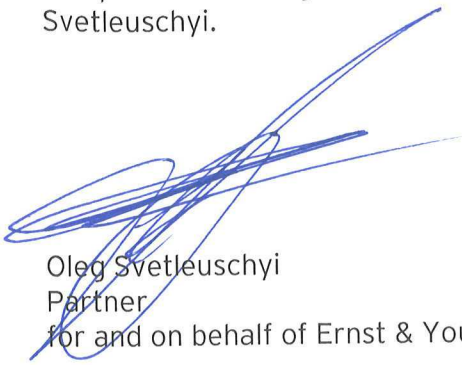
Consistency of the independent auditor's report with the additional report to the Participants

We confirm that our independent auditor's report is consistent with the additional report to the Participants of the Company, which we issued on 29 December 2022 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Company.

The partner in charge of the audit resulting in this independent auditor's report is Oleg Svetleuschi.



Oleg Svetleuschi
Partner
for and on behalf of Ernst & Young Audit Services LLC

Kyiv, Ukraine

30 December 2022

Ernst & Young Audit Services LLC is included in
the Register of auditors and audit firms,
registration number: 3516.

Ukrainian Sawmill Holding Company Limited
STATEMENT OF FINANCIAL POSITION
(in thousands of Ukrainian hryvnia)

Entity: UKRAINIAN SAWMILL HOLDING COMPANY LIMITED
 Location: Kyiv, Ukraine
 Ownership: Limited liability company
 Type of activity: Sawmilling and planing production
 Average headcount: 365
 Address: 38, Yaroslaviv Val, Kyiv, 01034, Ukraine

Date (year, month, date)
 per EDRPOU
 per KOATUU
 per KOPFG
 per KVED

Codes		
2021	12	31
39325379		
8039100000		
240		
16.10		

Units of measurement: UAH thousands (except for section IV of Statement of financial results (Statement of comprehensive income) (form #2), monetary measures in which are presented in UAH with kopecks)

Prepared in accordance with (mark with "v" in relevant box):

Provisions (standards) of accounting
 International Financial Reporting Standards

v

Balance sheet

(Statement of financial position)

Form № 1 DKUD code 1801001

Assets	Line code	As at 31 December 2021	As at 31 December 2020	Notes
1	2	3	4	5
I. Non-current assets				
Intangible assets	1000	135	223	
historical cost	1001	336	336	
accumulated amortization	1002	(201)	(113)	
Capital investments in progress	1005	62,977	307,897	6
Property, plant and equipment:	1010	1,655,749	1,511,226	6
historical cost	1011	2,580,850	2,294,778	6
accumulated depreciation	1012	(925,101)	(783,552)	6
Investment property	1015	313,915	320,047	7
historical cost of investment property	1016	357,486	368,692	7
accumulated depreciation of investment property	1017	(43,571)	(48,645)	7
Other financial investments	1035	96	96	8
Long-term receivable	1040	680	3,123	10
Other non-current assets	1090	11,433	16,613	6
Total Section I	1095	2,044,985	2,159,225	
II. Current assets				
Inventories	1100	385,118	42,156	9
Raw materials	1101	93,757	24,008	9
Work in progress	1102	179,621	8,581	9
Finished goods	1103	111,740	9,567	9
Accounts receivable for goods, works and services	1125	99,441	113,355	10
Accounts receivable on settlements:				
on prepayments made	1130	20,100	7,528	11
with budget	1135	86,105	4,093	12
including prepayments for income tax	1136	–	–	
Other accounts receivable	1155	63,364	2,083	10
Cash and cash equivalents	1165	8,208	67,171	13
Future expenses	1170	257	–	
Total Section II	1195	662,593	236,386	
III. Assets classified as held for sale and discontinued operations				
	1200	–	–	
Balance	1300	2,707,578	2,395,611	

Ukrainian Sawmill Holding Company Limited
STATEMENT OF FINANCIAL POSITION
(in thousands of Ukrainian hryvnia)

Liabilities and equity	Line code	As at 31 December 2021	As at 31 December 2020	Notes
1	2	3	4	5
I. Equity				
Share capital	1400	943,673	943,673	14
Retained earnings (accumulated deficit)	1420	(846,036)	(889,614)	
Unpaid capital	1425	–	–	
Total Section I	1495	97,637	54,059	
II. Non-current liabilities and provisions				
Other non-current liabilities	1515	2,889	6,263	15
Total Section II	1595	2,889	6,263	
III. Current liabilities and provisions				
Current liabilities for:				
current portion of non-current liabilities	1610	5,489	6,599	15
for goods, works and services	1615	87,425	63,474	17
with budget	1620	948	144	
with Income tax	1621	–	–	
social insurance	1625	1,007	264	
Wages	1630	3,847	1,058	
Current liabilities for advances received	1635	33,291	15,581	18
Current liabilities on internal settlements	1645	2,466,204	2,244,323	16
Current provisions	1660	4,219	3,476	19
Other current liabilities	1690	4,622	370	
Total Section III	1695	2,607,052	2,335,289	
Balance	1900	2,707,578	2,395,611	

Signed and authorised for release on behalf of Ukrainian Sawmill Holding Company Limited on 30 December 2022:

Director



S. V. Yurashev

Chief accountant

V. I. Paladchenko

Ukrainian Sawmill Holding Company Limited
STATEMENT OF COMPREHENSIVE INCOME
(in thousands of Ukrainian hryvnia)

Entity: UKRAINIAN SAWMILL HOLDING COMPANY LIMITED

Date (year, month, date) 2021 12 31
per
EDRPOU

Codes		
2021	12	31
39325379		

Statement of financial results

(Statement of comprehensive income)

for the year 2021

Form № 2 DKUD code

1801003

I. FINANCIAL RESULTS

Description	Line code	Current period	Preceding period	Notes
1	2	3	4	5
Net revenue from sales of goods (merchandise, works, services)*	2000	924,552	762,321	20
Cost of goods (merchandise, works, services) sold*	2050	(803,765)	(711,063)	21
Gross:				
profit	2090	120,787	51,258	
loss	2095	-	-	
Other operating income	2120	537,261	125,015	22
Administrative expenses	2130	(12,566)	(15,753)	23
Selling expenses	2150	(16,421)	(87,647)	24
Other operating expenses	2180	(225,878)	(111,698)	25
Financial results from operating activities:				
profit	2190	403,183	-	
loss	2195	-	(38,825)	
Other finance income	2220	576	295	26
Finance expenses	2250	(360,087)	(303,123)	26
Other expenses	2270	(94)	-	
Financial results from ordinary activities before taxation:				
profit	2290	43,578	-	
loss	2295	-	(341,653)	
Income tax on ordinary activities	2300	-	-	27
Net financial result:				
profit	2350	43,578	-	
loss	2355	-	(341,653)	

