

Financial Statements

State Enterprise of the Ministry of Defence of Ukraine "Defence
Procurement Agency"

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INDEPENDENT AUDITOR'S REPORT

To the Owners and Management of the State Enterprise of the Ministry of Defence of Ukraine "DEFENCE PROCUREMENT AGENCY"

Report on the audit of the financial statements

Qualified opinion

We have audited the financial statements of the State Enterprise of the Ministry of Defence of Ukraine "DEFENCE PROCUREMENT AGENCY" (EDRPOU code 44725823, location: 2 Avtozavodska Street, Kyiv, 04074; hereinafter – the Company), which comprise:

- Balance sheet (Statement of financial position) as at 31 December 2022;
- Income statement (Statement of comprehensive income) for 2022;
- Statement of cash flows (under direct method) for 2022;
- Statement of changes in equity for 2022;
- Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and the requirements of the Law of Ukraine "On accounting and reporting in Ukraine" dated 16.07.1999 No. 996-XIV in respect of financial statements preparation.

Basis for qualified opinion

1. Observing the physical inventory counting

We were not appointed as the auditors of the Company until after 31 December 2022 and thus did not observe the counting of physical inventories at the carrying amount of UAH 38 456 thousand. We were unable to satisfy ourselves by alternative means concerning the inventory quantities. As a result, we were unable to determine whether any adjustments to inventories might have been found necessary as at 31 December 2022, and the elements making up the statement of financial position, income statement (statement of comprehensive income), statement of changes in equity and statement of cash flows as at and for the year ended 31 December 2022.

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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (further – IESBA Code), and ethical requirements applicable in Ukraine to our audit of financial statements, and we have fulfilled our other ethical responsibilities in

Basis for qualified opinion

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 qualified opinion.

Material uncertainty related to going concern

We draw attention to Notes 1 and 2 to these financial statements, which describe the events and conditions that arose from the military invasion of the Russian Federation into Ukraine on 24 February 2022 that is still ongoing, the consequences of which on the Company's activities are unpredictable.

As discussed in Note 2, these events or conditions, together with other matters, discussed in Note 2, indicate that a material uncertainty exists 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.

Other information

Management of the Company is responsible for the other information prepared as of and for the year ended 31 December 2022. Other information consists of the Management Report for 2022, prepared in accordance with the requirements of the Law of Ukraine "On Accounting and Reporting in Ukraine" dated 16.07.1999 No. 996-XIV.

Our opinion on the Company's 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 identified above 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 to report that fact.

The Company has prepared and plans to publish the Management Report for 2022 after the date of publication of this Independent Auditor's Report. Upon publishing and reviewing the Management Report for 2022, if we conclude that there is a material misstatement, we will address the matter to those charged with governance.

Responsibility of management and those charged with governance for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and the requirements of the Law of Ukraine "On Accounting and Reporting in Ukraine" dated 16.07.1999 No. 996-XIV in respect of financial statements preparation, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

When 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

Responsibility of management and those charged with governance for the financial statements

going concern and using the going concern assumptions as a basis for accounting, unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to so.

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

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 the 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 those charged with governance regarding 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.

Auditor's responsibility for the audit of the financial statements

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

Report on the requirements of other legislative and regulatory acts

The report on meeting the requirements of paragraph 4 of Article 14 of the Law of Ukraine "On Audit of Financial Reporting and Auditing Activity" dated 21.12.2017 No. 2258-VIII on the provision of additional information on the results of the statutory audit of a public interest entity:

- BDO LLC was appointed to perform this statutory audit assignment by the governing body of the Company on 1 April 2024 by letter No. 42/1-3121.
- BDO LLC performed this assignment in accordance with the contract for audit services No. 01/24A/1009/42/1-38-D-24 dated 5 April 2024. The audit commenced on 1 May 2024 and will be completed on 23 May 2025.
- The Report on the Audit of the Financial Statements section of this Independent Auditor's Report discloses the scope of the audit and the inherent limitations.
- Total duration of the statutory audit assignment in respect of the financial statements by BDO LLC, taking into account the prolongation of authorities that took place, and the repeated appointments, is one year. For BDO LLC, this assignment is also the first year of the statutory audit of the Company's financial statements after the Company has been recognized as a public interest entity in accordance with the requirements of Part three of Article 2 of the Law of Ukraine "On Auditing Financial Statements and Auditing Activities" dated 21 December 2017 No. 2258-VIII.
- In the Basis for Qualified Opinion and Material Uncertainty related to Going Concern sections of this report, we disclosed matters that were of great importance during the audit of the current period's financial statements and which, according to our professional judgment, should be focused towards. These matters were considered in the context of our audit of the financial statements as a whole and taken into account when forming our opinion thereon; in doing so, we do not express a separate opinion thereon.
- During this statutory audit assignment, we did not identify any other matters relating to the audit estimates other than those mentioned in the Basis for Qualified Opinion and Material Uncertainty related to Going Concern sections of this report, the information about which we consider appropriate to disclose in accordance with the requirements of paragraph 4.3 Article 14 of the Law "On the Auditing Financial Statements and Auditing Activities" dated 21.12.2017 No. 2258-VIII.
- The information contained herein regarding the audit of the Company's financial statements was agreed with the information in the Supplementary Report for the Audit Committee dated 23 May 2025.
- During 2022-2024, BDO LLC did not provide the Company with other services, except for statutory audit services.
- BDO LLC did not provide the Company with any other services prohibited in accordance with the requirements of Article 6 of the Law of Ukraine "On Auditing

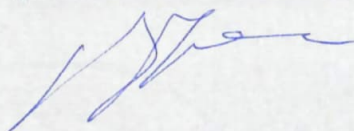
Report on the requirements of other legislative and regulatory acts

Financial Statements and Auditing Activities” dated 21 December 2017 No. 2258-VIII during 2022-2023 and during the period from 1 January 2024 to the date of signing this Independent Auditor’s Report.

- BDO LLC and the Key Audit Partner are independent of the Company in accordance with the requirements of the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code). During the audit, we did not identify any additional facts or issues that could affect our independence and that we would like to draw your attention to.

The audit was performed under the supervision of the Head of Audit department, Chernovol Vadym Mykolaiovych.

Head of the Audit department



V.M. Chernovol

Registration number with the Register of Auditors and Auditing Entities: 101536

For and on behalf of BDO LLC



Director, Key Audit Partner

S. O. Balchenko

Registration number with the Register of Auditors and Auditing Entities: 101086

Kyiv, 23 May 2025

Limited Liability Company BDO. Identification code under EDRPOU: 20197074. Legal address: 4, Andriia Fabra Street, Dnipro, 49070. Factual address: 201/203, 10th floor, Kharkivske Road, Kyiv, Ukraine. Tel. +38(044)393-26-87. Website: <https://www.bdo.ua>

BDO LLC is included in the Register of auditors and audit entities in section 4 “Audit entities that have the right to conduct statutory audit of financial statements of the public interest entities”. Link to the Register: <https://www.apu.com.ua/subjekty-audytorskoi-dijalnosti-jaki-majut-pravo-provodyty-obovjazkovyj-audyt-finansovoi-zvitnosti-pidpryjemstv-shho-stanovljat-suspilnyj-interes/>

STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS

Management of the State Enterprise of the Ministry of Defence of Ukraine "Defence Procurement Agency" (further – the Company) is responsible for the preparation of the financial statements that present fairly, in all material aspects, the financial position of the Company as of 31 December 2022, and its operating results, cash flows, and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (further – the IFRS).

In preparing the financial statements, the Company's management is responsible for:

- Selecting appropriate accounting policies and applying them consistently;
- Applying reasonable estimates and assumptions;
- Compliance with all relevant IFRS and disclosures of all significant deviations in notes to the financial statements;
- Preparation of the financial statements on the going concern assumption, except when it is not appropriate to assume that the Company will continue as a going concern.

Management is also responsible for:

- Development, implementation and maintenance of effective and sound internal control system in the Company;
- Keeping proper accounting registers disclosing at any time and with sufficient accuracy, the Company's financial position and enabling the management to provide for the compliance of the separate financial statements with IFRS;
- Making such steps that are within the management capabilities aimed at safeguard of the Company's assets; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year 2022 were approved on 23 May 2025 on behalf of the Company:

Director

Zhumadilov A.K.

Chief Accountant

Ilchuk I.A.



STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(in thousands of hryvnias, unless otherwise stated)

		Date (year, month, day)	CODE		
			2022	12	31
Entity	State Enterprise of the Ministry of Defence of Ukraine “Defence Procurement Agency”		EDRPOU 44725823		
Darnytsa region			KOATUU 80000000000551439		
Legal form	State enterprise		KOPFG 140		
Type of economic activity	Non-specialised wholesale trade		KVED 46.90		
Average number of employees ¹	54				
Address,	2 Avtozavodska Street, Obolonskyi District, Kyiv, 04074, Ukraine				
Measurement units: thous. UAH without a decimal sign					
Prepared (mark as "v" in a respective cell):					
Under National Accounting Standards					
Under International Financial Reporting Standards			v		

Balance Sheet (Statement of Financial Position)

Form No. 1

Code under DKUD

1801001

Asset	Line code	Note	31.12.2021	31.12.2022
1	2	3	4	5
I. Non-current assets				
Intangible assets	1000	6	-	6
historical cost	1001		-	7
accumulated amortisation	1002		-	(1)
Construction in progress	1005	7	-	-
Property, plant and equipment	1010	7	-	1 224
historical cost	1011		-	1 924
depreciation	1012		-	(700)
Long-term accounts receivable	1040		-	-
Deferred tax assets	1045		-	-
Other non-current assets	1090		-	-
Total in Section I	1095		-	1 230
II. Current assets				
Inventories	1100	8	-	38 456
Accounts receivable for products, goods, works, services	1125	9	-	6 060
Accounts receivable for settlements:			-	-
On advances made	1130		-	2 743 025
With budget	1135		-	1 481
Including income tax	1136		-	-
Accounts receivable for accrued income	1140		-	2 835
Other current accounts receivable	1155	10	-	1 060
Cash and cash equivalents	1165	11	-	142 187
Deferred expenses	1170		-	99
Other current assets	1190		-	19
Total in Section II	1195		-	2 935 222
III. Non-current assets held for sale and disposal groups	1200		-	-
Balance	1300		-	2 936 452

STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

Liability	Line code	Note	31.12.2021	31.12.2022
I. Equity				
Registered (share) capital	1400	12	-	1 000
Capital in revaluation surplus	1405		-	-
Additional capital	1410	12	-	49
Capital reserves	1415		-	-
Retained earnings (uncovered loss)	1420		-	-
Unpaid capital	1425	12	-	(1 000)
Withdrawn capital	1430		-	-
Other reserves	1435		-	-
Total in Section I	1495		-	49
II. Long-term liabilities				
Deferred tax liabilities	1500		-	-
Long-term bank loans	1510		-	-
Other long-term liabilities	1515		-	-
Long-term provisions	1520		-	-
Target financing	1525		-	-
Total in Section II	1595		-	-
III. Current liabilities and provisions				
Short-term bank loans	1600		-	-
Current accounts payable for:			-	-
Long-term liabilities	1610		-	-
Goods, works, services	1615	13	-	133
Budget settlements	1620	16	-	251
Including income tax	1621		-	54
Insurance	1625		-	-
Remuneration of labour	1630		-	-
Current accounts payable for advances received	1635		-	2 889 441
Current provisions	1660	14	-	6 576
Other current liabilities	1690	15	-	40 002
Total in Section III	1695		-	2 936 403
Balance	1900		-	2 936 452

These financial statements were authorised for issue on behalf of the Management on 23 May 2025:

Director

Zhumadilov A.K.

Chief Accountant

Ilchuk I.A.



STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME)

For the year ended 31 December 2022

(in thousands of hryvnias, unless otherwise stated)

Entity

**State Enterprise of the Ministry of
Defence of Ukraine "Defence
Procurement Agency"**

(name)

Date (year, month, day)

EDRPOU

CODE

2022

12

31

44725823

**Income Statement (Statement of Comprehensive Income)
for 2022**

Form No. 2

Code under
DKUD

1801003

Item	Line code	Note	For the reporting period	For the same period of the previous reporting year
1	2	3	4	5
Net income from sales of products (goods, works, services)	2000	18	609 197	-
Cost of sold products (goods, works, services)	2050	19	(601 317)	-
Gross:				
Profit	2090		7 880	-
Loss	2095		-	-
Other operating income	2120	20	9 336	-
Administrative expenses	2130	21	(15 472)	-
Selling and distribution costs	2150		-	-
Other operating expenses	2180	22	(1 445)	-
Financial results from operating activities:				
Profit	2190		299	-
Loss	2195		-	-
Equity income	2200		-	-
Other financial income	2220		-	-
Other income	2240		-	-
Financial expenses	2250		-	-
Equity loss	2255		-	-
Other expenses	2270		-	-
Financial results before tax:				
Profit	2290		299	-
Loss	2295		-	-
Income tax expenses (gain)	2300	17	(54)	-
Profit (loss) from discontinued operations after tax	2305		-	-
Net financial result:				
Profit	2350		245	-
Loss	2355		-	-

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

(in thousands of hryvnias, unless otherwise stated)

II. COMPREHENSIVE INCOME

Item	Line code	Note	For the reporting period	For the same period of the previous reporting year
1	2	3	4	5
Revaluation surplus (loss) of non-current assets	2400		-	-
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 after tax	2460		-	-
Comprehensive income (sum of lines 2350, 2355 and 2460)	2465		245	-

All items of other comprehensive income will not be reclassified to profit or loss in subsequent periods.

III. ELEMENTS OF OPERATING EXPENSES

Item	Line code	Note	For the reporting period	For the same period of the previous reporting year
1	2	3	4	5
Material costs	2500		264	-
Remuneration expenses	2505		11 954	-
Social charges	2510		1 917	-
Amortization	2515		701	-
Other operating expenses	2520		37 322	-
Total	2550		52 158	-

IV. PROFITABILITY OF SHARES

Item	Line code	Note	For the reporting period	For the same period of the previous reporting year
1	2	3	4	5
Annual average number of ordinary shares	2600		-	-
Adjusted annual average number of ordinary shares	2605		-	-
Net profit (loss) per one ordinary share, UAH	2610		-	-
Adjusted net profit (loss) per one ordinary share, UAH	2615		-	-
Dividends per one ordinary share	2650		-	-

These financial statements were authorised for issue on behalf of the Management on 23 May 2025:

Director

Zhumadilov A.K.

Chief Accountant

Ilchuk I.A.



STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

STATEMENT OF CASH FLOWS (DIRECT METHOD)

For the year ended 31 December 2022

(in thousands of hryvnias, unless otherwise stated)

Entity	State Enterprise of the Ministry of Defence of Ukraine "Defence Procurement Agency" (name)	EDRPOU	CODE			
			Date (year, month, day)	2022	12	31
			44725823			
Statement of Cash Flows (direct method) for 2022						
Form No. 3			Code under DKUD	1801004		

Item	Line code	For the reporting period	For the same period of the previous reporting year
1	2	3	4
I. Cash flows from operating activities			
Inflows from:			
Sale of products (goods, works, services)	3000	8 136	-
Return of taxes and levies	3005	-	-
Including value added tax	3006	-	-
Target financing	3010	-	-
Inflows of advances from buyers and customers	3015	3 788 439	-
Inflows from return of advances	3020	-	-
Inflows from interest on cash balances on current accounts	3025	6 485	-
Receipts from debtors of forfeits (fines, penalties)	3035	-	-
Other inflows	3095	759	-
Expenditure to pay:			
Goods (works, services)	3100	(188 660)	-
Remuneration	3105	(7 316)	-
Social charges	3110	(1 917)	-
Tax and levy liabilities	3115	(2 718)	-
Income tax liabilities	3116	-	-
Expenditures for payment of value added tax liabilities	3117	(940)	-
Liabilities on other taxes and levies	3118	(1 778)	-
Expenditure to pay advances	3135	(3 192 652)	-
Expenditure to pay target contributions	3140	(303 998)	-
Other expenditures	3190	(2 227)	-
Net cash flows from operating activities	3195	104 331	
Inflows from sale of:			
Financial investments	3200	-	-
Non-current assets	3205	-	-
Inflows from received:			
Interest	3215	-	-
Dividends	3220	-	-
Other inflows	3250	-	-
Expenditure to purchase:			
Financial investments	3225	-	-
Non-current assets	3260	(2 144)	-
Other payments	3290	-	-
Net cash flow from investment activities	3295	(2 144)	

STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

STATEMENT OF CASH FLOWS (DIRECT METHOD)

For the year ended 31 December 2022

(in thousands of hryvnias, unless otherwise stated)

Item	Line code	For the reporting period	For the same period of the previous reporting year
1	2	3	4
III. Cash flow from financial activity			
Inflows from:			
Loans received	3305	40 000	-
Other inflows	3340	-	-
Expenditure to:			
Repay loans	3350	-	-
Pay interest	3360	-	-
Payment of dividends	3355	-	-
Other payments	3390	-	-
Net cash flow from financial activity	3395	40 000	-
Net cash flow for the reporting period	3400	142 187	-
Opening cash balance	3405	-	-
Effect of changes in exchange rates on cash balance	3410	-	-
Closing cash balance	3415	142 187	-

These financial statements were authorised for issue on behalf of the Management on 23 May 2025:

Director

Zhumadilov A.K.

Chief Accountant

Ilchuk I.A.



STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (in thousands of hryvnias, unless otherwise stated)

Entity	State Enterprise of the Ministry of Defence of Ukraine "Defence Procurement Agency"	Date (year, month, day)	CODE		
			2022	12	31
			44725823		
		EDRPOU			

Statement of Changes in Equity (adjusted) For 2022

		Form No. 4		Code under DKUD		1801005			
Item	Line code	Registered capital	Capital in revaluation surplus	Other reserves	Capital reserves	Retained earnings (uncovered loss)	Unpaid capital	Withdrawn capital	Total
1	2	3	4	5	6	7	8	9	10
Opening balance (before adjustments)	4000	-	-	-	-	-	-	-	-
Change in accounting policy	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other changes	4090	-	-	-	-	-	-	-	-
Adjusted opening balance	4095	-	-	-	-	-	-	-	-
Net profit (loss) for the reporting period	4100					245	-	-	245
Other comprehensive income for the reporting period	4110	-	-	-	-	-	-	-	-
Profit allocation:									
Payments to owners (dividends)	4200	-	-	-	-	(196)			(196)
Net profit attributable to the budget in accordance with legislation	4215	-	-		-	-	-	-	-
Net profit for the creation of special (targeted) funds	4220	-	-	49	-	(49)	-	-	-
Net profit for material incentives	4225	-	-	-	-	-	-	-	-
Equity contributions	4240	1 000					(1 000)		
Other changes in equity	4290	-	-	-	-	-	-	-	-
Total changes in equity	4295	1 000	-	49	-	-	(1 000)	-	49
Closing balance	4300	1 000	-	49	-	-	(1 000)	-	49

These financial statements were authorised for issue on behalf of the Management on 23 May 2025:



Director

Zhumadillov A.K. Chief Accountant

Ilchuk I.A.

STATE ENTERPRISE OF THE MINISTRY OF DEFENCE OF UKRAINE "DEFENCE PROCUREMENT AGENCY"

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(in thousands of hryvnias, unless otherwise stated)

1. General information

The State Enterprise of the Ministry of Defence of Ukraine, "Defence Procurement Agency" (hereinafter referred to as "the Company"), is a legal entity established in accordance with Ukrainian legislation in the form of a state-owned enterprise (EDRPOU code 44725823, TIN 447258226545). It was established on 17 June 2022 by Order No. 159 of the Ministry of Defence of Ukraine.

The Company is subordinate to and belongs to the sphere of management of state property by the Ministry of Defence of Ukraine, which is the founder (unpaid authorised capital in the amount of UAH 1,000,000.00).

The Company was established with the aim of creating an integrated procurement system within the Ministry of Defence of Ukraine. The Company's objectives are to ensure the life cycle of defence products, to conclude compensation (offset) agreements, to determine the stages of implementation of agreements (contracts) for the supply of defence products, and to generate profit from the procurement of goods, works and services. The Ministry of Defence of Ukraine and the Armed Forces of Ukraine are to be provided with the necessary resources to fulfil their defence requirements. The implementation and fulfilment of state target defence programmes is to be ensured, with the Ministry of Defence acting as the state customer in this field. The procurement of goods, works and services for defence purposes, including through imports, is to be effective. Interactions with specialised organisations that carry out procurement are to be facilitated.

The main activity under KVED is:

- 46.90 Non-specialised wholesale trade

Other:

- 45.11 Sale of cars and light motor vehicles
- 45.31 Wholesale trade of motor vehicle parts and accessories
- 46.18 Agents specialised in the sale of other particular products
- 46.77 Wholesale of waste and scrap
- 64.99 Other financial service activities, except insurance and pension funding n.e.c.
- 73.20 Market research and public opinion polling
- 80.10 Personal security activities
- 80.20 Security system service
- 82.30 Organisation of conventions and trade shows
- 25.40 Manufacture of weapons and ammunition

Legal address: 2, Avtozavodska Street, 04074, Kyiv.

Actual location: 24-D, Polyova Street, Kyiv.

The average number of full-time employees in 2022 was 54.

Operating environment and economic situation

The Company operates in Ukraine. 2022 has been the most difficult year for Ukraine since it gained independence. The full-scale war launched by Russia has had an unprecedented impact on the lives of Ukrainians, businesses and the country's economy.

On 24 February, martial law was introduced by Decree of the President of Ukraine, based on the proposal of the National Security and Defence Council of Ukraine and in accordance with the Constitution and the Law of Ukraine "On the Legal Regime of Martial Law". With subsequent extensions, it remains in force as of the date of approval of these financial statements.

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Operating conditions in Ukraine remain challenging due to the protracted war and Russia's ongoing use of terrorist tactics. The shelling of populated areas and destruction of infrastructure is increasing risks to the economy and financial stability.

In 2022, Ukrainian defence forces successfully liberated the Mykolaiv region, nearly the entire Kharkiv region, and a substantial portion of the Kherson region, including the regional capital, which was the only one captured since 24 February. There is ongoing intense hostilities in the Donetsk and Luhansk regions. In response, the opposing side was compelled to declare a partial mobilisation to halt the Ukrainian army's progress. Russia is also escalating its terrorist attacks on critical infrastructure, with a particular focus on energy facilities. Russia continues to exploit energy and food shortages in certain global markets as a strategic asset. However, these actions only serve to strengthen the international coalition of states against the aggressor.

The Ukrainian economy demonstrated resilience in its recovery from a significant decline in the first half of 2022, largely attributable to the impact of large-scale Russian aggression. However, the destruction of enterprises and infrastructure resulting from Russian shelling, export challenges arising from port blockades, and power outages all exerted downward pressure on Ukraine's gross domestic product (GDP) in 2022. This year, GDP fell by 30.4 per cent and is expected to grow more slowly next year than predicted before the recent missile strikes.

According to the results of 2022, inflation in Ukraine is currently at 26.6%. The primary factors contributing to price growth are supply-side, including the destruction of production capacity, disruption to logistics, rising production costs, and limited supply of certain goods. The July adjustment of the hryvnia exchange rate against the US dollar, as well as high global price growth, also contributed to inflation. Price pressures were contained by the June increase in the key policy rate to 25% per annum and its gradual transmission to market rates, subdued demand, and the freezing of tariffs for housing and utility services. It is anticipated that most of these factors will contribute to a reduction in inflation in 2023. However, the destruction of energy infrastructure will increase pressure on prices.

The official exchange rate of the hryvnia against the dollar was reduced by 25% at the end of July 2022, to 36.57 hryvnia per dollar. This decision, in conjunction with the adjustment of currency restrictions, the gradual rise in market rates in response to the June increase in the discount rate, and the launch of the "grain corridor", led to a reduction in pressure on the currency market. However, the currency market is still unable to balance itself, and demand for currency from businesses and the population remains high. However, thanks to unprecedented assistance from our partners, international reserves exceeded pre-war levels at the end of the year.

The approved state budget for next year forecasts revenues to be half of expenditures, with a deficit of about 21% of GDP. The main expenditures are invariably caused by security and defence needs and social protection of the population. The significant deficit is to be financed by the European Union's approved support for 2023 and the expected significant amounts of aid from the United States. In August, the Ministry of Finance of Ukraine postponed payments on sovereign Eurobonds for two years and amended the terms of issuance of government derivatives (GDP warrants), reducing financing needs. Government payments on these instruments were expected to amount to approximately USD 6 billion over the next two years. Furthermore, domestic borrowing is being stepped up to reduce budgetary risks, which also significantly reduces the risk of monetary financing.

The ongoing war in Ukraine is having a detrimental effect on the global economy, as the conflict continues to escalate in scale and duration. The global economic climate, as influenced by war and subsequent inflation, is having a negative effect on economic growth and posing a threat of recession for Ukraine's key partners. However, financial, military and humanitarian assistance to Ukraine is only increasing, as is the pressure of sanctions on Russia. Prices on global commodity markets have experienced a slight decline after reaching record levels in the first half of the year.

The war has resulted in significant losses of physical capital due to the destruction of businesses, housing and infrastructure. Furthermore, the loss of human capital due to migration and the death of citizens is also very significant. Due to the significant level of uncertainty, investment activity has effectively been suspended. It is anticipated that a significant period, and the involvement of international partners, will be necessary for the economy to recover from the impact of the war.

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The impact of the war on the current situation at the Company and management's assessment of the going concern are disclosed in Note 2.

2. Basis of preparation of financial statements

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board.

Basis for measurement

These financial statements are presented in thousands of Ukrainian hryvnias (thousand hryvnias), and all amounts are rounded to the nearest thousand, unless otherwise stated.

Going concern

These financial statements are based on the going concern principle, which assumes that the Company will continue to operate and that its assets will be realised and liabilities settled in the normal course of business. As at the date of approval of these financial statements, the Company is operating in unfavourable conditions caused by the political and economic crisis in Ukraine.

The Ukrainian economy is currently experiencing a shock of an unprecedented nature. The full-scale military invasion by Russia, which began on 24 February 2022, has had a significant impact on all sectors of our country's economic system.

The Russian military invasion of Ukraine, which began on 24 February 2022 and continues to this day, is a significant event, the consequences of which cannot yet be determined on a national scale. However, the Company plans to continue its activities as usual (see Note 30 Events after the reporting period for more details).

In the context of the current military challenges, the Company has been designated as a key contractor for the procurement of critical weapons and military equipment for the Ukrainian Armed Forces and other military units engaged in countering armed aggression and safeguarding national security.

In 2022, the Company made advance payments for the supply of critical weapons, military equipment and ammunition under existing foreign trade contracts. It also ensured the prompt execution of contracts and the supply of urgently needed items to the Armed Forces of Ukraine.

As of the date of approval of the financial statements, the Company has no damaged or lost assets as a result of hostilities.

For the year ended 31 December 2022, the Company's profit amounted to UAH 299 thousand. For the reporting year, the Company had a positive net cash flow from operating activities in the amount of UAH 104,331 thousand.

The Company has conducted a comprehensive inventory of its assets in order to assess their real value for the purpose of making the necessary management decisions and is actively working to conclude new contracts.

