SC “Ukrposhta”

International Financial Reporting Standards Financial Statements and Independent Auditor’s Report

31 December 2020

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory board of STOCK COMPANY "UKRPOSHTA"

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of *STOCK COMPANY* "UKRPOSHTA" (hereinafter – the "Company"), which comprise:

- the balance sheet (statement of financial position) (form No.1) as at 31 December 2020;
- the statement of financial results (statement of comprehensive income) (form No.2), the statement of cash flows (by indirect method) (form No.3) and the statement of changes in equity (form No.4) for the year then ended; and
- notes to the financial statements, including a brief summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with financial reporting requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine" ("Law on accounting and financial reporting").

Basis for Qualified Opinion

1. For the year ended 31 December 2020, the Company recognised sales of own goods and commission goods of UAH 402,929 thousand (2019: UAH 365,460 thousand). As at 31 December 2020, the Company recognized accounts payable for the sold goods as a component of other current liabilities of UAH 112,290 thousand (2019: UAH 102,654 thousand). Due to deficiencies of accounting systems relating to sales of own goods and commission goods we were unable to obtain sufficient and appropriate audit evidence with respect to these amounts. Consequently, we were not able to determine whether any adjustments to the other current liabilities as at 31 December 2020 and respective sales for the year then ended were necessary.
2. Until 2020 the Company did not maintain appropriate accounting records and supporting documents in relation to subscription of periodicals. Accordingly, predecessor auditor was not able to obtain sufficient and appropriate audit evidence with respect to subscription of periodicals of UAH 98,149 thousand for 2019 which forms part of Subscription and distribution of periodicals as disclosed in Note 20. Our audit opinion on the financial statements for the current period is also modified because of the possible effects of these matters on the comparability of figures of the current period and the corresponding figures of the previous year.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence

Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter Paragraph

We draw your attention to the Note 3 to the financial statements, Investment property section, disclosing that in 2020 the Company agreed principles of accounting policy relating to accounting of investment property, since from the moment of the first application of the International Financial Reporting Standards the Company accounted investment property at cost. Our audit opinion was not modified in respect to this matter.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. 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. We identified that matters described below are the key audit matters to be reflected in our report.

Key audit matter	How our audit addressed the key audit matter
Revenues and expenses related to international postal exchange, UAH 701,298 thousand and UAH 891,671 thousand *Refer to Notes 20 and 21*	
We focused our attention on this area as a key audit area because revenue is a significant risk and revenues and expenses from international postal exchange are recognised during the year based on estimates made by management on the basis of the volume of transactions agreed with each individual foreign postal operator and tariffs, approved by the Universal Postal Union (UPU) and its rules. The final amounts are agreed between parties after the end of the reporting period and therefore the estimates could be subject to adjustment. Besides, the predecessor auditor has issued audit report, qualified in respect to this matter, since revenues and expenses were not agreed with other foreign postal operators. The Company performs a detailed calculation based on recorded volumes and the UPU tariffs. The Company subsequently confirms first the volume information, and later the amount of revenues and expenses in annual, quarterly or monthly invoices issued to and received from individual countries. In 2020 revenues and expenses from international postal exchange amounted to UAH 701,298 thousand and UAH 891,671 thousand correspondently.	We applied different testing approaches to revenue and expenses from international postal exchange depending on the stage of invoices confirmation, namely: - For transactions with postal operators of other countries for which confirmed invoices with revenue and expense amounts were obtained at the time of our audit procedures, we tested revenues and expenses by cross-referencing the amounts on the sample basis to the related invoices. - For transactions with postal operators of other countries for which confirmed invoices with only shipment volumes were obtained at the time of our audit procedures, we tested revenues and expenses by cross-referencing the volumes on a sample basis to the related invoices and recalculating revenue earned and expenses incurred using the confirmed data about the volume of cross-border shipments and tariffs as per the UPU. - Further, we tested on a sampling basis revenues and expenses for 2019 agreeing them with relevant amounts in invoices confirmed with postal operators from other countries, obtained after the date when audit report of the predecessor auditor has been issued. - Additionally, we tested roll-forward of related receivables due from and payables due to postal operators of other countries. In this test, the accrued revenues and expenses were agreed to amount as per invoice of the relevant postal operator. - Also, we recalculated foreign exchange differences that result from receivable and payable balances with postal operators of other countries. - We agreed revenues and expenses recognised in the end of the year with data in information notices about dates when relevant shipments have been obtained. In

Key audit matter	How our audit addressed the key audit matter
	particular, we concentrated on time when relevant revenues and expenses were recognised. We did not find any significant discrepancy based on the results of these tests.

Revenue from sales of goods, works and services UAH 8,078,210 thousand

Refer to Note 20

This key audit matter relates to the revenue from sales of goods, works and services, except for sales of own goods and commission goods of UAH 402,929 thousand, as described above in the Basis for Qualified Opinion section of our audit report, and except for revenues from international postal exchange of UAH 701,298 thousand, as described above as key audit matter. Recognition of revenue is a complicated process, considering significant volume of transactions, number of different sources of revenue and electronic systems to account them. The portion of revenue that is accrued by the Company from individuals involves numerous transactions of small amounts paid in cash. Other part of revenue mainly relates to 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. Considering the overall materiality of revenues for the Company, the design of the appropriate audit strategy over revenue, including split of revenues between cash portion and revenue settled through direct payments to the bank accounts, is the key audit matter.	We analyzed the accounting policy in respect to the recognition of revenue from rendering of main types of services and obtained an understanding of business processes, internal control systems and inherent document-flow. In regards to recognition of revenue our procedures included the following: - Allocation of revenue for testing to revenue settled in cash, revenue settled through direct payments to the bank accounts, and acquiring transactions. - An analysis of accounting entries for recognition of revenues from rendered services in accounting records and related allocation on analytical accounts between cash revenues, acquiring transactions and revenues settled through payments to the bank accounts. - Tracing on a sampling basis of accounting entries relating to cash revenues with relevant cash statements. - Tests of control and substantive procedures in respect of cash revenues and revenues from acquiring transactions. - Substantive procedures in respect of revenues settled through direct payments to the bank accounts. - We tested calculation of balances of deferred revenue stemming from unused postage stamps as at the reporting date, 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 We did not find any significant discrepancy based on the results of these tests.

Other Matter Paragraph

Audit of the financial statements of the Company for the year ended 31 December 2019 (before accounting policy was amended) has been performed by another auditor, who issued on 26 June 2020 qualified opinion in respect to the following issues: accuracy of calculations relating to revenues and expenses from international postal exchange, valuation of investment property, sales of own goods and commission goods and subscription of periodicals.

Other Information

Management is responsible for the other information. The other information comprises the management report prepared based on the requirements established by Law of Ukraine "On accounting and financial reporting in Ukraine", and the Annual Information of the Issuer of Securities for 2020 (which includes as a part of the management report the report on corporate governance) prepared based on the requirements established by Law of Ukraine "On securities and stock market", but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We were not able to obtain sufficient and appropriate audit evidence with respect to matters specified in first and second paragraphs of Basis for Qualified Opinion section of our report. Therefore, we were not able to determine, whether there is a material misstatement of this information in connection with such matters.

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 IFRSs and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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' 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 Requirements

Other information required by Article 14 of Law of Ukraine "On the audit of financial statements and audit activity"

Pursuant to the requirements of Article 14 of Law of Ukraine "On the audit of financial statements and audit activity" we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the auditor and period of engagement

We have been appointed as auditor by the decision of Supervisory Board on 16 November 2020 to perform a statutory audit of the financial statements of the Company for 2020 – 2022 years. This is the first year of our appointment for the assignment of statutory audit of the financial statements of the Company.

Provision of non-audit services and independence

We confirm that to the best of our knowledge and belief we have not provided any prohibited non-audit services to the Company or controlled entities by the Company referred to in Article 6 paragraph 4 of Law of Ukraine "On the audit of financial statements and audit activity". We, including our partner in charge, remain independent of the Company in conducting the audit. In addition, there are no other services, which were provided by us to the Company or its controlled entities except for the statutory audit, that have not been disclosed in the financial statements or management report.

Consistency with an additional report for the audit committee

We confirm that our audit opinion on the financial statements expressed in this independent auditor's report is consistent with the additional report to the Audit Committee or its equivalent.