II. COMPREHENSIVE INCOME

Description	Line code	Current period	Preceding period	Notes
1	2	3	4	5
Revaluation (impairment) of non-current assets	2400	-	-	
Revaluation (impairment) of financial instruments	2405	-	-	
Accumulated translation differences	2410	-	-	
Share of other comprehensive income of associates and joint ventures	2415	-	-	
Other comprehensive income	2445	-	-	
Other comprehensive income before tax	2450	-	-	
Income tax related to other comprehensive income	2455	-	-	
Other comprehensive income, net of tax	2460	-	-	
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	43,578	(341,653)	

Ukrainian Sawmill Holding Company Limited
STATEMENT OF COMPREHENSIVE INCOME
(in thousands of Ukrainian hryvnia)

III. ELEMENTS OF OPERATING EXPENSES

Description	Line code	Current period	Preceding period	Notes
1	2	3	4	5
Cost of materials	2500	592,290	494,084	
Labour costs	2505	51,143	47,052	
Social security charges	2510	10,832	8,710	
Depreciation and amortization	2515	217,230	215,555	
Other operating expenses	2520	187,135	160,760	
Total	2550	1,058,630	926,161	

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	Current period	Preceding period	Notes
1	2	3	4	5
Annual average number of ordinary shares	2600	–	–	
Adjusted annual average number of ordinary shares	2605	–	–	
Net income per ordinary share	2610	–	–	
Adjusted net income per ordinary share	2615	–	–	
Dividends per ordinary share	2650	–	–	

* Reclassification of information for 2020 is presented in Note 32 "Comparative information"

Director

Chief accountant



S. V. Yurashev

V. I. Paladchenko

Ukrainian Sawmill Holding Company Limited
STATEMENT OF CASH FLOWS
(in thousands of Ukrainian hryvnia)

Entity: UKRAINIAN SAWMILL HOLDING COMPANY LIMITED

Date (year, month, date) per EDRPOU

Codes		
2021	12	31
39325379		

Statement of cash flows
 (direct method)
for the year 2021

Form № 3

DKUD code

1801006

Description	Line code	Reporting period	Preceding period
I. Cash flows from operating activities			
Cash inflow from:			
Revenue from sales of goods (merchandise, works, services)	3000	1,222,257	828,214
Refund of taxes and compulsory payments including refund of VAT	3005	-	-
Special purpose financing	3010	1,194	2,732
Receipts of advances from buyers and customers	3015	37	-
Receipts from return of prepayments	3020	62,547	20,381
Receipts of interests on outstanding balances on current bank accounts	3025	305	123
Receipts from operating lease	3040	75,532	113,257
Other receipts	3095	2,886	1,224
Cash disbursements for settlement of liability for:			
Goods (works, services)	3100	(1,381,930)	(683,853)
Salary	3105	(38,647)	(39,957)
Deductions for social security charges	3110	(10,115)	(10,488)
Tax liabilities and charges	3115	(12,302)	(10,754)
Disbursements for prepayments paid	3135	(6,137)	-
Return of advances received	3140	(30,229)	-
Disbursements for target contributions paid	3145	(1,216)	-
Other payments	3190	(2,422)	(2,607)
Net cash flow from operating activities	3195	(118,240)	218,272
II. Cash flows from investing activities			
Proceeds from sale of: financial investments	3200	-	-
non-current assets	3205	255,739	279,957
Receipt of: Repayment of loans	3230	-	29
Cash disbursement for the purchase of: financial investments	3255	-	-
non-current assets	3260	(299,534)	(223,544)
Cash disbursement on loans granted	3275	(151,000)	(30)
Net cash flows from investing activities	3295	(194,795)	56,412
III. Cash flows from financing activities			
Proceeds from: own equity	3300	-	-
Borrowings	3305	1,341,337	575,827
Cash disbursements on: repurchase of own stock	3345	-	-
repayment of borrowings	3350	(313,172)	(511,610)
Interest paid	3360	(771,576)	(284,205)
Disbursements related to finance lease	3365	(923)	(9,098)
Net cash flows from financing activities	3395	255,666	(229,086)
Net cash flows for the reporting period	3400	(57,369)	45,598
Cash balance at the beginning of the year	3405	67,171	6,251
Net foreign exchange difference	3410	(1,594)	15,322
Cash balance at the end of the year	3415	8,208	67,171

Director

Chief accountant

S. V. Yurashev

V. I. Paladchenko



Ukrainian Sawmill Holding Company Limited
EQUITY STATEMENT
(in thousands of Ukrainian hryvnia)

Entity: UKRAINIAN SAWMILL HOLDING COMPANY LIMITED

Date (year, month, date) per EDRPOU	Codes	
	2021	12 31
39325379		

Equity statement
for the year 2021

Form № 4 DKUD code 1801005

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Withdrawn capital	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	943,673	-	-	-	(889,614)	-	-	54,059
Adjustments: Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other adjustments	4090	-	-	-	-	-	-	-	-
Adjusted balance at the beginning of the year	4095	943,673	-	-	-	(889,614)	-	-	54,059
Net profit (loss) for the reporting period	4100	-	-	-	-	43,578	-	-	43,578
Withdrawal of a share in the capital	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	-	-	-	-
Total changes in equity	4295	-	-	-	-	43,578	-	-	43,578
Balance at the end of the year	4300	943,673	-	-	-	(846,036)	-	-	97,637

Director

S. V. Yurashev

Chief accountant

V. I. Paladchenko



Ukrainian Sawmill Holding Company Limited
EQUITY STATEMENT
(in thousands of Ukrainian hryvnia)

Equity statement
for the year 2020

Form № 4 DKUD code 1801005

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Withdrawn capital	Total
	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	970,305	-	-	-	(547,703)	(26,890)	-	395,712
Adjustments: Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other adjustments	4090	-	-	-	-	-	-	-	-
Adjusted balance at the beginning of the year	4095	970,305	-	-	-	(547,703)	(26,890)	-	395,712
Net profit (loss) for the reporting period	4100	-	-	-	-	(341,653)	-	-	(341,653)
Withdrawal of a share in the capital	4275	(26,632)	-	-	-	(258)	26,890	-	-
Other changes in equity	4290	-	-	-	-	-	-	-	-
Total changes in equity	4295	(26,632)	-	-	-	(341,911)	26,890	-	(341,653)
Balance at the end of the year	4300	943,673	-	-	-	(889,614)	-	-	54,059

Director

S. V. Yurashev

Chief accountant

V. I. Paladchenko



1. General information about the Company

Corporate information

Ukrainian Sawmill Holding Company Limited (hereinafter referred to as "the Company") was incorporated at 2014 under the laws of Ukraine. The principal activity of the Company is primary woodworking and preparation of lumber for further production of wood products.