The Company does not consume significant amounts of electricity; therefore, power outages in the city resulting from rocket attacks are not able to completely halt its operations.

Management is confident in the Company's ability to manage the timeliness of its current liabilities, which are primarily comprised of trade accounts payable.

It is possible that these events may result in an economic slowdown, which could have negative consequences for the Company's financial results.

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The management of the Company believes that the preparation of these financial statements is reasonable, given the assumption that the Company can continue as a going concern. This is due to the fact that the Company has taken certain initiatives aimed at improving its financial performance and liquidity.

The Company is committed to optimising costs and managing its funds and resources responsibly. Measures to optimise operating costs are being implemented by organising the procurement of tangible assets and services through a system of transparent and competitive online auctions.

In the opinion of management, the combination of the above measures and other actions will enable the Company to continue as a going concern. These financial statements do not contain any adjustments relating to the recoverability and classification of the amounts of assets or liabilities that would be required if the Company were unable to continue as a going concern.

It is not possible for management to predict all trends that may affect the future financial condition of the Company. Nevertheless, management is convinced that it is taking all necessary measures to ensure the stable operation and development of the Company.

In view of the above, these financial statements have been prepared on a going concern basis, based on management's belief that the Company will continue as a going concern for at least the next 12 months from the reporting date.

When preparing these financial statements, known and estimable effects of these factors on the financial position and results of operations of the Company in the reporting period have been taken into account. It is not possible for management to predict all changes that may affect the economy in general, nor to predict the effects that these changes may have on the financial position of the Company in the future. Management is confident that all necessary measures have been taken to ensure the stable operation and development of the Company. These financial statements do not include adjustments that may arise as a result of such uncertainty. Such adjustments will be reported if they become known and estimable.

3. Application of new and revised International Financial Reporting Standards

New and revised standards and interpretations that must be applied

In general, the accounting policies are consistent with those applied in the previous reporting year. Some new standards and interpretations became mandatory for application on or after 1 January 2022. The following information is provided on new and revised standards and interpretations that the Company has applied for the first time on 1 January 2022.

Amendments to IAS 16 — Property, Plant and Equipment — Proceeds before Intended Use

The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds from the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes proceeds from sale of those items and the costs of producing thereof in profit or loss. These amendments did not have any impact on the Company's financial statements.

Amendments to IAS 37 Onerous Contracts — Cost of Fulfilling a Contract

The amendments to IAS 37 clarify which costs an entity should consider when determining whether a contract is onerous or loss-making. According to the amendments, expenses directly related to a contract for the supply of goods or services must be considered, including additional expenses incurred in fulfilling the contract, as well as allocated expenses directly related to its fulfilment. General and administrative expenses that are not directly related to the contract are excluded, unless they can be recovered from the counterparty under the contract. These amendments did not affect the Company's financial statements.

Application of other IFRSs

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The following amendments to IFRSs, the application of which did not affect the financial statements of the Company, are listed below:

- *Amendments to IFRS 3 Reference to the Conceptual Framework*
- *Annual improvements to IFRSs (2018–2020 cycle)*
 - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards — Subsidiary as a First-time Adopter;*
 - Amendment to IFRS 9 Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities;*
 - Amendment to IAS 41 Agriculture — Taxation in Fair Value Measurements*

IFRSs and Interpretations that are not yet effective

The Company has not applied the following IFRSs, interpretations and amendments to IFRSs and IASs that have been published but are not yet effective. The Company plans to apply these amendments from the date they become effective.

Amendments to IAS 1 Presentation of Financial Statements — Classification of Liabilities as Current or Non-current

The amendments specify that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must be material and be present at the end of the reporting period. The classification of a liability is not affected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period.

The amendments are effective for the periods beginning on or after 1 January 2024. The amendments are to be applied retrospectively, with early adoption permitted. The amendments may have an impact on the classification of liabilities in the Company's statement of financial position.

Amendments to IAS 1 Presentation of Financial Statements - Non-current Liabilities with Covenants

After publishing the amendments to IAS 1 on the classification of liabilities as current and non-current, the IASB made further amendments to IAS 1 in October 2022. Under these amendments, only covenants that an entity must comply with at or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity is required to provide disclosures in the notes that enable users of the financial statements to understand the risk that non-current liabilities with covenants may be settled within twelve months.

The amendments are effective for annual periods beginning on or after 1 January 2024. The amendments are to be applied retrospectively, with early adoption permitted. The amendments may affect the classification of liabilities in the Company's statement of financial position.

The following is a list of standards and interpretations that will not have an impact on the financial statements of the Company or applicable to it:

IFRS 17 *Insurance Contracts* is effective for reporting periods beginning on or after 1 January 2023, with comparative information required.

Amendments to IFRS 8 — Definition of Accounting Estimates take effect for annual reporting periods beginning on or after 1 January 2023 and are applied to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Early application is permitted, provided that this fact is disclosed.

Amendments to IAS 1 and IFRS Practice Statement 2 — Disclosure of Accounting Policies take effect for reporting periods beginning on or after 1 January 2023, with early application permitted.

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Amendments to IAS 12 Income Taxes — Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction take effect for reporting periods beginning on or after 1 January 2023.

Amendments to IFRS 16 Leases - Lease Liability in a Sale and Leaseback take effect for reporting periods beginning on or after 1 January 2024.

Management does not expect the adoption of the above standards to have a significant impact on the Company's future financial statements.

4. Significant accounting judgements, estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgements and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities as at the reporting date and the amounts of revenue recognised for the reporting period. Estimates and judgements are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Therefore, actual results may differ from estimates.

Estimates and related assumptions are reviewed on an ongoing basis. The results of reviews of accounting estimates are recognised in the period in which the estimate is revised, if the revision affects both current and future periods.

Judgements

When applying accounting policies, management has made certain judgements that affect the amounts recognised in the financial statements, in addition to accounting estimates. These judgements include assumptions relating to the Company's going concern assumptions (Note 2).

Estimates and assumptions

The following are the main assumptions about the future, as well as other key sources of estimation uncertainty at the balance sheet date, which are considered to pose a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Risks related to tax and other legal requirements

Ukrainian legislation on taxation and economic activity, including control over currency and customs operations, is still evolving. Legislative and regulatory acts are not always clearly formulated, and their interpretation varies depending on the perspective of local, regional, and central government authorities, as well as other government agencies. It is not uncommon for different authorities to hold different views on a particular issue. The management believes that the Company has complied with all regulatory requirements and that all taxes and deductions required by law have been paid or accrued. However, there is a risk that transactions and interpretations which have not previously been questioned may be challenged by government authorities in the future, although this risk decreases significantly over time. It is impossible to determine the amount of unasserted claims that may be brought, if any, or the likelihood of an adverse outcome.

The Company conducts transactions with related parties. It is possible that changes in the interpretation of tax legislation in Ukraine and the approach of tax authorities in accordance with the new Tax Code may result in such transactions being challenged in the future. The consequences of challenging such transactions cannot be predicted, but management believes that they will be insignificant.

Deferred tax assets

Deferred tax assets are recognised for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the taxable temporary difference can be utilised.

Provision for litigation

The Company is a defendant in ongoing court proceedings. Provisions for these proceedings represent management's estimate of potential losses that may be incurred as a result of unfavourable decisions, none of which had been identified as of 31 December 2022. Changes in these estimates could significantly impact the financial statements.

Estimation of expected credit losses

Estimating expected credit losses involves significant assessments, such as determining the estimation methodology, models and input parameters. The following components significantly impact the estimated credit loss allowance: the determination of default; a significant increase in credit risk; the probability of default; exposure at default; and loss given default. Macroeconomic scenario models also play a role. The Company analyses and reviews the appropriateness of the models and input parameters in order to minimise the discrepancy between the estimated and actual credit losses (Note 9).

5. Significant accounting policies

Functional currency and presentation currency

The functional currency and presentation currency of these financial statements of the Company is the Ukrainian hryvnia. Transactions in currencies other than the functional currency of the Company are considered foreign currency transactions.

Foreign currency transactions

A foreign currency transaction is recognised by the Company after initial recognition in the functional currency using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction (paragraph 21 of IAS 21).

As a practical expedient, the Company uses the official exchange rate on the relevant date set by the National Bank of Ukraine in accordance with Article 36 of the Law of Ukraine "On the National Bank of Ukraine" as the spot rate.

Property, plant and equipment

The Company recognizes property, plant and equipment at historical cost, less any accumulated depreciation and accumulated impairment losses.

The Company uses the cost model to evaluate property, plant and equipment. Subsequent additions to property, plant and equipment are recognised at their initial cost. Initial cost includes the costs incurred directly in acquiring the assets.

The useful life of each item of property, plant and equipment is determined by the commission upon putting into operation.

The depreciation of an asset commences when the asset is ready for use and is calculated monthly until the date of its derecognition.

The straight-line method is used to calculate depreciation of property, plant and equipment, which involves writing off the initial or fair value less the residual value over their useful life.

Prepayments

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Advances made for property, plant and equipment, intangible assets, and other non-current assets are recognised in the statement of financial position as non-current assets under assets under construction and are detailed in notes to the financial statements. Other advances are recognised as current assets/short-term liabilities.