Consistency of the annual management report with the financial statements

Based on the results of the work we have performed, considering knowledge and understanding of the Company and its operations, obtained during the audit, in all material aspects:

- management report was prepared in accordance with requirements of Law of Ukraine "On accounting and financial reporting in Ukraine" and other applicable laws and regulations, and the information presented there is consistent with the financial statements;

- we were not able to obtain sufficient and appropriate audit evidence with respect to matters specified in first and second paragraphs of Basis for Qualified Opinion section of our report. Therefore, we were not able to determine, whether there is a material misstatement of this information in connection with such matters.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management of the Company.

Identification and assessment of potential risks related to irregularities	**Audit response to risks identified**

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:
- enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax and valuation specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud such as significant management judgments arising from revenue recognition; and
- obtaining an understanding of the legal and regulatory framework that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations we considered in this context included Commercial Code of Ukraine, the Law of Ukraine "On Postal Services", the Universal Postal Convention, Orders of the Ministry of Infrastructure of Ukraine, the Law of Ukraine "On Payment Systems and Funds Transfer in Ukraine" and related tax legislation.
	As a result of performing the above, we identified revenue recognition as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.
	In addition to the above, our procedures to respond to risks identified included the following:
	- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
	- enquiring of management, those charged with governance and internal legal counsel concerning actual and potential litigation and claims;
	- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
	- reading minutes of meetings of those charged with governance; and
	- testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
	We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other matters

In the light of the knowledge and understanding of the Company and its operations obtained in the course of the audit, in all material aspects:

- The information contained in the corporate governance report prepared to be included to the Annual Information of the Issuer of Securities for the year 2020 in accordance with the requirements of Law of Ukraine «On Securities and the Stock Market», art. 40^1, para. 3, cl. 1-4, was prepared in accordance with the requirements of Law of Ukraine «On Securities and the Stock Market» and is consistent with the financial statements;

- In our opinion, the corporate governance report prepared to be included to the Annual Information of the Issuer of Securities for the year 2020, contains all information required by Law of Ukraine «On Securities and the Stock Market», art. 40^1, para. 3, cl. 5-9.

The partner in charge

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

Partner

"BAKER TILLY UKRAINE" LLP

Registration number in the Register of auditors and audit firms: No. 100789.

Olexandra Zvyeryeva

27 April 2021

Kyiv, Ukraine

Basic information about the audit firm

Full name: BAKER TILLY UKRAINE Limited Liability Partnership
Location: 3, Hrekova Street, apt. 9, Kyiv, 04112
Actual address: 28, Fizkultury Street, Kyiv, 03150.
Registration number in the Register of auditors and audit firms: No. 2091.

All amounts in thousands of Ukrainian Hryvnia

Enterprise: **SC “Ukrposhta”**
Territory: **Ukraine, Kyiv, Shevchenkivskyi district**
Organisational and legal form of economic activity: **State Stock Company (company)**
Type of economic activity: **National postal services**
Average number of employees: **63,856**
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

Asset	Note	Line code	31 December 2019	31 December 2020
I. Non-current assets				
Intangible assets		1000	25,037	18,695
historical cost		1001	119,590	115,114
amortisation		1002	(94,553)	(96,419)
Capital investments in progress	9	1005	38,416	65,889
Property, plant and equipment	9	1010	3,305,771	3,410,581
historical cost		1011	5,066,378	5,401,367
depreciation		1012	(1,760,607)	(1,990,786)
Investment property	9	1015	187,724	117,377
historical cost		1016	187,724	120,829
depreciation		1017	-	(3,452)
Other financial investments		1035	13,816	17,925
Long-term accounts receivable		1040	288	209
Deferred tax assets		1045	-	-
Total Section I		**1095**	**3,571,052**	**3,630,676**
II. Current assets				
Inventory	10	1100	195,381	225,554
production stock		1101	123,546	161,138
work in process		1102	2,606	4,170
finished goods		1103	8,422	11,518
goods for resale		1104	60,807	48,728
Accounts receivable for goods, works and services	11	1125	275,050	335,516
historical cost		1125.1	307,690	371,650
impairment provision		1125.2	(32,640)	(36,134)
Accounts receivable on settlements: for advances issued	11	1130	19,097	24,818
with the budget	11	1135	10,143	17,207
including corporate profit tax prepaid		1136	-	13,270
on accrued income	11	1140	8,335	8,785
Other current accounts receivable	11	1155	126,678	97,356
historical cost		1155.1	144,050	118,956
impairment provision		1155.2	(17,372)	(21,600)
Current financial investments	12	1160	-	195,095
Cash and cash equivalents	12	1165	3,675,137	5,246,112
Cash on hand		1166	210,346	493,831
Current accounts		1167	3,464,791	4,752,281
Other current assets		1190	26,482	29,695
Total Section II		**1195**	**4,336,303**	**6,180,138**
III. Non-current assets held for sale and disposal groups	9	**1200**	-	**98,659**
Balance		**1300**	**7,907,355**	**9,909,473**

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 2019**	**31 December 2020**
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	1,287,116	1,321,490
Total Section I		**1495**	**2,551,675**	**2,586,049**
II. Long-term liabilities and provisions				
Deferred tax liabilities	28	1500	208,119	201,646
Long-term bank borrowings	15	1510	-	65,878
Other long-term liabilities	15	1515	196,745	343,910
Total Section II		**1595**	**404,864**	**611,434**
III. Current liabilities and provisions				
Short-term bank borrowings	15	1600	41,939	264,395
Current accounts payable on settlements: for long-term liabilities	15	1610	98,902	168,707
for goods, works, services	16	1615	541,110	1,103,112
with the budget		1620	94,574	99,315
including liability on income tax		1621	124	-
for insurance		1625	49,526	55,484
on payroll		1630	179,259	205,345
Current accounts payable on advances received		1635	50,972	259,671
Current accounts payable on settlements with shareholder	14	1640	121,607	49,477
Accruals and other provisions	17	1660	424,173	502,007
Deferred revenue	18	1665	401,630	413,663
Other current liabilities	19	1690	2,947,124	3,590,814
Total Section III		**1695**	**4,950,816**	**6,711,990**
BALANCE		**1900**	**7,907,355**	**9,909,473**

Approved for issue and signed on 27 April 2021.

I. Smelyansky
General Director

M. Paliy
Deputy General Director of Finance

I. Kuts
Chief Accountant

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

All amounts in thousands of Ukrainian Hryvnia

Enterprise: SC "Ukrposhta"

Statement of Financial Results (Statement of Comprehensive Income)

for 2020

Form No. 2 DKUD Code 1801003

I. FINANCIAL RESULTS

Item	Note	Line code	For the reporting period - 2020	For the prior period 2019 (after changes in presentation – see Note 3)
1		2	3	4
Net revenue from sales of goods, works and services	20	2000	9,182,437	7,777,843
Cost of sales of goods, works and services	21	2050	(7,774,565)	(6,596,957)
Gross:				
Profit		2090	**1,407,872**	**1,180,886**
Loss		2095	-	-
Other operating income	27	2120	261,678	747,012
Administrative expenses	23	2130	(1,136,999)	(1,014,143)
Selling expenses	22	2150	(211,367)	(188,026)
Other operating expenses	24	2180	(135,574)	(200,796)
Financial results from operating activities:				
Profit		2190	**185,610**	**524,933**
Loss		2195	-	-
Other financial income	25	2220	94,517	91,419
Other income	28	2240	68,959	2,579
Financial expenses	26	2250	(96,313)	(74,048)
Other expenses	29	2270	(45,477)	(45,670)
Financial result before taxation:				
Profit		2290	**207,296**	**499,213**
Loss		2295	-	-
Income tax (expense)/credit	30	2300	(42,373)	(93,856)
Net financial result:				
Profit		2350	**164,923**	**405,357**
Loss		2355	-	-

II. COMPREHENSIVE INCOME

Item	Note	Line code	For the reporting period - 2020	For the prior period of the previous year - 2019
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**	**164,922**	**405,357**

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

All amounts in thousands of Ukrainian Hryvnia

Statement of Financial Results (Statement of Comprehensive Income)
for 2020
(continued)

Form No. 2

III. ELEMENTS OF OPERATING EXPENSES

Item	Note	Line code	For the reporting period - 2020	For the prior period of 2019 (after changes in presentation – see Note 3)
1		2	3	4
Material expenses		2500	520,443	555,274
Payroll		2505	5,280,313	4,691,193
Social payments		2510	1,237,219	1,105,498
Depreciation/amortisation		2515	354,882	267,317
Other operating expenses		2520	1,772,916	1,285,745
Cost of goods sold		2530	92,732	94,895
Total		**2550**	**9,258,505**	**7,999,922**

IV. CALCULATION OF SHARES PROFITABILITY

Item	Note	Line code	For the reporting period - 2020	For the prior period of the previous year - 2019
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 27 April 2021.