The legal address of the Company is: 38 Yaroslaviv Val str., Kyiv, Ukraine.

The production facilities of the Company are located on: 11 t, Sergiy Kemskyi str., Korosten, Zhytomyr region, Ukraine.

In 2021 the average headcount was 365 people (2020: 360 people).

The Company is ultimately controlled by Mr. Leonidas Giourousef and his family members.

Operating environment in Ukraine

The Company conducts its operations in Ukraine. The Ukraine's economy is dependent to a large extent on the state of the global economy. In the recent years, Ukrainian economy demonstrated a consistent moderate growth (2.4-3.4% per annum), except for 2020 when GDP declined by 4% on the back of COVID-19 pandemic and related restrictive measures adopted in Ukraine and abroad.

In 2021 the GDP increased by 3.1% with private consumption being the main driver of growth. It has been supported by 10.5% rise in real wages and by the increased remittances. Favourable external demand for Ukrainian commodities coupled with soaring prices led to a considerable increase of hard currency revenues and appreciation of hryvnia, which ended at UAH 27.2782/US\$ as at 31 December 2021, after reaching a seven-year low in the end of January 2021.

The main constraints affecting the economic development of Ukraine were historically represented by lack of the clear consensus as to the directions of the institutional reforms, low level of capital inflow and continuing tensions in geopolitical relations with the Russian Federation, which in 2022 escalated into a full-scale military invasion of Ukraine (Notes 2 and 31).

In 2021 the geopolitical instability has had little impact on the economy and country-wide purchasing power. The sales of wood products increased by 50% year-on-year, in hryvnia terms.

As a result of military invasion by the Russian federation that was launched on 24 February 2022 and is continuing, there were significant changes in operating environment and business conditions as discussed in Note 2.

2. Basis of preparation

The financial statements have been prepared on a historical cost basis. The financial statements are presented in the Ukrainian hryvnia and all values are rounded to the nearest thousand, except when stated otherwise. The financial statements as at 31 December 2021 and for the year then ended were authorized for issue on 30 December 2022.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standard Board ("IASB") and the requirements of the Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Going concern

In February 2022, the Russian Federation launched a full-scale military invasion of Ukraine, which led, inter alia, to a significant decline of business activity, considerable damage to infrastructure and disruption of logistics. As the war is ongoing, the precise measures of the damage to the Ukrainian economy cannot be reliably estimated, but according to the World Bank, the hostilities will lead to a severe contraction of GDP.

Management has assessed the impact of the current circumstances on the Company's business and has concluded that the main possible risks to maintaining liquidity and profitability at a sufficient level are the following:

- physical loss or damage to goods as a result of hostilities;
- disruption of transport infrastructure, making it impossible to deliver goods from suppliers to buyers;
- reduction of effective demand for the Company's goods;

2. Basis of preparation (continued)

Going concern (continued)

- credit losses on trade receivables;
- liquidity gaps due to delay in cash receipts from customers;
- market risks related to goods' and services' prices changes.

The Company's responses to abovementioned risks are:

- restructured supply chains, in particular the Company narrowed the delivery zone by focusing on purchases of wood raw materials in the local region;
- production and sales of high-demand and high margin finished goods were increased;
- retaining the majority of personnel during the state of martial law to ensure resumption of production activities at the pre-war level;
- increased share of export sales.

Starting from 1 March 2022 the Company temporarily suspended its activities and gradually resumed the sales of goods by the end of March 2022. As at the date of approval of these financial statements, the Company's inventories and other assets have not been damaged and are not located in areas of active hostilities.

As at the date of approval of these financial statements, the Company has partially resumed imports. The supply schemes for truck shipment of spare parts and materials to the Company significantly changed considering of the map of active hostilities. The cost of transportation has grown up as well as delivery time increased.

Considering the existing agreements with customers and the status of negotiations on new contracts, as well as the market conditions for sawn wood and related products, the management expects that the Company will generate revenues at least at the previous year level in 2022. Furthermore, in order to minimize potential credit losses, from April 2022 the Company introduced a policy which implies selling on the prepayment basis for certain product groups.

To avoid liquidity gaps, the Company revised the settlement terms with some suppliers, which were extended to 60 calendar days from the date of delivery of goods.

Management received expressed commitment from the Company's shareholders to provide, if necessary, sufficient financing for the Company to continue its activities and regarding the absence of the intention to require the Company to pay in 2022-2023 loans due to shareholders (Note 16) and to terminate the Company's economic activities.

Management has revised its sales forecasts and cash flow estimates incorporating expected decline in business and working capital requirements that represent changes in the operating environment described above. Based on the analysis performed, the management concluded that the Company will have sufficient operating cash flow to settle its liabilities in the ordinary course of business in the foreseeable future. Therefore, the Company's management believes that the going concern basis is appropriate for the preparation of these financial statements. However, the scale and impact of the war on the significant assumptions underlying management plans and the future physical condition of the Company's assets are currently unpredictable.

At the same time, the timing of the termination of the invasion and its impact remains uncertain. Therefore, the Company's management believes that there is material uncertainty that may cast a significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may not be able to realize its assets and repay its liabilities in the ordinary course of business.

3. Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the date of the statement of financial position. Actual results could differ from these estimates.

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

3. Significant accounting judgments, estimates and assumptions (continued)

Useful lives of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end on the basis of expectations of their future usage taking into consideration technological developments, competition, market conditions and other factors. If expectations differ from previous estimate, the changes are accounted for as changes in accounting estimates in accordance with IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*. These estimates may have an impact on the amount of the carrying values of property, plant and equipment in the statement of financial position and depreciation recognized in the statement of comprehensive income.

Litigations

The Company exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation or arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, as well as in determining a possible range of any final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as any new information becomes available, primarily with the support of, as appropriate, internal specialists or outside consultants, such as legal counsel.

Estimation of net realizable value for inventory

Inventory is stated at the lower of cost and net realizable value ("NRV"). NRV is assessed with reference to market conditions and prices existing at the statement of financial position date and is determined by the Company having taken suitable external advice and in the light of recent market transactions.

Allowance for expected credit losses

The Company uses the provision matrix to calculate expected credit losses for trade receivables. Allowance rates are based on the receivables ageing and on historical information related to the debtors' default rates, adjusted for expected factors that are specific to the debtors and the economic environment. At each reporting date, default rates are reviewed and changes in forecast estimates are analyzed.

The expected credit losses for related parties are calculated individually taking into account the terms of the agreements, the expected repayment period, internally assessed credit risks for significant debtors based on financial indicators and taking into account the external credit rating, if any.

Deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability requires the management's judgments based on the expected performance (Note 27).

