

Joint stock company
“Ukrainian Railways”

Consolidated financial statements

As at 31 December 2020
with independent auditor's report

Translation from Ukrainian original

Contents

Independent auditor’s report	i
---	----------

Consolidated financial statements

Consolidated statement of financial position	1
Consolidated statement of comprehensive income	2
Consolidated statement of changes in equity	3
Consolidated statement of cash flows	4

Notes to the consolidated financial statements

1. Description of business and the Group’s structure	5
2. Operating environment, risks and economic conditions in Ukraine	7
3. Basis of preparation	10
4. Changes in accounting policies and disclosures	11
5. Significant accounting judgments, estimates and assumptions	12
6. Summary of significant accounting policies	14
7. Standards issued but not yet effective	23
8. Segment reporting	23
9. Property, plant and equipment	26
10. Investments in associates	29
11. Other financial assets	30
12. Inventories	31
13. Trade and other receivables	31
14. Prepayments	32
15. Taxes receivable, other than income tax	32
16. Cash and cash equivalents	32
17. Equity	33
18. Interest-bearing loans and borrowings	34
19. Leases	36
20. Employee benefits	36
21. Income tax	38
22. Trade and other payables	40
23. Taxes payable, other than income tax	40
24. Provisions	41
25. Tax expenses, other than income tax	41
26. Revenues	41
27. Other operating income, other operating expenses and other expenses	42
28. Finance income and finance costs	43
29. Foreign exchange (loss)/gain, net	43
30. Contingencies and commitments	43
31. Related party disclosure	44
32. Fair value of financial instruments	45
33. Financial risk management policies and objectives	48
34. Events after the reporting period	52

Independent auditor's report

To the Shareholder and Supervisory Board of joint stock company "Ukrainian railways"

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of joint stock company "Ukrainian railways" (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in paragraph (i) of the Basis for qualified opinion section of our report, and except for the effects of the matter described in paragraph (ii) of the Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for qualified opinion

- (i) As disclosed in Note 2 to the consolidated financial statements, certain assets and liabilities of the Group are located in, or otherwise associated with the Autonomous Republic of Crimea and certain territories of Donetsk and Lugansk regions temporarily not controlled by the Ukrainian authorities. In addition, the Group is not considered the legal successor for these assets and liabilities before completion of required statutory legal succession proceedings. There is an uncertainty in respect of timing of the legal succession and the ultimate valuation of the assets and liabilities to be succeeded to the Group as a result of that statutory legal proceedings.

We were unable to obtain sufficient appropriate audit evidence in respect of assets of uncontrolled territories of UAH 13,662,100 thousand and liabilities of uncontrolled territories of UAH 5,213,057 thousand as at 31 December 2020 (2019: UAH 13,661,086 thousand and UAH 5,207,728 thousand, respectively) disclosed in Note 2 to the consolidated financial statements.

- (ii) As disclosed in Notes 6 to the consolidated financial statements, the Group applies revaluation model to its property, plant and equipment starting from 1 December 2015. At that date, carrying value of property, plant and equipment was determined based on the revaluation results as at 31 July 2014 performed for statutory purposes adjusted for depreciation and movements in property, plant and equipment for the periods since revaluation, which is not fair value as at 1 December 2015. Such approach is not in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IAS 16 Property, Plant and Equipment.

In addition, IAS 16 Property, Plant and Equipment requires, that revaluations shall be made with sufficient regularity to ensure that the property, plant and equipment's carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In presence of information, which indicates that the fair value of property, plant and equipment as at 31 December 2020 and 2019 could materially differ from their carrying amount, no revaluation has been performed by the Group as at 31 December 2020 and 2019, which is not in compliance with IAS 16 Property, Plant and Equipment.

The effect of this departure from IFRS on the carrying value of property, plant and equipment and related deferred tax effects as at 31 December 2020 and 2019, as well as on depreciation and impairment charges, gain/loss on disposals of property, plant and equipment and deferred tax charges for 2020 and 2019 have not been determined.

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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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.

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 consolidated financial statements of the current period. In addition to the matters described in the Basis for qualified opinion section, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

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

Key audit matter

How our audit addressed the key audit matter

Compliance with debt covenants

In accordance with the terms of certain loans and Eurobonds issued, the Group should comply with certain financial and non-financial covenants. Potential breaching covenants under one of the loan agreements may lead to cross-default under other loan agreements. The potential acceleration of debt repayments caused by the breaches of covenants may have impact on the classification of interest-bearing loans and borrowings in the consolidated statement of financial position and on the going concern assumption used in the preparation of the consolidated financial statements. For these reasons, we considered compliance with debt covenants to be a key audit matter.

Information on compliance with covenants is disclosed in Note 18 to the consolidated financial statements.

We inspected the terms of loan agreements, including covenant ratios and event of default definitions. We analysed the terms of the debt restructuring and waivers provided by lenders. We evaluated management's calculations of the covenant ratios and paid special attention to the classification of specific and exceptional items included in and excluded from the ratios. We assessed the classification of interest-bearing loans and borrowings as current or non-current liabilities. We analyzed the information on compliance with debt covenants disclosed in the consolidated financial statements.

Other information included in the Integrated Report of JSC "Ukrainian railways" and Annual Information of the Issuer of Securities for 2020

Other information comprises the Integrated Report of JSC "Ukrainian railways" (including consolidated management report) and the Annual Information of the Issuer of Securities (including the corporate governance report) for 2020, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Integrated Report of JSC "Ukrainian railways" and the Annual Information of the Issuer of Securities are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the supplementary financial information

Our audit was conducted for the purposes of expressing an opinion on the consolidated financial statements taken as a whole. Statutory financial reporting forms accompanying these consolidated financial statements which have been disclosed as supplementary financial information are presented for the purpose of compliance with statutory reporting requirements. Such supplementary financial information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, except for the possible effects of the matter described in paragraph (i) of the Basis for qualified opinion section of our report, and except for the effects of the matter described in paragraph (ii) of the Basis for qualified opinion section of our report, has been properly prepared, in all material respects, in relation to the Group's consolidated financial statements taken as a whole.

Report on other legal and regulatory requirements

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

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Group's consolidated financial statements according to the agreement dated 13 May 2015. Our appointment has been renewed by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Group is 6 years.

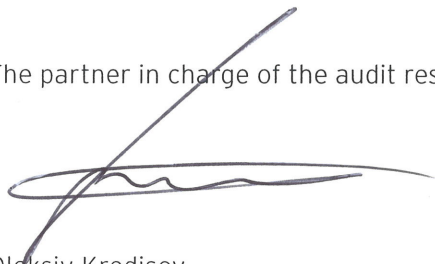
Consistency of the independent auditor's report with the additional report to the audit committee

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Group, which we issued on 30 March 2021 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Company or its controlled entities and which have not been disclosed in the consolidated financial statements or the consolidated management report.

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



Oleksiy Kredisov
Partner
for and on behalf of Ernst & Young Audit Services LLC

Kyiv, Ukraine

31 March 2021

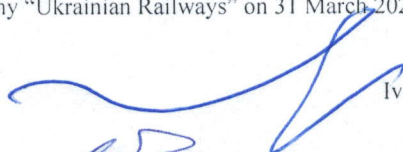
Ernst & Young Audit Services LLC is included in the Register of auditors and audit firms, registration number: 3516.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**as at 31 December 2020***(in thousands of Ukrainian hryvnia)*

	Notes	2020	2019
Assets			
Non-current assets			
Property, plant and equipment	9	230,226,016	234,555,159
Investments in associates	10	729,058	737,122
Other non-current financial assets	11	88,295	84,326
Taxes receivable, other than income tax	15	163,972	164,064
Prepaid income tax		58,445	70,661
Deferred tax asset	21	196,847	129,813
Assets of uncontrolled territories	2	13,662,100	13,661,086
		<u>245,124,733</u>	<u>249,402,231</u>
Current assets			
Inventories	12	8,725,561	9,129,068
Trade and other receivables	13	570,546	656,540
Prepayments	14	94,714	332,981
Prepaid income tax		112,433	113,272
Taxes receivable, other than income tax	15	478,087	379,881
Other current financial assets	11	9,759	2,014,715
Cash and cash equivalents	16	2,497,546	6,981,236
		<u>12,488,646</u>	<u>19,607,693</u>
Assets held for distribution to owner	9	96,162	—
		<u>12,584,808</u>	<u>19,607,693</u>
Total assets		<u>257,709,541</u>	<u>269,009,924</u>
Equity and liabilities			
Equity			
Contributed capital	17	229,879,115	229,879,115
Additional capital		18,905,900	18,906,066
Accumulated deficit		(49,426,445)	(36,999,362)
		<u>199,358,570</u>	<u>211,785,819</u>
Non-controlling interests		<u>30,352</u>	<u>30,384</u>
		<u>199,388,922</u>	<u>211,816,203</u>
Non-current liabilities			
Interest-bearing loans and borrowings	18	18,336,587	18,149,798
Lease liability	19	1,545,435	1,931,848
Defined benefit liability	20	3,588,929	3,186,892
Deferred tax liability	21	42,716	19,630
Liabilities of uncontrolled territories	2	5,213,057	5,207,728
		<u>28,726,724</u>	<u>28,495,896</u>
Current liabilities			
Interest-bearing loans and borrowings	18	16,398,153	14,498,640
Lease liability	19	419,500	434,396
Trade and other payables	22	8,681,867	9,714,077
Contract liabilities		1,680,392	1,936,973
Income tax payable		2,572	7,857
Taxes payable, other than income tax	23	1,128,578	888,779
Provisions	24	1,282,833	1,217,103
		<u>29,593,895</u>	<u>28,697,825</u>
Total liabilities		<u>58,320,619</u>	<u>57,193,721</u>
Total equity and liabilities		<u>257,709,541</u>	<u>269,009,924</u>