I. Smelyansky
General Director

M. Paliy
Deputy General Director of Finance

I. Kuts
Chief Accountant

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

All amounts in thousands of Ukrainian Hryvnia

Enterprise: SC "Ukrposhta"

Statement of cash flows (indirect method)
for 2020

Form No. 3 DKUD code 1801004

Item	Note	Line code	For the reporting period - 2020	For the prior period - 2019
1		2	3	4
I. Cash flows from operating activities				
Profit / (loss) before tax		3500	207,296	499,213
Adjustments for: Depreciation, amortisation and impairment of non-current assets		3505	364,271	290,590
Increase in provisions		3510	96,220	131,338
Unrealised foreign exchange (gain)/loss		3515	(2,295)	76,812
Loss / (gain) from non-operating activities and other non-cash transactions		3520	(67,793)	4,227
Financial expenses	26	3540	96,313	74,048
Finance income	25	3524	(94,517)	(91,419)
(Increase) / decrease in current assets		3550	(80,903)	(46,243)
Increase / (decrease) in current liabilities		3560	1,450,923	1,123,959
Increase (decrease) of deferred income		3566	12,033	37,353
Cash flows from operating activities		**3570**	**1,981,548**	**2,099,878**
Income tax paid		3580	(62,239)	(1,003)
Interest paid		3585	(87,413)	(50,146)
Net cash from operating activities		**3195**	**1,831,896**	**2,048,729**
II. Cash flows from investing activities				
Proceeds from sale of non-current assets		3205	94,188	-
Interest received		3215	92,740	86,548
Payments for acquisition of: financial investments	12	3255	(195,095)	-
non-current assets		3260	(104,321)	(37,003)
Net cash used in investing activities		**3295**	**(112,488)**	**49,545**
III. Cash flows from financing activities				
Bonds issued / (repaid)		3305	310,135	(70,598)
Dividends paid		3355	(202,679)	-
Repayment of lease liabilities		3365	(227,484)	(98,665)
Repayment of borrowings		3390	(30,700)	(23,993)
Net cash used in financing activities		**3395**	**(150,728)**	**(193,256)**
Net increase (decrease) in cash and cash equivalents		3400	1,568,680	1,905,018
Cash and cash equivalents at the beginning of the year		3405	3,675,137	1,846,931
Impact of change in foreign exchange rates		3410	2,295	(76,812)
Cash and cash equivalents at the end of the year	12	**3415**	**5,246,112**	**3,675,137**

Approved for issue and signed on 27 April 2021.

УКРПОШТА
ГОЛОВНА ПОШТА КРАЇНИ
ІДЕНТИФІКАЦІЙНИЙ КОД
21560045

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

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

All amounts in thousands of Ukrainian Hryvnia

SC "Ukrposhta"

Statement of Changes in Equity

for 2020

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)**	**1,287,116**	**2,551,675**
Net profit for the reporting period	4100	-	-	164,923	**164,923**
Current accounts payable on settlements with shareholder (Note 14)	4215	-	-	(130,549)	**(130,549)**
Changes in equity, total	**4295**	-	-	34,374	**34,374**
Balance at the year end	**4300**	**6,518,597**	**(5,254,038)**	**1,321,490**	**2,586,049**

Statement of Changes in Equity

for 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**
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**

Approved for issue and signed on 27 April 2021.

I. Smelyansky
General Director

M. Paliy
Deputy General Director of Finance

I. Kuts
Chief Accountant

All amounts in tables in thousands of Ukrainian Hryvnia

1 SC "Ukrposhta"

Stock Company Ukrposhta (hereinafter SC 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 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 SC 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 of 31 December 2020 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
Member of the Supervisory Board	Mr. Zinkin Alexander
Member of the Supervisory Board	Mr. Safarov Farid

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 2020, the Company operates 10,505 postal offices in Ukraine (31 December 2019: 10,831). The average number of its employees is 63,856 people for 2020 (2019: 64,655).

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

2 Operating environment

During last years, the Ukrainian economy was showing signs of stabilisation and growth after a sharp decrease in 2014-2016. After recovering during 2016-2019, in 2020 Ukraine’s economy was negatively affected by the global economic crisis caused by the COVID-19 pandemic. After the sharp decline of Ukraine’s economy in the second quarter of 2020 caused by quarantine, economic growth began in the third quarter of 2020, but further growth was slowed in autumn due to the second wave of the pandemic and intensification of quarantine measures in Ukraine and other countries.

Deterioration of the economic situation in Ukraine, including due to COVID-19, led to the devaluation of the Ukrainian hryvnia against foreign currencies in 2020, as of 31 December 2020 the official UAH-USD exchange rate was 28.2746 hryvnia for 1 US dollar against 23.6862 hryvnia for 1 US dollar set on 31 December 2019. In order to reduce the negative impact of the pandemic on the country’s economy, the National Bank of Ukraine (hereinafter - the “NBU”) gradually reduced the discount rate from 13.5% per annum, effective from 13 December 2019, to 10% per annum from 13 March 2020 and up to 6% per annum from 11 June 2020. However, the increase of inflation outside the targeted range in early 2021 forced the NBU to raise the discount rate to 6.5% per annum from 5 March 2021 and to 7.5% from 16 April 2021.

Also in 2020, real GDP in Ukraine fell by 4% compared to 2019, and inflation rate accelerated to 5%. In December 2020, industrial producer prices increased by 14.5% compared to December 2019.

In June 2020, the IMF Board of Directors approved the 18-month Stand-by assistance (SBA) programme for Ukraine, totalling 3.6 billion SDR (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 2021, Ukraine faces significant internal and external 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 and the conflict in the east of Ukraine has not been resolved to date. The relationships between Ukraine and the Russian Federation have remained strained. Despite the declaration of a ceasefire, clashes in certain areas of Luhansk and Donetsk regions continue in 2021, which can cause a new escalation of the armed conflict. The development of events in Donbass, as well as its possible consequences for Ukraine’s economy, is difficult to predict.

In the context of political changes during recent years, the degree of uncertainty including in respect of the future direction of the reforms in 2020 remains very high. In addition, the negative trends in world markets due to the coronavirus pandemic may further affect the economy of Ukraine. Despite certain improvements in 2019-2020, 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, excluding other financial investments that are measured at fair value. 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.

3 Significant accounting policies (continued)

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.

Going concern. As of 31 December 2020, the Company had an excess of current liabilities over current assets of UAH 531,852 thousand (31 December 2019: by UAH 614,513 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 regulated 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 4,723 in 1 January 2020 to UAH 5,000 in 1 September 2020, to UAH 6,000 from 1 January 2021 and plans to establish UAH 6,500 from 1 December 2021. Since payroll costs with related social tax accruals is the major cost element of the Company the increase in the minimum salary became the most important reason of the working capital deficit as of 31 December 2020 and 31 December 2019.

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 been revised in December 2019 for the first time for the last 14 years. According to the resolution of the Cabinet of Ministers of Ukraine No. 987 of 4 December 2019, which came into force on 1 January 2020, the tariff for delivery of pensions was increased by 45%, taking into account the growth of the minimum wage until 2020.

As in Ukraine pensions have been increasing at a slower rate than the salaries, after a sharp increase of the minimum salaries in 2021, the Company initiated the next revision of the tariff for the delivery of pensions. As a result, the Resolution of the Cabinet of Ministers of Ukraine No. 271 of 29 March 2021, additionally increased the tariff for delivery of pensions by 14.6%.

At the same time, the Company’s customer base reduced as many pensioners switched to being serviced by the banks in the larger towns.

Management has prepared cash flow projections through to the end of first half of 2022. 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 processed letters will reduce by 10% compared to last year. Impact of minimum wages increase in 2021 is partially compensated by a 22% regulated tariff increase from 1 July 2021 which has not yet been approved by the National Commission for the State Regulation of Communications and Informatisation;
- an increase in revenue from delivery of parcels primarily as a result of the volume growth of domestic parcels by 34% in 2021 against 24% in 2020;
- an increase in revenue from services related to payment and delivery of state pensions and social aid by about 11% against 2020 as a result of an increase in tariffs by 14,6% from 1 April 2021 as well as an increase in the amount of payments delivered as a result of indexation of pensions and additional social aid. It is expected that the number of pensioners serviced by the Company will not reduce by more than 10% through to the end of 2021;
- an increase in volumes of utility and other payments by 5% against 2020 mainly due to an increase in tariffs for payments acceptance 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 loan facilities including international financial institutions.

Management has estimated that the operating cash flows for the period through to the end of first half of 2022 are positive.

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.

All amounts in tables in thousands of Ukrainian Hryvnia

3 Significant accounting policies (continued)

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 2020**	**31 December 2019**
USD/UAH closing	28.27	23.69
USD/UAH average	26.96	25.85
SDR/UAH closing	40.88	32.70
SDR/UAH average	37.57	35.72

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. The Company recognizes financial assets and liabilities when it becomes a party to the contractual relationship to a particular instrument. Financial assets and liabilities are represented by cash and cash equivalents, net trade and other receivables, current financial investments, bonds issued, lease liabilities, trade and other accounts payable. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below. These evaluation methods are 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.

3 Significant accounting policies (continued)

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.

Financial instruments – initial recognition. Initial recognition of financial assets and liabilities is carried at their fair value, except for receivables from contracts with clients, which are initially recognized at nominal value in accordance with IFRS 15. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

3 Significant accounting policies (continued)

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.

The Company applies a simplified approach to measuring credit loss allowance for ECL. The Company does not track changes of credit risk, instead the provision is calculated for the entire term of the debt and is revalued at each reporting date. The Company uses a provision matrix based on historical credit losses adjusted for the effect of future changes in the economic environment that will affect debtors.

The Company considers that a default (event of default) occurs when a financial asset is more than 90 days past due, unless the Company has other reasonable information that the criterion of longer default is more acceptable.

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.

All amounts in tables in thousands of Ukrainian Hryvnia

3 Significant accounting policies (continued)

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.

Presentation of financial instruments by measurement category. As of 31 December 2020 and 31 December 2019, 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. The fair value of other financial investments is estimated using quoted prices in active markets (Level 1 of the fair value hierarchy).

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	10-50
Plant and equipment	5-35
Vehicles	5-10
Office furniture and equipment	2-5

Property, plant and equipment with acquisition costs less than UAH 20 thousand are recognised by the Company as low value non-current assets with 100% depreciation accrual during the first month of usage.

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.

Intangible assets. Acquired intangible assets with finite useful lives are stated at cost less accumulated amortization and accumulated impairment losses.

The Company recognizes intangible assets that will be used for more than a year and whose cost is greater than or equal to UAH 1,000 at the date of posting. The value criterion for their recognition as intangible assets is not applied to internally generated assets and registration of land use rights.

The Company accounts for intangible assets at cost. Subsequent intangible assets expenditures after their acquisition or creation is recognized as an expense in the period in which they are incurred, unless it is probable that the cost will allow the asset to generate future economic benefits greater than expected and the cost can be reliably measured.

An intangible asset with a fixed useful life is subject to depreciation for the period specified in the contract, patent or license. The depreciation period of an intangible asset with a fixed useful life is reviewed at the end of each financial year. The average life of intangible assets is 4 years.

3 Significant accounting policies (continued)

Assets with indefinite useful lives are not depreciated, but are assessed annually for impairment and possible transition to depreciable assets.

Depreciation is calculated on a straight-line basis over the estimated useful life from the date the asset is ready for use. Depreciation expense is recognized in the statement of comprehensive income.

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.

The investment property of the Company is formed at the expense of the existing real estate objects due to the change of their purpose and their transfer from the category of real estate occupied by the Company to the category of investment real estate. If a property consists of two parts: one for rental income and another for the provision of postal and related services, these parts are accounted for separately if they can be sold or leased separately on a finance lease basis. Otherwise, the property is regarded as investment property only if a small portion of that property is held for the Company’s operations.

In 2020, the Company amended the Accounting Policy for the accounting of investment property at cost. In fact, since the first application of International Financial Reporting Standards, the Company has accounted for investment property at cost. Thus, adhering to the principle of consistency of assessments and judgements, the Company’s Management has decided to amend the Accounting Policy so that it would reflect the actual state of business and meet the international financial reporting standards.

In addition, from 1 January of 2020 the Company changed its accounting estimates and judgements regarding the recognition of investment property which resulted in corrective adjustments.

The cost of investment property is the actual cost of cash and cash equivalents, or the fair value of another form of compensation at the time of its acquisition.

Subsequent to initial recognition, the Company accounts for investment property at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation of investment property is calculated on a straight-line basis over their useful lives.

The useful life of investment property is set as for objects of property, plant and equipment group “Buildings and structures”.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less the carrying amount.

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 or the lease term, whichever comes first. 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.

Non-current assets held for sale and disposal groups. The Company classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

3 Significant accounting policies (continued)

An asset classified as held for sale or included in disposal group is not depreciated. The sale of an asset (or disposal group) must be made within a year. Events or circumstances may extend the period of completion of the sale of assets held for sale beyond one year.

An extension of the disposal period does not preclude the classification of an asset (or disposal group) held for sale if the delay was caused by events or circumstances beyond the Company's control and if there is sufficient evidence that the Company does not plan to continue to use the asset.

Non-current assets held for sale are valued by the Company at the lower of its carrying amount and fair value less costs to sell.

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 (except for the goods). 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.

The retail price method is used for goods for resale. The retail cost of sales is determined as the difference between the cost of goods sold and the amount of trade margin. The amount of the trade margin on goods sold is calculated as the product of the cost of sales of the goods sold and the average percentage of the trade margin.

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.

3 Significant accounting policies (continued)

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. In other cases, VAT is shown expanded.

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.

3 Significant accounting policies (continued)

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" No. 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;
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.

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.

3 Significant accounting policies (continued)

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.

Lease extension and termination options provided for in a number of Company’s lease agreements. 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.

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.

All amounts in tables in thousands of Ukrainian Hryvnia

3 Significant accounting policies (continued)

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 it is 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 2020, the Company changed the presentation of certain items of the Statement of Financial Results (Statement of comprehensive income) and relevant disclosures of the statements for the year that ended 31 December 2019 to ensure comparability of relevant indicators.

The Company changed the presentation of income from the provision of currency exchange services, exchange rate differences and impairment of non-current assets in the Statement of Financial Results (Statement of comprehensive income), believed that such a change provides more relevant information.

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

Item *In thousand hryvnias*	**Line code**	**2019 (as previously reported)**	**Effect of changes in presentation**	**2019 (after changes in presentation)**
1	**2**			
Net revenue from sales of goods, works and services	2000	7,777,843	-	7,777,843
Net cost of sold products (goods, works, services)	2050	(6,596,957)	-	(6,596,957)
Gross:				
Profit	2090	**1,180,886**	**-**	**1,180,886**
Loss	2095	-	-	-
Other operating income	2120	713,311	33,701	747,012
Administrative expenses	2130	(1,014,143)	-	(1,014,143)
Selling expenses	2150	(188,026)	-	(188,026)
Other operating expenses	2180	(190,374)	(10,422)	(200,796)
Financial results from operating activities:				
Profit	2190	**501,654**	**23,279**	**524,933**
Loss	2195	-	-	-
Other financial income	2220	91,419	-	91,419
Other income	2240	2,579	-	2,579
Financial expenses	2250	(74,048)	-	(74,048)
Other expenses	2270	(22,391)	(23,279)	(45,670)
Financial result before taxation:				
Profit	2290	**499,213**	**-**	**499,213**
Loss	2295	-	-	-
Income tax (expense)/credit	2300	(93,856)	-	(93,856)
Net financial result:				
Profit	2350	**405,357**	**-**	**405,357**
Loss	2355	-	-	-

All amounts in tables in thousands of Ukrainian Hryvnia

3 Significant accounting policies (continued)

Item *In thousand hryvnias*	**Line code**	**2019 (as previously reported)**	**Effect of changes in presentation**	**2019 (after changes in presentation)**
1	**2**	**3**	**4**	**5**
Material expenses	2500	555,274	-	555,274
Payroll	2505	4,691,193	-	4,691,193
Social contributions	2510	1,105,498	-	1,105,498
Depreciation/amortisation	2515	290,590	(23,279)	267,311
Other operating expenses	2520	1,252,050	33,701	1,285,751
Cost of sales	2530	94,895	-	94,895
Total	**2550**	**7,989,500**	**10,422**	**7,999,922**

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 sorting and sending services 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.

Lease 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 period 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 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, investment property and non-current assets held for sale and disposal groups. 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.

The Company has assessed the quantitative and value indicators of real estate properties, as well as income from the lease of premises and applies the following judgements to the classification and transfer of real estate to investment property:

- Objects leased at 70% or more (in terms of usable area) are considered to be fully investment property (subject to the main criteria specified in the previous paragraph);
- Objects leased at less than 70% of the total usable area, but the total rental cash proceeds from which in total for the object are more than UAH 50 thousand per month, are classified as investment property (subject to the main criteria specified in the previous paragraph) in the part of the total usable area for rent, and as property, plant and equipment in the part of the total usable area used for own needs;
- Objects leased at less than 70% of the total usable area and total rental cash proceeds for which are less than UAH 50 thousand per month, the Company considers insignificant and remains as the property, plant and equipment.

Management of the Company transfers real estate properties from property, plant and equipment to investment property applying the cost model as its accounting policy (refer to Note 3). Management estimated the expected range of the fair value of investments property as at 31 December 2020 without involving independent appraisers and disclosed it in Note 9.

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 2020, 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.

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 2019 and 2020), 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.

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

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

The following amended standards became effective for the Company on 1 January 2020, but had no material impact on the Company:

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.

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 separate financial statements but does not expect a material impact on its financial reporting.

6 New standards and interpretations not yet adopted

The following are standards and interpretations that have been issued but have not yet become effective as of the date of the Company's financial statements. At the date of approval of these Financial Statements, the Company has not applied any of these new or revised standards that have been issued but have not yet become effective.

All amounts in tables in thousands of Ukrainian Hryvnia

6 New standards and interpretations not yet adopted (continued)

Standards and interpretations	Effective Date
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 — Phase 2 - Interest Rate Benchmark Reform	1 January 2021
“Reference to conceptual frameworks” - amendments to IFRS 3	1 January 2022
“Property, plant and equipment: Intended use”- amendments to IAS 16	1 January 2022
“Onerous Contracts — Cost of Fulfilling a Contract” - Amendments to IAS 37	1 January 2022
“First Time Adoption of IFRS” - “Subsidiary as a first-time adopter of International Financial Reporting Standards” - Amendments to IFRS 1	1 January 2022
“Fees in the ’10 per cent’ test for derecognition of financial liabilities” - Amendment to IFRS 9 “Financial Instruments”	1 January 2022
Taxation in Fair Value Measurements - Amendments to IAS 41 Agriculture	1 January 2022
“Insurance contracts” - IFRS 17	1 January 2023
“Classification of Liabilities as Short-Term or Long-Term” - Amendments to IAS 1	1 January 2023
“Extension of the Temporary Exemption from Applying IFRS 9” - Amendments to IFRS 4	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS 2	1 January 2023
“Definition of accounting estimates” - Amendments to IAS 8	1 January 2023

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 public 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 2020 and 31 December 2019, a significant portion of the Company’s bank balances are held with three state owned banks in Ukraine (Note 12).

Until November 2020, key management was 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. From November 2020, due to the dismissal of one of the deputies, the key management is considered to be the General Director and the Deputy Director of Finance. In 2020, the total compensation to key management personnel amounted to UAH 25,538 thousand (2019: UAH 24,372 thousand). The compensation to key management personnel consisted of short-term salaries and bonus payments. In 2020, the total compensation to Supervisory Board members amounted to UAH 10,062 thousand (2019: UAH 11,659 thousand). 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 commercial services.

8 Segment information (continued)

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.

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 2020 and 2019, 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 25 regional directorates in each region and Kyiv, each of which signed agreements for the provision of services related to the payment and delivery of pensions to the population with the Company units. The revenue received as remuneration for the delivery of pensions and other social benefits in 2020 totalled UAH 2,627,218 thousand (2019: UAH 1,673,088 thousand).

All amounts in tables in thousands of Ukrainian Hryvnia

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

Movement in the carrying amounts of property, plant and 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 2019						
Historical cost	3,511,796	675,650	549,840	396,986	5,134,272	85,738
Accumulated depreciation and impairment	(547,884)	(448,556)	(173,156)	(352,407)	(1,522,003)	-
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	(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**
Carrying amount at 1 January 2020	**2,749,284**	**185,439**	**328,835**	**42,213**	**3,305,771**	**38,416**
Additions	126,955	-	-	-	126,955	481,700
Transfers	5,352	12,896	339,208	94,469	451,925	(451,925)
Adjustment to the right-of-use assets on remeasurements	(7,208)	-	-	-	(7,208)	-
Disposals at cost	(87,878)	(32,719)	(3,730)	(13,612)	(137,938)	
Disposal of accumulated depreciation	37,842	32,289	3,730	13,612	87,472	-
Transfers to non-current assets held for sale at cost	(178,224)	-	-	-	(178,224)	-
Transfers to non-current assets held for sale at accumulated depreciation	43,227	-	-	-	43,227	-
Transfers to/from investment property at cost	79,479	-	-	-	(79,479)	-
Transfers to/from investment property at accumulated depreciation	(1,710)	-	-	-	(1,710)	-
Depreciation on the transfer of investment property expanded	(12,584)				(12,584)	-
Depreciation charge and impairment	(127,996)	(59,239)	(59,363)	(99,986)	(346,584)	(2,302)
At 31 December 2020						
Historical cost	3,317,866	677,126	892,920	513,455	5,401,367	65,889
Accumulated depreciation and impairment	(691,327)	(538,460)	(284,240)	(476,759)	(1,990,786)	-
Carrying amount at 31 December 2020	**2,626,539**	**138,666**	**608,680**	**36,696**	**3,410,581**	**65,889**

All amounts in tables 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.

As at 31 December 2020, the Company had contractual commitments for the acquisition of property, plant and equipment amounting to UAH 36,524 thousand.

As at 31 December 2020, the Company had UAH 510,387 thousand of property, plant and equipment items which were fully depreciated but still in use.

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 2018, 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:

(in thousand hryvnias)	**2020**	**2019**
Net cost of sold products (goods, works, services)	321,234	247,504
Administrative expenses	26,107	16,915
Selling expenses	1,161	1,063
Other operating expenses	6,381	1,835
Other expenses (Note 29)	9,388	23,279
Total depreciation charge and impairment	**364,271**	**290,590**

During 2020, the Company acquired property, plant and equipment (vehicles) under finance leases totalling UAH 307,753 thousand. As at 31 December 2020, the net carrying value of these items of property, plant and equipment held under finance lease arrangements totalled UAH 420,713 thousand (31 December 2019: UAH 142,019 thousand).

Right-of-use assets

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

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

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.

All amounts in tables in thousands of Ukrainian Hryvnia

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

The carrying amount and movements in the right-of-use assets for 2020 are disclosed below:

(in thousand hryvnias)	**Buildings and structures**	**Vehicles**	**Total**
1 January 2020	**214,602**	**142,019**	**356,621**
Additions	126,955	307,753	434,708
Adjustments to right-of-use assets on remeasurement of lease liabilities	(7,208)	-	(7,208)
Depreciation charge	(61,889)	(27,164)	(87,620)
Disposals	(40,809)		(44,137)
Transfer		(1,895)	
31 December 2020	**231,651**	**420,713**	**652,364**

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

Investment property

(in thousand hryvnias)	**2020**	**2019**
Investment property at fair value at 1 January	**187,724**	**14,937**
Transfers from property, plant and equipment	-	170,228
Other transfers	-	2,559
Transferred to property, plant and equipment (at historical cost)	(66,895)	-
Transferred to property, plant and equipment (at accumulated depreciation)	1,710	-
Depreciation charge and impairment	(5,162)	-
At 31 December		
Historical cost	120,829	-
Accumulated depreciation and impairment	(3,452)	-
Carrying amount at 31 December 2020	**117,377**	**187,724**

As specified in Note 4, in 2020 the Company amended the Accounting Policy for Accounting for Investment Property at Cost. In addition, the Company changed its accounting estimates and judgements regarding the recognition of investment property which resulted in corrective adjustments.

Management estimated the expected range of the fair value of investments property as at 31 December 2020 to be between UAH 350,000 thousand and UAH 435,000 thousand (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 all properties as at 31 December 2020 are as follows:

(in thousand hryvnias)	**Future rental cash proceeds**
Demand and less than 1 month	6,248
From 1 to 3 months	12,204
From 3 to 12 months	50,540
From 12 months to 5 years	59,218
Total undiscounted future rental cash proceeds from operating leases	**128,210**

The future minimum lease payments under operating leases as at 31 December 2019 are as follows:

(in thousand hryvnias)	**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**

All amounts in tables in thousands of Ukrainian Hryvnia

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

In 2020 rental income from investment properties totalled UAH 94,353 thousand (2019: UAH 85,022 thousand) and was recognised in other operating income.

Non-current assets held for sale

As noted in Note 4, as of 20 October 2019 due to changes in the Legislation of Ukraine, the Company has acquired the right to dispose of property through open auction systems sale. Based on the Decision of the shareholder represented by the Ministry of Infrastructure of Ukraine, the Company transfers real estate from fixed assets to non-current assets held for sale.

The movement of non-current assets held for sale is presented as follows:

(in thousand hryvnias)	**2020**
Non-current assets held for sale at 1 January 2020	**-**
Transfers from property, plant and equipment	134,997
Sold	(30,445)
Impairment	(5,893)
Non-current assets held for sale at 31 December 2020	**98,659**

Net profit on disposal of non-current assets held for sale for 2020 totalled UAH 63,743 thousand and was recognised in other income.

10 Inventories

(in thousand hryvnias)	**31 December 2020**	**31 December 2019**
Raw materials	161,138	123,546
Goods for resale	48,728	60,807
Finished goods and work in progress	15,688	11,028
Total inventories	**225,554**	**195,381**

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

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

(in thousand hryvnias)	**31 December 2020**	**31 December 2019**
Accounts receivable for goods, works and services	371,650	307,690
including receivables from postal operators of other countries	*224,997*	*199,881*
Other current accounts receivable	118,956	144,050
including receivables from postal operators of other countries	*26,274*	*18,034*
Total financial accounts receivable (gross carrying amount)	**490,606**	**451,740**
Advances issued	24,818	19,097
Other receivables	39,262	18,478
Allowance for impairment	(57,734)	(50,012)
Total accounts receivable, advances issued and other receivables	**496,952**	**439,303**

All amounts in tables in thousands of Ukrainian Hryvnia

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

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

	2020	2019
- USD	121,952	164,435
- UAH	175,245	143,761
- SDR	130,933	89,241
- EUR	4,742	4,291
Total financial accounts receivable	**432,872**	**401,728**

As at 31 December 2020 and 31 December 2019, 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 2020 or 31 December 2019 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.

ECL matrix at 31 December 2020:

In % of gross value	Loss rate	Gross carrying amount	Lifetime ECL
- not past due			
Postal operators of other countries	*0.00%*	251,436	-
Governmental institutions and state owned enterprises	*7.40%*	45,952	3,399
Utility entities	*1.65%*	21,476	355
Other entities	*7.02%*	118,230	8,296
		437,094	**12,050**
less than 30 days overdue	*28.80%*	7,977	2,297
31 to 60 days overdue	*50.10%*	1,856	930
61 to 90 days overdue	*74.82%*	2,317	1,734
more than 90 days overdue	*98.45%*	41,362	40,723
Total financial accounts receivable as at 31 December 2020 (gross carrying amount)		**490,606**	**57,734**
Credit loss allowance for financial accounts receivable		(57,734)	
Total financial accounts receivable as at 31 December 2020		**432,872**	

All amounts in tables 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
31 to 60 days overdue	*52.56%*	2,968	1,560
61 to 90 days overdue	*72.29%*	1,050	759
more than 90 days overdue	*99.64%*	38,178	38,040
Total financial accounts receivable as at 31 December 2019 (gross carrying amount)		**451,740**	**50,012**
Credit loss allowance for financial accounts receivable		(50,012)	
Total financial accounts receivable as at 31 December 2019		**401,728**	

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

	2020	2019
Allowance for doubtful receivables at 1 January	**50,012**	**38,553**
Allowance accrued during the year	7,722	11,459
Allowance for doubtful receivables at 31 December	**57,734**	**50,012**

12 Cash, cash equivalents and current financial investments

Cash, cash equivalents and current financial investments comprise amounts held physically in cash, bank balances available on demand, cash in transit and short-term deposits.

(in thousand hryvnias)	31 December 2020	31 December 2019
Bank balances payable on demand	3,404,042	3,927,929
including:		
General purpose bank accounts	*1,101,837*	*1,180,041*
Designated purpose bank accounts	*2,302,205*	*1,747,888*
Short-term deposits for up to 3 months	1,348,239	536,862
Cash on hand	493,831	210,346
Total cash and cash equivalents (line 1165)	**5,246,112**	**3,675,137**
Short-term deposits longer than 3 months (line 1160)	*195,095*	-
Total cash, cash equivalents and current financial investments	**5,441,207**	**3,675,137**

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.

All amounts in tables in thousands of Ukrainian Hryvnia

12 Cash, cash equivalents and current financial investments (continued)

Short-term deposits with a maturity of more than 3 months are reflected in the Statement of Financial Position under "Current financial investments" item.

Short-term deposits are placed with Ukrainian banks with a maturity of 60 to 185 days with an average interest rate on hryvnia investments of 8.9% per annum and foreign currency investments of up to 3% per annum. Interest received on deposits is recognized in the statement of comprehensive income in the item financial income (Note 25).

As at 31 December cash, cash equivalents and current financial investments are denominated in the following currencies:

	2020	2019
- UAH	4,336,842	3,382,741
- USD	1,095,881	287,577
- EUR	8,484	4,818
- CHF	0	1
Total cash, cash equivalents and current financial investments	**5,441,207**	**3,675,137**

In 2020 and 2019 general purpose bank balances payable on demand and short-term deposits earned interest at fixed rates varying from 4,5% to 19,5% per annum in UAH and from 2,5% to 4% in foreign currency.

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

	31 December 2020	31 December 2019
(in thousand hryvnias)	Bank balances payable on demand and deposits	
Neither past due nor impaired		
- *A2*	2,298	952
- *Aa3*	11,710	-
- *B1*	-	5,310
- *B2*	3,820	-
- *B3*	4,025,736	-
- *Caa1*	-	2,422,512
- *Unrated*	903,812	1,036,017
Total	**4,947,376**	**3,464,791**

At 31 December 2020, the bank balances payable on demand in the amount of UAH 4,357,484 thousand (31 December 2019: UAH 3,016,158 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 2019 and 2020 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.

All amounts in tables in thousands of Ukrainian Hryvnia

13 Assets and liabilities on occupied territories (continued)

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 2020 and 2019.

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.

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 2020 and 2019, 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 2020 / At 31 December 2019	6,518,597	6,518,597	(5,254,038)	**1,264,559**

As at 31 December 2020 and 31 December 2019, the net assets totalling UAH 2,586,049 thousand and UAH 2,551,675 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.

All amounts in tables in thousands of Ukrainian Hryvnia

14 Share capital (continued)

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" No. 185-V dated 21 September 2006.

According to the Resolution of the Cabinet of Ministers of Ukraine No. 328 of 24 April 2020, 50% of the Company's net profit for 2019 in the amount of UAH 202,679 thousand was directed to the payment of dividends in 2020, from which UAH 121,607 thousand (30% of the 2019 financial result) was accrued and recognised in the financial statements for 2019, and UAH 81,072 thousand (20% of the 2019 financial result) was accrued and recognised in the financial statements for 2020.

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 2020, the Company accrued a liability of UAH 49,477 thousand in respect of the portion of net profit attributable to the State Budget of Ukraine in current accounts payable on settlements with shareholder.

15 Borrowings

Borrowings are presented by own-issue bonds. The carrying amount of borrowings is as follows:

(in thousand hryvnias)	**31 December 2020**	**31 December 2019**
Long-term bonds (line 1510)	65,878	
The current part of long-term bonds (line 1610)	264,395	41,939
Total	**330,273**	**41,939**

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

(in thousand hryvnias)	**2020**	**2019**
Opening balance as at 1 January	**41,939**	**112,627**
Monetary movement		
Interest paid	(21,388)	(23,993)
Borrowings repaid	(30,700)	(70,597)
New borrowings obtained	310,134	-
Non-monetary movement		
Discount amortization (bonuses)	8,931	-
Interest accrued during the period	21,357	23,902
Closing balance as at 31 December	**330,273**	**41,939**

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) - repaid in full in November 2020
- 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).

All amounts in tables in thousands of Ukrainian Hryvnia

15 Borrowings (continued)

November 2019 was the redemption option date for A and C series bonds and May 2019 and November 2020 were the redemption option dates for B series bonds. No bonds were presented for redemption on these redemption option dates. During 2020, the coupon rate on these bonds remained at 19% p. a. for all bonds. No early redemption is available except the pre-determined dates.

In November 2020, in accordance with the terms of the registered bonds issue bulletin, the Company made full repayment of the obligation and coupon interest income on registered interest-bearing bonds of “A” series in due time. Payment of interest income and redemption amounts on bonds of series “A” was made directly through the depository system of Ukraine.

During 2018-2020, 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 October 2020, the Company signed a financing agreement with the European Investment Bank for the implementation of a development of logistics network project. The total cost of the project is estimated at EUR 62 million, of which EUR 30 million will be provided by the EIB. The agreement provides for funding for up to 20 years with the possibility of applying a fixed or floating rate.