4. Summary of significant accounting policies

Foreign currency translation

The financial statements are presented in the Ukrainian hryvnia that is the functional currency and the presentation currency of the Company. Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect as at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. The resulting gains and losses are recognized in statement of comprehensive income.

Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined.

4. Summary of significant accounting policies (continued)

Property, plant and equipment

Initial recognition

Property, plant and equipment is accounted for at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. Expenditures for current repair and maintenance are expensed as incurred. Construction in progress represents plant and properties under construction and is stated at cost less any impairment in value. This includes cost of plant and properties construction and other direct costs. Construction in progress is not depreciated until the relevant assets are completed and are available for use.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation

Depreciation is charged to statement of comprehensive income on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Land is not depreciated.

The estimated useful lives are as follows:

Group	Useful lives, years
Freehold buildings	20
Machinery and equipment	2-15
Vehicle	5
Tools and instruments	2-5
Office and computer equipment	4
Other	10

The useful life of an asset is defined in terms of the asset's expected utility to the Company.

Derecognition

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in statement of comprehensive income when the asset is derecognized.

The residual value, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment property

Investment property is property held by the Company to earn rental income or for capital appreciation, or both and which is not occupied by the Company. The Company's investment property is formed by existing property as a result of a change in its use, and transfer from owner-occupied property to investment property.

Investment property is initially recognized at cost. Subsequently, investment property is carried at cost less accumulated depreciation and impairment allowance (if any).

Investment property consists of buildings with a useful life of 10 to 20 years. Depreciation is recognized in the statement of comprehensive income within other operating expenses on a straight-line basis over the estimated useful lives of investment property.

Operating income earned on operating leases is recognized in profit or loss for the year within other operating income. Gains or losses on disposal of investment property are calculated as proceeds from disposal, net of its carrying amount.

If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

4. Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists or if an annual impairment test of the asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are supported by valuation ratios, quotations of the prices of shares of subsidiaries freely circulating in the market, or other available fair value indicators. The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations are recognized in statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made by the Company for assets at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased, except for goodwill. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Borrowing costs

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

In 2021, the Company didn't capitalize borrowing costs as part of historical costs of property, plant and equipment (2020: UAH 8,711 thousand).

Non-current assets held for sale

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment are not depreciated once classified as held for sale.

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

4. Summary of significant accounting policies (continued)

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15 as described in the section *Revenue from contracts with customers* below.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI-test and is performed at an instrument level. The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

As at 31 December 2021 and 2020, the Company had no financial assets at fair value through OCI with recycling of cumulative gains and losses, financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition and financial assets at fair value through profit or loss.

Financial assets at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loss on initial recognition of loans granted to related parties is recognized as capital distribution directly within retained earnings (accumulated losses).

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include trade and other receivables, and loans granted.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

4. Summary of significant accounting policies (continued)

(i) Financial assets (continued)

Derecognition (continued)

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix (Note 10) that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and loans and borrowings. The Company has not designated any financial liability as at fair value through profit or loss or as derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Trade and other accounts payable, loans and borrowings

After initial recognition, accounts payable, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

4. Summary of significant accounting policies (continued)

(ii) Financial liabilities (continued)

Trade and other accounts payable, loans and borrowings (continued)

Gain on initial recognition from loans received from the related parties is recognized as capital contribution directly within retained earnings (accumulated losses).

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The Company recognized loan principal liabilities in the loans from banks and accrued interests liabilities in other current liabilities. *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average basis;
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity.

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in transit and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer. Revenue from sale of finished goods is recognized at the point in time when control of the asset is transferred to the customer, generally on dispatch or delivery of the products.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of finished goods, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

4. Summary of significant accounting policies (continued)

Revenue from contracts with customers (continued)

(i) *Variable consideration (continued)*

The existing contracts for the sale of finished goods do not provide customers with a right of return of the products of good quality and do not include volume rebates, therefore do not result in variable consideration.

(ii) *Significant financing component*

Generally, the Company receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

(iii) *Contract balances*

Receivables under the contracts with customers are recognized within trade and other accounts receivable, the accounting principles of which are set out in the section "*Financial instruments – initial recognition and subsequent measurement*" above. A contract liability to transfer goods or services to a customer for which the Company has received consideration from the customer is recognized within current liabilities for advances received. Contract liabilities are recognized as revenue when the Company performs under the contract.

Cost of sales

Cost of revenue that relates to the same transaction is recognized simultaneously with respective revenue.

Share capital

The Company's share capital is stated at the nominal amount of the issued shares. Foreign currency translation effect from contributions in foreign currency is recognized within additional capital.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the 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 the provision due to the passage of time is recognized as a finance cost.

Contingent assets and liabilities

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the 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. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax rates and tax legislation in effect on the reporting date are used for the calculation.

Deferred income tax

Deferred income tax is calculated by using the liability method on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. Summary of significant accounting policies (continued)

Taxes (continued)

Deferred income tax (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax

Revenues, expenses and assets are recognized net of the amount of value-added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognized as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is disclosed in the face of the statement of financial position.

Leases

The Company assesses at the commencement date of the contract whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

4. Summary of significant accounting policies (continued)

Leases (continued)

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments, included into measurement of lease liability, comprise the following payments for the right to use the underlying assets during lease term:

- fixed payments (including in substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees;
- price of a purchase option reasonably certain to be exercised by the Company;
- payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee uses incremental borrowing rate.

After the commencement date, the amount of lease liabilities is increased to reflect the accrued interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset are classified as operating leases. Lease income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized over the lease term on the same basis as the lease income. Contingent rents are recognized as revenue in the period in which they are earned.

Events after the statement of financial position date

Events after the statement of financial position date that provide additional information on the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Events after the statement of financial position date that are not adjusting events are disclosed in the notes when material.

5. Standards issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company does not expect any significant impact of the amendments on the financial statements and plans to adopt the amendments at the date they become effective.