Deferred expenses expected to be included in the income statement within the next 12 months, are recognised as advances made. Otherwise, they are recorded as other non-current assets.

Any advances received that are expected to be included in the statement of profit or loss and other comprehensive income within the next 12 months are recognised as current liabilities. Otherwise, they are recognised as other non-current liabilities.

Any advances made to subcontractors for work under contracts in which the Ukrainian Ministry of Defence is the customer that have not been completed by the established deadlines and have been suspended for over 12 months at the customer's discretion are reclassified as other non-current assets. These advances are valued at their amortisation cost, are not subject to discounting due to uncertainty surrounding the resumption date and are recognised in the statement of financial position as other non-current assets.

Prepayments are recognised at the actual cost of the funds paid, less any provisions for impairment.

Intangible assets

Intangible assets are recognised at their initial cost, minus accumulated amortisation and impairment losses. Subsequent expenditure on intangible assets is only capitalised if it increases the future economic benefits associated with the specific assets to which it relates. Any other expenditure is recognised as an expense in the period in which it is incurred.

Amortisation is recognised on a straight-line basis over the expected useful life of intangible assets, which is expected not to exceed ten years.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If such an indication exists, the Company estimates the recoverable amount of the asset to determine the amount of impairment loss (if any). If it is not possible to estimate the recoverable amount of a specific asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The expected recoverable amount is the greater of the fair value less selling costs and the value in use. When measuring value in use, the sum of expected future cash flows is 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 for which the estimates of future cash flows have not been adjusted.

If the estimated expected recoverable amount of an asset (or a cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to the expected recoverable amount. Impairment losses are recognised directly in profit or loss.

Whenever the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. However, this increase must not exceed the carrying amount that would have been determined in the absence of impairment losses on the asset (or cash-generating unit) recognised in previous years.

Lease

The Company has taken advantage of IFRS 16, choosing not to apply the standard's requirements to short-term leases and those where the leased asset is of low value.

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As the Company does not have its own premises, it leases office space. Two lease agreements were concluded in 2022:

with STIM Development LLC No. 01/07/2022-1 dated 01.07.2022, the lease term for the premises located at 10 Starokyivska Street, Kyiv, from 01.07.2022 to 01.08.2022.

with Step Management LLC for the lease of the 3rd and 4th floors at the address: 24-D Polyova Street, Kyiv No. 25/07/2022-C dated 25.07.2022 from 25.07.2022 to 30.06.2023.

The Company recognises lease expenses as current expenses for the reporting period.

Inventories

Inventories are recorded at the lower of the initial cost and the net realisable value. The cost of inventories includes the purchase price, import duties and other taxes (except those subsequently refunded by the tax authorities), as well as transportation, loading and unloading costs, and other costs directly related to acquiring and producing inventories, materials and services.

The identified cost method is used when writing off or otherwise disposing of inventories.

Financial instruments

Classification of financial assets

When financial instruments are initially recognised, the Company classifies them and determines the subsequent measurement model.

Debt financial assets are classified based on the business model used to manage these assets and the characteristics of the specified contractual cash flows.

Financial assets are classified into the following categories:

- Financial assets at amortised cost (AC);

A financial asset is measured at amortised cost only if it meets both of the following conditions and is not classified as measured at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold 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 (the SPPI criterion) on the principal amount outstanding.

The Company assesses the objective of the business model in which the asset is held at portfolio level, as this best reflects how the business is managed and how information is provided to the management.

When assessing whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion), the Company analyses the contractual terms of the financial instrument. This involves determining whether the financial asset contains any contractual term that could change the timing or amount of the contractual cash flows in such a way that the financial asset would no longer meet the requirement under consideration.

Classification of financial liabilities

Financial liabilities are measured at amortised cost, except for:

- 1) financial liabilities at fair value through profit or loss;

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2) financial liabilities arising when the transfer of a financial asset does not meet the conditions for derecognition or when the continuing involvement principle applies;

3) financial guarantee contracts, avals, sureties;

4) commitments to lend at below market rates;

Initial recognition and subsequent measurement of financial instruments

Financial instruments at fair value through profit or loss upon initial recognition are recognised at fair value, excluding transaction costs. Transaction costs related to the acquisition of such financial instruments are recognised in expense accounts on the date they are incurred.

All other financial instruments are measured at fair value on initial recognition, plus transaction costs. Transaction costs and other payments directly attributable to the recognition of a financial instrument are recognised in the discount (premium) accounts for that financial instrument.

Transaction costs include commissions paid to agents, consultants, brokers and dealers; fees paid to regulatory authorities and stock exchanges; and taxes and state duties.

These costs and income are an integral part of the yield of a financial instrument and are recognised as such when calculating the effective interest rate.

Upon initial recognition, the Company measures trade receivables at the transaction price. This is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to the buyer. It excludes amounts received on behalf of third parties. This applies when the agreed payment dates provide significant benefits to the buyer or seller from the sale of the product, and when the trade receivable does not contain a significant financing component.

Financial guarantees and commitments to lend at below-market rates are measured at fair value upon initial recognition.

Subsequently, loan commitments at below-market rates and financial guarantees are measured at the higher of the following two amounts: the allowance for expected credit losses (hereafter referred to as “ECL”) or the fair value of the financial liability minus the amortised cost of income, in accordance with the principles of its recognition.

Impairment

The impairment model applies to financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- receivables under lease agreements;
- loans and financial guarantee obligations.

Allowances for expected credit losses are recognized based on the level of credit risk and are determined either as 12-month expected credit losses or lifetime expected credit losses.

The Company uses a simplified approach, recognising allowances for expected credit losses on receivables that are equal to the expected credit losses over the lifetime of the instrument, regardless of whether there is a significant financing component.

The estimate of expected credit losses reflects the difference between the contractual cash flows and all cash flows that the Company expects to receive. The loss is then discounted to the original effective interest rate of the asset.

When determining whether the credit risk of a financial asset has increased since initial recognition and when assessing ECL, the Company considers that reasonable and supporting information is current and available

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without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and sound credit estimate.

The Company defines a financial asset as non-performing when there is a high probability that the borrower will not fulfil their credit obligations to the Company in full.

The Company has classified financial assets based on general credit risk characteristics. These include the type of financial instrument, the credit risk rating, the type of debtor or issuer, and the dates of initial recognition of the financial asset. The Company has also applied a historical percentage of credit losses to them. This percentage is based on the Company's experience of incurring such losses. It is adjusted for factors specific to the debtors and general economic conditions.

Write-offs

The gross carrying amount of a financial instrument is written off against the provision charged after it is recognised as uncollectible, an allowance for expected credit losses has been charged, and other conditions specified in the applicable laws of Ukraine and the Company's internal regulations have been met.

Derecognition and contract modification

Financial assets are derecognised if:

- a) the term of rights to contractual cash flows to a financial asset expires;
- b) the transfer of the financial asset meets the criteria for derecognition;
- c) the financial asset is written off against the provision.

Control over the transferred asset is absent if the party to whom the asset is transferred has the actual ability to sell it to an unrelated third party and can affect such sale unilaterally without the need to impose additional restrictions on such transfer.

If control over a financial asset is not retained, such asset is derecognised. Otherwise, if control over the financial asset is retained, its recognition is continued within the scope of the continuing involvement therein.

The difference between the carrying amount of the financial asset determined at the date of derecognition and the amount of consideration received (including the amount of the new asset received less the amount of the liability assumed) is recognised as income or expense from derecognition.

A financial liability or part thereof is derecognized if the liability is extinguished, cancelled or has expired.

Any costs or benefits are income/expenses from derecognition if the exchange of debt financial liabilities or the modification of the terms of a financial liability is accounted for as extinguishing the original financial liability and recognising a new financial liability.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and the amount of consideration received is recognised as income/expense from derecognition.

Value added tax (VAT)

VAT in Ukraine is levied at two rates: 20% on sales within Ukraine and imports of goods, works or services, and 0% on exports of goods and performance of works or provision of services outside Ukraine. The VAT liability is equal to the total amount of VAT accumulated during the reporting period and arises on the earlier date of shipment of goods to the customer or the date of receipt of funds from the customer. A VAT tax credit is the amount by which a taxpayer is entitled to reduce their VAT liability for the reporting period. The right to

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a VAT tax credit arises upon earlier of receipt of a registered tax invoice issued at the time of payment to the supplier or receipt of goods, works or service.

Whenever a provision has been charged for the impairment of accounts receivable, the impairment loss is recognised at the gross amount of the receivable, including VAT.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts that can be quickly converted into cash and deposits with an original maturity of less than three months.

In the event of restrictions on the right to use funds in current accounts with banks (for example, in the event of the NBU appointing a temporary administrator to a banking institution), these assets may be classified as non-current assets. If the NBU decides to liquidate a bank and there is no likelihood of recovering the funds, they are to be derecognised as assets and their value shall be recognised as a loss for the reporting period.

Equity

Equity of the Company includes:

- registered (statutory) capital;
- additional capital;
- reserve capital;
- retained earnings (uncovered loss).

The Company is wholly owned by the state through the Ministry of Defence of Ukraine. The authorised capital is not paid up. All changes to the authorised capital are made on the basis of a decision by the founder (owner).

Retained earnings (uncovered losses) are formed as a cumulative total by adding the net financial result of the Company's activities for the current period to the retained earnings of previous years, less the distribution of these earnings.

The balance of retained earnings is subject to distribution in accordance with the approved financial plan and the Articles of Association of the Company.

Profit is allocated through:

- Accrued dividends (part of net profit paid to the state budget of Ukraine, 80%);
- Allocation to funds (100% of the balance after deduction of the portion of net profit to the social and economic development fund, in accordance with clause 5.8 of the Articles of Association, the financial plan and the order on the procedure for using net profit dated 01.02.2023 No. 10)

Retained earnings shall be used only on the basis of a decision by the Company.

Mandatory deduction of part of profits to the state budget

In accordance with regulatory documents, this is reflected as a decrease in accumulated undistributed profits or an increase in uncovered losses in the period to which the profit relates.

Government grants

The Company applies the provisions of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to business transactions that it carries out in performing the functions of a government

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agency in accordance with legislation, as well as in other cases of government assistance that meet the criteria of paragraph 1 of IAS 20.

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions for receiving them and that they will be received. They are recognised in profit or loss on a systematic basis over the periods in which the Company recognises the related expenses that the grants are intended to compensate for. However, government grants whose main condition is for the Company to purchase, construct or otherwise obtain non-current assets are recognised in the statement of financial position as government grants, with subsequent transfer to profit or loss on a systematic and rational basis over the useful life of the related assets.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. In the event that the Company anticipates being remunerated for some or all of the expenses associated with the provisions (for instance, through insurance contracts), the compensation is acknowledged as a distinct asset, provided that the likelihood of receiving compensation is higher than not. In the statement of comprehensive income, expenses related to provisions are recognised net of the amount of compensation. When the time value of money has a significant impact, the amount of provisions is determined by discounting the estimated cash flows using a pre-tax discount rate that reflects the risks specific to the liability (if applicable). When discounting is applied, the increase in the amount of provisions reflecting the passage of time is recognised as a financial expense.

The Company charges the following provisions:

- Provision for employee benefits (for vacations and material incentives);
- Provision for onerous contracts;
- Provision for warranty repairs;
- Provision for litigations.

The provisions are used exclusively to reimburse the expenses for which they were charged.

Revenue recognition

Revenue is recognized, measured, presented and disclosed in accordance with the requirements of IFRS 15 Revenue from Contracts with Customers (IFRS 15).

The Company mainly receives income from:

- sale of special-purpose goods

The Company applies IFRS 15 Revenue from Contracts with Customers to such income, apart from income from state financing for the performance of state customer functions, which is accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance (see section 10 of this Accounting Policy).

In this section, the terms "Client" (or "Customer" in IFRS 15 terminology) refer to the central executive authority with discretionary powers to incur government expenditure on the procurement of defence-related goods, or another legal entity.

The term "consignee" refers to a unit of the Armed Forces of Ukraine or other armed formation established in accordance with Ukrainian law to which defence goods are directly transferred, or another legal entity.

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The Company recognises revenue when (or as) it fulfils its performance obligation by transferring the promised good or service (i.e. an asset) to the customer. The transfer of an asset is confirmed upon the customer's acquisition of control.

Documentary evidence of the transfer of control to the Customer is the relevant Act of Acceptance and Transfer of Goods, which is the basis for recognising the Customer's accounts receivable from the Company (since, according to paragraph 108 of IFRS 15, accounts receivable are the Company's unconditional right to consideration).

Revenue recognition

In accordance with IFRS 15, income from ordinary activities is recognised when (or as) the Company fulfils its performance obligation by transferring the promised good or service to the customer. A good is considered transferred when (or as) the customer takes control of it. Specifically, revenue is recognised when control of the goods is transferred to the customer (Note 18).

In accordance with paragraph 32 of IFRS 15, the Company determines whether it will satisfy each separate performance obligation over time or at a point in time. To do so, the Company first checks whether at least one of the criteria for recognising revenue over time is met.

- The customer receives and consumes the benefits of the entity's obligation simultaneously.
- The customer controls the asset during its creation or improvement.
- The Company's fulfilment of its obligation does not result in the creation of an asset that can be used for something else.

If not, the Company recognises revenue at a specific point in time (after the obligation has been fulfilled in full). The Company employs the following methods to assess the degree of completion of an obligation:

1) Output method recognises revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as:

- surveys of performance completed to date,
- appraisals of results achieved,
- milestones reached,
- time elapsed and
- units produced or units delivered.

2) The input method assumes that the degree of completion of work is assessed based on the costs already incurred to perform the work/provide the service in relation to the total costs expected to be necessary to fulfil this performance obligation.

If none of the three criteria for recognising revenue over time are met, then the Company recognises revenue at a point in time. To determine the point in time at which the customer obtains control of the asset, the Company considers the following requirements for control over the asset:

- ability to direct the use of an asset;
- obtain substantially all of the remaining benefits from an asset
- restrict the access of other entities to those benefits

In accordance with paragraph 107 of IFRS 15, the Company recognises a contractual asset when the transfer of goods/services to the Consignee specified by the Customer has taken place, but the conditions for recognising receivables from the Customer have not been met. The contractual asset is recognised in the

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amount of expenses actually incurred to perform the contract and is subject to final adjustment after the conditions for recognition of accounts receivable from the Customer are met.

Financial income and expenses

Expenses on loans are recognised in profit or loss for the period in which they are incurred.

Financial income is recognised in the period in which it is accrued, taking into account the actual yield of the relevant asset.

Deferred income tax

Deferred tax liabilities are amounts of income taxes payable in future periods in accordance with taxable temporary differences.

Deferred tax assets are amounts of income taxes recoverable in future periods in accordance with:

- a) deductible temporary differences;
- b) carry forward of unused tax losses;
- c) carry forward of unused tax credits.

Current tax liabilities (assets) for the current and previous periods are measured at the amount expected to be paid to (reimbursed by) the tax authorities using the tax rates and tax legislation in force at the end of the reporting period.

Deferred tax assets and liabilities are measured on a quarterly basis at the tax rates expected to apply to the period when the asset is realised, or the liability is settled. These rates are based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the way the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets (liabilities) on income tax are calculated using the balance sheet method. This involves determining temporary differences at the annual reporting date between the tax base of assets and their carrying amount for financial reporting purposes in accordance with IFRS.

The carrying amount of a deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilised in full or in part.

Current and deferred taxes should be recognised as income or expense and included in profit or loss for the period, except when the taxes arise from a transaction or event that is recognised in the same or a different period outside profit or loss, including:

- in other comprehensive income (e.g., change in carrying amount arising from revaluation of property, plant and equipment);
- directly in equity (e.g., adjustment of retained earnings at the beginning of the period arising from a change in accounting policy applied retrospectively or from the correction of an error).

Deferred tax assets and liabilities are presented on a net basis in the statement of financial position.

Contingent assets and liabilities

Contingent liabilities are not recognised in the financial statements. These are disclosed in the notes to the financial statements, except when the probability of an outflow of resources embodying economic benefits is insignificant.

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Contingent assets are not recognised in the financial statements, but they are disclosed in the notes if there is a sufficient probability of an inflow of economic benefits.

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6. Intangible assets

As at 31 December 2022, intangible assets were stated as follows:

	Other intangible assets	Total
Initial cost		
As at 31 December 2021	-	-
Additions	7	7
Commissioning	7	7
Disposals	-	-
As at 31 December 2022	7	7
Accumulated amortization		
As at 1 January 2022	-	-
Amortisation charges	(1)	(1)
Disposals	-	-
As at 31 December 2022	(1)	(1)
Net carrying amount		
As at 31 December 2021	-	-
As at 31 December 2022	6	6

7. Property, plant and equipment

The movement of property, plant and equipment and construction in progress for the year ended 31 December 2022 is presented as follows:

	Machinery and equipment	Total
Initial cost		
As at 31.12.2021	-	-
Additions	1 924	1 924
As at 31.12.2022	1 924	1 924
Accumulated depreciation and impairment		
As at 31.12.2021	-	-
Accrued for the year	(700)	(700)
As at 31.12.2022	(700)	(700)
Net carrying amount		
As at 31 December 2021	-	-
As at 31 December 2022	1 224	1 224

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Property, plant and equipment temporarily not in use

As of 31 December 2022, the Company has no property, plant and equipment temporarily not in use on its balance sheet.

Property, plant and equipment pledged as collateral

The Company's property, plant and equipment are not pledged as collateral. There are no prepayments for them as at 31 December 2022.

8. Inventories

As at 31 December 2022 -2021, inventories were stated as follows:

	31 December 2022	31 December 2021
Goods	909	-
Work in progress	37 547	-
<i>Including:</i>		
<i>Export licence fees for export control services</i>	286	-
<i>Bank commission for foreign currency payments</i>	73	-
<i>Exchange rate costs when purchasing foreign currency</i>	32 591	-
<i>Salaries</i>	2 851	-
<i>Single social security tax on salaries</i>	610	-
<i>Travel expenses</i>	1 136	-
Total	38 456	-

9. Accounts receivable for products, goods, works, services

As of 31 December 2022 -2021, accounts receivable for products, goods, works and services were as follows:

	31 December 2022	31 December 2021
Accounts receivable for products, goods, works, services:	6 060	-
Allowance for expected credit losses	-	-
Total	6 060	-

Accounts receivable for products, goods, works and services also include amounts due from related parties (Note 24).

Information on the Company's exposure to credit and currency risks, as well as losses from impairment related to accounts receivable for products, goods, works and services, is disclosed in Note 25.

Accounts receivable for products, goods, works, and services are usually settled within 30 days.

The analysis of maturity of accounts receivable for goods, works, services, advances made, and other current accounts receivable is presented in the following table:

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		Total	Not past due and not impaired	Past due but not impaired	
				Overdue less than one year	Overdue for more than a year
31 December 2022		2 752 979	2 752 979	-	-

10. Other current accounts receivable

As at 31 December 2022 -2021, other current receivables were as follows:

	31 December 2022	31 December 2021
Settlements with accountable persons	1 052	-
Other accounts receivable	8	-
Total	1 060	-

11. Cash and cash equivalents

As of 31 December 2022 -2021, cash and cash equivalents included:

	31 December 2022	31 December 2021
Cash on bank accounts	53 669	-
Cash with special conditions for use in national currency	88 518	-
Total	142 187	-

As of 31 December 2022, the Company's balance sheet showed restricted cash in the amount of UAH 88,518 thousand in the treasury account of the Pecherskyi district of Kyiv, intended for specific purchases under contracts with the Ministry of Defence of Ukraine.

12. Equity

Statutory capital

The Company is wholly owned by the state. As of 31 December 2022, the Company's statutory capital amounted to UAH 1,000 thousand.

Retained earnings

The balance of retained earnings shall be distributed in accordance with the internal regulatory documents of the Company.

Profit shall be distributed through:

- Accrued dividends (part of net profit paid to the state budget of Ukraine, 80%);
- Allocation to funds (social and economic fund, 100% after deduction of dividends).

Retained earnings shall be used only based on the Company's decision.

Profit distribution and dividends

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The distribution of profits to owners is determined on the basis of the Company's IFRS financial statements. In accordance with Ukrainian legislation, the amount of net profit payable to the state budget is limited to the amount of net profit for the reporting period, but not exceeding the amount of undistributed profit calculated based on separate financial statements prepared in accordance with IFRS.

The distribution of profits to shareholders is determined on the basis of the Company's IFRS financial statements. The Company is required to determine the allocation of dividends by 30 April and to transfer the relevant amount to the state budget by 30 June of the year following the reporting year. The Cabinet of Ministers of Ukraine approves the rate of profit allocated for the payment of dividends by a separate resolution each year. If no such resolution is adopted by 30 June, the Company is required to transfer 80% of its net profit to the state budget of Ukraine, as provided for in the Law of Ukraine "On Management of State Property" No. 185-V dated 21 September 2006.

As at 31 December 2022, the Company had accrued dividend liabilities for 2022 amounting to UAH 197 thousand for the transfer of a share of profit to the State Budget of Ukraine.

13. Current accounts payable for goods, works and services

As of 31 December 2022 -2021, current accounts payable for goods, works and services were as follows:

	31 December 2022	31 December 2021
Current accounts payable for goods, works and services	133	-
Total	133	-

14. Current provisions

As at 31 December 2022 -2021, long-term and current provisions were as follows:

	Provisions for employee benefits for unused vacation	Provisions for employee benefits as material incentives	Total
Charged for the year	769	5 807	6 576
31 December 2022	769	5 807	6 576

Provisions for employee benefits

As at 31 December 2022, short-term provisions for employee benefits include provisions for unused vacation and material incentives.

15. Other current liabilities

As at 31 December 2022 -2021, other current liabilities were as follows:

	31 December 2022	31 December 2021
Accounts payable for repayable financial assistance received	40 000	-
Settlements with accountable persons	2	-
Total	40 002	-

16. Current accounts payable for settlements with budget

As of 31 December 2022-2021, current accounts payable to the budget were as follows:

	31 December 2022	31 December 2021
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Part of net profit	197	-
Income tax	54	-
Other	-	-
Total	251	-

17. Income tax

The income tax (expense)/income components for the year ended 31 December were as follows:

	2022	2021
Current income tax	54	-
Deferred tax	-	-
Total	54	-

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

	2022
Profit/(loss) before tax	299
Income tax expense/(income) at a tax rate of 18%	54
Income tax expenses/(gain)	54

18. Net income from sales of products

Net income from product sales is presented as follows:

	2022	2021
Income from sales of goods	609 197	-
Including sales for the benefit of the Ministry of Defence	609 197	-
Total	609 197	-

19. Cost of sales

The cost of sales is presented as follows:

	2022	2021
Cost of purchased goods	599 881	-
Labour costs and single social security tax	1 436	-
Total	601 317	-

20. Other operating income

Other operating income is stated as follows:

	2022	2021
Interest income on account balances	9 336	-
Total	9 336	-

21. Administrative expenses

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Administrative expenses are stated as follows:

	2022	2021
Labour costs and SSST	6 098	-
Expenses to charge a material incentive provision	5 807	-
Expenses for the purchase of services related to the maintenance of the Company	1 556	-
Expenses to charge the provision for vacation	769	-
Amortisation	701	-
Bank charges	7	-
Travel expenses, business expenses	270	-
Write-off of inventory	264	-
Total	15 472	-

22. Other operating expenses

Other operating expenses are stated as follows:

	2022	2021
Expenses from operating exchange rate differences	1 399	-
Expenses for sick leave paid by the company	41	-
Other expenses	5	-
Total	1 445	-

23. Contingencies and commitments, operational risks

Legal aspects

Management believes that any liabilities arising from legal proceedings and disputes will not have a material adverse impact on the Company's financial position or the results of its future operations, other than those included in the provision for litigation. The Company has also identified potential liabilities that it believes must be accrued. If such potential liabilities become actual, the Company will be required to recognise additional losses.

Tax risks

The tax environment in Ukraine is characterised by a complex tax administration system and conflicting interpretations of tax legislation and regulations by the tax authorities. This may, among other things, increase financial pressure on taxpayers.

The inconsistent application, interpretation and enforcement of tax legislation can lead to litigation and ultimately result in significant additional taxes, fines and penalties. In light of the current economic and political challenges, the government is considering reforms to Ukraine's tax system. It is difficult to predict exactly what measures will be implemented as part of these reforms and how they will affect the tax environment in general and the Company's tax position in particular.

As of 31 December 2022, the Company was not involved in any litigation with the tax authorities. Where the risk of losing additional resources due to the uncertainty of Ukrainian tax legislation and other regulatory acts is probable as of 31 December 2022, and where the amount can be determined with sufficient certainty, the Company charges a corresponding provision for possible future expenses. The Company identifies potential tax liabilities. These potential liabilities may become actual liabilities, in which case the Company would be required to pay additional taxes and other deductions. As at 31 December 2022, there were no such liabilities.

The Company conducts transactions with related parties. Due to changes in the interpretation of tax legislation in Ukraine and the approach of the tax authorities in accordance with the new Tax Code, there is a possibility that such transactions may be challenged in the future. While the consequences of such challenges cannot be predicted, management believes they will be insignificant.

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The Company is currently obtaining the necessary documentation from non-residents regarding controlled transactions in accordance with the law and is monitoring controlled transactions. Management is confident that the Company is in full compliance with transfer pricing requirements.

The impact of state on the Company's operations

The defence industry plays a pivotal role in Ukraine's economy, security, and strategic interests. The Ukrainian government has the ability to significantly influence the Company's activities through its ownership rights. Such control may result from social and economic initiatives, which could have an adverse impact on the Company's current and future operations. Management is unable to assess the level of control that may exist in the future, nor the potential impact on the Company's financial condition and results of operations.

Licensing

The Company carries out its main activities, which are not subject to licensing.

Social commitments

The Company makes contributions to mandatory social programmes. The Company's social facilities, as well as regional social programmes, bring public benefits in a broad sense and, as a rule, are not limited to the Company's employees.

Insurance

The Company is not insured against business interruption or liability to third parties for property or environmental damage resulting from accidents relating to the Company's property or activities. Without adequate insurance, the loss or destruction of certain assets could materially affect the Company's operations and financial condition.

Contingent liabilities related to environmental protection

Environmental legislation in Ukraine is constantly evolving, and the government is continually reviewing its position on ensuring compliance with this legislation. The Company periodically reviews its obligations under environmental legislation.

Any identified liabilities are recognised immediately. If no current or future reimbursements are expected, expenses relating to environmental liabilities are recognised as such. However, expenses incurred to extend the useful life of the relevant property, or to reduce or prevent future environmental pollution, are capitalised. Potential liabilities that may arise from stricter legal requirements, civil litigation or legislative changes cannot be estimated. Based on the current situation with law enforcement under existing legislation, management believes that the Company has no significant environmental liabilities requiring recognition in these financial statements.

24. Related party transactions

In accordance with IAS 24 Related Party Disclosures, related parties are parties that have the ability to control or significantly influence the operating and financial decisions of the other party. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Related parties may enter into transactions that unrelated parties would not. The terms of such transactions may differ from those of transactions between unrelated parties.

As stated in Note 1, the Company is under the direct control of the Ukrainian government through the Ministry of Defence of Ukraine. Consequently, all state-controlled companies are considered related parties under common control.

Related parties to the Company are:

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- key management personnel and members of their families;
- other related parties include the state, entities affiliated with public authorities (directly and indirectly), as well as entities that are controlled, jointly controlled or significantly influenced by them.

Information on significant amounts and balances of related party transactions as at and for the year ended 31 December 2022 is presented in the tables below.

During 2022, the Company's net income from the sale of goods, works and services to its related parties amounted to:

With the governing body - the Ministry of Defence of Ukraine:

	2022	2021
Net income from sales of products (goods, works, services) to major related parties	609 197	-

During the year ended 31 December 2022, the value of goods, works and services purchased from related parties amounted to:

Other enterprises (state-owned enterprises) related parties:

	2022	2021
Cost of services purchased from related parties	15 763	-
Cost of goods purchased, inventories from related parties	2	-
Total	15 765	-

During the year ended 31 December 2022, the Company had the following other related party transactions:

Other enterprises (state-owned enterprises) related parties:

	2022	2021
Other operating income	9 319	-
Administrative expenses	(6)	-

Accounts receivable, cash and cash equivalents, accounts payable

With the governing body - Ministry of Defence of Ukraine:

	31 December 2022	31 December 2021
Accounts receivable for products, goods, works, services	6 060	-
Other current liabilities	2 889 441	-

Other enterprises (state-owned enterprises) related parties:

	31 December 2022	31 December 2021
Accounts receivable for settlements from accrued income	2 835	-
Cash and cash equivalents	142 187	-

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Other current liabilities (40 000) -

Remuneration to the key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Company's director, his deputies and the chief accountant.

During 2022, key management personnel consisted of four persons. In 2022, compensation to key management personnel, which is included in personnel expenses, comprised salaries and amounted to UAH 1,642 thousand.

25. Objectives and policies of financial risks management

The Company's main financial instruments are cash and cash equivalents. The primary purpose of these instruments is to finance the Company's activities. The Company also holds other financial instruments, including accounts receivable and payable arising from operating activities. The Company has not entered into any derivative transactions to manage the interest rate and currency risks associated with its activities and sources of financing.

The main risks associated with the Company's financial instruments are liquidity risk, currency risk, and credit risk. The Company has policies in place to manage each of these risks, which are described below.

Currency risk

The Company conducts business in Ukraine and is primarily exposed to currency risk through providing services under commission agreements denominated in US dollars or euros. It does not hedge its currency positions.

The table below discloses information on the sensitivity of profit or loss to reasonably possible changes in exchange rates applied as at the reporting date, assuming that all other variables remain unchanged.

The Company's assets and liabilities subject to currency risks are presented in the table in hryvnia equivalent at the NBU exchange rate:

31 December 2022	USD	EUR	UAH	Total
Accounts receivable for goods, works, services	-	-	6 060	6 060
Cash and cash equivalents	-	-	142 187	142 187
Total financial assets	-	-	148 247	148 247
Accounts payable for goods, works, services	-	-	133	133
Other current payables	-	-	40 002	40 002
Total financial liabilities			40 135	40 135
Net currency position	-	-	108 112	108 112

Credit risk

The Company assumes credit risk, defined as the risk that one party to a financial instrument will cause financial loss to the other party as a result of failing to fulfil its obligations. The sale of products by the Company on credit terms and other transactions with counterparties that result in financial assets are the

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main sources of credit risk. The Company's policy is that customers who wish to pay on credit terms must undergo a credit check. Significant outstanding balances are also reviewed on an ongoing basis. The Company is unable to manage its credit risk effectively because the terms and conditions for repayments on the sale of certain products are determined by the Ministry of Defence of Ukraine and its subordinate agencies.

According to the international ratings agency Fitch, the credit ratings of the financial institutions with which the Company works are as follows:

Name of a financial institution	Credit rating	31 December 2022	31 December 2021
JSC Ukreximbank	C-tight liquidity (Fitch)	53 669	-
State Treasury of Ukraine in Kyiv	Undefined	88 518	-
Total cash and cash equivalents		142 187	-

The maximum level of credit risk is equal to the carrying amount of the financial assets presented below:

	31 December 2022	31 December 2021
Cash and cash equivalents	142 187	-
Trade accounts receivable for products, goods, works and services	6 060	-
Total	148 247	-

Concentration risk

The Company is exposed to concentration risk in relation to trade receivables for goods, works and services. As at 31 December 2022, trade receivables from one key customer accounted for 100% of total trade receivables for goods, works and services.

Capital management

The Company's financing is primarily derived from its equity and borrowings.

The primary objective of the Company's capital management is to maintain sufficient creditworthiness and equity ratios in order to preserve the Company's ability to continue its operations. Capital management is primarily concerned with ensuring compliance with Ukrainian legislation and the national regulatory authority's requirements for state defence procurement.

The Company's capital management policy aims to optimise the capital structure, thereby reducing overall costs and providing the flexibility necessary for the Company to access capital markets. Management seeks to maintain a balance between the higher returns that can be achieved with a higher level of debt and the advantages and stability provided by a strong capital position. There have been no changes to the approach to capital management during the reporting period.

As at 31 December 2022, the Company has no outstanding credit obligations but has obligations under repayable financial assistance in the amount of UAH 40,000 thousand.

The ratio of borrowed funds to own funds as at 31 December 2022 and 2021 is presented as follows:

	2022	2021
Current accounts payable for goods, works, services	133	-
Other current liabilities	40 002	-
Less cash and cash equivalents	(142 187)	-
Net debt	(102 052)	-
Total equity	49	-

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Debt-to-capital ratio

2083%

-

Liquidity risk

The Company's objective is to maintain a balance between continuity of financing and flexibility by using credit terms provided mainly by suppliers and banks. The Company analyses maturity of its assets and liabilities and plans its liquidity depending on the expected maturity of its obligations under the relevant instruments. In the event of insufficient or excessive liquidity, the Company reallocates resources to achieve optimal financing of its activities.

The table below presents an analysis of the Company's financial liabilities, which are classified based on their respective maturity dates and the remaining period to maturity as at the reporting date. The amounts disclosed in the table represent the undiscounted cash flows of the principal amount of debt and interest.

The analysis of financial liabilities by maturity as at 31 December 2022 is presented below:

2022	On demand	During 12 months	1-5 years	Over 5 years	Total
Current accounts payable for goods, works, services	-	133	-	-	133
Other current liabilities	-	40 002	-	-	40 002

26. Fair value of financial instruments

As at 31 December 2022, the fair value of financial assets and liabilities was approximately equal to their carrying amount.

The fair value of financial instruments is determined and disclosed in accordance with the requirements of IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurement. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether this price is directly observed or determined using another valuation technique. When measuring the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability as if market participants had taken these characteristics into account in calculating the value of the asset or liability at the measurement date. For the purposes of measurement or disclosure in these financial statements, fair value is determined on the basis described above.

As there is no observable market for most of the Company's financial instruments, professional judgement based on the current economic situation and specific risks inherent in the instrument must be used to determine their fair value. All financial assets and liabilities are classified as Level 2 in the hierarchy. The estimates presented in these financial statements do not necessarily reflect the amounts the Company could realise for a particular instrument on the market.

The Company uses the following hierarchy to determine the fair value of financial instruments and disclose information about it by measurement category:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability

During the reporting period, there were no transitions between fair value measurement Levels 1 and 2, nor any transitions to/from Level 3.

27. Events after the reporting period

As stated in Note 1, Ukraine is currently engaged in a full-scale war with Russia and is operating under martial law.

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The key risk is that the war will continue for an extended period, even if the fighting is localised. This will necessitate a prolonged period of resilience from the economy, which could exacerbate the downturn and increase the need for support from external partners. The war is likely to have a significant impact on the global economy.

The growing international support for Ukraine is a result of the resistance of the Armed Forces, effective diplomacy and extensive global media coverage of events. The primary mechanisms of support are the provision of weapons, financial and humanitarian aid, and the imposition of sanctions on Russia.

The situation is developing, and the consequences are yet unclear. It is not possible for management to predict all changes that may affect the national economy, nor to predict the impact these changes may have on the Company's financial position and results of operations in the future. Management continues to monitor the potential impact of these events on the Company and will take all possible measures to mitigate any consequences.

The management of the Company cannot predict all changes that may affect the national economy, nor can it predict the impact that such changes may have on the financial condition and results of operations of the Company in the future.

In accordance with the order of the Ministry of Defence of Ukraine dated 02.05.2025. No. 281 "On the Reorganisation of the State Enterprise of the Ministry of Defence of Ukraine "State Logistics Operator", the process of joining the state enterprise of the Ministry of Defence of Ukraine "Defence Procurement Agency" has been initiated, and the latter has been recognised as the successor to all rights and obligations of the state enterprise of the Ministry of Defence of Ukraine "State Logistics Operator".

There were no other significant events that affected or could affect the financial position, cash flows or results of operations of the Company between the reporting date and the date of signing of the Company's financial statements for 2022 prepared in accordance with IFRS.

Approval of the financial statements

These financial statements of the Company for the year ended 31 December 2022 were approved for issue and signed by the Management on 23 May 2025.

Director

Zhumadilov A.K.

Chief Accountant

Ilchuk I.A.