In November 2020, the Company signed a loan agreement with the EBRD (European Bank for Reconstruction and Development) for EUR 63 million. The loan will consist of three tranches, namely:

Tranche 1 and Tranche 3 for EUR 23 million and EUR 10 million respectively are intended for the completion of the Rural Post Office project, which involves the purchase of new equipped vehicles (up to 1,900 vehicles) for movable post offices in 17 regions. Tranches 1 and 3 are provided for up to 8 years.

Tranche 2 - EUR 30 million intended for the second half of the investment project for the development of the logistics network. The tranche is provided for up to 12 years.

A fixed or floating rate may be applied under a loan agreement with the EBRD.

Both loan agreements are secured by state guarantees. The Company, in turn, signed with the Ministry of Finance of Ukraine respective indemnity agreements to repay its obligations to the state for the fulfilment of guarantees, which provide the following collateral:

- pledge of the Company’s real estate rights in the amount equal to the amount of financing under two loans. The relevant mortgage agreement was not signed as of 31 December 2020, as the procedure of independent appraisal and preparation of document packages for each real estate planned for the mortgage continued;
- the right to contractually write off funds in the amount of non-performed obligations in favour of the state of Ukraine and at the request of the Ministry of Finance from the bank accounts of the Borrower except for the special purpose current accounts.

As of 31 December 2020, financing under two loan agreements has not been started, as the procedures for ratification of guarantee agreements and loan agreements effectiveness have not been completed.

Other liabilities

Other liabilities are presented as follows:

	31 December 2020		**31 December 2019**	
(in thousand hryvnias)	**Short-term**	**Long-term**	**Short-term**	**Long-term**
Finance lease liabilities	107,914	155,537	51,463	19,421
Lease liabilities (Real Estate)	60,793	187,167	47,439	175,925
Other liabilities	-	1,206	-	1,399
Total lease liabilities	**168,707**	**343,910**	**98,902**	**196,745**

All amounts in tables in thousands of Ukrainian Hryvnia

15 Borrowings (continued)

Movements in lease liabilities are presented below:

(in thousand hryvnias)	**Finance lease liabilities**	**Lease liabilities (Real Estate)**
1 January 2020	**70,884**	**223,364**
Additions	369,304	126,955
Reassessment of the liability	-	(7,568)
Interest expense	29,970	35,132
Repayment of financial liabilities	(206,645)	(85,941)
Disposals	-	(43,983)
Other	(62)	
31 December 2020	**263,451**	**247,959**

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 2020 amounts to UAH 420,713 thousand (31 December 2019: UAH 142,019 thousand).

The Company reassessed its own right of use assets and related liabilities according to changes of significant contracts‘ terms and conditions. Lessors have provided significant rebates on the lease under many agreements and these changes were recognised as new leases. Balances of assets and liabilities under previous agreements were adjusted respectively.

During 2020, the Company signed a number of finance lease agreements in the amount of UAH 369,304 thousand (including VAT) to upgrade its car fleet used for line haul and regional transportation. Of this amount, the initial instalment totalled UAH 103,826 thousand.

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

	2020		**2019**	
(in thousand hryvnias)	**Minimum lease payments**	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
Not later than 1 year	259,804	182,246	136,479	98,740
Later than 1 year and not later than 5 years	438,183	275,069	183,631	116,342
Later than 5 years	119,485	54,095	133,217	79,166
Total minimum lease payments	**817,472**	**511,410**	**453,327**	**294,248**
Less future finance costs	(306,062)	-	(159,079)	-
Present value of minimum lease payments	511,410	511,410	294,248	294,248

16 Trade accounts payable

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

As at 31 December 2020, 84% of trade payables is denominated in SDR, 12% in UAH, 3% in USD and 1% in EUR (31 December 2019: 72% of trade payables is denominated in SDR, 23% in UAH, 4% in USD and 1% in EUR).

As at 31 December 2020, UAH 963,961 thousand of trade payables represent obligations due to other postal operators (31 December 2019: UAH 415,367 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.

All amounts in tables in thousands of Ukrainian Hryvnia

17 Accruals and other liabilities

(in thousand hryvnias)	Accrued unused vacation	Accrued bonuses	Other accrua and provisior	Total
1 January 2020	**373,165**	**35,705**	**15,303**	**424,173**
Additions	496,848	202,448	6,803	706,099
Payments	(451,983)	(176,282)	-	(628,265)
31 December 2020	**418,030**	**61,871**	**22,106**	**502,007**

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:

(in thousand hryvnias)	31 December 2020	31 December 2019
Delivery of periodicals	191,604	206,193
Unused postage stamps	132,075	140,234
Delivery of parcels, small packages	81,843	41,456
Receipt of cash payments	4,464	6,729
Other	3,677	6,518
Total deferred revenue	**413,663**	**401,630**

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).

19 Other current liabilities

Other current liabilities consist of the following payables:

(in thousand hryvnias)	31 December 2020	31 December 2019
Advanced pensions and other social payments	2,527,455	1,554,043
Amounts due to publishers	316,456	405,465
Money transfers due to customers	289,304	339,099
Collected amounts due to utility companies	276,634	493,828
Amounts due for sold merchandise	112,290	102,654
Other	68,677	52,035
Other current liabilities	**3,590,816**	**2,947,124**

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 is 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

All amounts in tables in thousands of Ukrainian Hryvnia

19 Other current lisbilities (continued)

Pension fund of Ukraine and the Social Protection Authority for payment of pensions and social benefits to recipients. Such benefits were paid to recipients during the first half of January 2021 through the network of Ukrposhta's postal offices.

20 Revenue from sales of goods, works and services

The Company changed the presentation and grouping of revenue for 2020 and 2019 to ensure compliance of data with management objectives and provide better visual presentation of information.

Revenue from sales of goods, works and services comprised the following:

(in thousand hryvnias)	**2020**	**2019**
Provision of postal services	**4,870,948**	**4,667,708**
Letter post	1,779,622	1,871,237
Delivery of parcels and small packages	1,713,592	1,197,424
International postal exchange	701,298	893,417
Subscription and delivery of periodicals	446,390	482,199
Other postal services	230,046	223,431
Financial and related services	**3,904,777**	**2,728,511**
Delivery of pensions and other social payments	2,627,218	1,673,088
Utility payments	966,874	765,993
Postal money transfers	235,686	227,239
Other financial services	74,999	62,191
Sale of own and commission goods	**402,929**	**365,460**
Other commercial services	**3,783**	**16,164**
Total revenue from sales of goods, works and services	**9,182,437**	**7,777,843**

Revenues are generated from the following geographical areas*:

(in thousand hryvnias)	**2020**	**2019**
Ukraine	8,481,138	6,884,449
China	116,324	378,481
Estonia	91,464	105,733
Russia	88,240	55,224
Other countries	405,271	353,956
Total revenue from sales of goods, works and services	**9,182,437**	**7,777,843**

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

All amounts in tables in thousands of Ukrainian Hryvnia

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

Timing of revenue recognition is presented below by source:

(in thousand hryvnias)	**2020**	**2019**
At a point in time	**8,829,311**	**7,393,793**
Delivery of pensions and other social payments	2,627,218	1,673,088
Letters	1,779,622	1,871,237
Delivery of parcels, small packages	1,713,592	1,197,424
Other financial services	1,277,559	1,055,423
International postal exchange	701,298	893,417
Sale of goods and other services	402,929	365,460
Other postal services	230,046	223,431
Subscription	93,264	98,149
Other commercial services	3,783	16,164
Over time	**353,126**	**384,050**
Delivery of periodicals	353,126	384,050
Total revenue	**9,182,437**	**7,777,843**

International postal exchange revenue for 2020 includes a significant portion for which the reconciliation process with postal operators of other countries was partially completed at the date of issue of these financial statements and therefore revenue estimates were adjusted respectively.

21 Cost of sales of goods, works and services

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

(in thousand hryvnias)	**2020**	**2019**
Salaries and wages	4,231,985	3,759,893
Social contributions	1,010,267	903,534
Costs incurred on international postal exchange	891,671	533,068
Material costs	503,871	538,625
Depreciation and amortisation	321,234	247,504
Bank fees	123,248	94,102
Cost of goods sold	92,732	94,895
Other	599,557	425,336
Total cost of sales of goods, works and services	**7,774,565**	**6,596,957**

Costs incurred on international postal exchange for 2020 include a significant portion for which the reconciliation process with postal operators of other countries was partially completed at the date of issue of these financial statements and therefore costs estimates were adjusted respectively.

22 Selling expenses

Selling expenses for the year comprised the following:

(in thousand hryvnias)	**2020**	**2019**
Salaries and wages	153,016	137,942
Social contributions	31,702	29,222
Material costs	10,394	4,576
Advertising expenses	9,296	12,218
Depreciation and amortisation	1,161	1,063
Other	5,798	3,005
Total selling expenses	**211,367**	**188,026**

All amounts in tables in thousands of Ukrainian Hryvnia

23 Administrative expenses

Administrative expenses for the year comprised the following:

(in thousand hryvnias)	**2020**	**2019**
Salaries and wages	864,365	768,323
Social contributions	169,360	150,667
Mandatory payments, taxes and fees	31,077	30,667
Depreciation and amortisation	26,107	16,915
Material costs	5,434	5,701
Other	40,656	41,870
Total administrative expenses	**1,136,999**	**1,014,143**

24 Other operating expenses

Other operating expenses for the year comprised the following:

(in thousand hryvnias)	**2020**	**2019** (after changes in presentation)
Salaries and wages	30,947	25,035
Social contributions	25,890	22,075
Compensation for the cost of lost postal parcels	24,534	18,271
Shortages of inventories and cash	21,232	66,658
Charges to doubtful debt provision	11,071	14,704
Depreciation and amortisation	6,381	1,835
Foreign exchange losses	-	33,701
Other	15,519	18,517
Total other operating expenses	**135,574**	**200,796**

As specified in Note 3, the Company has changed the presentation of the item "Other operating expenses and disclosures for the year ended 31 December 2019" to ensure comparability of the relevant indicators.

25 Other financial income

Financial income for the year comprised the following:

(in thousand hryvnias)	**2020**	**2019**
Interest received on bank balances	91,370	88,269
Dividends received	2,914	2,428
Other	233	722
Total financial income	**94,517**	**91,419**

All amounts in tables in thousands of Ukrainian Hryvnia

26 Financial expenses

Financial expenses for the year comprised the following:

(in thousand hryvnias)	**2020**	**2019**
Interest expenses related to leases (Note 15)	35,132	28,223
The costs associated with the servicing of the bonds (Note 15)	30,288	23,902
Interest expense on finance lease liabilities (Note 15)	29,970	21,923
Other	923	-
Total financial expenses	**96,313**	**74,048**

27 Other operating income

Other operating income for the year comprised the following:

(in thousand hryvnias)	**2020**	**2019**
Compensation for pension delivery costs	-	500,000
Income from the provision of exchange services	124,157	118,435
Rental income	94,353	85,022
Compensation for the cost of lost postal parcels	9,140	15,035
Foreign exchange gains	2,295	-
Other	31,733	28,520
Total other operating income	**261,678**	**747,012**

As specified in Note 3, in preparing these financial statements for the year ended 31 December 2020, the Company has changed the presentation of comparative information. The loss from operating exchange differences for 2019 totals to UAH 33,701 thousand, which was previously included in income from the provision of currency exchange services, is transferred to other operating expenses (Note 24).

As until 2020, the tariff for the delivery of pensions remained unchanged for more than 10 years, 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 Other income

(in thousand hryvnias)	**2020**	**2019**
Profit from the sale of real estate	63,743	-
Income from changes in the value of financial instruments	4,109	1,589
Other	1,107	990
Total other operating income	**68,959**	**2,579**

29 Other expenses

(in thousand hryvnias)	**2020**	**2019**
Contributions to trade unions	23,733	21,214
Depreciation of non-current assets	9,388	23,279
Write-off of non-current assets	3,595	-
Other	8,761	1,177
Total other expenses	**45,477**	**45,670**

All amounts in tables in thousands of Ukrainian Hryvnia

30 Income tax

(in thousand hryvnias)	**2020**	**2019**
Current income tax charge	48,846	-
Deferred income tax benefit	(6,473)	93,856
Income tax (expense)/credit	**42,373**	**93,856**

The Company is subject to taxation in Ukraine. In 2020 and 2019, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18%.

Approval of the effective tax rate:

(in thousand hryvnias)	**2020**	**2019**
Profit / (loss) before tax	**207,295**	**499,213**
Statutory income tax rate	18%	18%
Tax charge/(credit) at the statutory tax rate	**37,313**	**89,858**
Net effect of non-deductible expenses / (income exempt from taxation)	5,060	3,998
Income tax (expense)/credit	**42,373**	**93,856**

Differences between Ukrainian tax rules and IFRSs lead to some temporary differences between the asset's carrying amount and liabilities for financial reporting purposes and their tax bases.

Changes in recognized temporary differences during the year ended 31 December 2020 are presented as follows:

(in thousand hryvnias)	**1 January 2020**	**Charged to the profit and loss**	**31 December 2020**
Property, plant and equipment and investment property	(232,269)	14,456	(217,813)
Intangible assets	2,313	1,239	3,552
Construction in progress	4,958	(4,958)	-
Inventory	-	1,368	1,368
Accounts receivable	9,466	1,781	11,247
Tax losses of previous periods	7,413	(7,413)	-
Net deferred tax assets (liabilities)	**(208,119)**	**6,473**	**(201,646)**

Changes in recognized temporary differences during the year ended 31 December 2019 are presented as follows:

(in thousand hryvnias)	**1 January 2019**	**Charged to the profit and loss**	**31 December 2019**
Property, plant and equipment and investment property	(250,361)	18,092	(232,269)
Intangible assets	2,897	(584)	2,313
Construction in progress	3,872	1,086	4,958
Accounts receivable	6,940	2,526	9,466
Tax losses of previous periods	122,389	(114,976)	7,413
Net deferred tax assets (liabilities)	**(114,263)**	**(93,856)**	**(208,119)**

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

31 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.

31 Contingencies and commitments (continued)

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 believes 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.

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.

32 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 which are classified in the Statement of Financial Position as current financial investments and transactions with customers, including outstanding trade 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 5,380,248 thousand (31 December 2019: UAH 3,866,516 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 performs credit risks concentration analysis. As at 31 December 2020 trade and other accounts receivable due from 3 largest debtors of the Company, represented by postal administrations from foreign countries, comprised UAH 107,194 thousand, or 21% of total trade and other accounts receivable (31 December 2019: UAH 145,918 thousand, or 32%).

All amounts in tables in thousands of Ukrainian Hryvnia

32 Financial risk management (continued)

Management continuously controls settlements with key debtors in order to ensure timely payments for services provided by the Company.

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.

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:

(in thousand hryvnias)	**31 December 2020**	**31 December 2019**
Monetary financial assets	1,348,766	540,510
Monetary financial liabilities	(959,155)	(410,219)
Net balance sheet position	**389,611**	**130,291**

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 63,896 thousand, respectively (31 December 2019: UAH 21,368 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.

All amounts in tables in thousands of Ukrainian Hryvnia

32 Financial risk management (continued)

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

(in thousand hryvnias)	Less than 3 month	From 3 months to 1 year	From 1 to 5 years	From 5 years
Liabilities				
Other current liabilities (line 1690)	3,590,814	-	-	-
Trade accounts payable (line 1615)	1,103,112			
Borrowings (lines 1600 and 1510)	-	264,395	65,878	-
Lease liability **(as part of the items "Other long-term liabilities" and "Current accounts payable on settlements for long-term liabilities")**	75,876	183,928	438,183	119,485
Total future payments, including principal and interest	**4,769,802**	**448,323**	**504,061**	**119,485**

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

(in thousand hryvnias)	Less than 3 months	From 3 months to 1 year	From 1 to 5 years	From 5 years
Liabilities				
Other current liabilities (line 1690)	2,947,124	-	-	-
Trade accounts payable	541,110	-	-	-
Borrowings	-	41,939	-	-
Lease liability **(as part of the items "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**

33 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.

34 Subsequent events

As indicated in Note 3, the Resolution of the Cabinet of Ministers of Ukraine No. 271 of 29 March 2021, increased the tariff for delivery of pensions by 14.6%, which should partially offset the Company's additional costs from raising the statutory minimum salaries to UAH 6,000 from 1 January 2021.

Also in March 2021, the Company signed an agreement on the implementation of the ERP system, which provides for two years to fully transfer all accounting and management processes of the Company to a new unified system. Completion of the first stage is planned by the end of 2021.

No other significant events were identified that would require adjustments or disclosures in the Company's financial statements for the year ended 31 December 2020.

Approved for issue and signed on 27 April 2021.

I. Smelyansky
General Director

M. Paliy
Deputy General Director of Finance

I. Kuts
Chief Accountant