<i>New pronouncement</i>	<i>Effective date</i>
Reference to the Conceptual Framework – Amendments to IFRS 3	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	1 January 2022
IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 January 2022
IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
IAS 41 Agriculture – Taxation in fair value measurements	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1 January 2023
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 January 2023

6. Property, plant and equipment (lines 1005, 1010, 1011, 1012)

	31 December 2021	31 December 2020
Property, plant and equipment, cost – line 1010 (ii)	1,655,749	1,377,592
Construction in progress and uninstalled equipment – line 1005 (ii)	62,977	307,897
Right-of-use assets – line 1090 (i)	11,433	16,613
Total	1,730,159	1,702,102

(i) Property, plant and equipment

	Freehold land	Freehold buildings	Machinery and equipment	Vehicles	Tools, devices, inventory	Office equipment, furniture	Other fixed assets	Construction in progress and uninstalled equipment	Total
Cost:									
At 1 January 2020	22,362	610,033	1,418,209	53,644	6,618	2,085	5,894	662,129	2,780,974
Additions	–	–	–	–	–	–	–	84,371	84,371
Transfers	–	11,489	272,813	348	718	11	844	(286,223)	–
Transfer to investment property	–	–	–	–	–	–	–	(25,279)	(25,279)
Disposals	–	–	(110,093)	–	(145)	(52)	–	(127,101)	(237,391)
At 31 December 2020	22,362	621,522	1,580,929	53,992	7,191	2,044	6,738	307,897	2,602,675
Additions	–	–	–	–	–	–	–	340,105	340,105
Transfers	567	281,473	243,778	4,003	1,791	48	906	(532,566)	–
Transfer to investment property	–	(133,518)	–	–	–	–	–	–	(133,518)
Transfer from investment property	–	147,705	–	–	–	–	–	–	147,705
Disposals	–	–	(260,530)	(1)	(150)	–	–	(52,459)	(313,140)
At 31 December 2021	22,929	917,182	1,564,177	57,994	8,832	2,092	7,644	62,977	2,643,827
Accumulated depreciation and impairment									
At 1 January 2020	–	(88,450)	(475,416)	(23,910)	(3,620)	(1,842)	(1,285)	–	(594,523)
Depreciation charge for the year	–	(35,842)	(137,286)	(14,038)	(1,459)	(190)	(590)	–	(189,405)
Transfer to investment property	–	–	–	(622)	–	–	–	–	(622)
Disposals	–	–	843	–	105	50	–	–	998
At 31 December 2020	–	(124,292)	(611,859)	(38,570)	(4,974)	(1,982)	(1,875)	–	(783,552)
Depreciation charge for the year	–	(44,087)	(137,869)	(14,075)	(1,296)	(104)	(1,498)	–	(198,929)
Transfer to investment property	–	1,772	–	–	–	–	–	–	1,772
Transfer from investment property	–	(18,803)	–	–	–	–	–	–	(18,803)
Disposals	–	–	74,275	20	102	14	–	–	74,411
At 31 December 2021	–	(185,410)	(675,453)	(52,625)	(6,168)	(2,072)	(3,373)	–	(925,101)
Net book value:									
At 31 December 2020	22,362	494,176	972,120	15,422	2,257	62	4,817	307,897	1,819,123
At 31 December 2021	22,929	731,772	888,724	5,369	2,664	20	4,271	62,977	1,718,726

As at 31 December 2021, the property, plant and equipment with cost of UAH 11,399 thousand were fully depreciated, but remain in use (31 December 2020: UAH 9,825 thousand).

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2021 was UAH 85 935 thousand (31 December 2020: UAH 14,662 thousand).

(ii) Right-of-use assets

	Lease of land	Lease of real estate	Lease of rights to vehicles and equipment	Total
At 1 January 2020	653	974	14,584	16,211
Additions	63	7,761	–	7,824
Revaluation	–	–	–	–
Depreciation charge for the year	(192)	(4,103)	(3,223)	(7,518)
Disposals	–	–	96	96
At 31 December 2020	524	4,632	11,457	16,613
Additions	–	3,735	–	3,735
Revaluation	–	–	–	–
Depreciation charge for the year	(200)	(5,081)	(3,634)	(8,915)
Disposals	–	–	–	–
At 31 December 2021	324	3,286	7,823	11,433

The Company rents office space, land and vehicles. Lease agreements are usually concluded for fixed periods up to 5 years.

A lease is recognized as an asset in the form of a right of use reflecting the related obligation from the date on which the leased asset is available for use by the Company.

Ukrainian Sawmill Holding Company Limited
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7. Investment property (lines 1015, 1016, 1017)

	Total
Cost	
At 1 January 2020	343,413
Additions	25,279
At 31 December 2020	368,692
Transfer to property, plant and equipment	(147,705)
Transfer from property, plant and equipment	133,518
Additions	2,981
At 31 December 2021	357,486
Accumulated depreciation and impairment	
At 1 January 2020	(29,752)
Depreciation charge for the year	(18,893)
At 31 December 2020	(48,645)
Transfer to property, plant and equipment	18,803
Transfer from property, plant and equipment	(1,772)
Depreciation charge for the year	(11,957)
At 31 December 2021	(43,571)
Net book value	
At 31 December 2020	320,047
At 31 December 2021	313,915

Investment property includes real estate that has been leased to related parties: pallet production plant, spliced lumber production plant, dry wood warehouse.

8. Financial investments (line 1035)

Name	Country of registration	Type of activity	Share in capital, %	31 December 2021	31 December 2021
BF Profil LLC	Ukraine	Manufacture of wooden building structures and joinery	2.32	26	26
BF Parket LLC	Ukraine	Parquet production	1.62	64	64
BF Inzhyniring LLC	Ukraine	Production of plywood, wood boards and panels, veneer	10.00	5	5
Lignotest LLC	Ukraine	Consultancy	10.00	1	1
Total				96	96

9. Inventories (lines 1100, 1101, 1102, 1103, 1104)

	31 December 2021	31 December 2020
Raw materials:		
Spare parts (at cost)	61,599	1,471
Raw materials (at cost or net realizable value)	16,498	1,309
Constriction materials (at cost)	7,048	–
Fuel (at cost)	1,436	662
Packaging materials (at cost)	1,425	721
Recoverable materials for sale (at cost)	1,311	19,716
Other inventories (at cost)	4,440	129
	93,757	24,008
Work in progress		
Semi-finished products (at cost or net realizable value)	179,621	8,581
	179,621	8,581
Finished goods (at cost or at net realizable value)	111,740	9,567
Total	385,118	42,156

In 2021, the amount of write-down of inventories recognized within other operating expenses is UAH 1,149 thousand (2020: UAH 3,171 thousand) (Note 25).

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10. Trade and other receivables (lines 1125, 1155)

	31 December 2021	31 December 2020
Trade receivables for goods, works and services	116,641	130,555
Other receivables	63,364	2,083
Expected credit losses	(17,200)	(17,200)
Total receivables	162,805	115,438

Trade and other receivables are non-interest bearing and are repayable in the normal course of business.

Other receivables include financial assistance provided to third parties in the amount of UAH 58,000 thousand, for which the allowance for expected credit losses is UAH 0 thousand.

The current part of long-term receivables in the amount of UAH 3,636 thousand is accounted for under Other receivables and represents realized bonds.

Analysis of net trade receivables by maturity is as follows:

At 31 December 2021

	ECL, %	Gross book value	ECL
Current (not overdue)	4.99%	42,712	2,131
Overdue for 1-30 days	7.99%	56,343	4,502
Overdue for 31-90 days	14.23%	6,003	854
Overdue for 91-180 days	69.54%	999	695
Overdue for 181-365 days	79.70%	4,584	3,653
Overdue for more than 365 days	89.41%	6,000	5,365
Total		116,641	17,200

At 31 December 2020

	ECL, %	Gross book value	ECL
Current (not overdue)	0.03%	25,405	7
Overdue for 1-30 days	0.20%	34,488	70
Overdue for 31-90 days	1.12%	29,182	328
Overdue for 91-180 days	1.35%	14,420	200
Overdue for 181-365 days	51.77%	19,594	10,144
Overdue for more than 365 days	86.41%	7,466	6,451
Total		130,555	17,200

Movements in the allowance for expected credit losses of trade and other receivable are as follows:

	2021	2020
At 1 January	(17,200)	(8,916)
Charge for the year	–	(13,309)
Reversed or used	–	5,025
At 31 December	(17,200)	(17,200)

11. Prepayments (line 1130)

	31 December 2021	31 December 2020
Prepayments for goods and services to domestic suppliers	19,486	6,577
Prepayments for goods and services to foreign suppliers	614	951
Total	20,100	7,528

12. Taxes recoverable, other than income tax (line 1135)

	31 December 2021	31 December 2020
Settlements for VAT	86,105	4,054
Other taxes	–	39
Total	86,105	4,093

13. Cash and cash equivalents (line 1165)

	31 December 2021	31 December 2020
Cash in banks in foreign currency	8,048	66,122
Cash in banks in national currency	160	1,049
Total	8,208	67,171

Cash at banks earned interest at floating rates based on daily bank deposit rates.

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14. Equity (lines 1400, 1410, 1425)

Share capital

The Company's participants are the following persons:

	Share 2021, %	31 December 2021	Share 2020, %	31 December 2020
PJSC VCENCI FUND UNIBUDINVEST	79.8661%	753,675	79.8661%	753,675
Zholynska Anastasia Leonidivna	5.0335%	47,500	5.0335%	47,500
Yurushev Leonid Leonidovich	5.0334%	47,498	5.0334%	47,498
Yurusheva Elizaveta Leonidivna	5.0335%	47,500	5.0335%	47,500
Yurusheva Natalia Dmitrievna	5.0335%	47,500	5.0335%	47,500
Total	100%	943,673	100%	943,673

15. Lease liability (lines 1515, 1610)

The Company leases premises, vehicles and land in accordance with lease agreements for up to 5 years (Note 6).

The movement of lease obligations was as follows:

Year	Balance at the beginning of the year	Additions	Interest expenses	Repaid	Balance at the end of the year	<i>incl. current part</i>
2020	13,270	7,705	1,967	(10,080)	12,862	6,599
2021	12,862	4,173	1,795	(5,889)	12,941	5,489

The following are the amounts recognized in the statement of financial position in respect of leases:

	2021	2020
Depreciation of assets in the form of the right of use *	3,462	7,422
Financial costs under lease obligations	1,795	1,967
Short-term lease costs	331	773
The total amount recognized in the income statement	5,588	10,162

* Depreciation of assets in the form of the right of use is allocated to cost of sales, administrative and other operating expenses based on the functional use of leased assets.

The analysis of changes in lease obligations due to the Company's financial activities is provided in Note 16.

16. Current liabilities on internal settlements (line 1645)

	Effective interest rate	31 December 2021		31 December 2020	
		Maturity	Amount	Maturity	Amount
<i>Interest-bearing loans in Ukrainian hryvnia from related parties</i>					
Loan 1	14%	30/04/2022	187,460	30/04/2021	586,103
Loan 2	18%	17/05/2022	2,213,225	17/05/2021	1,657,701
<i>Interest-free loans in Ukrainian hryvnia from related parties</i>					
Loan 3	15.3-16.4%	31/12/2020	519	31/12/2020	519
Loan 4	15.69%	–	65,000	–	–
Total			2,466,204		2,244,323
<i>incl.: interest liability</i>			27,194		440,478

The received loans are unsecured. When necessary, the Company extends the loans as described below:

- Maturity as at 31 December 2021 is 31 December 2022;
- Maturity as at 31 December 2020 is 31 December 2021.

After 31 December 2021, the management received written confirmation from the Company's shareholders regarding the absence of the intention to require the Company to pay the loans in full in 2022-2023 (Note 2).

16. Current liabilities on internal settlements (line 1645) (continued)

The analysis of changes in liabilities due to financial activities during 2020-2021 is given in the tables below:

	Borrowings from related parties	Lease obligations	Total
Debt as at 1 January 2020	2,156,436	13,270	2,169,706
Additions	575,827	–	575,827
Payment of borrowings	(794,833)	(982)	(795,815)
Payment of lease obligations	–	(9,098)	(9,098)
Net cash flow from financing activities	(219,006)	(10,080)	(229,086)
Received for financial lease	–	7,705	7,705
Revenue from initial recognition	9,142	–	9,142
Accrual of interest	297,751	1,967	299,718
Debt as at 31 December 2020	2,244,323	12,862	2,257,185
Additions	948,337	4,173	1,345,510
Payment of borrowings and interests	(313,172)	(4,094)	(710,266)
Payment of lease obligations	(771,576)	(1,795)	(773,371)
Net cash flow from financing activities	(136,411)	(1,716)	(138,127)
Accrual of interest	358,292	1,795	306,087
Debt as at 31 December 2021	2,466,204	12,941	2,479,145

17. Trade and other payables (line 1615)

	31 December 2021	31 December 2020
Trade payables for property, plant and equipment	50,547	50,518
Trade payables for materials and services	36,878	12,004
Other trade payables	–	952
Total	87,425	63,474

18. Current liabilities for advances received (line 1635)

Current liabilities on advances received include contractual obligations under contracts with customers. All advances are short-term for which the delivery of finished products must take place no more than 12 months from the date of receipt.

In 2021, the Company recognized net revenue from sales in the amount of UAH 33,291 thousand in respect of advances received at the beginning of the year (2020: UAH 15,578 thousand).

19. Current provisions (line 1660)

	Provision for vacations	Provision for other payments	Total
At 1 January 2020	3,576	1,766	5,342
Accrued	4,713	906	5,619
Used	(5,752)	(1,733)	(7,485)
At 31 December 2020	2,537	939	3,476
Accrued	4,101	–	4,101
Used or utilized	(3,358)	–	(3,358)
At 31 December 2021	3,280	939	4,219

20. Revenue (line 2000)

	2021	2020*
Revenue from the sale of lumber	600,289	605,534
Revenue from sale of semi-finished goods	312,810	141,122
Revenue from the sale of pallets	11,453	15,665
Total	924,552	762,321

* Reclassification of information for 2020 is presented in Note 32 "Comparative information"

20. Revenue (line 2000) (continued)

Revenue from sales by regions was as follows:

Regions	2021	2020*
Ukraine	538,401	199,374
Central and Eastern Europe	141,650	318,423
Asia	139,499	194,672
Western Europe	68,112	5,164
Middle East	26,049	38,414
North America	10,841	1,489
Africa	–	4,785
Total	924,552	762,321

* Reclassification of information for 2020 is presented in Note 32 "Comparative information"

Sale of goods for export is carried out under a commission agreement and accounts in 2021 for 89% (2020: 91%) of the total revenue from the supply of goods.

21. Cost of sales (line 2050)

	2021	2020*
Materials	489,184	406,667
Depreciation	167,274	193,917
Payroll and related charges	70,837	66,296
Utilities, energy and other services	42,641	28,531
Other	33,829	15,652
Total	803,765	711,063

* Reclassification of information for 2020 is presented in Note 32 "Comparative information"

22. Other operating income (line 2120)

	2021	2020
Income from Non-refundable financial assistance from related parties (Note 28)	393,000	–
Operating rent income	97,178	84,517
Gain on sale of equipment	22,083	8,981
Income from heat supply, net	15,708	23,755
Gain on sale of transport services, net	3,905	–
Gain on sale of miscellaneous goods, net	1,549	4,959
Income from the write-off of accounts payable	499	313
Other	3,339	2,490
Total	537,261	125,015

23. General and administrative expenses (line 2130)

	2021	2020
Salary expenses and related charges	7,337	7,596
Information and consulting services	2,272	4,525
Depreciation	740	754
Bank charges	536	554
Business trip expenses	353	504
Depreciation of rights of use	331	773
Communication	287	423
Repairs and maintenance	186	118
Rent	24	201
Other expenses	500	305
Total	12,566	15,753

24. Selling and distribution expenses (line 2150)

	2021	2020
Commission fees (Note 28)	4,976	6,872
Transportation	4,755	72,819
Materials	4,610	5,295
Payroll and related expenses	1,950	2,115
Other	130	545
Total	16,421	87,647

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25. Other operating expenses (line 2180)

	2021	2020
Non-refundable financial assistance (Note 28)	93,000	–
Depreciation of equipment transferred into operating leases	85,985	50,606
Depreciation of investment property transferred into operating leases	11,957	19,788
Forex loss, net	11,523	–
Services of third-party organizations	10,167	6,516
Taxes	1,330	777
Inventories written-off	1,149	3,171
Provision for expected credit losses	–	13,309
Loss on purchase and sale of foreign currency, net	275	–
Maintenance of assets for rent	205	7,806
Insurance	90	12
Fees and penalties	63	153
Consulting and information services	–	1,973
Property, plant and equipment written-off	–	940
Other	10,134	6,647
Total	225,878	111,698

26. Finance costs and income (lines 2250, 2220)

	2021	2020
Finance costs on loan	358,292	290,658
Finance costs on rent	1,795	1,967
Finance costs from amortization of the discount on the received loans	–	10,498
Total - finance costs (line 2250)	360,087	303,123

	2021	2020
Interest income on balances on current bank accounts	305	123
Finance income from amortization of the discount	271	172
Total - finance income (line 2220)	576	295

27. Income tax (line 2300)

The reconciliation between income tax expense and pre-tax loss multiplied by the standard tax rate for the year ended 31 December is as follows:

	2021	2020
Accounting loss before tax	43,578	(341,653)
At the Company's notional income tax rate of 18%	(7,844)	61,498
Change in unrecognized deferred tax asset	5,999	(58,562)
Non-deductible expenses for tax purpose	1,845	(2,936)
Income tax expense	–	–

Deferred tax assets and liabilities relate to the following items::

	Statement of financial position		Statement of comprehensive income	
	31 December 2021	31 December 2020	2021	2020
Deferred tax assets:				
Property, plant and equipment	–	–	–	–
Inventories	–	–	–	–
Trade and other receivables	–	–	–	–
Prepayments	–	–	–	–
Advances received	–	–	–	–
Tax losses	153,059	159,058	(5,999)	58,562
Unrecognized part of deferred tax asset	(153,059)	(159,058)	5,999	(58,562)
Deferred tax asset	–	–	–	–

Deferred tax assets have not been recognized in respect of tax losses carry-forward as there is no evidence of their recoverability in the near future. If the Company was able to recognize all unrecognized deferred tax assets the net profit would increase by UAH 153,059 thousand (2020: net loss would decrease by UAH 159,058 thousand).

28. Related party disclosure

The outstanding balances due from / to related parties were as follows:

	31 December 2021	31 December 2020
Participants		
Short-term loans	2,400,685	2,243,803
Trade and other payables	26	–
Entities under common control		
Trade and other receivables	69,838	57,437
Trade and other payables	43,692	12,166
Short-term loans	519	519
Lease liability	5,207	6,011

The Company's transactions with its related parties for the years ended 31 December were as follows:

	2021	2020
participants		
Loans received	879,737	525,827
Loans repaid	(309,572)	(356,657)
Interests repaid	(771,576)	(283,223)
Finance costs	358,292	297,751
Entities under common control		
Revenue from sales of goods	535,074	190,899
Revenue from rent and other services	60,100	79,819
Gain on sales of miscellaneous goods and services	1,549	4,959
Gain on sales of property, plant and equipment	21,848	8,981
Commission fees	4,976	6,872
Purchases of property, plant and equipment	283,440	10,045
Purchases of goods and services	281,383	59,839
Financial assistance granted	(93,00)	–
Income from amortization of the discount on issued loans	–	–
Receiving irrevocable financial assistance	393,000	50,000
Receiving recoverable financial assistance	3,600	–
Loans repayment	(3,600)	(154,952)
Finance costs from the amortization of the discount on loans	–	(9,142)
Finance costs under the lease agreements	(810)	(906)

Revenue, trade and other receivables

Revenue and outstanding trade and other receivables relate to sales of goods and rent. Trade and other receivable balances are non-interest bearing, unsecured and settlements occurs in cash.

Purchases, trade and other payables

Purchases and outstanding trade and other payables relate to (i) supplies of raw and other materials, construction materials and services, and (ii) commission fees under the commission agreements to agents. The payables balances are non-interest bearing and are repayable in the normal course of business.

Loans from related party

Information on loans from related parties is provided in Note 16.

Loans to related party

The Company provided loans in the form of interest-free financial assistance provided to entities controlled by the shareholder during 2021. Such financial assets were carried at unamortized cost at the date of initial recognition.

Compensation of key management personnel

In 2021, total compensation to key management personnel (2 persons) comprised UAH 958 thousand (2020: UAH 1,049 thousand). Compensation to the key management personnel mainly consists of salary and related charges, bonuses and short-term employee benefits.

29. Contingencies and commitments

Ukrainian legislations and regulations regarding taxation and other regulatory matters, including currency exchange control and custom regulations, continue to evolve. The legislations and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations continue to be not unusual.

Management believes that the Company has complied with all regulations and paid or accrued all taxes that are applicable. Where uncertainty exists, the Company accrues tax liabilities based on the management's best estimate. Management believes that the probability that the tax and other regulatory risks would materialize is not higher than for other entities in Ukraine, and their potential outcome will not have material impact on the financial position and performance of the Company.

The Company deals with lawsuits and claims in the normal course of business. Management believes that the maximum liability for liabilities arising from such claims or claims, if any, other than those already recognized in the financial statements will not have material impact on the Company's financial position or results of future operations.

Management estimates that contingent on existing lawsuits from tax and customs authorities and the risks of possible resources outflow arising from tax and other issues will not exceed UAH 12 mln.

30. Financial risk management objectives and policies

The Company's principal financial instruments comprise trade receivables and payables, loans and borrowings and cash and cash equivalents. The main purpose of these financial liabilities is to provide funding for the Company's operations. The Company has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The Company do not have any transactions using derivative financial instruments. The Company's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. Risk management is carried out by the Company's financial department. The main risks arising from the Company's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The Company reviews and agrees policies for managing each of these risks and they are summarized below.

Interest rate risk

The exposure to the risk of changes in market interest rates relates primarily to an entity's loans with floating interest rates. As at 31 December 2021, the Company's loans and borrowings bear interests at the fixed rates and, accordingly, there is no interest rate risk exposure at the reporting date.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations to the Company on contract terms, leading to a financial loss. The credit risk of the Company related to such financial assets as trade and other accounts receivable (Note 10), loans issued in the form of interest-free financial assistance, and cash and cash equivalents (Note 13).

The credit risk related to accounts receivable is limited as management constantly monitors the creditworthiness of customers. The Company does not require collateral for its financial assets. The Company's credit risk relates to the default of customers and other debtors on their liabilities and is limited to the carrying amount of receivables and cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due because of limited liquid assets. The Company analyses the ageing of its assets and the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments at 31 December 2021 and 2020:

30. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Less 3 months	3 to 12 months	1 to 5 years	More 5 years	Total
31 December 2021					
Current liabilities on internal settlements (Short-term loans)	27,194	2,439,010	–	–	2,466,204
Lease liability	2,091	4,020	4,649	2,181	12,941
Trade and other accounts payable	87,425	–	–	–	87,425
Total	116,710	2,443,030	4,649	2,181	2,566,570

	Less 3 months	3 to 12 months	1 to 5 years	More 5 years	Total
31 December 2020					
Current liabilities on internal settlements (Short-term loans)	76,770	2,279,288	–	–	2,356,058
Lease liability	1,651	4,948	6,134	128	12,862
Trade and other accounts payable	63,474	–	–	–	63,474
Total	141,895	2,284,236	6,134	128	2,432,984

In order to manage liquidity risk under short-term loans, the management has agreed and received written confirmation from the Company's shareholders regarding the lack of intention to require the Company to pay the debt in full on the loan in 2022-2023 (Note 2 and 16).

Foreign currency risk

The foreign currency risk is the risk of potential losses related to the outstanding balances denominated in foreign currency in case of unfavorable changes in foreign exchange rates. The foreign exchange risk of the Company related to fluctuations of Ukrainian hryvnia against US dollar ("USD") and Euro, in which the Company carried significant part of its transactions and in which certain financial instruments of the Company are denominated. The Company has not entered into transactions designed to hedge against these foreign currency risks. The main method of foreign currency risk management is decrease of outstanding balance of foreign currency positions to an acceptable level.

The official exchange rates for Ukrainian hryvnia against foreign currencies, in which the Company's financial assets and liabilities were denominated, as declared by the National Bank of Ukraine as at the dates stated, were as follows:

	USD	EUR
Average for 2020	25.8373	28.9406
31 December 2020	28.2746	34.7396
Average for 2021	27.2862	32.3076
31 December 2021	28.1929	34.1035

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rates, with all other variables held constant, of the Company's profit before tax.

	Change in exchange rates	Effect on the profit before tax
31 December 2021		
Increase in EUR exchange rate	+15%	(18,317)
Decrease in EUR exchange rate	-13%	15,875
Increase in USD exchange rate	+14%	2,852
Decrease in USD exchange rate	-11%	(2,241)
31 December 2020		
Increase in EUR exchange rate	+16%	16,518
Decrease in EUR exchange rate	-14%	(14,453)
Increase in USD exchange rate	+15%	10,433
Decrease in USD exchange rate	-12%	(8,346)

30. Financial risk management objectives and policies (continued)

Fair value

The Company's financial assets and liabilities comprise cash and cash equivalents, trade receivables and payables. The accounting policies for their recognition and measurement are disclosed in the relevant sections of these Notes. All of the Company's financial instruments are Level 2 instruments of the source of fair value measurement of assets and liabilities the fair value of which has been determined from the initial data observed for the asset or liability directly (price) or indirectly (derived from prices). The current value of all of the Company's financial instruments is approximately equal to their fair value. During 2020-2021 there were no movements between the levels of the fair value measurement hierarchy.

31. Events after the reporting date

On 24 February 2022, the Russian Federation invaded Ukraine and launched missile, ground, and sea operations across multiple fronts, including Kyiv. Multiple infrastructure and industrial facilities have been damaged, and Ukraine's economy is negatively affected. General mobilization to the Armed Forces was declared and is underway.

The Company's assessment of the impact of this matter on its operations is set out in Note 2.

On 21 December 2022 the merger of the Company with the related party Rezult House LLC took place. The Company became a legal successor of Rezult House LLC and inherited all its assets and liabilities.

32. Comparative information

In the financial statements for 2021, the Company revised the presentation of the financial effect from the sale of by-products of sawmill production (sawdust, wood chips, other) and presented the net revenue and cost of goods on a gross basis, taking into account the materiality of such operations and the practice of the industry regarding the reflection of such operations. Accordingly, comparative information was also reclassified. This reclassification does not affect gross profit and net financial result previously reported.

The table below shows the changes to the items of the statement of financial results:

2020				
Description	Line code	As previously reported	Reclassification	After reclassification
Net revenue from sales of goods (merchandise, works, services)	2000	621,199	141,122	762,321
Cost of goods (merchandise, works, services) sold	2050	(569,941)	(141,122)	(711,063)