Signed and authorised for release on behalf of joint stock company "Ukrainian Railways" on 31 March 2021 by:

Acting Chairman of the Management Board


 Ivan Yuryk

Acting Member of the Management Board


 Ivan Syniakov

Chief accountant


 Tamara Ryabchun

The accompanying notes form an integral part of the consolidated statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia)*

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Revenues			
Cargo revenues	26	65,018,753	72,488,806
Passenger revenues	26	4,133,019	9,905,795
Other revenues	26	6,139,788	7,957,718
Total revenues		75,291,560	90,352,319
Operating expenses			
Staff costs		(41,116,369)	(44,056,208)
Depreciation		(12,786,783)	(12,402,695)
Electricity		(7,596,828)	(8,484,771)
Fuel		(5,455,890)	(8,237,492)
Materials, maintenance and repairs		(4,335,809)	(5,530,092)
Tax expenses, other than income tax	25	(3,909,367)	(4,229,621)
Social expenses		(381,991)	(543,395)
Change in provisions	24	(95,348)	(104,091)
Change in finished goods and work in progress		(252,026)	19,589
Other operating income	27	637,891	1,081,671
Other operating expenses	27	(2,758,037)	(3,045,621)
Total operating expenses, net of operating income		(78,050,557)	(85,532,726)
Operating (loss)/profit		(2,758,997)	4,819,593
Finance income	28	190,406	259,506
Finance costs	28	(4,237,041)	(3,844,992)
Other income	27	349,099	143,058
Other expenses	27	(51)	(918,121)
Foreign exchange (loss)/gain, net	29	(5,485,530)	4,325,567
Share of profit of associates	10	7,807	78,736
(Loss)/profit before income tax		(11,934,307)	4,863,347
Income tax benefit/(expense)	21	34,620	(1,875,100)
(Loss)/profit for the year		(11,899,687)	2,988,247
Attributable to:			
Equity holder of the parent		(11,899,805)	2,988,569
Non-controlling interests		118	(322)
		(11,899,687)	2,988,247
Other comprehensive loss			
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Remeasurement losses on defined benefit plans	20, 21	(488,308)	(613,571)
Share of other comprehensive income of associates	10	10,220	55,083
Other comprehensive loss for the year, net of tax		(478,088)	(558,488)
Attributable to:			
Equity holder of the parent		(12,377,893)	2,430,081
Non-controlling interests		118	(322)
Total comprehensive (loss)/income for the year, net of tax		(12,377,775)	2,429,759

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia)

	<i>Notes</i>	<i>Contributed capital</i>	<i>Additional capital</i>	<i>Accumulated deficit</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
At 1 January 2019		229,879,115	18,894,521	(38,660,688)	210,112,948	4,978	210,117,926
Profit/(loss) for the period		–	–	2,988,569	2,988,569	(322)	2,988,247
Other comprehensive loss		–	–	(558,488)	(558,488)	–	(558,488)
Total comprehensive income/(loss)		–	–	2,430,081	2,430,081	(322)	2,429,759
Dividends	17	–	–	(765,355)	(765,355)	–	(765,355)
Dividends paid to non-controlling interests		–	–	–	–	(65)	(65)
Other changes	17	–	11,545	(3,400)	8,145	25,793	33,938
At 31 December 2019		229,879,115	18,906,066	(36,999,362)	211,785,819	30,384	211,816,203
(Loss)/profit for the period		–	–	(11,899,805)	(11,899,805)	118	(11,899,687)
Other comprehensive loss		–	–	(478,088)	(478,088)	–	(478,088)
Total comprehensive (loss)/income		–	–	(12,377,893)	(12,377,893)	118	(12,377,775)
Dividends	17	–	–	(8,641)	(8,641)	–	(8,641)
Dividends paid to non-controlling interests		–	–	–	–	(150)	(150)
Other changes	17	–	(166)	(40,549)	(40,715)	–	(40,715)
At 31 December 2020		229,879,115	18,905,900	(49,426,445)	199,358,570	30,352	199,388,922

The accompanying notes form an integral part of the consolidated statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia)*

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Cash flows from operating activities			
(Loss)/profit before income tax		(11,934,307)	4,863,347
<i>Adjustments to reconcile profit before income tax to net cash provided by operations</i>			
Depreciation		12,786,783	12,402,695
Impairment losses on associate		–	74,276
Impairment of property, plant and equipment	9	–	720,550
Finance costs, net	28	4,046,635	3,585,486
(Gain)/loss on disposals of property, plant and equipment		(339,423)	79,673
Movements in defined benefit liability and provisions		(323,955)	(317,844)
Allowance for estimated irrecoverable amounts		362,549	1,349,350
Foreign exchange loss/(gain), net		5,854,343	(4,311,845)
Share of profit of associates	10	(7,807)	(78,736)
Operating profit before working capital changes		10,444,818	18,366,952
<i>Changes in working capital</i>			
Trade and other receivables		(118,056)	(278,706)
Prepayments		238,267	(196,139)
Inventories		1,008,188	(281,808)
Taxes receivable and prepaid, other than income tax		(81,567)	433,086
Trade and other payables		(887,821)	(581,847)
Contract liabilities		(256,581)	(387,489)
Taxes payable, other than income tax		239,799	329,090
Cash generated from operating activity		10,587,047	17,403,139
Income tax paid		(17,942)	(1,755,587)
Repayment of provisions	24	(166,996)	(482,758)
Net cash flows from operating activities		10,402,109	15,164,794
Cash flows from investing activities			
Acquisition of property, plant and equipment		(9,221,094)	(9,285,375)
Proceeds from disposal of property, plant and equipment		21,125	37,619
Proceeds from withdrawal / (placement) of deposits		2,186,701	(2,057,881)
Interest received		200,937	243,155
Dividends received from an associates	10	26,084	37,297
Purchase of domestic government bonds		(9,999)	–
Acquisition of a subsidiary (acquisition of cash)	17	–	31,669
Net cash flows used in investing activities		(6,796,246)	(10,993,516)
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings		23,521,480	35,965,166
Repayment of interest-bearing loans and borrowings		(28,050,365)	(31,068,745)
Repayment of lease liability		(394,741)	(422,358)
Interest paid		(3,412,009)	(2,783,618)
Dividends paid to equity holders of the parent	17	(9,908)	(118,520)
Dividends paid to non-controlling interests	17	(144)	(71)
Net cash flows (used in)/from financing activities		(8,345,687)	1,571,854
Net (decrease)/increase in cash and cash equivalents		(4,739,824)	5,743,132
Net foreign exchange difference		256,134	(13,722)
Cash and cash equivalents at 1 January		6,981,236	1,251,826
Cash and cash equivalents at 31 December		2,497,546	6,981,236

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***1. Description of business and the Group’s structure*****Incorporation and operations of the Company and the Group***

Joint stock company “Ukrainian railways” (JSC “Ukrainian Railways” or “the Company”) is a private joint stock company organised under the laws of Ukraine. Prior to 31 October 2018, the Company’s name was Public joint stock company “Ukrainian Railways”, which was registered on 21 October 2015. The Company was created as a result of reorganisation through merger of public service railway enterprises and institutions (“the Reorganisation”) and started economic activities since 1 December 2015. All assets and liabilities of entities previously subordinated to and effectively controlled by State Administration of Railway Transport of Ukraine were transferred to the Company.

Principal activities of the Group are provision of services for passenger, cargo, baggage and mail transportation in domestic and international routes, access to the railway infrastructure, logistics, repairs and maintenance of rolling stock etc.

The Company is recognised as a natural monopoly on the territory of Ukraine in the area of access to public service infrastructure for railway transportation and railway traffic control function.

Corporate information

The sole shareholder of JSC “Ukrainian Railways” is the State of Ukraine represented by the Cabinet of Ministers of Ukraine acting in capacity of the sole shareholder of the Company. The Cabinet of Ministers of Ukraine manages the corporate rights of the state over the Company.

The registered address of JSC “Ukrainian Railways” is 5, Jerzy Giedroyc St., Kyiv 03150, Ukraine.

The consolidated financial statements include financial statements of JSC “Ukrainian Railways” and its subsidiaries (together – “The Group”). The list of entities included in the Group is presented further.

Entities included in the consolidated financial statements

The financial statements of the following entities are included in the consolidated financial statements as at 31 December :

		<i>Share as at 31 December 2020</i>	<i>Share as at 31 December 2019</i>
1	Joint stock company “Ukrainian Railways”	Parent	Parent
2	Private joint-stock company “Dnipropetrovsk Diesel Locomotive Repair Plant”	100%	100%
3	Private joint-stock company “Zaporizhzhya Elektric Locomotive Repair Plant”	100%	100%
4	Private joint-stock company “Lviv Locomotive Repair Plant”	100%	100%
5	Private joint-stock company “Kyiv Electrical Carriage-Repair Plant”	100%	100%
6	Private joint-stock company “Korosten Plant Of Railway Sleepers”	100%	100%
7	Private joint-stock company “Hnivan Special Reinforced Concrete Plant”	100%	100%
8	Private joint-stock company “Transsignal Kyiv Electrical Engineering Plant”	100%	100%
9	LLC “UZ Cargo Wagon”	100%	100%
10	LLC “Enerho Zbut Trans”	100%	100%
11	LLC “Zbut Energy LTD”	100%	–
12	Private joint-stock company “Insurance Company “Tast Garantiya” (Note 17)	65.62%	65.62%
13	Private joint-stock company “Insurance Company “Inter-Policy”	50.0046%	50.0046%

JSC “Ukrainian Railways” consists of six regional branches and 33 other branches included in the consolidated financial statements. The Company continues its internal reorganisation and forms its target organisational structure through segregation of market-oriented branches.

In August 2020, “Zbut Energy LTD” LLC was incorporated by the Group. The share capital of LLC “Zbut Energy LTD” will be formed by contributing 100 percent share owned by JSC “Ukrainian Railways” in the share capital of LLC “Enerho Zbut Trans”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Description of business and the Group’s structure (continued)

Pricing policy

Cargo and passenger railway transportation in Ukraine is a regulated by government prices and some services that connected with transportation are provided with free market prices. At the same time the Company provides a wide range of auxiliary services and works, manufactures and sells products at unregulated prices in the course of its business activity. Cargo and passenger transportation is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry for Development of Economy, Trade and Agriculture of Ukraine, the Ministry of Finance of Ukraine and the State Regulatory Service of Ukraine (except for wagon component of tariff for fleet carriages that belong to the carrier JSC “Ukrainian railways” starting from 20 February 2018). Since 20 February 2018, the Company has started setting tariffs for usage the own fleet carriages of the carrier JSC “Ukrainian railways” in accordance with the Board’s decision. Tariffs are denominated in UAH and are mostly adjusted for changes in the amount of overhaul and depot repairs, prices per unit of rolling stock, market trends and demand for railway cars owned by JSC “Ukrainian railways” and changes in the industrial producer price index, which is influenced by changes in exchange rate of UAH against US dollars and Euro, in which the Group’s loan portfolio is denominated.

During 2019, the tariffs for domestic cargo transportation have been increased by 14.2% since 30 March 2019 according to the Order No. 205 *About Changes in Indexes that are Applied for Tariffs from Listing of Tariffs for Domestic Cargo Transportation by Railroad and Related Services* dated 22 March 2019, issued by the Ministry of Infrastructure of Ukraine. During 2020, there were no other changes in tariffs for domestic cargo transportation.

In 2019, according to the resolution of the Management Board of JSC “Ukrainian railways” dated 17 April 2019 and 6 September 2019, the tariffs for carriages that belong to JSC “Ukrainian railways” have been updated (effective from 20 May 2019 and from 13 October 2019, respectively). During 2020, number of measures regarding changes of tariff policy were implemented, in particular: (i) the tariffs for particular carriages that belong to the carrier JSC “Ukrainian railways” have been revised; (ii) new tariff for usage of own piggyback flatcars has been established; (iii) the tariff for loading of carriages that belong to JSC “Ukrainian railways” has been set.

Starting from January 2021, the Group has implemented monthly reviews of payment rates for the use of own cars of the carrier JSC “Ukrainian railways” using a marginal approach based on the utilisation level of the wagons of JSC “Ukrainian railways”. According to the results of such an analysis, the fee rate may fluctuate by up to UAH 100.

Tariffs for domestic transportation of passengers and baggage are approved in accordance with the resolution of the Cabinet of Ministers of Ukraine No. 1548 *On Establishing the Powers of Executive Bodies and Executive Bodies of City Councils to Regulate Prices (Tariffs)* dated 25 December 1996 by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine, the Joint Representative Body of the Representative All-Ukrainian Trade Unions, the Joint Representative Body of employers at the national level and the State Regulatory Service (except for 1st class cars of Intercity+ trains). The tariffs are denominated in Ukrainian Hryvnia.

The current tariffs (except for 1st class cars of Intercity+ trains) were approved by the order of the Ministry of Infrastructure dated 20 April 2018 № 184 *On Approval of Tariffs for Transportation of Passengers, Luggage and Baggage by Rail in Domestic Traffic*. During 2020-2019, there were no changes in tariffs for domestic transportation of passengers, luggage and baggage.

Tariffs for passenger transportation in the first class of Intercity+ trains are removed from state regulation and established by the decision of the Board of JSC “Ukrainian railways” in accordance with the resolution of the Cabinet of Ministers of Ukraine No. 1548 *On Establishing the Powers of Executive Bodies and Executive Bodies of City Councils to Regulate Prices (Tariffs)* dated 25 December 1996.

The Management Board of JSC “Ukrainian railways” approved growth of tariffs in the cars of the 1st class of trains Intercity+ as follows: in 2019, the cost of passenger transportation increased by 17% from May 1, 2019 and by 17% from July 1, 2019. From November 1, 2020, tariffs were reduced by 15%.

Tariffs for international cargo transportation – regulated by special Tariff Policy, which is annually approved at the Tariff Coordinating Conferences, denominated in Swiss Francs, US Dollars or Euro and implemented by the corresponding order of the Ministry of Infrastructure of Ukraine. During 2020-2019, there were no adjustments to the above tariffs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Description of business and the Group's structure (continued)

Tariffs for international transportation of passengers and baggage – established in accordance with the Agreement on the Interstate Passenger Tariff and the Interstate Passenger Tariff, which entered into force on 1 June 1997. This agreement stipulates that each of the state administrations has the right to set an increasing or decreasing index to the basic fares in terms of ticket part for the passenger transportations on its territory, to the tariffs for the baggage transportation on its territory and to the seat tariffs for own railcars for the entire train route as well as set service rates.

Tariffs for the railway passenger transportation in international traffic are agreed in accordance with the resolution of the Cabinet of Ministers of Ukraine of 25 December 1996 No. 1548 *On Establishing the Powers of Executive Bodies and Executive Bodies of City Councils to Regulate Prices (Tariffs)*.

Tariffs for international passenger transportation with the CIS countries are determined by the Order No. 306 of the Ministry of Transport and Communications of Ukraine *On the Establishment of Tariffs for Transportation of Passengers, Luggage and Baggage by Rail in International Traffic* dated 19 March 2008. This order set basic tariffs in Swiss francs and the indexation coefficients to the basic cost of a ticket on the territory of Ukraine and for seat tariffs for the own railcars for the entire train route.

During 2019, indexes for the basic cost of a ticket and seat tariffs for interstate passengers have been adjusted for the calendar periods of year according to the Order dated 25 March 2019 No. 208 *About Changes of Tariffs for Transportation of Passengers, Luggage and Baggage by Rail for Interstate Traffic*, issued by the Ministry of Infrastructure of Ukraine. During 2020, there were no changes in tariffs for international transportation of passengers and baggage.

International passenger transportation with European countries is carried out in accordance with the *Special Conditions of International Carriage (SCIC)* – for the travel according to the travel tickets in the East-West direction (EWT) and the Agreement on International Passenger Services. In accordance with these regulations of international transportation in European countries, each of the carriers of the country travelled through sets a fare on its territory for base cost of a ticket and seat tariffs of its formation, which are set in Euros and calculated in the national currency on the date of registration of the travel document.

Tariffs for international transportation in European countries are established by the Order No. 633 *On Approval of Tariffs for Transportation of Passengers and Luggage by Rail in International Transportation in East-West direction* dated 23 October 2012 issued by the Ministry of Infrastructure of Ukraine.

During 2020-2019, there have been no changes in tariffs for transportation of passengers, luggage and baggage in the international East-West direction.

2. Operating environment, risks and economic conditions in Ukraine

Operating environment in Ukraine and COVID-19 outbreak impact

The Group conducts its operations in Ukraine. During last years, the Ukrainian economy started to demonstrate certain signs of recovery and growth following the significant decline in 2014-2016. The main constraints affecting the economic development are still represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms and low level of capital inflow. Until the breakout of the coronavirus disease (COVID-19) in the first quarter 2020, the real GDP has been growing by 2.4%-3.4% annually, and annual inflation has been decreased from 9.8% in 2018 to 4.1% in 2019.

Starting from March 2020, Ukraine and other countries have taken quarantine and other measures to prevent the coronavirus outbreak, which had and continue to have a significant effect on the overall business scale. In particular, during 2020, the real GDP in Ukraine dropped by 4% comparing to 2019, and the inflation fastened up to 5%. In December 2020, the industrial producer prices increased by 14.5% in comparison with December 2019. These above measures led to Ukrainian transportation industry decline in 2020: overall cargo turnover decreased 14.4% comparing to 2019, while the overall passengers turnover fell by 54.2%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

The worsening of the economic situation in Ukraine, among other things due to the COVID-19 outbreak, led to Ukrainian hryvnia (“UAH”) devaluation against the foreign currencies: the official exchange rate as at 31 December 2020 was USD/UAH 28.27 comparing to USD/UAH 23.69 as at 31 December 2019 (31 December 2018: USD/UAH 27.69). In an effort to offset the negative impact of the COVID-19 pandemic on Ukrainian economy, the National Bank of Ukraine (“the NBU”) gradually reduced the key policy rate from 13.5% p.a., effective from 13 December 2019, to 10% p.a. starting from 13 March 2020 and further – to 6% p.a. effective from 11 June 2020. At the beginning of March 2021, the NBU set up the key policy rate as 6.5% p.a.

Among the restrictions and quarantine measures implemented starting from March 2020, there have been specific measures with direct impact on the Group’s operations, namely:

- According to the order of the Cabinet of Ministers of Ukraine No. 288-r, since 17 March 2020, the Group temporarily suspended international railways passenger traffic. Under this order, certain state border crossing points have been temporarily closed.
- According to the Order of the Cabinet of Ministers of Ukraine No. 215, since 18 March 2020, the Group temporarily suspended domestic passenger railways traffic of all types (suburban, urban, regional and long-distance).

The Group resumed its passenger traffic on 1 June 2020. The suspension of the railway passenger traffic during the mentioned period together with other passengers restrictions led to decline in total railway passenger turnover in Ukraine during 2020 by 62.4% comparing to 2019 and to decrease in the Group’s passenger revenues, accordingly.

The outbreak of COVID-19 and related economic downturn led to decrease in total railway cargo turnover in Ukraine during 2020 by 3.4% comparing to 2019 and to decrease in the Group’s cargo revenues, accordingly.

In addition, during 2020, as a result of Ukrainian hryvnia’s devaluation against foreign currencies the Group incurred net foreign exchange loss of UAH 5,485,530 thousand (2019: net foreign exchange gain of UAH 4,325,567 thousand), mainly related to the Group’s loans and borrowings denominated in foreign currencies.

Further results of the Group’s activities will depend on the future development of the situation with the COVID-19 spread and the timeline of the economic recovery in Ukraine. The Group management monitors the developments of these events and takes measures to prevent any negative impact to the extent possible.

Assets and liabilities of uncontrolled territories

Following the temporary occupation of the Autonomous Republic of Crimea by the Russian Federation as a result of military aggression in April 2014, the Group ceased its operations in the region. As a result of the Reorganisation, the assets and liabilities related to the temporarily occupied Autonomous Republic of Crimea were transferred to the Company at the carrying values as at 31 March 2014 and continued to be carried at these values as at 31 December 2020 and 2019. There were no income and/or expenses related to the assets and liabilities related to Autonomous Republic of Crimea recorded in the Group’s financial statements for 2020 and 2019 years.

In the second half of 2014 as a result of military aggression of Russian Federation the Ukrainian authorities temporarily lost control over certain territory of Donetsk and Luhansk regions where some structural units of State Enterprise “Donetsk railway” (SE “Donetsk railway”) operated. As a result of the Reorganisation the assets and liabilities of structural units of SE “Donetsk railway” located on the temporary occupied territory of Donetsk and Luhansk regions were transferred to the Company at the carrying values as at 30 June 2014 and, for the most part, continued to be carried at these values as at 31 December 2020 and 2019 on the balance sheet of Regional branch “Donetsk railway” (RB “Donetsk railway”). The Group had only adjusted interest-bearing loans and borrowings, as well as lease liabilities of the uncontrolled territory as at 1 January 2016. No subsequent adjustments to the above financial liabilities were made after this date.

Despite the loss of control over the assets and liabilities of the temporarily occupied territories related to temporarily occupied territories introduced by the Law, the Group continues to record them in the consolidated statement of financial position, as this complies with the regulatory requirements pertaining to the Reorganisation, and this corresponds to the official position that the Ukrainian authorities will regain control over the occupied territories. Upon cessation of the temporary occupation of Autonomous Republic of Crimea and a portion of territory of Donetsk and Luhansk regions (together – “the uncontrolled territories”) the assets and liabilities relating to the above regions will be revalued and contributed to the Company’s Charter capital, within a legal succession procedure, apart from a portion of property, plant and equipment, that will be transferred under the title of operating control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

Despite the military aggression the Group was able to secure railway transportation involving the temporarily occupied territories of Donetsk and Luhansk until 15 March 2017. According to the Decree of the President of Ukraine No. 62/2017 of 15 March 2017, the decision of the National Security and Defense Council of Ukraine “On Urgent Additional Measures to Counter Hybrid Threats to the National Security of Ukraine” was enacted, which provides for the implementation of measures to stop the movement of goods through the collision line within Donetsk and Luhansk regions, with a few exceptions. As a result of the measures taken, the railroad transportation with the temporarily occupied territory of Donetsk and Luhansk region was completely suspended.

As at 31 December 2017, management performed the segregation of assets and liabilities of RB “Donetsk Railway” to a controlled and uncontrolled parts. Assets and liabilities of the uncontrolled territory were included in the following lines of the consolidated statement of financial position: assets of uncontrolled territories and liabilities of uncontrolled territories within non-current assets and long-term liabilities, respectively. Assets and liabilities associated with Autonomous Republic of Crimea were also included in the above lines. This approach provides more transparent presentation of the Group’s assets and liabilities. There were no significant changes in the composition of assets and liabilities of uncontrolled territories during 2020.

Thus, as at 31 December 2020, the value of assets and liabilities of uncontrolled territories amounted to UAH 13,662,100 thousand and UAH 5,213,057 thousand respectively (2019: UAH 13,661,086 thousand and UAH 5,207,728 thousand, respectively). At the same time, a significant part of the liabilities of uncontrolled territories were interest-bearing loans and borrowings in the amount of UAH 3,663,995 thousand, as well as liabilities under lease agreements in the amount of UAH 807,487 thousand.

Ensuring sustainable operating activities of the Group in the foreseeable future

Management believes that the Group will continue its regular operating activities on a going concern basis being a key component of Ukraine’s transport infrastructure and systemically important company for the whole economy of the country. In 2020, rail cargo transportation turnover amounted to about 79.5% of the total cargo traffic in Ukraine (excluding pipelines), in 2019 – about 77.6%; railway passenger transportation turnover amounted to 21.8% and 26.5% of the total passenger turnover, respectively. The Group counts on the Government support, if required, which may include, but not limited to, additional increase in tariffs, facilitation of granting the state guarantees for new loans, obtaining of loans from state-owned banks, additional cash contributions from the state.

According to the Law of Ukraine dated 15 December 2020 No. 1158-IX *On the State Budget for 2021*, there have been provided for UAH 4,030,879 thousand in direct budget financing to the Group for the procurement of passenger railcars and for infrastructure modernisation and electrification projects.

Management is committed to improving financial performance and the adequacy of cash flows from the core services provided by the Group to ensure timely and complete servicing of its financial obligations that is a key factor in ensuring its sustainable operating activities in the foreseeable future.

In view of this, management points out that as at 31 December 2020 the Group’s current liabilities exceeded current assets by UAH 17,105,249 thousand (31 December 2019: UAH 9,090,132 thousand). This position is caused by the upcoming current portions of long-term interest-bearing loans and borrowings maturity and UAH devaluation against the foreign currencies caused by the economic downturn during 2020 as described above. As at 31 December 2020 and 2019, the carrying amount of current interest-bearing loans and borrowings comprised UAH 16,398,153 thousand and UAH 14,498,640 thousand, respectively.

In March 2021, the Group repaid timely and in full the portion in the amount of USD 50 million of outstanding principal amount of Eurobonds together with the related coupon payment (Note 34).

To improve the financial results of the Group’s activities, the measures are taken by management as follows:

- Starting from July 2020, a part-time four-day working week has been introduced for the certain Group’s employees to reduce staff costs.
- The amount of management salaries was limited to a level not exceeding UAH 47,230 during April-September 2020 as established by the relevant resolution of the Cabinet of Ministers of Ukraine.
- Measures are held for operating costs optimisation by organising the procurement of materials, goods and services through the system of transparent and competitive online auctions, as well as prioritising the Group’s expenditures.
- The Group continues to take measures to reduce the land tax burden on the Group by ongoing negotiation with Ukrainian Government and other Ukrainian authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

- Management develops initiatives regarding the tariff system improvement, in particular, related to the automatic indexation of the part of the regulated tariff for the rail freight adjusted by the producer price index.
- Management continues to improve the Group’s operating effectiveness in term of utilisation of the property, plant and equipment and develops sales mechanisms with the customers to respond to their specific needs in terms of both cargo and passenger railway transportation.
- Developing the plans of the scrap metal and non-core property surplus sales in order to obtain additional cash inflows.

Management continues pursuing options to refinance the current portion of the Group’s interest-bearing loans and borrowings. Among the options for debt management, the Group considers placement of a new issue of Eurobonds in 2021 and takes actions to obtain the necessary approvals, including those from other lenders and Ukrainian state bodies. In addition, management is working on attracting borrowings with favorable debt terms comparing to the existing one from alternative commercial sources, namely from Ukrainian and international banks. Management is also considering attracting finances from state-owned banks and government support mechanisms in case it is not possible to attract funds in time in the international capital markets.

Debt management combined with new funds raising and measures to improve operating results will further have positive impact on timely obligations settlements, enable capital investments and maintain sustainability of the Group’s operating activities in the foreseeable future.

3. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on historical cost basis, except for property, plant and equipment carried at revalued amounts, post-employment benefits measured in accordance with the requirements of IAS 19 *Employee Benefits*, certain financial instruments measured in accordance with the requirements of IFRS 9 *Financial Instruments*. These consolidated financial statements are presented in thousands of Ukrainian hryvnia (“UAH thousand”) and all values are rounded to the nearest thousand, unless otherwise indicated.

Basis of preparation of consolidated financial statements

Financial statements of subsidiaries of the Group were prepared on the same reporting period using consistent accounting policies. Adjustments are made to align any dissimilar accounting policies that may exist.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***3. Basis of preparation (continued)**

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. Changes in accounting policies and disclosures

The accounting policies adopted in 2020 are consistent with those of the previous financial year, except for presentation of interest paid and dividends paid in the consolidated statement of cash flows as described below and for the new and amended IFRS adopted with effect from 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Voluntary change in presentation of the interest paid and dividends paid

The Group has re-assessed its accounting policy for presentation of interest paid and dividends paid in the consolidated statement of cash flows. The Group has previously presented the interests paid and dividends paid within cash flows from operating activities. Starting from 1 January 2020, the Group elected to change the presentation of interest paid and dividends paid in the consolidated statement of cash flows and to present these payments within cash flows from financing activities. The Group believes that such presentation provides more relevant information to the users of the consolidated financial statements as it is more aligned to practices adopted by the companies within the railway industry and the Ukrainian state-owned companies.

The Group has applied this change in presentation retrospectively. The change in the presentation was corrected by recalculation of line items affected of the consolidated statement of cash flows for the previous period as follows:

Line	<i>Year ended 31 December 2019 as previously reported</i>	<i>Effect of the voluntary change in presentation</i>	<i>Year ended 31 December 2019</i>
Cash flows from operating activities			
Interests paid	(2,783,618)	2,783,618	–
Dividends paid to equity holders of the parent	(118,520)	118,520	–
Dividends paid to non-controlling interests	(71)	71	–
Net cash flows from operating activities	<u>12,262,585</u>	<u>2,902,209</u>	<u>15,164,794</u>
Cash flows from financing activities			
Interests paid	–	(2,783,618)	(2,783,618)
Dividends paid to equity holders of the parent	–	(118,520)	(118,520)
Dividends paid to non-controlling interests	–	(71)	(71)
Net cash flows from financing activities	<u>4,474,063</u>	<u>(2,902,209)</u>	<u>1,571,854</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

4. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations

The following new interpretations, amendments and improvements have been adopted by the Group for the first time to the financial reporting periods commencing on or after 1 January 2020:

- Amendments to IFRS 3 *Definition of a Business*;
- Amendments to IFRS 7, IFRS 9 and IAS 39 *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- *Conceptual Framework for Financial Reporting*;
- Amendments to IFRS 16 *Covid-19 Related Rent Concessions*.

The adoption of the interpretations, amendments and improvements has no material impact on the consolidated financial statements of the Group.

5. Significant accounting judgments, estimates and assumptions

According to IAS 1 *Presentation of Financial Statements*, the Group accounts for and presents transactions and other events in accordance with their substance and economic reality and not merely their legal form.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the end of the reporting period. Actual results could differ from these estimates. The key judgments, estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that represents a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Judgments

Assets assigned under the title of operating control

Certain items of property, plant and equipment were assigned to the Company under the title of operating control (Note 9). The title of operating control allows to possess and use the assets, except for actions that may lead to disposal of the assets. The Company maintains a separate accounting for these assets, uses them in its economic activity and suffers risks of the accidental destruction or damage to the assets. There are no specific restrictions on the use of revenue proceeds from those assets and the Company maintains their proper functionality at its own cost.

The items of the property, plant and equipment assigned to the Company under the title of operating control meet the definition of property, plant and equipment as they are used in the economic activities for more than one period. These items are included in the relevant groups of property, plant and equipment.

Accounting for assets and liabilities that are not controlled by the Group

Consolidated financial statements include the assets and liabilities located or otherwise associated with the temporarily occupied territory of the Autonomous Republic of Crimea, as well as with non-government controlled areas of Donetsk and Luhansk regions. The details on the accounting approach for these items are provided in Note 2. The above approach is based on the regulatory framework related to these assets and liabilities, issued by relevant State authorities. Therefore, it was considered during the preparation of the consolidated financial statements.

Impairment of property, plant and equipment

At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. This assessment implies significant judgments. In 2019, there were identified some items of property, plant and equipment with indicators for impairment and for which individual impairment was recognized (Note 9). Management has not identified indicators of impairment of property, plant and equipment and has not performed an impairment test as at 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Estimates

Provision for expected credit losses (ECL) of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 13.

Estimates of the useful lives of property, plant and equipment

Significant management judgment is required to determine the estimated useful lives of items of property, plant and equipment. The actual useful lives may vary from the management estimates.

Defined benefit liability

The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, staff turnover and mortality rates, etc. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the yield of government bonds because there is no deep market in corporate bonds in Ukraine. Due to the long-term nature of these plans, the estimates are subject to significant uncertainty. Further details are given in Note 20.

Provisions

The Group has recognised provisions for obligations related to legal claims. The amount of the provision represents the management's best estimates of expected future cash outflows discounted at a current pre-tax rate, where appropriate. Further details are given in Note 24.

Deferred tax asset recoverability

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future level of tariffs and sales volumes, prices for consumables and operating costs. Judgments are also required about the application of income tax legislation. These judgments and estimates are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised at the reporting date. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies

Foreign currency translation

Ukrainian Hryvnia (“UAH”) is the Group’s presentation currency and the functional currency of the Company and the subsidiaries. Transactions denominated in currencies other than the functional currency (foreign currencies) are initially recorded in the functional currency at the rate at the date of the transaction as established by the National Bank of Ukraine (“NBU”), which is deemed to approximate the prevailing market rate. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in the profit or loss within the statement of comprehensive income.

Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows.

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Subsequent measurement

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

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

As at 31 December 2020 and 2019, the Group had no financial assets at fair value through OCI with recycling of cumulative gains and losses and financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition.

Financial assets at amortised cost (debt instruments)

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

The Group's financial assets at amortised cost includes trade receivables, loans to employees and other non-current financial assets, which includes deposit certificates and government bonds.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include equity instruments of another entities that are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

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

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

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

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

Impairment

Further disclosures relating to impairment of financial assets, namely for trade receivables, are provided in Note 13.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

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

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

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings. As at 31 December 2020 and 2019, the Group had no financial liabilities at fair value through profit or loss and derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 18.

Derecognition

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

iii) Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***6. Summary of significant accounting policies (continued)*****Property, plant and equipment***

When state enterprise is reorganised into a joint stock company its assets, including property, plant and equipment, and liabilities have to be valued at fair value. Since the Reorganisation is considered to be a continuation of the Group as a single economic entity Management decided to show the effect of the revaluation of the property, plant and equipment as a change in accounting policy from cost model to revaluation model. As at 1 December 2015, the Group adopted the revaluation model of accounting for property, plant and equipment. Property, plant and equipment is carried in the consolidated financial statements at revalued amounts, which is their fair value at the date of revaluation 31 July 2014, performed by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Even when there is no observable market to provide pricing information about the sale of an asset at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset. That assumed transaction establishes a basis for estimating the price to sell the asset. The Group measure the fair value of an asset using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest. Prior to revaluation, property, plant and equipment were stated at cost or deemed cost at the date of transition to IFRS (further referred as “cost”), excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost included the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria were met.

Revaluations of property, plant and equipment are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increase in carrying amount of property, plant and equipment arising on revaluation is recorded as the increase in revaluation reserve in equity, except for reversal of previous revaluation decrease that relate to this particular item and that was previously recognised as an expense. In this case, the increase in value is recognised as income in the consolidated statement of profit and loss and other comprehensive income within the previous decrease. Decrease in carrying amount of property, plant and equipment as a result of revaluation is recognised as an expense except to the extent it offsets an existing revaluation reserve (if any) on the same asset recognised as a result of previous revaluations. The decrease is recorded in other comprehensive income and revaluation reserve to the extent of existing revaluation surplus on the same asset.

On the subsequent sale or retirement of revalued property, plant and equipment, the attributable revaluation reserve included in equity is transferred directly to retained earnings. Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset. Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the profit or loss within the statement of comprehensive income as incurred.

Estimates of remaining useful lives are made on a regular basis with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences when an item is available for use. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

<i>Group</i>	<i>Useful lives</i>
Buildings, constructions and infrastructure	9-80 years
Subgrade and superstructure	6-83 years
Locomotives	5-32 years
Railway cars	5-45 years
Plant, equipment, tools and other	3-30 years
Vehicles	3-18 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss within the statement of comprehensive income in the year the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Social assets

Included in property, plant and equipment are social infrastructure and other non-production assets (hereinafter referred to as the “social assets”). Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash outflows related primarily to wages and salaries expenses. As such non-production assets are employed by the Group to provide in-kind benefits to its employees in addition to wages and salaries paid in cash.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations on a non-revalued asset are recognised in the profit or loss within the consolidated statement of comprehensive income. However, an impairment loss on a revalued asset is recognised in the other comprehensive income and in the revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories primarily consist of spare parts, materials, tools and fuel. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the FIFO (first-in, first-out) method.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset, otherwise they are recognised as an expense when incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in bank and on hand, demand deposits and short term, highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Trade and other payables

Trade and other payables are recognised and initially measured at fair values less directly attributable transaction costs. Subsequently, trade and other payables are carried at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities and assets

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Employee benefits

The Group participates in a statutory defined-benefit pension plan, which is compulsory for entities, who has jobs with extra harmful and difficult working conditions (named “List 1” and “List 2” categories). The obligations of the Group under this defined-benefit pension plan are formed gradually during the whole period of employment of an employee on the workplace certified in the prescribed manner, which gives the right to receive a privileged pension.

In addition, the Group has other defined benefit plans that are executed in more than 12 months after the end of the reporting period in which related services are provided by the respective employees and are subject to an actuarial valuation. These programs of the Group include post-employment benefits, such as one-time retirement bonuses, as well as other long-term employee benefits, such as payments to anniversary dates, as defined by the Industry Agreement in Railway Transportation sector and Collective Agreement.

The Group makes defined contributions to the Ukrainian state pension funds at the relevant statutory rates in force during the year, based on gross salary payments. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. Such contributions are expensed in the period when the related salaries are earned.

Leases

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

Group as a lessee

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

Right-of-use assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Lease liabilities

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

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

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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

Short-term leases and leases of low-value assets

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

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue is presented net of value-added tax and discounts and after eliminating intercompany sales within the Group.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group recognises revenue from cargo transportation and passenger transportation over time, using an output method by measuring the progress towards complete satisfaction of that performance obligation proportionally to the services provision period.

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

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

Exchange of services of similar nature and value

The Group’s transportation and other services provided to foreign railways are settled through mutual offset arrangements with its counterparties. Generally, the settlement is made in exchange for services of similar nature and value which is not regarded as a transaction which generates revenue. Such transactions are accounted for on a net basis.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial assets.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

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

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

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the end of the reporting period.

Income tax relating to items recognised in other comprehensive income or directly in equity is recognised in other comprehensive income or directly in equity and not in the profit or loss.

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

Value-added tax

Revenues, expenses and assets are recognised net of the amount of Value-added tax (“VAT”) except:

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

The net amount of VAT receivable from, or payable to, the taxation authority is included into the *Taxes receivable, other than income tax/Taxes payable, other than income tax* line items disclosed on the face of the consolidated statement of financial position.

Profit distribution and dividends

Profit distribution of the Company and dividends payment are subject to approval by the General meeting of the Company, which shall take into account related Ukrainian legislation. Dividends are recognized as decrease in equity in the period, when they are declared, with simultaneous recognition of liability on dividends payments. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events after the Reporting Period* and disclosed accordingly. Dividends subject to mandatory accrual under effective law are accrued as at the reporting date within current payables to settlements with participants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***7. Standards issued but not yet effective**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective and expects that these standards and amendments will likely have no material impact on the consolidated financial statements of the Group.

<i>Standards and amendments</i>	<i>Effective date</i>
<i>Interest Rate Benchmark Reform – Phase 2</i> – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
<i>Reference to the Conceptual Framework</i> – Amendments to IFRS 3	1 January 2022
<i>Property, Plant and Equipment: Proceeds before Intended Use</i> – Amendments to IAS 16	1 January 2022
<i>Onerous Contracts – Costs of Fulfilling a Contract</i> – Amendments to IAS 37	1 January 2022
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> – Subsidiary as a first-time adopter	1 January 2022
IFRS 9 <i>Financial Instruments</i> – Fees in the ‘10 per cent’ test for derecognition of financial liabilities	1 January 2022
IAS 41 <i>Agriculture</i> – Taxation in fair value measurements	1 January 2022
IFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> – Amendments to IFRS 10 and IAS 28	Postponed indefinitely

8. Segment reporting

For management purposes, the Group is organised into business units based on their services, and has five reportable operating segments:

- *Cargo segment* includes cargo transportation services provided by the Group.
- *Long-distance passenger transportation segment* comprises cross-regional passenger transportation services provided by the Group.
- *Suburban passenger transportation segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* mainly includes activities of certain structural units of Regional branches and branches of the Company that produce industrial products and provide services for internal consumption within the Company and for sale to third parties outside of the Group. Auxiliary operations segment produces industrial products and provides services related to cargo transportation and suburban passenger transportation, construction, reconstruction and modernisation of railway tracks and railway infrastructure, repair and maintenance of various railway-related equipment etc. The transfer of products (works, services) between the structural units of one branch and between branches within the Company is considered as internal turnover and is reflected as a reallocation of expenses (“Inter-segment expenses” line) with no revenues recognised (except for certain types of transactions). A segment that receives reallocated expenses includes them in the “Other operating expenses” category.

None of Auxiliary segment operations are individually of sufficient size to be reported as a separate segment. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

- *All other segments* include repair and maintenance of rolling stock and other services provided by the Company's subsidiaries.

Management board as chief operating decision makers monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment and does not monitor assets and liabilities of the operating segments and this information is not provided to the management on a regular basis. Segment performance is evaluated on the basis of segment operating profit or loss determined based on management accounts that differ from the IFRS consolidated financial statements for the reason that the management accounts are based on managerial figures. The operating segments results do not include the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS consolidated financial statements.

Substantially all of the Group's operating assets are located and most of the services are provided in Ukraine.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include: interest income, foreign exchange gains, change in fair value and reversal of impairment of financial assets, gain on disposal of property, plant and equipment, other income.

Segment expenses are expenses resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

The segment result is calculated as the difference between segment revenue and segment expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties, except for operations of electricity transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***8. Segment reporting (continued)**

Year ended 31 December 2020	Cargo				Long-distance passenger			Suburban component	Auxiliary activity	All other segments	Total segments	Unallocated	Eliminations (A)	Adjustment (B)	Total
	Total segment, included	Infra-structure component	Locomotive component	Wagon component	Total segment, included	Infra-structure component	Wagon component								
Sales to third parties	65,330,079	39,724,844	20,717,801	4,887,434	3,679,552	1,352,588	2,326,964	453,467	5,457,970	843,220	75,764,288	–	–	(472,728)	75,291,560
Inter-segment sales	–	–	–	–	–	–	–	–	1,584,429	8,861,337	10,445,766	–	(10,445,766)	–	–
Total revenue	65,330,079	39,724,844	20,717,801	4,887,434	3,679,552	1,352,588	2,326,964	453,467	7,042,399	9,704,557	86,210,054	–	(10,445,766)	(472,728)	75,291,560
Staff costs	(26,009,768)	(19,886,593)	(5,833,199)	(289,976)	(6,172,574)	(2,993,180)	(3,179,394)	(3,100,645)	(5,827,014)	(998,048)	(42,108,049)	(920,316)	656,226	1,255,770	(41,116,369)
Depreciation	(8,712,259)	(5,812,275)	(790,291)	(2,109,693)	(1,891,771)	(965,595)	(926,176)	(754,197)	(918,207)	(99,450)	(12,375,884)	(579,166)	24,171	144,096	(12,786,783)
Electricity	(5,776,983)	(704,562)	(5,056,637)	(15,784)	(919,369)	(848,600)	(70,769)	(576,177)	(1,004,028)	(6,903,487)	(15,180,044)	(44,688)	7,627,904	–	(7,596,828)
Fuel	(4,245,852)	(397,628)	(3,831,223)	(17,001)	(469,802)	(413,699)	(56,103)	(303,357)	(407,422)	(38,066)	(5,464,499)	(18,389)	26,998	–	(5,455,890)
Materials, maintenance and repairs	(4,760,841)	(3,197,147)	(1,281,138)	(282,556)	(803,902)	(476,012)	(327,890)	(518,667)	(310,396)	(1,242,699)	(7,636,505)	(171,540)	3,254,359	217,877	(4,335,809)
Other operating expenses	(4,712,773)	(4,196,766)	(439,999)	(76,008)	(988,005)	(409,471)	(578,534)	(576,363)	(1,383,579)	(189,626)	(7,850,346)	(7,602,055)	2,830,057	9,864,307	(2,758,037)
Inter-segment expenses*	–	–	–	–	–	–	–	–	3,973,949	–	3,973,949	–	(3,973,949)	–	–
Segment result	11,111,603	5,529,873	3,485,314	2,096,416	(7,565,871)	(4,753,969)	(2,811,902)	(5,375,939)	1,165,702	233,181	(431,324)	(9,336,154)	–	11,009,322	1,241,844

Year ended 31 December 2019	Cargo				Long-distance passenger			Suburban component	Auxiliary activity	All other segments	Total segments	Unallocated	Eliminations (A)	Adjustment (B)	Total
	Total segment, included	Infra-structure component	Locomotive component	Wagon component	Total segment, included	Infra-structure component	Wagon component								
Sales to third parties	73,288,883	40,730,787	21,931,962	10,626,134	9,161,651	3,989,997	5,171,654	766,052	7,256,752	650,202	91,123,540	–	–	(771,221)	90,352,319
Inter-segment sales	–	–	–	–	–	–	–	–	1,123,870	9,588,466	10,712,336	–	(10,712,336)	–	–
Total revenue	73,288,883	40,730,787	21,931,962	10,626,134	9,161,651	3,989,997	5,171,654	766,052	8,380,622	10,238,668	101,835,876	–	(10,712,336)	(771,221)	90,352,319
Staff costs	(24,895,049)	(18,940,739)	(5,679,111)	(275,199)	(8,266,506)	(4,422,358)	(3,844,148)	(3,783,470)	(6,474,699)	(858,674)	(44,278,398)	(1,074,809)	730,614	566,385	(44,056,208)
Depreciation	(8,546,094)	(6,064,464)	(672,315)	(1,809,315)	(1,653,733)	(718,166)	(935,567)	(688,569)	(967,590)	(60,604)	(11,916,590)	(581,867)	51,782	43,980	(12,402,695)
Electricity	(5,735,822)	(577,775)	(5,140,903)	(17,144)	(1,659,893)	(1,577,081)	(82,812)	(824,432)	(875,445)	(8,005,347)	(17,100,939)	(27,111)	8,500,784	142,495	(8,484,771)
Fuel	(5,660,264)	(445,354)	(5,193,613)	(21,297)	(1,180,273)	(1,089,893)	(90,380)	(678,981)	(810,837)	(38,887)	(8,369,242)	(39,062)	34,340	136,472	(8,237,492)
Materials, maintenance and repairs	(3,665,252)	(2,250,005)	(1,103,210)	(312,037)	(1,097,600)	(590,652)	(506,948)	(636,993)	(384,995)	(1,159,851)	(6,944,691)	(85,066)	1,495,878	3,787	(5,530,092)
Other operating expenses	(5,335,006)	(4,906,831)	(277,515)	(150,660)	(1,575,398)	(742,397)	(833,001)	(705,165)	(2,031,472)	(193,284)	(9,840,325)	(2,855,439)	4,864,977	4,785,166	(3,045,621)
Inter-segment expenses*	–	–	–	–	–	–	–	–	4,966,039	–	4,966,039	–	(4,966,039)	–	–
Segment result	19,451,396	7,545,619	3,865,295	8,040,482	(6,271,752)	(5,150,550)	(1,121,202)	(6,551,558)	1,801,623	(77,979)	8,351,730	(4,663,354)	–	4,907,064	8,595,440

* Management board as chief operating decision makers considers such presentation of “Inter-segment expenses” as appropriate given the segment “Auxiliary activity” produces its products, works and services for intra-group purposes, and thus its performance is evaluated mainly based on the existing expenses and their structure rather than in revenues terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

8. Segment reporting (continued)

(A) Inter-segment revenue and margin are eliminated on consolidation.

(B) For 2020 and 2019, the operating results of each operating segment did not include adjustments representing differences between the basis of preparation of management accounts and the Group’s IFRS accounting policies.

As the Group continues its operating transformation, management considers that the additional separation of infrastructure, locomotive and wagon components within Cargo segment as well as disclosure of infrastructure and wagon components within Long-distance passenger transportation segment is required for analysis of the Group performance and further reorganisation.

The Group has detailed the presentation of segment information in 2020, supplementing it by segregation of the revenues and expenses by locomotive component, where practically applicable. The presentation of segment information for 2019 has been detailed accordingly to ensure its comparability.

Reconciliation of loss/profit before income tax:

	2020	2019
Total adjusted segment results	1,241,844	8,595,440
Items not included into segment expenses:		
Tax expenses, other than income tax	(3,909,367)	(4,229,621)
Social expenses	(381,991)	(543,395)
Change in provisions	(95,348)	(104,091)
Other operating income	637,891	1,081,671
Change in finished goods and work in progress	(252,026)	19,589
Other expenses	(51)	(918,121)
Other income	349,099	143,058
Finance income	190,406	259,506
Finance costs	(4,237,041)	(3,844,992)
Foreign exchange (loss)/gain, net	(5,485,530)	4,325,567
Share of profit of associates	7,807	78,736
Group (loss)/profit before income tax	(11,934,307)	4,863,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***9. Property, plant and equipment**

The movements in property, plant and equipment, including right of use assets, were as follows:

	<i>Land</i>	<i>Buildings, constructions and infra- structure</i>	<i>Subgrade and super- structure</i>	<i>Locomotives</i>	<i>Railway cars</i>	<i>Plant, equipment and tools</i>	<i>Vehicles</i>	<i>Other property, plant and equipment</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
Cost/revalued amount										
At 1 January 2020	45,686,886	66,351,514	102,440,271	29,251,369	43,714,966	18,230,586	4,057,311	423,948	8,365,492	318,522,343
Additions	–	1,065	14,164	–	–	8,448	–	–	9,248,031	9,271,708
Transfers	2,541	704,041	1,999,297	1,854,068	2,511,017	1,040,732	17,300	69,380	(8,198,376)	–
Disposals	–	(71,547)	(64,731)	(7,159)	(598,376)	(2,962)	(7,616)	(8,506)	(248,224)	(1,009,121)
Reclassification of assets of uncontrolled territories (Note 2)	–	–	–	–	470	(129)	(46)	–	–	295
Transferred to assets held for distribution to owner	–	–	–	–	–	–	–	–	(96,162)	(96,162)
Other changes	–	206	(543)	(20)	(196)	1,659	(5,259)	–	–	(4,153)
At 31 December 2020	<u>45,689,427</u>	<u>66,985,279</u>	<u>104,388,458</u>	<u>31,098,258</u>	<u>45,627,881</u>	<u>19,278,334</u>	<u>4,061,690</u>	<u>484,822</u>	<u>9,070,761</u>	<u>326,684,910</u>
Accumulated depreciation										
At 1 January 2020	–	16,552,119	25,264,652	9,905,676	18,478,769	8,965,627	2,523,093	246,198	2,031,050	83,967,184
Depreciation charge	–	2,670,136	3,804,994	1,295,212	3,445,878	1,554,673	151,401	50,859	–	12,973,153
Disposals	–	(15,891)	(29,073)	(2,173)	(419,914)	(2,596)	(7,192)	(4,443)	–	(481,282)
Reclassification of assets of uncontrolled territories (Note 2)	–	–	–	–	–	(73)	(44)	–	–	(117)
Other changes	–	(208)	(78)	(9)	(161)	5,352	(4,940)	–	–	(44)
At 31 December 2020	<u>–</u>	<u>19,206,156</u>	<u>29,040,495</u>	<u>11,198,706</u>	<u>21,504,572</u>	<u>10,522,983</u>	<u>2,662,318</u>	<u>292,614</u>	<u>2,031,050</u>	<u>96,458,894</u>
Net book value										
At 1 January 2020	<u>45,686,886</u>	<u>49,799,395</u>	<u>77,175,619</u>	<u>19,345,693</u>	<u>25,236,197</u>	<u>9,264,959</u>	<u>1,534,218</u>	<u>177,750</u>	<u>6,334,442</u>	<u>234,555,159</u>
At 31 December 2020	<u>45,689,427</u>	<u>47,779,123</u>	<u>75,347,963</u>	<u>19,899,552</u>	<u>24,123,309</u>	<u>8,755,351</u>	<u>1,399,372</u>	<u>192,208</u>	<u>7,039,711</u>	<u>230,226,016</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***9. Property, plant and equipment (continued)**

The movements in property, plant and equipment, including right of use assets, were as follows:

	<i>Land</i>	<i>Buildings, constructions and infra- structure</i>	<i>Subgrade and super- structure</i>	<i>Locomotives</i>	<i>Railway cars</i>	<i>Plant, equipment and tools</i>	<i>Vehicles</i>	<i>Other property, plant and equipment</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
Cost/revalued amount										
At 1 January 2019	45,681,871	65,079,214	100,512,334	26,154,156	39,533,253	18,118,360	2,503,690	354,918	9,152,293	307,090,089
Additions	–	–	–	–	–	–	–	–	10,323,191	10,323,191
Transfers	(142)	1,056,566	1,937,737	3,477,201	2,895,687	114,760	1,554,062	69,037	(11,104,908)	–
Disposals	–	(30,650)	(9,800)	(5,922)	(56,993)	(4,260)	(869)	(320)	(4,630)	(113,444)
Acquisitions through business combinations (Note 17)	5,157	4,605	–	–	–	989	474	313	–	11,538
Reclassification of assets of uncontrolled territories (Note 2)	–	241,779	–	(374,066)	1,343,019	737	(46)	–	(454)	1,210,969
At 31 December 2019	<u>45,686,886</u>	<u>66,351,514</u>	<u>102,440,271</u>	<u>29,251,369</u>	<u>43,714,966</u>	<u>18,230,586</u>	<u>4,057,311</u>	<u>423,948</u>	<u>8,365,492</u>	<u>318,522,343</u>
Accumulated depreciation										
At 1 January 2019	–	13,584,812	21,573,248	9,008,279	13,344,257	8,706,561	941,237	199,416	2,031,050	69,388,860
Depreciation charge	–	2,748,688	3,694,693	1,169,648	3,076,556	260,675	1,582,259	47,051	–	12,579,570
Disposals	–	(18,423)	(4,455)	–	(3,736)	(3,043)	(813)	(320)	–	(30,790)
Acquisitions through business combinations (Note 17)	–	211	–	–	–	800	429	51	–	1,491
Reclassification of assets of uncontrolled territories (Note 2)	–	236,831	–	(291,886)	1,361,943	634	(19)	–	–	1,307,503
Impairment	–	–	1,166	19,635	699,749	–	–	–	–	720,550
At 31 December 2019	<u>–</u>	<u>16,552,119</u>	<u>25,264,652</u>	<u>9,905,676</u>	<u>18,478,769</u>	<u>8,965,627</u>	<u>2,523,093</u>	<u>246,198</u>	<u>2,031,050</u>	<u>83,967,184</u>
Net book value										
At 1 January 2019	<u>45,681,871</u>	<u>51,494,402</u>	<u>78,939,086</u>	<u>17,145,877</u>	<u>26,188,996</u>	<u>9,411,799</u>	<u>1,562,453</u>	<u>155,502</u>	<u>7,121,243</u>	<u>237,701,229</u>
At 31 December 2019	<u>45,686,886</u>	<u>49,799,395</u>	<u>77,175,619</u>	<u>19,345,693</u>	<u>25,236,197</u>	<u>9,264,959</u>	<u>1,534,218</u>	<u>177,750</u>	<u>6,334,442</u>	<u>234,555,159</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Property, plant and equipment (continued)

Revaluation

When state enterprise is reorganised into a joint stock company its assets, including property, plant and equipment, and liabilities have to be valued at fair value. Property, plant and equipment were revalued by an independent appraiser as at 31 July 2014 in accordance with statutory requirements for the formation of the charter capital. The effect of the revaluation was recognised as at 30 November 2015, the date of the completion of the Reorganisation for the purposes of preparation of the consolidated financial statements, as adjusted by taking into account the effect of the depreciation of property, plant and equipment before revaluation for the period from 31 July 2014 to 1 December 2015, and movements of property, plant and equipment for the above period. The Group takes actions to perform next revaluation in the foreseeable future.

Land plots

Land plots include the cost of the rights of permanent use of land plots in the amount of UAH 45,684,115 thousand (2019: UAH 45,681,574 thousand) which was determined on the basis of the revaluation for the purpose of forming the charter capital separately from the items of property, plant and equipment, which can be located on these plots. The results of such revaluation may differ from the estimates made for the purposes of preparation of the IFRS financial statements.

Management believes that the presentation of the rights of permanent use of land separately from the respective fixed assets in the consolidated financial statements may not be avoided as this is regulated by the legislation on the Reorganisation.

Assets assigned under the title of operating control

Certain items of property, plant and equipment, specifically – public service line-haul railroads and engineering constructions, transmission equipment attached thereto, which are directly supporting the transportation process were assigned to the Group under the title of operating control. The title of operating control allows to possess and use the assets, except for actions that may lead to disposal of the assets.

As at 31 December 2020, carrying value of the assets assigned under the title of operating control was UAH 90,373,176 thousand (2019: UAH 93,065,868 thousand).

Social assets

Included in property, plant and equipment are social infrastructure and other social assets carried at UAH 3,407,660 thousand as at 31 December 2020 (2019: UAH 3,229,502 thousand), primarily comprising residential buildings, hospitals, canteens and other similar assets.

Prepayments for property, plant and equipment

As at 31 December 2020, construction in progress and uninstalled equipment contained prepayments for property, plant and equipment in the amount of UAH 137,601 thousand (2019: UAH 205,543 thousand).

Capitalised depreciation charge

The Group capitalised UAH 186,370 thousand of depreciation charge into construction in progress for the year ended 31 December 2020 (2019: UAH 176,875 thousand).

Fully depreciated assets

As at 31 December 2020 the cost of fully depreciated property, plant and equipment which remain in use amounted to UAH 24,096,690 thousand (2019: UAH 20,132,439 thousand).

Right of use assets

The Group includes right of use assets into property, plant and equipment within corresponding groups. Right of use assets are disclosed in Note 19 to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***9. Property, plant and equipment (continued)*****Pledged property, plant and equipment***

As at 31 December 2020 certain rolling stock with the carrying value of UAH 216,064 thousand was pledged as collateral for the Group's interest-bearing loans and borrowings (2019: UAH 215,607 thousand) (Note 18).

Impairment of property, plant and equipment

As at 31 December 2019, the Group carried out an impairment procedure for individual items of property, plant and equipment. According to the results of the inspection conducted in 2019, impairment losses of UAH 720,550 thousand were recognized in respect of such items within other expenses (Note 27). These impaired items of property, plant and equipment mainly consisted of freight wagons, passenger cars, electric locomotives, diesel locomotive and other property, plant and equipment.

Assets held for held for distribution to owner

As at 31 December 2020, the Group has presented certain construction in progress with the carrying amount of UAH 96,162 thousand within assets classified as held for distribution. On 21 October 2020, relevant decision of transfer these assets from the Group to another state entity was approved by the Cabinet of Ministers of Ukraine. The Group expects to complete transfer within one year.

10. Investments in associates

On 29 January 2016, the State Property Fund of Ukraine transferred 47.67% interest in the share capital of PrJSC “Ukrtransleasing” to JSC “Ukrainian Railways” as a contribution to the charter capital within the Reorganisation process (Note 17). Starting from this date the Group's interest in PrJSC “Ukrtransleasing” is accounted for using the equity method in the consolidated financial statements.

PrJSC “Ukrtransleasing” with its three subsidiaries form Ukrtransleasing group. The group is engaged in provision of lease services, operating lease of railway rolling stock, logistics and forwarding services, production of railway nodes and arrows. Neither PrJSC “Ukrtransleasing” nor its subsidiaries are listed on any public exchange. A portion of Ukrtransleasing group assets is located in the Autonomous Republic of Crimea and certain parts of the Donetsk and Luhansk regions temporarily not controlled by the Ukrainian authorities (Note 2), which were impaired in 2018.

The summarised information of Ukrtransleasing group is presented below:

	<i>2020</i>	<i>2019</i>
Current assets	413,271	209,450
Non-current assets	1,713,700	1,855,097
Current liabilities	(546,879)	(483,547)
Non-current liabilities	(49,419)	(52,926)
Equity	1,530,673	1,528,074
Group's carrying amount of the investment	729,058	727,795
	<i>For the year ended 31 December 2020</i>	<i>For the year ended 31 December 2019</i>
Revenues	326,526	499,462
Profit before tax	69,053	348,492
Income tax expense	(33,125)	(166,072)
Profit for the period (continuing operations)	35,928	182,420
Group's share of total comprehensive income for the year		
Other comprehensive income, net of tax	21,440	153,425
Total comprehensive income for the period (continuing operations)	57,368	335,845
Group's share of profit for the year	17,127	86,960
Group's share of total comprehensive income for the year	27,347	160,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***10. Investments in associates (continued)**

During 2020, the Group had received dividends in amount of UAH 26,084 thousand from the associate company (2019: UAH 37,297 thousand).

The other associate is Breitspur Planungsgesellschaft mbH, created under the Austrian legislation, engaged in the feasibility study on the construction of the broad-gauge railway corridor from the Ukrainian border to Vienna, which will facilitate the transportation of freights between the China and Western Europe markets. As of 21 July 2017, the Group concentrated 25% in the share capital of Breitspur Planungsgesellschaft mbH, when the State Property Fund of Ukraine transferred 12.6% of corporate rights of the company amounted to UAH 47,643 thousand within the Reorganisation process. Summarised financial information about this associate is presented below:

	2020	2019
Current assets	226,285	42,967
Non-current assets	84	112
Current liabilities	(251,439)	(5,498)
Non-current liabilities	(690)	(301)
Equity	(25,760)	37,280
Group's carrying amount of the investments	–	9,327
	<i>For the year ended 31 December 2020</i>	<i>For the year ended 31 December 2019</i>
Revenues	1,315	3,986
Loss before tax	(66,216)	(32,468)
Income tax expense	(54)	(440)
Loss for the period (continuing operations)	(66,270)	(32,908)
Total comprehensive loss for the period (continuing operations)	(66,270)	(32,908)
Group's share of total loss for the year	(9,320)	(8,224)
Group's share of total comprehensive loss for the year	(9,320)	(8,224)

During 2020 and 2019 Breitspur Planungsgesellschaft mbH had not distributed to the Company dividends.

The associate requires the Group's consent to distribute its profits. The Group does not foresee giving such consent at the reporting date.

As at 31 December 2020 and 2019, associates had no contingent liabilities or capital commitments.

As at 31 December 2019, the Group had assessed a recoverable amount of investments in associates, which is accounted under the equity method in accordance with IAS 28, with the involvement of independent valuer and recognised an impairment losses in the amount of UAH 61,649 thousand in Other expenses. This impairment loss was related to the investment in associate Breitspur Planungsgesellschaft mbH. As at 31 December 2020, the Group concluded that no additional impairment loss is required in respect of the investments in associates.

11. Other financial assets***Other non-current financial assets***

	2020	2019
Equity instruments of another entities	62,326	62,319
Loans due from employees (excluding current portion)	10,202	12,161
Other financial assets	15,767	9,846
	88,295	84,326

Equity instruments of another entities mainly consist of minority interests in the share capital of certain entities.

The Group provides long-term interest-free loans to its employees with contractual maturity from 3 to 8 years. Loans are carried at amortised cost using the effective interest rate of 13%-23% per annum. The current portion of these loans of UAH 5,271 thousand (2019: UAH 6,102 thousand) is included in trade and other receivables (Note 13).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

11. Other financial assets (continued)

Other current financial assets

As at 31 December 2020, other current financial assets included short-term domestic government bonds acquired during 2020, which are accounted for at amortised cost in the amount of UAH 9,759 thousand.

As at 31 December 2019, other current financial assets included short-term deposits with the maturity from three to twelve months in the amount of UAH 2,014,715 thousand. The Group signed relevant deposit agreements (with issuance of saving (deposit) certificates) with the Ukrainian state bank, denominated in US dollars and corresponding interest rates of 2.8%-3.8% per annum, in November 2019. In 2020, the Group received proceeds from these deposits upon expiration of their maturities.

12. Inventories

	2020	2019
Spare parts, materials and tools (at lower of cost and net realisable value)	5,392,328	5,184,431
Fuel and lubricants (at lower of cost and net realisable value)	810,432	1,040,375
Finished goods (at lower of cost and net realisable value)	336,576	399,865
Work in progress (at cost)	253,203	441,940
Other (at lower of cost and net realisable value)	1,933,022	2,062,457
	<u>8,725,561</u>	<u>9,129,068</u>

During 2020, spare parts, materials and tools, fuel and lubricants and other inventories in the amount of UAH 9,626,852 thousand were recognised as an operating expenses (2019: UAH 13,635,021 thousand).

As at 31 December 2020 inventories with carrying value of UAH 111,251 thousand (2019: UAH 111,251 thousand) were pledged as collateral for the Group's interest-bearing loans and borrowings (Note 18).

The amount of allowance for estimated irrecoverable amounts of inventories in 2020 was in the amount of UAH 194,673 thousand (2019: UAH 33,961 thousand).

13. Trade and other receivables

	2020	2019
Trade receivables	800,638	735,649
Current portion of other non-current financial assets (Note 11)	5,271	6,102
Other receivables	590,000	734,804
	<u>1,395,909</u>	<u>1,476,555</u>
Less: the allowance for expected credit losses of trade and other receivables	<u>(825,363)</u>	<u>(820,015)</u>
	<u>570,546</u>	<u>656,540</u>

As at 31 December 2020 and 2019, current portion of other non-current financial assets included short-term portion of loans due from employees (Note 11).

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

	2020	2019
At 1 January	820,015	568,884
Provision for expected credit losses	199,995	631,868
Utilised	(162,528)	(356,796)
Reversed	(32,119)	(23,941)
At 31 December	<u>825,363</u>	<u>820,015</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***13. Trade and other receivables (continued)**

Set out below is the information about the credit risk exposure on the Group's trade and other receivables using a provision matrix based on historical payment discipline:

<i>At 31 December 2020</i>	<i>Expected credit loss rate</i>	<i>Gross carrying amount</i>	<i>Expected credit loss</i>	<i>Carrying value</i>
Neither past due nor impaired	0.5%	452,312	(2,262)	450,050
Less than 2 months	5%	50,930	(2,546)	48,384
2-3 months	25%	14,224	(3,556)	10,668
3-12 months	50%	96,190	(48,095)	48,095
Over one year	75%-100%	782,253	(768,904)	13,349
Total		1,395,909	(825,363)	570,546

<i>At 31 December 2019</i>	<i>Expected credit loss rate</i>	<i>Gross carrying amount</i>	<i>Expected credit loss</i>	<i>Carrying value</i>
Neither past due nor impaired	0.5%	458,660	(2,293)	456,367
Less than 2 months	5%	58,858	(2,943)	55,915
2-3 months	25%	20,924	(5,231)	15,693
3-12 months	50%	150,888	(75,444)	75,444
Over one year	75%-100%	787,225	(734,104)	53,121
Total		1,476,555	(820,015)	656,540

14. Prepayments

As at 31 December 2020 prepayments made include prepayments for materials and services in the amount of UAH 94,714 thousand (2019: UAH 332,981 thousand). As at 31 December 2020 and 2019, no prepayments were impaired.

15. Taxes receivable, other than income tax

	<i>2020</i>	<i>2019</i>
Value added tax receivable	363,028	326,932
Other taxes prepaid	115,059	52,949
	478,087	379,881

A portion of value added tax receivable and insignificant portion of other taxes amounting to UAH 163,972 thousand were classified as non-current asset as at 31 December 2020 as their expected period of recoverability exceeds 12 months (2019: UAH 164,064 thousand).

16. