# JSC Ukrposhta

# International Financial Reporting Standards Financial Statements and Independent Auditor's Report

# 31 December 2019

# Contents

# *Independent Auditor's Report*

To the Shareholder and Management of JSC Ukrposhta

## Report on the audit of the financial statements

### *Our qualified opinion*

In our opinion, except for the effects and possible effects of the matters described in the Basis for qualified opinion section of our report, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company Ukrposhta (the "Company" or JSC "Ukrposhta") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and comply, in all material respects, with financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine.

Our auditor's report is consistent with our additional report to the Audit Committee dated 23 June 2020.

**What we have audited**

The Company's financial statements comprise:

- the balance sheet (statement of financial position) (Form 1) as at 31 December 2019;
- the statement of financial results (statement of comprehensive income) (Form 2) for the year then ended;
- the statement of cash flows (indirect method) (Form 3) for the year then ended;
- the statement of changes in equity (Form 4) for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

### *Basis for qualified opinion*

**Matters that affect the current year**

1. **International postal exchange revenue and costs.** In course of providing the international postal services the Company conducts transactions with postal service operators in other countries. As a result of these transactions, for the year ended 31 December 2019, the Company recognised the revenue from Provision of postal services-international postal exchange of UAH 893,417 thousand (as disclosed in Note 20) and expenses for Costs incurred on international postal exchange of UAH 533,068 thousand (as disclosed in Note 21). As at 31 December 2019 the Company also recognised related receivables from the postal operators of other countries of UAH 217,915 thousand (as disclosed in Note 11) and related payables due to the postal operators of other countries of UAH 415,367 thousand (as disclosed in Note 16).
The above-mentioned amounts of revenue, expenses and related receivables and payables are recognised during the year based on estimates made by management on the basis of volumes of transactions and tariffs agreed with other postal operators. The final amounts are agreed between parties after the end of the reporting period and therefore until such amounts are mutually agreed the estimates could be subject to adjustment.
The Company requested us to complete our audit when a substantial portion of those revenues and expenses, as well as related receivables and payables have not been yet mutually agreed with the other postal operators and therefore remained to be estimated. We considered obtaining alternative audit evidence for such estimated amounts, other than mutual agreement documentation. However, due to insufficient details of the Company's accounting records and lack of appropriate policies and controls over storage of the underlying supporting documents for a part of the current reporting year, the management has not provided us with such alternative evidence that would be sufficient and appropriate for us to conclude that the remaining estimated amounts are calculated properly.
While the estimated amounts of revenue, expense and related receivables and payables appear to be consistent with our knowledge of the Company's operations and trends of the prior years, the lack of

audit trail causes us to be unable to determine whether any adjustments to the respective revenues and expenses and related receivables and payables are necessary.

2. **Measurement of investment property.** As disclosed in Note 3 to the financial statements the Company accounts for its investment property applying the fair value model as allowed under IAS 40 “Investment Property”. As disclosed in Note 4, following legislative changes the Company reclassified certain real estate properties from property, plant and equipment to investment property in 2019. However, the Company did not revalue such investment property to fair value at the date of reclassification and as at 31 December 2019. Furthermore, the impact of this matter on the carrying amounts of investment property, and related impact on deferred tax balances as at 31 December 2019, gain or loss arising from a change in the fair value of investment property and other comprehensive income for 2019 have not been quantified by the Company. As disclosed in Note 9, management assessed that the fair value of investments property is in the range from UAH 650,000 thousand to UAH 750,000 thousand. Accordingly, in our view, based on the available evidence, the carrying value of the investment property as at 31 December 2019 is materially understated.

**Matters that affect the current year and the corresponding figures**

1. **Sales of own goods and commission goods and Subscription of periodicals.** The Company does not maintain appropriate accounting records and supporting documents in relation to Sales of own goods and commission goods. Accordingly, we were not able to obtain sufficient and appropriate audit evidence with respect to Sales of own goods and commission goods of UAH 365,028 thousand (2018: UAH 385,133 thousand) and Subscription of periodicals of UAH 98,149 thousand (2018: UAH 118,484 thousand) which forms part of Subscription and distribution of periodicals as disclosed in Note 20 and Amounts due for sold merchandise of UAH 102,654 thousand (31 December 2018: UAH 116,032 thousand) as disclosed in Note 19. Consequently, we were unable to determine whether any adjustments to the respective revenue or related balances were necessary. Our audit opinion on 2018 financial statements was also qualified for these matters.

2. **Provision of postal services other than international postal exchange.** Before 2019 the Company did not maintain appropriate accounting records and supporting documents in relation to postal services settled by means other than direct payments to the Company’s bank accounts. Accordingly, we were not able to obtain sufficient and appropriate audit evidence with respect to the provision of postal services for the portion settled by means other than direct payments to the Company’s bank accounts, which amounted to UAH 418,338 thousand of revenue from delivery of letters and UAH 808,868 thousand of revenue from delivery of parcels, small packages for the year ended 31 December 2018 as disclosed in Note 20. Consequently, we were not able to obtain sufficient and appropriate audit evidence to confirm a portion of the balance of unused postage stamps in the amount of UAH 16,551 thousand as at 31 December 2018 reported in the balance sheet under Deferred revenue as disclosed in Note 18. Consequently, we were unable to determine whether any adjustments to the respective revenue or related balances were necessary. Our audit opinion on 2018 financial statements was also qualified for these matters.

3. **Financial services** Before 2019 the Company did not maintain appropriate accounting records and supporting documents in relation to collection of utility payments and postal money transfers. Accordingly, we were not able to obtain sufficient and appropriate audit evidence with respect to UAH 102,338 thousand, which represents a portion of revenues from collection of utility payments and UAH 233,926 thousand of revenues from postal money transfers for the year ended 31 December 2018 as disclosed under Financial services in Note 20, and related balances of money transfers due to customers of UAH 329,281 thousand as at 31 December 2018 reported in the balance sheet under Other current liabilities as disclosed in Note 19. Also, we were not able to obtain sufficient and appropriate audit evidence to confirm a portion of foreign exchange gains less losses related to postal money transfers disclosed as Other operating income for the year ended 31 December 2018 in Note 27 in the amount of UAH 108,220 thousand. Consequently, we were unable to determine whether any adjustments to the respective revenues and other operating income were necessary. Our audit opinion on 2018 financial statements was qualified for these matters. Our opinion on the current period’s financial statements is

also modified because of the possible effects of these matters on the respective revenue in the current period because of the respective qualification of the related balances of money transfers due to customers as at 31 December 2018.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and the ethical requirements of the Law on Audit of Financial Statements and Auditing that are relevant to our audit of the financial statements in Ukraine. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 6 part 4 of the Law on Audit of Financial Statements and Auditing.

## *Our audit approach*

**Overview**

| | |
|---|---|
| **Materiality** | UAH 77,778 thousand |
| **Key audit matters** | Revenue from sales of goods, works and services<br>Initial application of IFRS 16 "Leases" and subsequent accounting for leases |

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide a basis for our opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

**Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall materiality*** | UAH 77,778 thousand |
| ***How we determined it*** | 1% of total revenues |
| ***Rationale for the materiality benchmark applied*** | We chose revenue as the benchmark because, in our view, it is most representative of the performance of the Company. JSC Ukrposhta is a government owned business with certain regulated services and carries a special social role in the society such as delivery of pensions and maintaining presence in very distant and scarcely populated areas, hence its objective is not about maximising profits or returns to the shareholder. We have applied this benchmark, based on our analysis of the common information needs of users of the financial statements. We determined materiality as 1% of total revenue, which is, based on our professional judgement, within the range of acceptable quantitative materiality thresholds. |

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Revenue from sales of goods, works and services (Note 20)***<br><br>Due to a significant delay between the time when the international postal exchange services are rendered and the time when invoices are agreed on a bi-lateral basis and settled and considering inherent limitations in our audit of the portion of the Company's revenue from individuals characterised by numerous low value transactions immediately paid in cash, we were unable to obtain sufficient and appropriate audit evidence with respect to a portion of Revenue from sales of goods, works and services in the total amount of UAH 1,373,145 thousand as described above in the Basis for qualified opinion section of our audit report.<br><br>This key audit matter relates to the remainder of Revenue from sales of goods, works and services which is not qualified. The unqualified revenue includes the following: the transactions with legal entities which get settled via direct payments to the bank accounts ("non-cash revenue") and are legally accounted for on monthly basis, which is confirmed by relevant statements of reconciliations with counterparties; transactions paid by means of credit cards ("acquiring revenue") and part of transactions immediately paid in cash ("cash revenue"). | We designed our audit strategy appropriately and we planned different audit approaches and procedures for each category of revenues: settled in cash, by credit cards and through bank accounts. We applied a combination of tests of controls and substantive procedures to cash revenues and acquiring revenues, whereas for revenues settled through direct payments to the bank accounts, we primarily applied substantive audit procedures, including the following:<br>• Obtained an understanding of business processes, internal control systems and inherent document flow through discussions with Company management and performing an analysis of policies and internal regulations;<br>• An analysis of accounting entries for recognition of revenues in accounting records and related allocation on analytical accounts between cash revenues, acquiring revenues and revenues settled through direct payments to the bank accounts;<br>• Traced the amount of payments received for goods and services to the amount of revenue from sale of goods, works and services for the year ended 31 December 2019, which includes cash, acquiring and non-cash settlements; |

Considering the overall materiality of revenues for the Company, the design of the appropriate audit strategy over revenue, including the split of revenues between cash portion, acquiring revenue and revenue settled through direct payments to the bank accounts, is the key audit matter.

- Sample-based tracing of cash revenues based on individual accounting entries to respective cash reports for the year ended 31 December 2019;
- Analytical procedures to confirm revenue from delivery of letters and revenues from postal money transfers;
- Substantive procedures in respect of the balance of unused postage stamps, including its classification between cash and non-cash portion and analysis of average usage term of postal stamps based on the survey results delivered by an external polling company;
- Tested controls and substantive procedures in respect of cash revenue categories;
- Tested controls and substantive procedures in respect of acquiring revenue;
- Circularisation of the aggregated amounts of transactions settled by credit cards with banking institutions;
- Substantive procedures in respect of revenue categories settled through direct payments to the bank accounts.

### *Initial application of IFRS 16 "Leases" and subsequent accounting for leases*

IFRS 16 "Leases" ("IFRS 16") requires analysis of contracts and business relationships, as well as making a significant number of key judgements and estimates relating to among others determination of the scope of the new standard, duration of the leases, lease payments or discount rates. Considering the above, the significance of the impact on the financial statements as well as since the Company adopted the standard for the purpose of the preparation of the financial statements for the first time, the matter was considered as a key audit matter.

The Company's management decided to adopt IFRS 16 using the modified retrospective approach.

As a result of the recognition of right-of-use assets and lease liabilities related to the adoption of IFRS 16, the Company's total assets and total liabilities reported in the balance sheet (statement of financial position) increased by UAH 188,173 thousand as at 1 January 2019 compared to the financial data presented in the financial statements for the prior financial year. At 31 December 2019, the Company had recorded right-of-use assets of UAH 356,621 thousand representing 4.5% of its total assets and lease liabilities of UAH 294,248 thousand representing 5.5% of its total liabilities.

In the course of the audit of the financial statements we have analysed the accounting policies in respect of accounting for contracts subject to IFRS 16 and related judgments and estimates, including among others:

- assessment of the scope of agreements subject to accounting under IFRS 16;
- determination of the lease payments;
- split of leases between state-owned or municipal and private lessors;
- assessment of the duration of leases;
- discount rates;
- applied practical expedients.

Furthermore, our audit procedures included also among others:

- understanding of the process of the adoption of IFRS 16, including the review of the updated accounting policy and policy choices;
- performing tests of details for all lease contracts in order to verify on a sample basis the accuracy of parameters used in the calculation of lease liabilities and right-of-use assets;
- analysis of the completeness of identification of contracts in scope of IFRS 16;
- sample-based independent recalculation of the amount of the lease liabilities and the right-of-use assets.

The disclosure related to the impact of the initial application of IFRS 16 is included in Note 5 “Adoption of New of Revised Standards and Interpretations” of the financial statements.

The disclosures related to right-of-use assets and lease liabilities related to the application of IFRS 16 are included in Note 9 ”Property, plant and equipment, construction in progress and investment property” of the financial statements.

The disclosures about the accounting policies related to the application of IFRS 16 including key judgments and estimates are included in Note 3 “Significant Accounting Policies” and Note 4 “Critical Accounting Estimates and Judgements in Applying Policies” of the financial statements.

Furthermore, we have assessed the adequacy of the disclosures made in the financial statements in respect to the guidelines provided in IFRS 16, as well as, the key judgments related to accounting for lease contracts and the impact of the adoption of the new standard on the Company’s financial statements.

## *Reporting on Other information including the Management report*

Management is responsible for the Other information. The Other information comprises the Management report and the Annual information of the issuer of securities as defined by the Law on Securities and the Stock Market, which we obtained prior to the date of this auditor’s report.

Our qualified opinion on the financial statements does not cover the Other information, including the Management report.

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.

Based on the work undertaken in the course of our audit, in our opinion, the information given in the management report for the financial year for which the financial statements are prepared is consistent with the financial statements.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in management report and other information that we obtained prior to the date of this auditor’s report. Accordingly, the other information is materially misstated for the same reason with respect to the amounts or other items in the Company’s Management report and Annual information of the issuer of securities affected by the amounts and other matters described in the Basis for qualified opinion section of our report.

## *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine, 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.

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

## *Auditor's responsibilities for the audit of the financial statements*

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

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

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

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

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

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

## Report on other legal and regulatory requirements

### *Appointment*

We were first appointed as auditors of the Company on 28 November 2016 to audit 2016 financial statements. We have been reappointed by the management on 17 January 2018 to audit financial statements for the years ended 31 December 2017-2019. The total period of our uninterrupted engagement appointment is 4 years.

The key partner on the audit resulting in this independent auditor's report is Julia Paranich.

LLC AF "PricewaterhouseCoopers (Audit)"
Registration number in the Register of Auditors and Auditing Entities 0152

Julia Paranich
Registration number in the Register of Auditors and Auditing Entities 101809

Парамич

Kyiv, Ukraine

LLC AF "PricewaterhouseCoopers (Audit)"

26 June 2020

*All amounts in thousands of Ukrainian Hryvnia*

Enterprise: **JSC Ukrposhta**
Territory: **Ukraine, Kyiv, Shevchenkivskyi District**
Organisational and legal form of economic activity: **State Joint Stock Company**
Type of economic activity: **National postal services**
Average number of employees: **64,655**
Address, telephone: **22, Khreschatyk Str., Kyiv**
Measurement unit: thousands of Hryvnias, no decimal point
Prepared (mark "v" in the appropriate cell):

| | |
|---|---|
| in accordance with National Regulations (Standards) of Accounting | |
| in accordance with International Financial Reporting Standards | v |

## Balance Sheet (Statement of Financial Position)

Form No 1 DKUD code 1801001

| Assets | Note | Line code | 31 December 2018 | 31 December 2019 |
|---|---|---|---|---|
| **I. Non-current assets** | | | | |
| Intangible assets | | 1000 | 28,402 | 25,037 |
| historical cost | | 1001 | 119,063 | 119,590 |
| amortisation | | 1002 | (90,661) | (94,553) |
| Capital investments in progress | 9 | 1005 | 85,738 | 38,416 |
| Property, plant and equipment | 9 | 1010 | 3,424,096 | 3,305,771 |
| historical cost | | 1011 | 4,946,099 | 5,066,378 |
| depreciation | | 1012 | (1,522,003) | (1,760,607) |
| Investment property | 9 | 1015 | 14,937 | 187,724 |
| historical cost | | 1016 | 14,937 | 187,724 |
| depreciation | | 1017 | - | - |
| Other financial investments | | 1035 | 13,372 | 13,816 |
| Long-term accounts receivable | | 1040 | 455 | 288 |
| Deferred tax assets | | 1045 | - | - |
| **Total Section I** | | **1095** | **3,567,000** | **3,571,052** |
| **II. Current assets** | | | | |
| Inventory | 10 | 1100 | 235,837 | 195,381 |
| production stock | | 1101 | 159,774 | 123,546 |
| work in progress | | 1102 | 1,081 | 2,606 |
| finished goods | | 1103 | 7,064 | 8,422 |
| goods for resale | | 1104 | 67,918 | 60,807 |
| Accounts receivable for goods, works and services | 11 | 1125 | 158,358 | 275,050 |
| historical cost | | 1125.1 | 183,982 | 307,690 |
| impairment provision | | 1125.2 | (25,624) | (32,640) |
| Accounts receivable on settlements: on advances issued | 11 | 1130 | 22,402 | 19,097 |
| with the budget | 11 | 1135 | 25,794 | 10,143 |
| including corporate profit tax prepaid | | 1136 | - | - |
| on accrued income | 11 | 1140 | 5,453 | 8,335 |
| Other current accounts receivable | 11 | 1155 | 138,635 | 126,678 |
| historical cost | | 1155.1 | 151,564 | 144,050 |
| impairment provision | | 1155.2 | (12,929) | (17,372) |
| Cash and cash equivalents | 12 | 1165 | 1,846,931 | 3,675,137 |
| Cash on hand | | 1166 | 169,106 | 210,346 |
| Current accounts | | 1167 | 1,677,825 | 3,464,791 |
| Other current assets | | 1190 | 28,444 | 26,482 |
| **Total Section II** | | **1195** | **2,461,854** | **4,336,303** |
| **TOTAL ASSETS** | | **1300** | **6,028,854** | **7,907,355** |



Notes on pages 7-43 form an integral part of these financial statements.

*All amounts in thousands of Ukrainian Hryvnia*

**Balance Sheet (Statement of Financial Position) (continued)**

| | | Form No 1 | DKUD Code | 1801001 |
|---|---|---|---|---|
| **Liabilities** | **Note** | **Line code** | **31 December 2018** | **31 December 2019** |
| **I. Equity** | | | | |
| Registered (share) capital | 14 | 1400 | 6,518,597 | 6,518,597 |
| Revaluation effect on corporatisation | 14 | 1416 | (5,254,038) | (5,254,038) |
| Retained earnings | | 1420 | 1,003,366 | 1,287,116 |
| **Total Section I** | | **1495** | **2,267,925** | **2,551,675** |
| **II. Long-term liabilities and provisions** | | | | |
| Deferred tax liabilities | 28 | 1500 | 114,263 | 208,119 |
| Long-term bank borrowings | | 1510 | - | - |
| Other long-term liabilities | 15 | 1515 | 72,328 | 196,745 |
| **Total Section II** | | **1595** | **186,591** | **404,864** |
| **III. Current liabilities and provisions** | | | | |
| Short-term bank borrowings | 15 | 1600 | 112,627 | 41,939 |
| Current accounts payable on settlements: for long-term liabilities | 15 | 1610 | 65,993 | 98,902 |
| for goods, works and services | 16 | 1615 | 541,590 | 541,110 |
| with the budget | | 1620 | 94,929 | 94,574 |
| including liability on income tax | | 1621 | 14,329 | 124 |
| for insurance | | 1625 | 36,285 | 49,526 |
| on payroll | | 1630 | 154,033 | 179,259 |
| Current accounts payable on advances received | | 1635 | 106,818 | 50,972 |
| Current accounts payable on settlements with shareholder | 14 | 1640 | - | 121,607 |
| Accruals and other provisions | 17 | 1660 | 330,188 | 424,173 |
| Deferred revenue | 18 | 1665 | 364,277 | 401,630 |
| Other current liabilities | 19 | 1690 | 1,767,598 | 2,947,124 |
| **Total Section III** | | **1695** | **3,574,338** | **4,950,816** |
| **TOTAL LIABILITIES AND EQUITY** | | **1900** | **6,028,854** | **7,907,355** |

Approved for issue and signed on 26 June 2020.

Smelyansky I.
General Director

Paliy M.
Deputy General Director of Finance

Kuts I.
Chief Accountant



Notes on pages 7-43 form an integral part of these financial statements.

*All amounts in thousands of Ukrainian Hryvnia*

**Enterprise: JSC Ukrposhta**

**Statement of Financial Results (Statement of Comprehensive Income)**

**for the year ended 31 December 2019**

Form No 2 DKUD Code 1801003

## I. FINANCIAL RESULTS

| Item | Note | Line code | For the reporting period - 2019 | For the prior period (after changes in presentation – Note 3) |
|---|---|---|---|---|
| 1 | | 2 | 3 | 4 |
| Net revenue from sales of goods, works and services | 20 | 2000 | 7,777,843 | 6,635,591 |
| Cost of sales of goods, works and services | 21 | 2050 | (6,596,957) | (6,207,604) |
| **Gross:** | | | | |
| Profit | | 2090 | 1,180,886 | 427,987 |
| Loss | | 2095 | - | - |
| Other operating income | 27 | 2120 | 713,311 | 179,319 |
| Administrative expenses | 23 | 2130 | (1,014,143) | (915,553) |
| Selling expenses | 22 | 2150 | (188,026) | (238,767) |
| Other operating expenses | 24 | 2180 | (190,374) | (110,754) |
| **Financial results from operating activities:** | | | | |
| Profit | | 2190 | 501,654 | - |
| Loss | | 2195 | - | (657,768) |
| Other financial income | 25 | 2220 | 91,419 | 154,474 |
| Other income | | 2240 | 1,434 | 1,309 |
| Financial expenses | 26 | 2250 | (74,048) | (107,204) |
| Other expenses | | 2270 | (21,246) | (17,805) |
| **Financial result before taxation:** | | | | |
| Profit | | 2290 | 499,213 | - |
| Loss | | 2295 | - | (626,994) |
| Income tax (expense)/credit | 28 | 2300 | (93,856) | 119,213 |
| **Net financial result:** | | | | |
| Profit | | 2350 | 405,357 | - |
| Loss | | 2355 | - | (507,781) |

## II. COMPREHENSIVE INCOME

| Item | Note | Line code | For the reporting period – 2019 | For the prior period - 2018 |
|---|---|---|---|---|
| 1 | | 2 | 3 | 4 |
| Revaluation of non-current assets | | 2400 | - | - |
| Other comprehensive income | | 2445 | - | - |
| **Other comprehensive income before tax** | | **2450** | - | - |
| Income tax arising on other comprehensive income | | 2455 | - | - |
| **Other comprehensive income after tax** | | **2460** | - | - |
| **Comprehensive income (total of lines 2350, 2355 and 2460)** | | **2465** | **405,357** | **(507,781)** |

*All amounts in thousands of Ukrainian Hryvnia*

**_Statement of Financial Results (Statement of Comprehensive Income)_**
**for the year ended 31 December 2019**
**(continued)**

Form No 2

### III. ELEMENTS OF OPERATING EXPENSES

| Item | Note | Line code | For the reporting period – 2019 | For the prior period (after changes in presentation – Note 3) |
|---|---|---|---|---|
| 1 | | 2 | 3 | 4 |
| Material expenses | | 2500 | 555,274 | 616,404 |
| Payroll | | 2505 | 4,691,193 | 4,282,103 |
| Social payments | | 2510 | 1,105,498 | 1,019,201 |
| Depreciation/amortisation | | 2515 | 290,590 | 291,710 |
| Other operating expenses | | 2520 | 1,252,050 | 1,151,233 |
| Cost of goods sold | | 2530 | 94,895 | 112,027 |
| **Total** | | **2550** | **7,989,500** | **7,472,678** |

### IV. CALCULATION OF SHARES PROFITABILITY

| Item | Note | Line code | For the reporting period – 2019 | For the prior period - 2018 |
|---|---|---|---|---|
| 1 | | 2 | 3 | 4 |
| Average annual number of ordinary shares | | 2600 | - | - |
| Average annual number of ordinary shares, adjusted | | 2605 | - | - |
| Net profit/(loss) per share | | 2610 | - | - |
| Net profit/(loss) per share, adjusted | | 2615 | - | - |
| Dividends per ordinary share | | 2650 | - | - |

Approved for issue and signed on 26 June 2020.

Smelyansky I.
General Director

Paliy M.
Deputy General Director of Finance

Kuts I.
Chief Accountant



Notes on pages 7-43 form an integral part of these financial statements.

*All amounts in thousands of Ukrainian Hryvnia*

***Enterprise:*** **JSC Ukrposhta**

**Statement of Cash Flows (indirect method)**
**for the year ended 31 December 2019**

Form No 3 DKUD code 1801004

| Item | Note | Line code | For the reporting period – 2019 | For the prior period - 2018 |
|---|---|---|---|---|
| 1 | | 2 | 3 | 4 |
| **I. Cash flows from operating activities** | | | | |
| Profit / (loss) before tax | | 3500 | 499,213 | (626,994) |
| Adjustments for:<br>Depreciation, amortisation and impairment of non-current assets | | 3505 | 290,590 | 291,710 |
| Increase in provisions | | 3510 | 131,338 | 185,194 |
| Unrealised foreign exchange gain | | 3515 | 76,812 | (11,603) |
| Loss / (gain) from non-operating activities and other non-cash transactions | | 3520 | 4,227 | (3,475) |
| Financial expenses | 26 | 3540 | 74,048 | 107,204 |
| Finance income | 25 | 3524 | (91,419) | (154,474) |
| (Increase) / decrease in current assets | | 3550 | (46,243) | 614,522 |
| Increase / (decrease) in current liabilities | | 3560 | 1,161,312 | (1,117,489) |
| **Cash flows from operating activities** | | **3570** | **2,099,878** | **(715,405)** |
| | | | | |
| Income tax paid | | 3580 | (1,003) | - |
| Interest paid | | 3585 | (50,146) | (25,874) |
| **Net cash from operating activities** | | **3195** | **2,048,729** | **(741,279)** |
| | | | | |
| **II. Cash flows from investing activities** | | | | |
| Interest received | | 3215 | 86,548 | 38,589 |
| Payments for acquisition of:<br>property, plant and equipment and intangible assets | | 3260 | (37,003) | (198,198) |
| **Net cash used in investing activities** | | **3295** | **49,545** | **(159,609)** |
| | | | | |
| **III. Cash flows from financing activities** | | | | |
| Bonds issued / (repaid) | | 3305 | (70,598) | 104,308 |
| Dividends paid | | 3355 | - | - |
| Repayment of lease liabilities (extinguishment of liabilities under finance lease contracts in 2018) | | 3365 | (98,665) | (64,858) |
| Repayment of borrowings | | 3390 | (23,993) | (285,881) |
| **Net cash used in financing activities** | | **3395** | **(193,256)** | **(246,431)** |
| | | | | |
| Net increase (decrease) in cash and cash equivalents | | 3400 | 1,905,018 | (1,147,319) |
| Cash and cash equivalents at the beginning of the year | | 3405 | 1,846,931 | 2,982,647 |
| Impact of change in foreign exchange rates | | 3410 | (76,812) | 11,603 |
| **Cash and cash equivalents at the end of the year** | 12 | **3415** | **3,675,137** | **1,846,931** |

Approved for issue and signed on 26 June 2020.

Smelyansky I.
General Director

Paliy M.
Deputy General Director of Finance

Kuts I.
Chief Accountant



Notes on pages 7-43 form an integral part of these financial statements.

*All amounts in thousands of Ukrainian Hryvnia*

**JSC Ukrposhta**

**Statement of Changes in Equity**

**for the year ended 31 December 2019**

Form No 4 DKUD code 1801005

| Item | Line code | Registered (share) capital | Revaluation effect on corporatisation | Retained earnings | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **Balance at the beginning of the year** | 4000 | **6,518,597** | **(5,254,038)** | **1,003,366** | **2,267,925** |
| Corrections of errors | 4010 | - | - | - | - |
| **Balance at the beginning of the year (restated)** | **4095** | 6,518,597 | (5,254,038) | 1,003,366 | 2,267,925 |
| Net profit for the reporting period | 4100 | - | - | 405,357 | 405,357 |
| Current accounts payable on settlements with shareholder (Note 14) | 4215 | - | - | (121,607) | (121,607) |
| **Changes in equity, total** | **4295** | - | - | **283,750** | **283,750** |
| **Balance at the year end** | **4300** | **6,518,597** | **(5,254,038)** | **1,287,116** | **2,551,675** |

**Statement of Changes in Equity**

**for the year ended 31 December 2018**

Form No 4 DKUD code 1801005

| Item | Line code | Registered (share) capital | Revaluation effect on corporatisation | Retained earnings | Total |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **Balance at the beginning of the year** | 4000 | **6,518,597** | **(5,254,038)** | **1,534,200** | **2,798,759** |
| Change in accounting policy | 4005 | - | - | (8,760) | (8,760) |
| Corrections of errors | 4010 | - | - | (14,293) | (14,293) |
| **Balance at the beginning of the year (restated)** | **4095** | 6,518,597 | (5,254,038) | 1,511,147 | 2,775,706 |
| Net loss for the reporting period | 4100 | - | - | (507,781) | (507,781) |
| **Changes in equity, total** | **4295** | - | - | **(507,781)** | **(507,781)** |
| **Balance at the year end** | **4300** | **6,518,597** | **(5,254,038)** | **1,003,366** | **2,267,925** |

Approved for issue and signed on 26 June 2020.

| | | |
|---|---|---|
| Smelyansky I. | Paliy M. | Kuts I. |
| General Director | Deputy General Director of Finance | Chief Accountant |



Notes on pages 7-43 form an integral part of these financial statements.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 1 JSC Ukrposhta

Joint Stock Company Ukrposhta (hereinafter JSC Ukrposhta or the "Company") is an entity with its 100% shares held by the State of Ukraine, which is managed by the Ministry of Infrastructure of Ukraine. The Company was established in 1947 during the rule of the Soviet Union. It was reorganised as Ukrainian State Enterprise of Postal Service "Ukrposhta" (hereinafter - USEPS "Ukrposhta") in 1994. In February 2016, the Government of Ukraine decided to re-organise Ukrposhta from a state owned enterprise to a JSC. In March 2017, Ukrposhta was registered as a PJSC under the laws of Ukraine. The Company's shares are not listed on any international or local exchanges. In December 2018, a type of a public joint stock company was changed from public to private and the Company was renamed into Joint Stock Company Ukrposhta.

The Company's principle business is provision of postal and related services to the general public, governmental entities and businesses, namely:

- postal services (delivery of letters, parcels and postcards locally and internationally);
- delivery of pensions and selected social payments to individuals;
- financial services (acceptance of payment for utilities; domestic and international money transfers);
- distribution of periodicals (managing subscription and delivery of periodicals); and
- sale of merchandise (including where the Company acts as an agent selling merchandise which belongs to other parties) and other services.

The founder and sole shareholder of JSC Ukrposhta is the State of Ukraine represented by the Ministry of Infrastructure of Ukraine. Management of state corporate rights in relation to the Company is carried out by the Ministry of Infrastructure of Ukraine.

The Supervisory Board of the Company is a collegial body that protects the rights of the shareholder, as well as supervises and regulates the activities of the Company. The members of the Supervisory Board, consisting of 7 people, including 5 independent members, are elected by the general meeting for a term of up to 3 years.

As at 31 December 2019, the Supervisory Board included:

| Position | Full name |
|---|---|
| Chairman of the Supervisory Board | Mr. Benoit Pleska |
| Member of the Supervisory Board, Chairman of the Audit Committee and Financial Services Committee | Mr. Yakub Karnowski |
| Member of the Supervisory Board, Chairman of the Nomination and Remuneration Committee | Ms. Oksana Volchko |
| Member of the Supervisory Board, Chairman of Postal Logistics and Parcels Committee | Mr. Joona Saluveer |
| Member of the Supervisory Board | Mr. Tommy Jensen |

On 25 September 2019, the decree of the Ministry of Infrastructure of Ukraine suspended the authority of the representatives of the State in the Supervisory Board, Mr. Oleksandr Ozeran and Mr. Yuriy Tustanovsky.

On 13 January 2020, the decree of the Ministry of Infrastructure of Ukraine appointed two new members of the Supervisory Board – Mr. Farid Kamil Safarov and Mr. Oleksandr Zinkin. The decree does not specify the period of their appointment.

The General Director manages the current activities of the Company.

The Company is a member of the Universal Postal Union starting from 1947 and conducts postal operations with more than 100 national postal operators of other countries.

As at 31 December 2019, the Company operates 10,229 postal offices in Ukraine (31 December 2018: 10,475). The average number of its employees is 64,655 people for the year ended 31 December 2019 (2018: 70,149).

The Company's registered address and the principal place of business is 22, Khreschatyk Str., Kyiv, 01001, Ukraine.

## 2 Operating environment

In 2019, the Ukrainian economy was showing signs of stabilisation after years of political and economic tensions. The year on year inflation rate in Ukraine has decreased to 4.1% during 2019 (as compared to 9.8% in 2018 and 13.7% in 2017) while real GDP continued to grow at 3.2% (after 3.3% growth in 2018).

After several years of devaluation, Ukrainian currency strengthened and in 2019 appreciated by 14% (as at 31 December 2019, the official NBU exchange rate of Hryvnia against USD was UAH 23.69 per USD 1, compared to UAH 27.69 per USD 1 as at 31 December 2018).

Among the key mitigating factors for the hryvnia were strong revenues of agricultural exporters, tight UAH liquidity, growth in remittances from labour migrants and high demand for government debt instruments.

However, internal and external factors that began to impact the Ukrainian economy in the second half of 2019 and increased in early 2020 resulted in Hryvnia devaluation and, as of the date of these financial statements, the exchange rate of Hryvnia against USD was UAH 26.70 per USD 1.

Starting from April 2019, the National Bank of Ukraine ("NBU") launched an of easing of monetary policy and a gradual decrease of its discount rate for the first time in the last two years from 18% in April 2019 to 6% in June 2020.

In December 2018, the IMF Board of Directors approved the 14-month Stand-by assistance (SBA) programme for Ukraine, totalling USD 3.9 billion. In December 2018, Ukraine has already received USD 2 billion from the IMF and the EU, as well as USD 750 million credit guarantees from the World Bank. IMF programme's approval significantly increased the chance of Ukraine to meet foreign currency obligations in 2019, and thus has supported the financial and macroeconomic stability of the country. In June 2020, the Executive Board of the IMF approved an 18-month Stand-by Arrangement for Ukraine, with access equivalent to SDR 3.6 billion (about USD 5 billion). The first tranche of USD 2.1 billion was already received by Ukraine. The new programme is intended to support the macroeconomic stability, to mitigate economic effects of the crisis, to ensure perpetual independence of the National Bank of Ukraine and a flexible exchange rate as well as to facilitate implementation of key public governance and anti-corruption measures. Continuation of cooperation with the IMF depends on Ukraine's success in implementing policies and reforms that underpin a new IMF-supported programme.

In 2020, Ukraine faces major public debt repayments, which will require mobilising substantial domestic and external financing in an increasingly challenging financing environment for emerging markets.

The events which led to annexation of Crimea by the Russian Federation in February 2014 and the conflict in the east of Ukraine which started in spring 2014 has not been resolved to date. The relationships between Ukraine and the Russian Federation have remained strained.

Ukraine hold presidential elections in March-April 2019, and early parliamentary elections in July 2019. The Government formed after the parliamentary elections in July 2019 was dismissed on 4 March 2020 and the new Government was appointed. Amid political changes, the degree of uncertainty including in respect of the future direction of the reforms in 2020 remains very high. In addition, negative trends in global markets due to coronavirus pandemic may further affect the Ukrainian economy (refer to Note 32 for details). Despite certain improvements in 2019, the final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Company's business.

## 3 Significant accounting policies

***Basis of preparation.*** These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated (refer to Note 5).

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas, involving a high degree of judgement, complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

These financial statements are presented in the national currency of Ukraine, Ukrainian Hryvnia ("UAH") and all values are rounded to the nearest thousand.

## 3 Significant accounting policies (continued)

***Going concern.*** As of 31 December 2019, the Company had an excess of current liabilities over current assets of UAH 614,513 thousand (31 December 2018: UAH 1,112,484 thousand). The factors leading to working capital deficit are discussed further in greater detail.

Many of the Company's services are regulated. As such, the costs of rendering services are impacted immediately by general inflation and salary increase whereas tariff increases which compensate for such cost increases can take place with some delay. The government of Ukraine introduced a staged increase in the minimum salary from UAH 1,600 to UAH 3,200 from 1 January 2017, to UAH 3,723 from 1 January 2018, to UAH 4,173 from 1 January 2019 and to UAH 4,723 from 1 January 2020.

The Company has an obligation to deliver pensions in Ukraine on behalf of the Pension Fund, often to the most remote locations. The Company's tariff has been determined as a fixed percentage of the amount of money delivered and this percentage has not been revised for the last 14 years. At the same time, the Company's customer base reduced as many pensioners switched to being serviced by the banks in the larger towns. Additionally, in Ukraine pensions have been increasing at a slower rate than the salaries. Because payroll together with the unified social contribution is the major cost item of the Company, this decision on the increase in the minimum salary made the most significant contribution to negative operating cash flows in 2018 and the working capital deficit as at 31 December 2019 and 2018.

In late 2017, management of the Company commenced negotiations with the government of Ukraine to increase the tariff for pension delivery. As a temporary solution, the State budget of Ukraine for 2019 allocated UAH 500,000 thousand to compensate the Company's costs attributable to pension delivery services for the first 6 months 2019. In December 2019, a decision to increase the tariff for pension delivery by 45% was taken by the government of Ukraine.

Management has prepared cash flow projections through to the end of the first half of 2021. Judgements about future tariffs, parcels and letters volumes, the impact of COVID-19 on the business and the timing of settlements with various counterparties were required for the preparation of the cash flow projections. Important assumptions underlying cash flow projections are:

- the volume of handled letters will start to recover after reduction by about 20% due to the quarantine in the first half of 2020 and management does not expect any significant decrease in volumes after the resumption of operations by its main customers, including government agencies, compared to pre-COVID-19 levels. Impact of COVID-19 on the volume is partially compensated by a 10.0% - 12.5% tariff increase from 1 January 2020 and further expected increase of about 10% from 1 January 2021, which has not yet been approved by the National Commission for the State Regulation of Communications and Informatisation;
- an increase in income from delivery of parcels primarily as a result of the growth in delivery volumes of internal parcels by 45% in 2020 followed by moderate growth in 2021 and joining the EMS global express delivery network from 1 April 2020;
- an increase in revenue from services related to payment and delivery of state pensions and cash benefits by about 60% against 2019 as a result of an increase in tariffs by 45% in 2020 as well as an increase in the amount of payments delivered as a result of indexation of pensions and additional social benefits paid in 2020. Cash flows in the first half of 2021 are expected to remain stable and the number of individuals that use services of the Company's pension delivery does not reduce by more than 5% through to the end of the first half of 2021;
- a reduction in the volume of subscription of periodicals approximately by 20% planned to be partially compensated through the increase in the regulated tariff for subscription and distribution of domestic periodicals by 15% on average from 1 January 2020 and further expected increase by 13% from 1 January 2021, which has not yet been approved by the Ministry of Infrastructure of Ukraine;
- an increase in volumes of utility and other payments by 21% against 2019 mainly due to a split of bills between separate bills for consumed resource and separate bills for transportation services;
- restraint of growth in controllable costs and ability to postpone settlement with foreign postal operators;
- implementation of investment projects such as the Logistics Network and the Rural Post Office expected to be funded primarily by credit facilities including international financial institutions.

Management has estimated that the operating cash flows for the 12 months through to the end of the first half of 2021 are positive.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 3 Significant accounting policies (continued)

In addition, the sensitivity analysis of cash flows to underlying assumptions has been performed. Considering that the issue with the loss-making pension delivery activity was addressed by the decision of the government of Ukraine to increase the tariffs starting from 1 January 2020, even with the simultaneous crystallisation of all adverse scenarios, the Company will not be exposed to the liquidity gap by the end of the first half of 2021.

Based on cash flow projections performed, management considers that the application of the going concern assumption for the preparation of these financial statements is appropriate.

***Foreign currency translation.*** The functional currency of the Company is UAH, the currency of the primary economic environment in which the entity operates.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the National Bank of Ukraine ("NBU") at the end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities are recognised in profit or loss.

The principal rates of exchange used for translating foreign currency balances and transactions were as follows:

| *In Ukrainian Hryvnias* | **31 December 2019** | **31 December 2018** |
|---|---|---|
| USD/UAH closing | 23.69 | 27.69 |
| USD/UAH average | 25.85 | 27.18 |
| SDR/UAH closing | 32.70 | 38.51 |
| SDR/UAH average | 35.72 | 38.51 |

Foreign currency can be converted into Ukrainian Hryvnia and Ukrainian Hryvnia can be converted into foreign currency at a rate influenced by the National Bank of Ukraine. The exact rate that the Company may obtain is dependent on negotiations with its commercial banks and demand/supply balance on the interbank currency market during the period of conversion.

Special drawing right ("SDR") is the International Monetary Fund accounting unit used as the monetary unit of the Universal Postal Union of which the Company is a member.

***Financial instruments – key measurement terms.*** Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Company. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including the accrued coupon are not presented separately and are included in the carrying values of the related items in the statement of financial position as current or long-term liabilities subject to their maturities.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. Premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

## 3 Significant accounting policies (continued)

***Financial instruments – initial recognition.*** The Company's principal financial instruments comprise accounts receivable, cash and cash equivalents and other financial investments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

***Financial assets – classification and subsequent measurement – measurement categories.*** The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

***Financial assets – classification and subsequent measurement – business model.*** The business model reflects how the Company manages the assets in order to generate cash flows. The Company's objective is solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows").

***Financial assets impairment – credit loss allowance for ECL.*** The Company measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Financial instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

The Company applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Company identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Company determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL.

***Financial assets – write-off.*** Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event.

***Financial assets - derecognition.*** The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Financial liabilities – derecognition.*** A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of financial results.

## 3 Significant accounting policies (continued)

***Presentation of financial instruments by measurement category.*** As of 31 December 2019 and 31 December 2018, all of the Company's financial assets and liabilities except for other financial investments were carried at AC. Their carrying amounts approximate their fair values. Other financial investments were carried at fair value through profit or loss.

***Property, plant and equipment.*** Property, plant and equipment (PPE) are stated at cost, less accumulated depreciation and provision for impairment, where required.

Construction in progress represents the cost of property, plant and equipment which have not yet been completed, less any accumulated impairment. This includes cost of construction works, cost of plant and equipment and other direct costs. Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Where there is an impairment the carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year.

***Depreciation.*** Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost less their estimated residual values over their estimated useful lives:

| | **Remaining useful lives in years** |
|---|---|
| Buildings and structures | from 10 to 50 |
| Plant and equipment | from 5 to 35 |
| Vehicles | from 5 to 10 |
| Office furniture and equipment | from 2 to 5 |

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal. if the asset was already of the age and in the condition expected at the end of its useful life.

***Investment property.*** Investment property is property held by the Company to earn rental income or for capital appreciation, or both. Key judgements for classification of non-current assets as investment property are disclosed in Note 4.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

In the absence of current prices in an active market, the Company considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value of the Company's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

## 3 Significant accounting policies (continued)

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately. Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount. Where the Company disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss for the year within net gains from fair value adjustments on investment property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

***Right-of-use assets.*** The Company leases offices and vehicles. Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets arising from a lease are initially measured on a present value basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the right-of-use assets is calculated using the straight-line method over their estimated useful lives.

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

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

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

***Inventories.*** Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure. The Company applies the specific identification method to measure the cost of inventories upon disposal. The cost identification means that specific costs are related to identified inventory items, and for homogeneous inventories, those purchased earlier than others are written down first. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 3 Significant accounting policies (continued)

***Trade and other receivables.*** Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company estimates the provision for receivables that meet the criteria for a financial asset under IFRS 9, Financial Instruments, on a case-by-case basis in the following categories: “Current (not past due)”, “1 to 30 days overdue”, “31 to 180 days overdue”, “181 to 360 days overdue”, “More than 360 days overdue”. Past due means receivables with the expired repayment term. The provision amount is estimated by applying ECL rates. Impairment of accounts receivable is measured based on the ECL analysis on a collective basis.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss within other operating expenses. When a trade receivable is uncollectible, it is written off against other operating expenses. Accounts receivable are not written off against the allowance account for receivables. As of the date of the financial statements, the provision is estimated subject to receivables written off previously. Subsequent recoveries of amounts previously written off are credited against of other operating income in the profit or loss.

Renegotiated trade and other receivables are measured at amortised cost based on the new pattern of renegotiated cash flows. A gain or loss is recognised in the profit or loss on the date of renegotiation, which is subsequently amortised using the effective interest method. If the terms of a receivable are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

***Cash and cash equivalents.*** Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost using the effective interest rate method.

The Company estimates expected credit losses for balances of cash and cash equivalents on bank accounts based on the low probability of default during the validity period of contractual terms of less than 3 months. The probability of default was established on the basis of external credit ratings of corresponding banks and the publicly-available data on default from rating agencies. No ECL allowance was recognised in these financial statements as management determined the effect as immaterial.

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

Advances and prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other advances and prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to an advance and a prepayment will not be received, the carrying value of the advance and prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Prepayments are presented in these financial statements net of VAT balances as it is expected that such balances will be settled by delivery of the underlying product or service.

***Value added tax.*** The sales of goods and services in Ukraine are normally subject to value-added tax (‘VAT’) at the rate of 20%. A number of the Company's transactions are exempt or not subject to VAT (such as the sale of postage stamps, delivery of pensions, acceptance of payments and money transfers).

The VAT liabilities arise at the date of supply of goods/services or receipt of payments, whichever is earlier. Input VAT is recognised when the VAT invoice is duly registered in the Unified Register of tax invoices. Input VAT incurred by the Company upon purchase of goods and services that can be directly allocated to activities that are subject to VAT is fully recoverable, while input VAT directly related to activities that are exempt from VAT or not subject to VAT is non-recoverable and, thus, constitutes a cost. Input VAT incurred upon purchase of goods/services used in both types of transactions (i.e. which are subject to VAT and VAT-exempt or not subject to VAT) is recognised on a pro-rata basis (i.e. only the portion of VAT related to transactions which are subject to VAT is recovered).

The positive difference between VAT liabilities and input VAT is paid to the budget. VAT related to sales and purchases is recognised in the balance sheet on a net basis and disclosed as an asset or liability to the extent it has been recorded in VAT returns, otherwise it is presented gross.

## 3 Significant accounting policies (continued)

***Share capital.*** Until 1 March 2017, the Company was registered in the form of state owned entity. It had registered capital but no shares issued. On 1 March 2017, the Company was registered as a Joint Stock Company and its shares have been registered with the regulator. From this date ordinary shares are classified as equity.

When the Company was a state-owned enterprise, the registered capital included a IAS 29 adjustment to account for the effect of inflation when Ukraine was a hyperinflationary economy.

As of the date of the establishment of JSC Ukrposhta, the effect of corporatisation was recorded separately. This equity item was calculated as a difference between the registered capital of JSC Ukrposhta and the previous carrying amount of capital of the state-owned enterprise.

***Dividends.*** Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are declared after the balance sheet date but before the financial statements are authorised for issue.

Under Ukrainian legislation, the amount of dividends is limited to net profit of the reporting period or other distributable reserves but not more than retained earnings as per the stand alone financial statements prepared in accordance with IFRS. The Company has to make a decision in respect of dividend distribution by 30 April and to pay the dividend to the State budget by 30 June of the year in the following reporting year. The Cabinet of Ministers of Ukraine approves a percentage of net profit to be distributed each year with a separate resolution. If there is no such resolution available by 30 June, the Company is obliged to distribute 30% of its net profit to the State budget of Ukraine, as set by provisions of the Law of Ukraine "On Management of State PropertyObjects" #185-V dated 21 September 2006.

***Classification of financial liabilities.*** The Company classifies its financial liabilities as other financial liabilities. The Company's financial liabilities are carried at amortised cost.

***Borrowings.*** Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

***Trade and other payables.*** Trade and other payables are accrued when the counterparty performs its obligations under the contract. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

***Advances received.*** Advances received relate to the amounts received in advance for goods, works or services in the normal course of business. These are carried at amounts originally received net of VAT balances as it is expected that such balances will be settled by delivery of the underlying product or service.

***Revenue.*** Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue is recognised net of discounts, returns and value added taxes. Revenue primarily comprises the rendering of services (sales of goods) as follows:

1) Parcels and letters (including international);
2) Delivery of pensions and other social benefits;
3) Payments and money transfers;
4) Subscription and delivery of periodicals; and
5) Sale of merchandise and other services.

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Contracted services that have not yet been rendered at the balance sheet date are designated as deferred revenue. Revenue is deferred until the related services have been provided to the customer. The Company derecognises the contract liability and recognises revenue when it transfers services and therefore satisfies its performance obligations. The Company provides services under fixed-price contracts.

## 3 Significant accounting policies (continued)

Revenue from direct sales of products or services is recognised when services are rendered, goods are delivered and the amount of revenue that will flow to the Company can be measured reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. Where payments are received for a service to be provided over a specified length of time, payments received are recognised as deferred revenue and released to profit and loss over the period that the service is performed.

Revenue derived from deliveries under the International Postal Convention is recognised when the delivery of the related items is complete.

Where merchandise is sold under the agency agreements, the commission income is recognised as a receivable at the time of sale and related gross cash receipts are recognised as a liability before the supplier.

Revenue relating to public, retail and business stamp and franking machine sales is recognised when the sale is made at the face value of the stamp, adjusted to reflect a value of stamp held but not used by the customer. Further details on this “deferred revenue” adjustment are provided in the “Critical Accounting Estimates and Judgements in Applying Policies” section below.

Where the Company’s role in a transaction is a principal, revenue is recognised on a gross basis. Where the Company’s role in a transaction is that of an agent, revenue is recognised on a net basis and represents the margin earned.

***Recognition of expenses.*** Expenses are recognised on an accrual basis. Cost of goods sold and services rendered comprises payroll, depreciation, direct material, transportation and directly attributable overheads.

***Finance income and costs.*** Finance income and costs comprise interest expense on borrowings, interest income on funds invested and foreign exchange gains and losses on deposits and borrowings. All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method. Interest income is recognised as it accrues, taking into account the effective yield on the asset.

***Lease liabilities.*** Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Company under residual value guarantees,
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company’s operations. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Company, the Company’s incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

## 3 Significant accounting policies (continued)

Payments associated with short-term leases of equipment and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture with value of UAH 50 thousand or less.

***Employee benefits.*** Wages, salaries, paid annual leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Company. The Company makes Unified contributions on social insurance in respect of its employees. The contributions are calculated as a percentage of current gross salary and are expensed as incurred.

***Offsetting.*** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

***Contingent assets and liabilities.*** A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

***Changes in presentation.*** In 2019, the Company changed the presentation of the statement of financial results (statement of comprehensive income) to ensure more accurate presentation of rental income from real estate assets, foreign exchange gain less losses related to postal money transfers, payroll and social contributions. The Company believes that the change provides reliable and more relevant information. In accordance with IAS 1, the changes were introduced retrospectively and comparatives for 2018 were presented appropriately to ensure their comparability with financial data of the current year.

The effect of the corrections on the statement of financial results (statement of comprehensive income) is as follows:

| **Item**<br>*In thousands of Ukrainian Hryvnia* | **Line code** | **Year ended 31 December 2018 (as previously reported)** | **Effect of changes in presentation** | **Year ended 31 December 2018 (after changes in presentation)** |
|---|---|---|---|---|
| **1** | **2** | | | |
| Net revenue from sales of goods, works and services | 2000 | 6,791,536 | (155,945) | 6,635,591 |
| Cost of sales of goods, works and services | 2050 | (6,364,050) | 156,446 | (6,207,604) |
| **Gross:** | | | | |
| Profit | 2090 | 427,486 | 501 | 427,987 |
| Loss | 2095 | - | | - |
| Other operating income | 2120 | 43,292 | 136,027 | 179,319 |
| Administrative expenses | 2130 | (817,456) | (98,097) | (915,553) |
| Selling expenses | 2150 | (180,418) | (58,349) | (238,767) |
| Other operating expenses | 2180 | (130,672) | 19,918 | (110,754) |
| **Financial results from operating activities:** | | | | |
| Profit | 2190 | - | | - |
| Loss | 2195 | (657,768) | - | (657,768) |
| Other financial income | 2220 | 154,474 | - | 154,474 |
| Other income | 2240 | 1,309 | - | 1,309 |
| Financial expenses | 2250 | (107,204) | - | (107,204) |
| Other expenses | 2270 | (17,805) | - | (17,805) |
| **Financial result before taxation:** | | | | |
| Profit | 2290 | - | - | - |
| Loss | 2295 | (626,994) | - | (626,994) |
| Income tax (expense)/credit | 2300 | 119,213 | - | 119,213 |
| **Net financial result:** | | | | |
| Profit | 2350 | - | - | - |
| Loss | 2355 | (507,781) | - | (507,781) |

## 3 Significant accounting policies (continued)

| Item<br>*In thousands of Ukrainian Hryvnia* | Line code | Year ended 31 December 2018 (as previously reported) | Effect of changes in presentation | Year ended 31 December 2018 (after changes in presentation) |
|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** |
| Material expenses | 2500 | 616,404 | - | 616,404 |
| Payroll | 2505 | 4,282,103 | - | 4,282,103 |
| Social contributions | 2510 | 1,019,201 | - | 1,019,201 |
| Depreciation/amortisation | 2515 | 291,710 | - | 291,710 |
| Other operating expenses | 2520 | 1,171,151 | (19,918) | 1,151,233 |
| Cost of sales | 2530 | 112,027 | - | 112,027 |
| **Total** | **2550** | **7,492,596** | **(19,918)** | **7,472,678** |

## 4 Critical accounting estimates and judgements in applying policies

The preparation of financial statements necessarily requires management to make estimates and assumptions that can have a significant impact on the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

***Deferred revenue.*** The Company recognises advance customer payments on its balance sheet, predominantly relating to the sale of stamps not used as of the balance sheet date, delivery of parcels and small packages not delivered to the destination point as of the balance sheet date and subscription of periodicals to be delivered after the year end.

A large portion of this balance is made up of stamps sold to the general public. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using the external specialist resource as appropriate. For these sales, estimates of stamp volumes held on hand were made on the basis of an annual survey performed by an independent third-party where individuals are asked how much stamps they purchased annually and how much stamps they had on hand at the balance sheet date.

The value of stamps held by retail and business customers are more directly estimated through the analysis of actual sales volumes and responses provided by customers to the independent surveyor.

The results of the above procedures are reviewed by management in order to make a judgement of the carrying amount of the accrual. The total accrual is held within current liabilities as the vast majority of stamps and meter credits is used within one year after the balance sheet date.

A portion of the deferred revenue balance is made up of revenue from delivery of parcels and small packages not delivered to the destination point as of the balance sheet date. The valuation of the deferred revenue is based on the analytical estimation in reliance on the actual data available to the Company for the type, number, weight, destination point, mailing date and applied tariff as well as the actual and expected time of delivery.

***Extension and termination options.*** Extension and termination options are included in a number of leases of buildings across the Company. These are used to maximise operational flexibility in terms of managing the assets used in the Company’s operations. The Company has the priority right to extension option.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Leases of buildings by the Company are divided into leases of private properties and leases of state-owned/municipal properties, which differ by judgements used to determine the lease term. Taking into account the exercisable extension option or high probability of signing new contracts for the lease of the same private properties, the Company applies to the leases of private properties the period of 10 years on the date of IFRS 16 adoption.

## 4 Critical accounting estimates and judgements in applying accounting policies (continued)

Leased state-owned and municipal properties are subject to the Law of Ukraine On leases of state-owned and municipal property effective since October 2019. According to the Law, initial leases and extensions are subject to a statutory auction. Given this fact and uncertainty in the extension option, the Company defines the lease term as the contractual non-cancellable lease term. Leases of vehicles are made for fixed periods of 1.5 to 3 years and may be extended subject to agreement between the parties.

***Classification of double-purpose items between property, plant and equipment and investment property.*** The Company maintains separate accounts of real estate properties that can be classified as property, plant and equipment or investment property. For double-purpose items (a portion held for own use and a portion held to earn rentals or for capital appreciation), the classification of a portion of such item as investment property is possible only when this portion can be sold or leased out under the finance lease contract separately from the other potion of the item. If no possibility exists, the Company classifies the entire item as investment property only if the portion of the item used for its own needs is less than 20 percent of the total area of the item.

According to the legislation effective as at 31 December 2018, JSC Ukrposhta, particularly its assets (including real estate properties) were subject to special legal regulation: (i) according to Section 2 of Article 4 of the Law of Ukraine On privatisation of state-owned and municipal property, the Company's property as the national postal operator's property is of particular significance and is required for the State to fulfil its key functions – is not subject to privatisation; (ii) according to Article 1 of the Law of Ukraine On the list of state-owned assets that are not subject to privatisation, the Company was included in the List of state-owned assets that are not subject to privatisation but that may be corporatised. According to paragraph 1 of Section 9 of Article 11 of the Law of Ukraine On management of state-owned assets, state-owned real estate properties that are not subject to privatisation may not be alienated, seized or transferred to the share capital of legal entities, and such properties were not subject to any actions resulting in alienation thereof.

Management believes that legislative rules effective in 2018 excluded the legal possibility of selling or leasing out, under the finance lease contract, any real estate properties held by the Company. Consequently, the only criterion of the portion of the leased-out items in the total area of those items was considered for classification purposes between property, plant and equipment and investment property as at 31 December 2018 and the majority of such real estate properties were accounted as property, plant and equipment in the financial statements.

On 20 October 2019, the Law of Ukraine No 145-IX of 2 October 2019 On repeal of the law On the list of state-owned assets that are not subject to privatisation ("Law 145-IX") became effective and excluded the Company from this list. Law 145-IX also excluded the Company from Article 4 of the Law of Ukraine On privatisation of state-owned and municipal property, which lists the assets that cannot be privatised. As at 31 December 2019, there were no legal restrictions on the sale or lease out, under the finance lease contract, real estate properties of the Company. Following these changes, the Company's management reviewed the fulfilment of the necessary criteria for the transfer of a portion of the property held to earn rentals or for capital appreciation from property, plant and equipment to investment property. Consequently, the following criteria are considered for classification purposes between property, plant and equipment and investment property as at 31 December 2019 in the financial statements.

- if an insignificant portion of the property is held for own use, i.e. less than 20%, than the whole item is classified as investment property;
- if the portion can be sold or leased out under a finance lease separately from the other portion of the item and it is less than 80% of the total area of the property, the property is split between property, plant and equipment and investment property based on the area of individual parts.

The above change affected the following items in the statement of financial position as at 31 December 2019:

| *In thousands of Ukrainian Hryvnia* | **Property, plant and equipment** | **Investment property** |
|---|---|---|
| **Balance before the reclassification** | **3,475,999** | **17,496** |
| Reclassification of real estate properties from property, plant and equipment to investment property | (170,228) | 170,228 |
| **Adjusted balance at 31 December 2019** | **3,305,771** | **187,724** |

## 4 Critical accounting estimates and judgements in applying accounting policies (continued)

Management of the Company considered the requirements of IAS 40 for the transfer of real estate properties from property, plant and equipment to investment property applying the fair value model as its accounting policy (refer to Note 3). Due to the time constraints and given the large number of real estate properties reclassified to investment property at the end of 2019, which are located throughout Ukraine, it was decided to postpone the fair valuation until the next reporting year. Management estimated the expected range of the fair value of investments property as at 31 December 2019 without involving independent appraisers and disclosed it in Note 9.

**International postal exchange revenue and expenses estimates.** In course of providing the international postal services the Company conducts transactions with postal service operators in other countries. The amount of international postal exchange revenue, expenses and related receivables and payables are recognised during the year based on estimates made by management on the basis of data on the total weight of cross-border shipments of correspondence, parcels and small packages, which is further agreed by postal operators, and tariffs approved by the Universal Postal Convention (UPC) and its circulars.

If the shipments turnover between countries exceeds the predefined volume (75 tons in 2018 and 2019), separate tariffs are applied for different shipment formats, as well as an additional tariff for the number of shipments. The number of items, which is calculated based on the number of items per kilogram of correspondence, parcels and small packages, is also subject to agreement with postal operators of other countries.

Due to significant time delays in reconciling data on shipments weight, total cross country turnover, number of shipments per one kilogram of correspondence, parcels and small packages and the applicable UPC tariffs (up to 6 months to reconcile the amount of shipments and up to a year to reconcile settlements in monetary terms), such estimates are subject to management judgement and could be subject to adjustment. Management has disclosed the amount of revenue and expenses with the main postal operators of other countries for which the reconciliation process was completed or partially completed at the date of issue of these financial statements in Notes 20 and 21.

## 5 Adoption of new or revised standards and interpretations

***IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).*** The Company decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. All right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases and exemption for their recognition,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- exemption for recognition of leases of low-value underlying assets.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17, *Leases*, and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

The incremental borrowing rate applied by the Company to the lease liabilities on 1 January 2019 was 19.57% for leases of state-owned/municipal properties (with a lease term of 10 years) and 16.08% for private properties (with a lease term from 1 to 5 years).

_All tabular amounts in thousands of Ukrainian Hryvnia_

## 5 Adoption of new or revised standards and interpretations (continued)

A reconciliation of the operating lease commitments to the recognised lease liability is as follows:

| _In thousands of Ukrainian Hryvnia_ | **31 December 2018 / 1 January 2019** |
|---|---|
| Undiscounted operating lease commitments under IAS 17 disclosed as at 31 December 2018 | 88,263 |
| Less short-term leases not recognised as a liability | (27,807) |
| Revised lease terms at IFRS 16 adoption (reasonably certain lease extension / termination options) | 266,797 |
| Effect of discounting of future minimum lease payments | (139,080) |
| **Present value of future lease payments** | **188,173** |
| Increased by finance lease liability recognised as at 31 December 2018 | 136,877 |
| **Total lease liabilities as at 1 January 2019** | **325,050** |
| **Of which are:** | |
| Short-term lease liabilities | 93,800 |
| Long-term lease liabilities | 231,250 |

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

| _In thousands of Ukrainian Hryvnia_ | **Notes** | **Impact of adopting IFRS 16** |
|---|---|---|
| Increase in property, plant and equipment | 9 | 188,173 |
| Increase in other long-term liabilities | 15 | 160,366 |
| Increase in current portion of long-term liabilities | 15 | 27,670 |

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Company:

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019);

- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);

- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019);

- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019);

- Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

## 6 New standards and interpretations not yet adopted

***Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).*** The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

***Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).*** The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

## 6 New standards and interpretations not yet adopted (continued)

***Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).*** According to the amendments, a business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business includes an input and a substantive process that together significantly contribute to the ability to create outputs.

***Interest rate benchmark reform – Amendments to IAS 39, IFRS 7 and IFRS 9 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).*** The amendments were triggered by a gradual replacement of benchmark interest rates such as IBORs. The amendments change hedge accounting requirements to avoid potential negative implications of the IBOR reform. In addition, requirements are added for entities to provide disclosures to explain how the uncertainties related to the IBOR reform affect their hedging relationships. These amendments are not expected to have an impact on the Company's financial statements.

The Company is still assessing the impact of amended standards on its financial statements but does not expect a material impact on its financial reporting from adoption of these and other amended standards after 1 January 2020.

## 7 Balances and transactions with related parties

The Company is a 100% state-owned entity managed by the Ministry of Infrastructure of Ukraine. The Company's ultimate controlling party is Ukrainian government and therefore all entities controlled by the government are treated as related parties under common control. Related parties also include central government authorities, including the Cabinet of Ministers of Ukraine, industry ministries, judicial authorities, state owned/controlled enterprises, and the entities under common control of or with significant influence on the government.

Transactions with related parties are conducted on general terms similar to those available to unrelated parties and include primarily such services as delivery of written correspondence, delivery of pensions and other social benefits to individuals payable from the central and local budgets, subscription and delivery of periodicals, delivery of parcels, receipt of third party payments and some money transfers. During both periods presented, the Company was engaged by the Pension Fund of Ukraine for delivery of pensions to individuals. Please refer to Note 20 for the summary of revenue from this activity.

As at 31 December 2019 and 2018, a significant portion of the Company's bank balances are held with three state owned banks in Ukraine (Note 12).

Key management is considered to be the General Director (and/or acting General Director) of the Company and two Deputy General Directors responsible for operations and finance, respectively. In 2019, the total compensation to key management personnel amounted to UAH 24,372 thousand (2018: UAH 21,652 thousand). The compensation to key management personnel consisted of short-term salaries and bonus payments. In 2019, the total compensation to Supervisory Board members amounted to UAH 11,659 thousand (2018: no expenses related to Supervisory Board). The compensation to Supervisory Board members consisted of short-term salaries and direct expenses compensations.

## 8 Segment information

For their decision-making purposes, the General Director of the Company and his management team review internal revenue reports of each of the following four businesses areas:

- postal services (including retail and corporate customers)
- financial services (including pension delivery, money transfers and third party payments)
- retail (including commission sales and own merchandise)
- other services.

These business areas provide different services and use different technologies and market strategies and as such each business area is managed separately.

The Company's costs are not allocated to the above business areas therefore their performance is not evaluated separately. The General Director evaluates performance for the Company as a whole. On this basis the management concluded that the Company operates in one segment, being provision of postal and related services.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 8 Segment information (continued)

The Company's sources and geography of revenue are disclosed in Note 20. All non-current assets of the Company are located in Ukraine.

### Major customers

During 2019 and 2018, the only customer that represented more than 10% of the Company's total revenue was the Pension Fund of Ukraine. The Pension Fund comprises over 600 regional directorates, each of which signed service agreements with the Company units. The revenue received as remuneration for the delivery of pensions and other social benefits in 2019 totalled UAH 1,673,088 thousand (2018: UAH 1,506,755 thousand).

## 9 Property, plant and equipment, construction in progress and investment property

Movement in the carrying amounts of property, plant a nd equipment and construction in progress is as follows:

| | Buildings and structures | Plant and equipment | Vehicles | Office furniture and equipment | Total property, plant and equipment | Construction in progress |
|---|---|---|---|---|---|---|
| **At 1 January 2018** | | | | | | |
| Historical cost | 3,288,893 | 561,975 | 249,195 | 301,470 | 4,401,533 | 302,426 |
| Accumulated depreciation and impairment | (469,406) | (390,486) | (135,956) | (245,329) | (1,241,177) | - |
| **Carrying amount at 1 January 2018** | **2,819,487** | **171,489** | **113,239** | **56,141** | **3,160,356** | **302,426** |
| Additions | - | - | - | - | - | 336,113 |
| Transfers | 36,791 | 113,675 | 300,645 | 95,516 | 546,627 | (546,627) |
| Disposals at cost | (559) | - | - | - | (559) | - |
| Disposal of accumulated depreciation | 89 | - | - | 497 | 586 | |
| Transfers to investment property | (1,502) | - | - | - | (1,502) | - |
| Depreciation charge and impairment | (78,567) | (58,070) | (37,200) | (107,575) | (281,412) | (6,174) |
| **At 31 December 2018** | | | | | | |
| Historical cost | 3,323,623 | 675,650 | 549,840 | 396,986 | 4,946,099 | 85,738 |
| Accumulated depreciation and impairment | (547,884) | (448,556) | (173,156) | (352,407) | (1,522,003) | - |
| **Carrying amount at 31 December 2018** | **2,775,739** | **227,094** | **376,684** | **44,579** | **3,424,096** | **85,738** |
| Adoption of IFRS 16 | 188,173 | - | - | - | 188,173 | - |
| **Carrying amount at 1 January 2019** | **2,963,912** | **227,094** | **376,684** | **44,579** | **3,612,269** | **85,738** |
| Additions | 71,437 | 17 | - | 528 | 71,982 | 37,003 |
| Transfers | 8,301 | 25,365 | 7,690 | 36,937 | 78,293 | (78,293) |
| Adjustment to the right-of-use assets on remeasurements | 10,405 | - | - | - | 10,405 | - |
| Disposals at cost | (14,240) | (4,083) | (88) | (1,853) | (20,264) | - |
| Disposal of accumulated depreciation | 796 | 3,937 | 88 | 1,853 | 6,674 | - |
| Transfers to investment property (cost less accumulated depreciation) | (172,787) | - | - | - | (172,787) | - |
| Depreciation charge and impairment | (118,540) | (66,891) | (55,539) | (39,831) | (280,801) | (6,032) |
| **At 31 December 2019** | | | | | | |
| Historical cost | 3,379,389 | 696,949 | 557,442 | 432,598 | 5,066,378 | 38,416 |
| Accumulated depreciation and impairment | (630,105) | (511,510) | (228,607) | (390,385) | (1,760,607) | - |
| **Carrying amount at 31 December 2019** | **2,749,284** | **185,439** | **328,835** | **42,213** | **3,305,771** | **38,416** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 9 Property, plant and equipment, construction in progress and investment property (continued)

Construction in progress mainly consists of construction and refurbishment of buildings and structures and purchased property, plant and equipment items not yet put into operation. Upon completion, assets are transferred to a respective group of property, plant and equipment.

Up until 1 March 2017, the title to all of the property, plant and equipment and construction in progress items which were managed and used by the Company in its business activity was registered in the name of the government of Ukraine. In accordance with Article 73 of the Commercial Code of Ukraine, the property of a government-owned entity belongs to the government and is assigned to such entity on the right of business or operational management. Therefore, the property legally remained in the government ownership. However, by its substance, the arrangement between the Company and government conveys the right to use such items for an unlimited period of time (until they are fully depreciated, completely worn out or destroyed - the government does not retain any element of risk relating to the assets' residual value at the end of their useful lives) and obtain economic benefits from the use of assets. On this basis, the Company recognised such items of property, plant and equipment and construction in progress in its financial statements.

In March 2017, the government of Ukraine completed reorganisation of the Company from a state-owned entity into a joint stock company (see Note 14). In July 2017, the act of transferring property to JSC Ukrposhta, a legal successor of the state-owned enterprise, was signed between the Ministry of Infrastructure of Ukraine and the Company.

The total depreciation charge and impairment for the years ended 31 December is presented as follows:

| | **2019** | **2018** |
|---|---|---|
| Cost of sales of goods, works and services | 247,196 | 253,401 |
| Administrative expenses | 13,097 | 13,498 |
| Selling expenses | 1,041 | 1,392 |
| Other operating expenses | 25,499 | 19,295 |
| **Total depreciation charge and impairment** | **286,833** | **287,586** |

During 2018, the Company acquired property, plant and equipment (vehicles) under finance leases totalling UAH 182,705 thousand with the initial instalment of UAH 67,776 thousand. As at 31 December 2019, the net carrying value of these items of property, plant and equipment held under finance lease arrangements totalled UAH 142,019 thousand (31 December 2018: UAH 163,229 thousand).

### Right-of-use assets

The Company leases equipment and buildings in the normal course of business.

Leases of buildings are divided into leases of private properties and leases of state-owned/municipal properties, which differ by judgements used to determine the lease term. Taking into account the exercisable extension option or high probability of new contracts for the lease of the same private properties, the Company applies the term of 10 years to the leases of private properties as of the date of IFRS 16 adoption.

Leased state-owned and municipal properties are subject to the Law of Ukraine On leases of state-owned and municipal property effective since October 2019. According to the Law, initial leases and extensions are subject to a statutory auction. Given this fact and uncertainty in the extension option, the Company defines the lease term as the contractual non-cancellable lease term.

Leases of vehicles are made for fixed periods of 1.5 to 3 years and may be extended subject to agreement between the parties.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 9 Property, plant and equipment, construction in progress and investment property (continued)

Until 31 December 2018 leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Company.

The carrying amount and movements in the right-of-use assets for 2019 are disclosed below.

| | Buildings and structures | Vehicles | Total |
|---|---|---|---|
| ***1 January 2019*** | **188,173** | **163,229** | **351,402** |
| Additions | 71,437 | - | 71,437 |
| Adjustments to right-of-use assets on remeasurement of lease liabilities | 10,405 | - | 10,405 |
| Depreciation charge | (41,968) | (21,210) | (63,178) |
| Disposals | (13,445) | - | (13,445) |
| ***31 December 2019*** | **214,602** | **142,019** | **356,621** |

Lease liabilities related to the right-of-use assets presented above are disclosed in Note 15.

### Investment property

| | 2019 |
|---|---|
| **Investment property at fair value at 1 January** | **14,937** |
| Transfers from property, plant and equipment (Note 4) | 170,228 |
| Other transfers | 2,559 |
| **Investment property at fair value at 31 December** | **187,724** |

The Company did not revalue investment property to fair value at the date of reclassification and as at 31 December 2019. Management estimated the expected range of the fair value of investments property as at 31 December 2019 between UAH 650,000 thousand and UAH 750,000 thousand without involving independent appraisers.

Where the Company is a lessor, the future minimum lease payments under operating leases of investment property are as follows:

| | Future rental cash proceeds |
|---|---|
| Demand and less than 1 month | 6,045 |
| From 1 to 3 months | 11,935 |
| From 3 to 12 months | 51,836 |
| From 12 months to 5 years | 84,132 |
| **Total undiscounted future rental cash proceeds from operating leases** | **153,948** |

Rental income from investment properties totalled UAH 85,022 thousand (2018: UAH 47,725 thousand) and was recognised in other operating income.

## 10 Inventories

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Raw materials | 123,546 | 159,774 |
| Goods for resale | 60,807 | 67,918 |
| Finished goods and work in progress | 11,028 | 8,145 |
| **Total inventories** | **195,381** | **235,837** |

Raw materials are represented mainly by automobile fuel and sundry materials used during postal operations.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 11 Accounts receivable for goods, works and services, advances issued and other current accounts receivable

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Accounts receivable for goods, works and services | 307,690 | 183,982 |
| *including receivables from postal operators of other countries* | *199,881* | *96,934* |
| Other current accounts receivable | 144,050 | 151,564 |
| *including receivables from postal operators of other countries* | *18,034* | *9,786* |
| **Total financial accounts receivable (gross carrying amount)** | **451,740** | **335,546** |
| Advances issued | 19,097 | 22,402 |
| Other receivables | 18,478 | 31,247 |
| Allowance for impairment | (50,012) | (38,553) |
| **Total accounts receivable, advances issued and other receivables** | **439,303** | **350,642** |

Financial accounts receivable, net of allowance for impairment as at 31 December are denominated in the following currencies:

| | 2019 | 2018 |
|---|---|---|
| - USD | 164,435 | 64,253 |
| - UAH | 143,761 | 149,898 |
| - SDR | 89,241 | 75,077 |
| - EUR | 4,291 | 7,765 |
| **Total financial accounts receivable** | **401,728** | **296,993** |

As at 31 December 2019 and 2018, accounts receivable, advances issued and other account receivable are non-interest bearing and are settled in the normal course of business.

The Company applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. The ECL rates are based on the payment profiles of sales over a period of 24 months before 31 December 2019 or 31 December 2018, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The credit loss allowance for financial accounts receivable is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 11 Accounts receivable for goods, works and services, advances issued and other current accounts receivable (continued)

ECL matrix at 31 December 2019:

| In % of gross value | Loss rate | Gross carrying amount | Lifetime ECL |
|---|---|---|---|
| - not past due | | | |
| • Postal operators of other countries | *0.08%* | 252,646 | 196 |
| • Governmental institutions and state owned enterprises | *9.39%* | 30,805 | 2,893 |
| • Utility entities | *1.53%* | 14,034 | 215 |
| • Other entities | *5.02%* | 109,297 | 5,483 |
| | | **406,782** | **8,787** |
| - less than 30 days overdue | *31.35%* | 2,762 | 866 |
| - 30 to 180 days overdue | *77.62%* | 6,975 | 5,138 |
| - 181 to 360 days overdue | *100.00%* | 13,607 | 13,607 |
| - more than 361 days overdue | *100.00%* | 21,614 | 21,614 |
| **Total financial accounts receivable as at 31 December 2019 (gross carrying amount)** | | **451,740** | **50,012** |
| Credit loss allowance | | (50,012) | |
| **Total financial accounts receivable as at 31 December 2019** | | **401,728** | |

ECL matrix at 31 December 2018:

| In % of gross value | Loss rate | Gross carrying amount | Lifetime ECL |
|---|---|---|---|
| - not past due | | | |
| • Postal operators of other countries | *0.00%* | 139,657 | - |
| • Governmental institutions and state owned enterprises | *0.86%* | 36,918 | 319 |
| • Utility entities | *0.86%* | 19,980 | 172 |
| • Other entities | *0.86%* | 99,690 | 858 |
| | | **296,245** | **1,349** |
| - less than 30 days overdue | *30.39%* | 2,596 | 789 |
| - 30 to 180 days overdue | *49.57%* | 575 | 285 |
| - 181 to 360 days overdue | *100.00%* | 1,209 | 1,209 |
| - more than 361 days overdue | *100.00%* | 34,921 | 34,921 |
| **Total financial accounts receivable as at 31 December 2018 (gross carrying amount)** | | **335,546** | **38,553** |
| Credit loss allowance | | (38,553) | |
| **Total financial accounts receivable as at 31 December 2018** | | **296,993** | |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 11 Accounts receivable for goods, works and services, advances issued and other current accounts receivable (continued)

Movements in the impairment provision for the financial and other accounts receivables are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Allowance for doubtful receivables at 1 January** | **38,553** | **29,425** |
| Allowance accrued during the year | 11,459 | 9,128 |
| **Allowance for doubtful receivables at 31 December** | **50,012** | **38,553** |

## 12 Cash and cash equivalents

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and cash in transit.

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Bank balances payable on demand | 3,464,791 | 1,677,825 |
| *Including* | | |
| General purpose bank accounts | 1,716,903 | 1,279,729 |
| Designated purpose bank accounts | 1,747,888 | 398,096 |
| Cash on hand | 210,346 | 169,106 |
| **Total cash and cash equivalents** | **3,675,137** | **1,846,931** |

Designated purpose bank accounts are represented by cash received from the Pension Fund and other social institutions with the defined purpose for delivery of pensions and other social benefits to individuals.

As at 31 December cash and cash equivalents are denominated in the following currencies:

| | 2019 | 2018 |
|---|---|---|
| - UAH | 3,382,741 | 1,341,303 |
| - USD | 287,577 | 482,073 |
| - EUR | 4,818 | 23,272 |
| - CHF | 1 | 283 |
| **Total cash and cash equivalents** | **3,675,137** | **1,846,931** |

In 2019 and 2018 bank balances payable on demand earned interest at fixed rates varying from 0% to 19% per annum.

_All tabular amounts in thousands of Ukrainian Hryvnia_

## 12 Cash and cash equivalents (continued)

The credit quality of cash and cash equivalents may be summarised on the basis of Moody's Investors Service's ratings as follows:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| | Bank balances payable on demand | |
| *Neither past due nor impaired* | | |
| - *B1* | 5,310 | 3,333 |
| - *A2* | 952 | - |
| - *Caa1* | 2,422,512 | 844,146 |
| - *Unrated* | 1,036,017 | 830,346 |
| **Total** | **3,464,791** | **1,677,825** |

At 31 December 2019, the bank balances payable on demand in the amount of UAH 3,016,158 thousand (31 December 2018: UAH 1,428,830 thousand) were held with three large Ukrainian government-owned banks.

## 13 Assets and liabilities on occupied territories

Russian troops occupied Crimea in late February 2014 and on 1 March 2014 the Russian parliament granted approval for the use of armed forces in Ukraine. On 16 March a so-called referendum was held in Crimea on its secession from Ukraine and on 18 March Russia signed a treaty with Crimea to annex the territory to Russia. Few countries other than Russia have recognised the so-called referendum and the annexation.

Further, in 2014 armed separatist forces obtained control over parts of the Donetsk and Lugansk regions in the east of Ukraine. The government of Ukraine launched the anti-terrorist operation which continues to date. In 2018 and 2019 from time to time there was some escalation of military confrontation along the line of contact of the conflicting parties, although to a much lesser level than in 2015.

The Company owns assets and initially recognised liabilities located in the parts of the Donetsk and Lugansk regions where there has been armed conflict and in Crimea. Since various dates in 2014, the Company was neither able to carry its operations using these assets nor return them to the territory controlled by the Ukrainian government.

In this respect, the Company has grouped related assets and recognised an impairment provision for the total amount of assets located on occupied territories (both in Crimea and in the east of Ukraine) on 31 December 2019 and 2018.

As at 31 December 2017, management decided to derecognise the liabilities of UAH 111,846 thousand resulting from operations of branches in the temporarily occupied Crimean and uncontrolled territory due to the expiry of the statute of limitations for such liabilities and the lack of claims on settlement of such liabilities.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 14 Share capital

As at 31 December 2016, the Company was registered in the form of a state-owned enterprise as defined by the law of Ukraine. In March 2017, Ukrposhta was registered as a PJSC with 100% shares held by the State of Ukraine. PJSC Ukrposhta is a legal successor of the state-owned enterprise. The Company's immediate supervising entity from the government was the Ministry of Infrastructure of Ukraine. The formal ownership is with the State Property Fund of Ukraine, which has title to 100% of the share capital of the Company.

In March 2017, the government of Ukraine completed reorganisation of the Company from a state-owned entity into a joint stock company. The process of reorganisation into a joint stock company was based on the Restructuring Plan approved by the order of the Ministry of Infrastructure. The reorganisation was completed by corporatisation and registration as a PJSC with 6,518,597 authorised and outstanding ordinary shares with the nominal value of UAH 1,000 per share. As at 31 December 2019 and 2018, 100% shares of the Company are unlisted, untraded, held by the state of Ukraine and are not subject to disposal.

An independent appraiser was engaged to perform a valuation of PJSC Ukrposhta shares, who conducted the valuation of the fair value of assets and liabilities of the Company in accordance with the share valuation guidance developed by the State Property Fund of Ukraine. The value of the share capital was estimated as the fair value of assets less fair value of liabilities as at the valuation date. The fair valuation is required by the rules of corporatisation to enable government to determine the value of the share capital of the new business entity. As the new entity, JSC Ukrposhta, represents the continuation of the existing business, assets and liabilities of its predecessor, the fair value of assets and liabilities disclosed above could not be presented in the financial statements of the Company. Therefore, the effect of establishment of the new entity's share capital was presented as effect of corporatisation in the amount of UAH 5,254,038 thousand as a separate reserve in equity.

| | Number of ordinary shares | Registered capital | Effect of corporatisation | Total |
|---|---|---|---|---|
| **At 31 December 2019 / At 31 December 2018** | 6,518,597 | 6,518,597 | (5,254,038) | **1,264,559** |

As at 31 December 2019 and 2018, the net assets totalling UAH 2,551,675 thousand and UAH 2,267,925 thousand respectively were lower than the Company's registered share capital of UAH 6,518,597 thousand. The Civil Code of Ukraine (the "Code") requires that net assets are maintained at the amount higher than registered share capital. Under the Code, the Company has 2 years to rectify this situation. If not rectified, the Code requires to reduce the amount of registered share capital. Management believes that such non-compliance will not lead to any material adverse effects on the Company's operations or financial statements.

### Distribution of dividends

Profit available for distribution to the shareholders for each reporting period is determined by reference to the stand alone financial statements of the Company prepared in accordance with IFRS. Under Ukrainian legislation, the amount of dividends is limited to net profit of the reporting period or other distributable reserves but not more than retained earnings as per the stand alone financial statements prepared in accordance with IFRS. The Company has to make a decision in respect of dividend distribution by 30 April and to pay the dividend to the State budget by 30 June of the year in the following reporting year. The Cabinet of Ministers of Ukraine approves a percentage of net profit to be distributed each year with a separate resolution. If there is no such resolution available by 30 June, the Company is obliged to distribute 30% of its net profit to the State budget of Ukraine, as set by provisions of the Law of Ukraine "On Management of State Property Objects" #185-V dated 21 September 2006.

The Company's policy is to accrue dividends payable in respect of minimum obligatory dividend distribution level of 30% of its net profit. As at 31 December 2019, the Company accrued a liability of UAH 121,607 thousand in respect of the portion of net profit attributable to the State Budget of Ukraine in current accounts payable on settlements with shareholder .

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 15 Borrowings

The carrying amount of borrowings is as follows:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Bonds | 41,939 | 112,627 |
| **Total** | **41,939** | **112,627** |

Monetary and non-monetary movements in borrowings for the period are presented in the table below

| | **2019** | **2018** |
|---|---|---|
| **Opening balance as at 1 January** | **112,627** | **323,878** |
| ***Monetary movements*** | | |
| Interest paid | (23,993) | (50,643) |
| Borrowings repaid | (70,597) | (235,238) |
| New borrowings obtained | - | 104,308 |
| ***Non-monetary movements*** | | |
| Restructured loan payable | - | (111,008) |
| Expenses related to servicing of bonds | 23,902 | 54,162 |
| Interest accrued during the period | - | 25,582 |
| Foreign exchange expense accrued during the period | - | 1,586 |
| **Closing balance as at 31 December** | **41,939** | **112,627** |

### Bonds

During 2017, the Company registered an issue of registered interest-bearing ordinary bonds with the face value of UAH 100 thousand per bond. The placement of bonds on a Ukrainian stock exchange commenced in December 2017 and was completed during 2018.

The total value of the bond issue is as follows:

- A series: UAH 150,000 thousand (maturity in November 2020, redemption option in November 2018 and November 2019)
- B series: UAH 200,000 thousand (maturity in May 2022, redemption option in May 2019 and November 2020)
- C series: UAH 250,000 thousand (maturity in November 2023, redemption option in November 2019 and November 2021).

November 2018 was the redemption option date for A series bonds. November 2019 was the redemption option date for A and C series bonds and May 2019 was the redemption option date for B series bonds. No bonds were presented for redemption on these redemption option dates. During 2019, the coupon rate on these bonds remained at 19% p.a. for all bonds. No early redemption is available except the pre-determined dates. During 2019 and 2018, the Company redeemed and resold some bonds. Proceeds from placement of the bonds were used to boost the Company’s core business, in particular, to finance repairs and replacement of postal service assets and acquisition of vehicles and computer equipment.

### Term loan

In December 2013, the Company signed a credit line facility with PJSC "VBR" (hereinafter – "Lender") for a total amount of USD 22,893 thousand. The facility bears a fixed interest rate at 10.5% per annum and matures in December 2018.

As at 31 December 2017, the drawn portion of the facility amounted to USD 8,500 thousand. According to the credit line facility, cash proceeds generated from the service contracts with the Post of Poland and Post of Slovakia should have been pledged not later than three months after the facility signing date. To this date, there is no collateral pledged by the Company. In November 2014, the NBU introduced temporary administration at PJSC “VBR” and appointed the Deposit Guarantee Fund as the legal successor and manager of the bank. According to the current laws and regulations, the Deposit Guarantee Fund is eligible to sell off the property rights on loan agreements of the Lender.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 15 Borrowings (continued)

In September 2018, the Company completed negotiating settlement with the third party, which acquired the debt from the Ukraine's Deposit Guarantee Fund. Based on the results of the negotiations, the debt was repaid in the amount of USD 8,364 thousand (UAH 235,238 thousand) and a gain on extinguishment of liabilities in the amount of UAH 111,108 thousand was recognised in 2018.

As at 31 December 2019 and 2018, Ukrposhta has no outstanding payable under the credit line facility from PJSC "VBR".

**Lease liabilities**

The Company recognised the following lease liabilities as a result of IFRS 16 adoption:

| | **31 December 2019** | **1 January 2019** |
|---|---|---|
| Long-term lease liabilities | 195,346 | 231,250 |
| Short-term lease liabilities | 98,902 | 93,800 |

Movements in lease liabilities are presented below:

| | **Lease liabilities** |
|---|---|
| **1 January 2018** | **63,820** |
| Additions | 137,915 |
| Interest expense | 25,874 |
| Repayment of financial liabilities | (90,732) |
| **31 December 2018** | **136,877** |
| Adoption of IFRS 16 | 188,173 |
| **1 January 2019** | **325,050** |
| Additions | 71,437 |
| Remeasurement | 9,871 |
| Interest expense | 50,146 |
| Repayment of financial liabilities | (98,665) |
| Interest paid | (50,146) |
| Disposals | (13,445) |
| **31 December 2019** | **294,248** |

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. However, leased equipment is used as collateral for borrowings. The total value of such collateral as at 31 December 2019 amounts to UAH 142,019 thousand (31 December 2018: UAH 163,229 thousand).

During 2018, the Company signed a number of finance lease agreements in the amount of UAH 219,246 thousand (including VAT) to upgrade its utility vehicles used for interregional and domestic transportation. Of this amount, the initial instalment totalled UAH 81,332 thousand.

The future minimum lease payments and the present value of lease payments are presented as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Minimum lease payments** | **Present value of lease payments** | **Minimum lease payments** | **Present value of lease payments** |
| Not later than 1 year | 136,479 | 98,740 | 87,916 | 65,993 |
| Later than 1 year and not later than 5 years | 183,631 | 116,342 | 83,174 | 70,884 |
| Later than 5 years | 133,217 | 79,166 | - | - |
| Total minimum lease payments | 453,327 | 294,248 | 171,090 | 136,877 |
| Less future finance costs | (159,079) | - | (34,213) | - |
| Present value of minimum lease payments | 294,248 | 294,248 | 136,877 | 136,877 |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 16 Trade accounts payable

Trade payables are represented mainly by obligations due to other postal operators and sundry payables.

As at 31 December 2019, 72% of trade payables is denominated in SDR, 23% in UAH, 4% in USD and 1% in EUR (31 December 2018: 75% of trade payables is denominated in SDR, 21% in UAH, 3% in USD and 1% in EUR).

As at 31 December 2019, UAH 415,367 thousand of trade payables represent obligations due to other postal operators (31 December 2018: UAH 420,598 thousand).

Trade accounts payable represent unsecured financial liabilities. Accounts payable to counterparties in Ukraine are generally settled within 60 days of recognition.

The Company is a member of the Universal Postal Union. The Company uses services of other foreign postal operators who deliver letters and parcels with origination in Ukraine to end recipients abroad. The value of such services is regulated by Universal Postal Convention. Payables to postal operators of other countries are generally settled within 6 months to 2 years.

The fair value of trade payables approximates their carrying amount.

## 17 Accruals and other liabilities

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Accrued unused vacation | 373,165 | 287,989 |
| Accrued bonuses | 35,705 | 28,856 |
| Other accruals and provisions | 15,303 | 13,343 |
| **Total accruals and other provisions** | **424,173** | **330,188** |

The accrued unused vacation is expected to be substantially utilised over twelve months from the balance sheet date. The accrued bonuses are payable within three months from the balance sheet date.

## 18 Deferred revenue

Deferred revenue comprises the following items:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Delivery of periodicals | 206,193 | 232,010 |
| Unused postage stamps | 140,234 | 120,903 |
| Delivery of parcels, small packages | 41,456 | - |
| Receipt of cash payments | 6,729 | 6,998 |
| Other | 6,518 | 4,366 |
| **Total deferred revenue** | **401,630** | **364,277** |

Unused postage stamps represent advance payments for stamps purchased by the general public and business entities but not yet used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate (see Note 4).

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 19 Other current liabilities

Other current liabilities consist of the following payables:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Advanced pensions and other social payments | 1,554,043 | 272,060 |
| Collected amounts due to utility companies | 493,828 | 533,789 |
| Amounts due to publishers | 405,465 | 468,914 |
| Money transfers due to customers | 339,099 | 329,281 |
| Amounts due for sold merchandise | 102,654 | 116,032 |
| Other | 52,035 | 47,522 |
| **Other current liabilities** | **2,947,124** | **1,767,598** |

Other current liabilities are unsecured financial liabilities that are largely denominated in UAH and are usually paid within 60 days of recognition. The fair value of other current liabilities approximates their carrying amount.

Advanced pensions and other social payments are a liability for cash received by the Company to effect delivery of pensions and other social benefits which have not yet been delivered. The increase in these liabilities compared to the similar period of the prior year resulted from a cash advance issued by the Social Protection Authority for payment of social benefits to recipients. Such benefits were paid to recipients during the first half of January 2020 through the network of Ukrposhta's postal offices.

## 20 Revenue from sales of goods, works and services

Revenue from sales of goods, works and services for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| **Provision of postal services** | **4,020,346** | **3,272,520** |
| Letters | 1,871,237 | 1,492,160 |
| Delivery of parcels, small packages | 1,197,424 | 1,038,416 |
| International postal exchange | 893,417 | 692,434 |
| Other postal services | 58,268 | 49,510 |
| **Delivery of pensions and other social payments (Note 7)** | **1,673,088** | **1,506,755** |
| **Financial services** | **1,015,528** | **881,306** |
| Utility payments | 765,993 | 628,375 |
| Postal money transfers | 227,239 | 233,926 |
| Other financial services | 22,296 | 19,005 |
| **Sale of goods and other services** | **586,682** | **533,389** |
| Sales of own goods and commission goods | 365,028 | 385,133 |
| Other | 221,654 | 148,256 |
| **Subscription and distribution of periodicals** | **482,199** | **441,621** |
| **Total revenue from sales of goods, works and services** | **7,777,843** | **6,635,591** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 20 Revenue from sales of goods, works and services (continued)

Revenues are generated from the following geographical areas*:

| | 2019 | 2018 |
|---|---|---|
| Ukraine | 6,884,449 | 5,906,143 |
| China | 378,481 | 299,981 |
| Estonia | 105,733 | 72,192 |
| Russia | 55,224 | 89,284 |
| Other countries | 353,956 | 267,991 |
| **Total revenue from sales of goods, works and services** | **7,777,843** | **6,635,591** |

* Geography is presented by the location of the counterparty to which the Company delivers a service.

Timing of revenue recognition is presented below by source:

| | 2019 | 2018 |
|---|---|---|
| **At a point in time** | **7,393,793** | **6,312,454** |
| Delivery of pensions and other social payments | 1,673,088 | 1,506,755 |
| Letters | 1,871,237 | 1,492,160 |
| Delivery of parcels, small packages | 1,197,424 | 1,038,416 |
| Financial services | 1,015,528 | 881,306 |
| International postal exchange | 893,417 | 692,434 |
| Sale of goods and other services | 586,682 | 533,389 |
| Subscription | 98,149 | 118,484 |
| Other postal services | 58,268 | 49,510 |
| **Over time** | **384,050** | **323,137** |
| Delivery of periodicals | 384,050 | 323,137 |
| **Total revenue** | **7,777,843** | **6,635,591** |

International postal exchange revenue includes a significant portion for which the reconciliation process with postal operators of other countries was completed or partially completed at the date of issue of these financial statements and therefore revenue estimates were adjusted respectively. The list of such postal administrations includes the following major counterparties:

| | 2019 |
|---|---|
| China Post | 378,481 |
| Estonian Post | 105,733 |
| Russia Post | 55,224 |
| USA Post | 26,120 |
| Netherlands Post | 13,086 |
| **Total international postal exchange revenue recorded based on reconciliation with postal operators of other countries** | **578,644** |
| Other postal administrations | 314,773 |
| **Total international postal exchange revenue** | **893,417** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 21 Cost of sales of goods, works and services

Cost of sales of goods, works and services for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | 3,759,893 | 3,365,489 |
| Social contributions | 903,534 | 838,349 |
| Material costs | 538,625 | 601,159 |
| Costs incurred on international postal exchange | 533,068 | 491,694 |
| Depreciation and amortisation | 247,504 | 253,962 |
| Cost of goods sold | 94,895 | 112,027 |
| Bank fees | 94,102 | 80,266 |
| Other | 425,336 | 464,658 |
| **Total cost of sales of goods, works and services** | **6,596,957** | **6,207,604** |

Costs incurred on international postal exchange include a significant portion for which the reconciliation process with postal operators of other countries was completed or partially completed at the date of issue of these financial statements and therefore costs estimates were adjusted respectively. The list of such postal administrations includes the following major counterparties:

| | 2019 |
|---|---|
| USA Post | 187,305 |
| Russia Post | 56,784 |
| China Post | 5,322 |
| Netherlands Post | 3,281 |
| Estonian Post | 1,457 |
| **Total international postal exchange expenses recorded based on reconciliation with postal operators of other countries** | **254,149** |
| Other postal administrations | 278,919 |
| **Total costs incurred on international postal exchange** | **533,068** |

## 22 Selling expenses

Selling expenses for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | 137,942 | 177,423 |
| Social contributions | 29,222 | 45,115 |
| Advertising expenses | 12,218 | 6,257 |
| Material costs | 4,576 | 6,340 |
| Depreciation and amortisation | 1,063 | 1,409 |
| Other | 3,005 | 2,223 |
| **Total selling expenses** | **188,026** | **238,767** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 23 Administrative expenses

Administrative expenses for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | 768,323 | 707,761 |
| Social contributions | 150,667 | 116,389 |
| Levies, taxes and charges | 30,667 | 23,360 |
| Depreciation and amortisation | 16,915 | 16,233 |
| Material costs | 5,701 | 7,655 |
| Other | 41,870 | 44,155 |
| **Total administrative expenses** | **1,014,143** | **915,553** |

## 24 Other operating expenses

Other operating expenses for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Shortages of inventories and cash | 66,658 | 9,000 |
| Salaries and wages | 25,035 | 31,430 |
| Impairment of non-current assets | 23,279 | 17,715 |
| Social contributions | 22,075 | 19,348 |
| Compensation for the cost of lost postal parcels | 18,271 | 14,082 |
| Charges to doubtful debt provision | 14,704 | 9,128 |
| Depreciation and amortisation | 1,835 | 2,391 |
| Other | 18,517 | 7,660 |
| **Total other operating expenses** | **190,374** | **110,754** |

## 25 Other financial income

Financial income for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Interest received on bank balances | 88,269 | 40,202 |
| Dividends received | 2,428 | 2,894 |
| Gain on restructured loan payable | - | 111,008 |
| Other | 722 | 370 |
| **Total financial income** | **91,419** | **154,474** |

## 26 Financial expenses

Financial expenses for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Interest expenses related to leases (2018: finance leases) | 50,146 | 25,874 |
| Expenses related to servicing of bonds | 23,902 | 54,162 |
| Interest expense on term loans | - | 25,582 |
| Net exchange losses on foreign currency borrowings | - | 1,586 |
| **Total financial expenses** | **74,048** | **107,204** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 27 Other operating income

Other operating income for the year ended 31 December comprised the following:

| | 2019 | 2018 |
|---|---|---|
| Compensation for pension delivery costs | 500,000 | - |
| Rental income | 85,022 | 47,725 |
| Foreign exchange gains less losses | 84,734 | 88,302 |
| Compensation for the cost of lost postal parcels | 15,035 | 7,627 |
| Funding from the Universal Postal Union | 4,609 | 15,166 |
| Other | 23,911 | 20,499 |
| **Total other operating income** | **713,311** | **179,319** |

The tariff for delivery of pensions remained unchanged for more than last 10 years and therefore, the State budget of Ukraine for 2019 allocated UAH 500,000 thousand to compensate the Company's costs attributable to pension delivery services for first 6 months 2019.

## 28 Income tax

| | 2019 | 2018 |
|---|---|---|
| Deferred income tax expense/(benefit) | 93,856 | (119,213) |
| **Income tax expense/(credit) for the year** | **93,856** | **(119,213)** |

The Company is subject to taxation in Ukraine. In 2019 and 2018, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18%.

| | 2019 | 2018 |
|---|---|---|
| **Profit / (loss) before tax** | **499,213** | **(626,994)** |
| **Statutory income tax rate** | **18%** | **18%** |
| **Theoretical tax charge/(credit) at the statutory tax rate** | **89,858** | **(112,859)** |
| Revision of valuation of previously recognised liability | - | (8,005) |
| Effect of non-deductible expenses | 3,998 | 1,651 |
| **Income tax expense/(credit) for the year** | **93,856** | **(119,213)** |

| | 1 January 2019 | Charged through profit and loss | 31 December 2019 |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | |
| Intangible assets | 2,897 | (584) | 2,313 |
| Construction in progress | 3,872 | 1,086 | 4,958 |
| Other current accounts receivable | 2,328 | 799 | 3,127 |
| Accounts receivable | 4,612 | 1,727 | 6,339 |
| Tax loss carried forward | 122,389 | (114,976) | 7,413 |
| **Deferred tax asset** | **136,098** | **(111,948)** | **24,150** |
| Less offsetting with deferred tax liability | (136,098) | 111,948 | (24,150) |
| **Recognised deferred tax asset** | **-** | **-** | **-** |
| Property, plant and equipment and investment property | (250,361) | 18,092 | (232,269) |
| **Deferred tax liability** | **(250,361)** | **18,092** | **(232,269)** |
| Less offsetting with deferred tax assets | 136,098 | (111,948) | 24,150 |
| **Recognised deferred tax liability** | **(114,263)** | **(93,856)** | **(208,119)** |
| **Recognised net deferred tax liability** | **(114,263)** | **(93,856)** | **(208,119)** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 28 Income tax (continued)

| | 1 January 2018 | Charged through profit and loss | Effect of IFRS 9 adoption | 31 December 2018 |
|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | |
| Tax loss carried forward | 33,363 | 89,026 | - | 122,389 |
| Accounts receivable | - | 3,390 | 1,222 | 4,612 |
| Construction in progress | 3,254 | 618 | - | 3,872 |
| Intangible assets | 2,723 | 174 | - | 2,897 |
| Other current accounts receivable | 4,442 | (2,816) | 702 | 2,328 |
| Trade and other payables | 18,295 | (18,295) | - | - |
| Deferred revenue | 17,524 | (17,524) | - | - |
| Short-term bank borrowings | 10,736 | (10,736) | - | - |
| **Deferred tax asset** | **90,337** | **43,837** | **1,924** | **136,098** |
| Less offsetting with deferred tax liability | (90,337) | (43,837) | (1,924) | (136,098) |
| **Recognised deferred tax asset** | **-** | **-** | **-** | **-** |
| Property, plant and equipment and investment property | (259,629) | 9,268 | - | (250,361) |
| Accounts receivable | (66,108) | 66,108 | - | - |
| **Deferred tax liability** | **(325,737)** | **75,376** | **-** | **(250,361)** |
| Less offsetting with deferred tax assets | 90,337 | 43,837 | 1,924 | 136,098 |
| **Recognised deferred tax liability** | **(235,400)** | **119,213** | **1,924** | **(114,263)** |

It is expected that all tax differences, except those arising on property, plant and equipment and investment property and tax loss carried forward will be utilised within the next accounting period.

## 29 Contingencies and commitments

***Tax legislation.*** Ukrainian tax, currency and customs legislation is subject to changes, which can occur frequently, and varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. Recent events within Ukraine suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

Ukrainian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

***Impairment of assets.*** The Company impaired its non-current assets located on non-controlled territories of Donetsk and Luhansk regions (Note 13). Taking into account the recent unfavourable court decision, tax authorities may scrutinize this operation and interpret it differently. Therefore, the impairment of assets may result in assessment of indirect taxes in the amount of UAH 90.6 million (including penalties). Management belives that there are strong arguments to successfully defend any such challenge and did not recognise any provision for this tax risk in these financial statements.

***Environmental matters.*** The enforcement of environmental regulation in Ukraine is evolving and the position of government authorities is continually being reconsidered. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities of environmental damage.

_All tabular amounts in thousands of Ukrainian Hryvnia_

## 29 Contingencies and commitments (continued)

***UCT liabilities.*** As disclosed in Note 13, the Company derecognised liabilities resulting from operations of the branches in the temporary occupied territory of Crimea and certain parts of the Donetsk and Lugansk regions. While liabilities of that nature may be subject to future collection claims, management assesses the likelihood of such events as relatively insignificant and remote.

## 30 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits.

Risk management is carried out by the central treasury department working closely with the operating units, under policies approved by the management board. The Company treasury identifies, evaluates and proposes risk management techniques to minimise these exposures.

***Credit risk.*** The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from exposure to banks in which the Company deposit its cash and cash equivalents, and credit exposures to the Company's customers as a result of outstanding receivables.

The credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a specified amount.

Management reviews the ageing analysis of outstanding trade receivables and follows up on past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk in these financial statements.

The maximum amount exposed to credit risk at the reporting date is UAH 3,866,516 thousand (31 December 2018: UAH 1,974,818 thousand) being the carrying amount of financial accounts receivable and cash balances held in banks. The Company does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in the impairment allowances recognised against assets.

***Credit risks concentration.*** The Company is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 21% of total trade receivables amount.

The table below shows the balance of the major counterparties at the balance sheet date.

| Counterparty | Classification in balance sheet | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| PJSC "State Savings Bank of Ukraine"* | Cash and cash equivalents | 2,012,602 | 827,694 |
| PJSC JSB "Ukrgasbank"* | Cash and cash equivalents | 603,481 | 360,250 |
| JSC "FUIB" | Cash and cash equivalents | 429,800 | - |
| JSC "Ukreximbank"* | Cash and cash equivalents | 400,074 | 1,846 |
| Estonia Post | Trade and other receivables | 51,644 | 21,013 |
| Singapore Post | Trade and other receivables | 48,751 | - |
| Russia Post | Trade and other receivables | 45,523 | 35,013 |

* These banks are state-owned banks and rank in the top 5 Ukrainian banks by the size of total assets and capital (per the National Bank of Ukraine).

JSC "FUIB" is a commercial bank with over 20 years of operations in Ukraine and is a Top 10 bank by key financial indicators.

***Market risk.*** The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of significant market movements.

Sensitivities to market risks disclosed below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rates and changes in foreign currency rates.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 30 Financial risk management (continued)

***Currency risk.*** The Company primarily operates within Ukraine and accordingly its exposure to foreign currency risk is determined mainly by borrowings, cash balances and deposits, which are denominated in USD or EUR, and accounts receivable and accounts payable denominated in SDR. Increased domestic uncertainty led to a volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian Hryvnia relative to major foreign currencies.

The table below summarises the Company's exposure to the USD and SDR exchange rate risk at the end of the reporting periods:

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| Monetary financial assets | 540,510 | 621,403 |
| Monetary financial liabilities | (410,219) | (427,856) |
| **Net balance sheet position** | **130,291** | **193,547** |

Because of this exposure, if the SDR and USD were to strengthen or weaken by 20 percent against the UAH, it would increase or decrease the Company's net financial result by UAH 21,368 thousand, respectively (31 December 2018: UAH 31,742 thousand).

Reasonably possible changes in exchange rates of other currencies would not materially impact the Company's financial results.

***Interest rate risk.*** The Company's interest rate risk arises from bonds in issue. The Company independently sets the interest rate on its bonds in issue. Borrowings at fixed rate expose the Company to fair value interest rate risk. The Company is not actively managing its interest rate risk exposure as it is believed to be insignificant.

The maturity dates and effective interest rates of borrowings are disclosed in Note 15. Re-pricing for fixed rate financial instruments occurs at maturity.

Reasonably possible changes in market interest rates would not materially impact the Company's financial results.

***Price risk.*** The Company is not exposed to price risk with respect to its financial statements because it has no significant investment in securities and financial instruments that would be subject to price risk.

***Liquidity risk.*** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and other liquid financial instruments to meet existing obligations as they fall due. Currently liquidity maintenance of the Company is affected through control over accounts receivable and payable balances, and amounts spent on capital expenditure business transformation programs.

The table below shows the Company's liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows.

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

| | Less than 3 months | From 3 months to 1 year | From 1 to 5 years | From 5 years |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Other current liabilities | 2,947,124 | - | - | - |
| Trade accounts payable | 541,110 | - | - | - |
| Borrowings | - | 41,939 | - | - |
| Lease liability (part of Other long-term liabilities and Current accounts payable on settlements for long-term liabilities) | 36,074 | 100,405 | 183,631 | 133,217 |
| **Total future payments, including principal and interest** | **3,524,308** | **142,344** | **183,631** | **133,217** |

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 30 Financial risk management (continued)

The maturity analysis of financial liabilities at 31 December 2018 is as follows:

| | Less than 3 months | From 3 months to 1 year | From 1 to 5 years | From 5 years |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Other current liabilities | 1,767,598 | - | - | - |
| Trade accounts payable | 541,590 | - | - | - |
| Borrowings | - | 112,627 | - | - |
| Lease liability (part of Other long-term liabilities and Current accounts payable on settlements for long-term liabilities) | 49,198 | 111,199 | 227,811 | 110,134 |
| **Total future payments, including principal and interest** | **2,358,386** | **223,826** | **227,811** | **110,134** |

## 31 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. At the present time, the Company does not have a formal capital management policy.

## 32 Subsequent events

In the beginning of 2020, the novel coronavirus (COVID-19) began quickly spreading globally, causing the World Health Organization to declare a pandemic in March 2020. The measures taken by many countries to contain the spreading of COVID-19 have resulted in significant disruptions to operations for many businesses and significantly affected global financial markets. The situation is quickly evolving and may significantly affect the business of many companies in a wide range of sectors, including, but not limited to, effects such as business disruption due to supply chain interruptions or closure of facilities, supply chain interruptions, quarantined personnel, reduced demand and difficulties with raising finance. The impact of COVID-19 will largely depend on the duration and extent of effects of the pandemic on the global and Ukrainian economy.

The Company considers the outbreak of COVID-19 to be a non-adjusting post balance sheet event. As the situation is dynamic and quickly evolving, management considers it impractical to provide quantification of the potential effect of this outbreak on the Company. Management expects a decrease in revenue from international postal exchange (by UAH 240 million in 2020 compared to the initial plan) and an increase in air transportation costs (by circa UAH 114 million in 2020 compared to the initial plan) due to the restrictions on air traffic between countries. Continued conditions associated with the overall economic decline may result in lower earnings than originally planned and related need to reduce operating expenses and the capital expenditure programme. Management of the Company does not expect any direct material adverse effect on the Company's financial performance as a result of the outbreak. At the same time the restrictive measures applied globally, and by the Ukrainian Government in particular, are likely to negatively affect the overall Ukrainian economy and therefore may have an indirect effect to the Company through a decrease in demand for some international postal operations, as well as domestic parcels and letters.

The situation continues to evolve and its consequences are currently highly uncertain. Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects.

On 19 May 2020, Ukrainian Parliament has passed at the first reading draft law No 2788-d "On amendments to some laws of Ukraine regarding financial services in the postal sector". The draft law implements a system of postal accounts, introduces the term 'postal account' and defines the financial services that the Company will be able to provide, including opening and servicing postal accounts, performing settlement banking transactions, issuing and servicing payment cards, accepting cash deposits from individuals and legal entities.

*All tabular amounts in thousands of Ukrainian Hryvnia*

## 32 Subsequent events (continued)

Management believes that adoption of this draft law will secure access to banking services to residents of rural areas, help retain postal offices in these areas, reduce pension delivery expenses covered from the budget and provide savings to citizens paying utility bills due to lower tariffs. The draft law is opposed by the National Bank of Ukraine arguing that adoption of this draft law may increase the share of state-owned banks and potentially provide preferential treatment to the Company, who will not be required to comply with all ratios and regulations that apply to other banks. To be adopted, this draft law has to be passed at three readings and amendments to the draft law may be made in the process of each reading.

On 1 April 2020, the Company joined the global express mail service (EMS). EMS is the express international delivery service provided by national postal operators that are members of the Universal Postal Union. The Company revised and significantly reduced existing tariffs to make them more affordable to customers, From 1 April 2020, the service will be available from nearly 1 thousand postal offices of the Company. From 1 June 2020, over 4 thousand automated postal offices of the Company will be able to accept EMS items for export. Management believes that this will provide access to express delivery services to a wider range of customers and generate additional revenue for the Company as a result of an increase in the volume of deliveries.

According to the Resolution of the Cabinet of Ministers of Ukraine №328 dated 24 April 2020, 50% of the net profit of the Company for 2019 amounting to UAH 202,679 thousand should be distributed as dividends.

No other significant events were identified that would require adjustments or disclosures in the Company's financial statements for the year ended 31 December 2019.

## 33 Accounting policies before 1 January 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, are as follows:

***Operating leases.*** Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

***Finance lease liabilities.*** Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

Authorised for issue and signed:

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|---|---|---|
| Smelyansky I. | Paliy M. | Kuts I. |
| General Director | Deputy General Director of Finance | Chief Accountant |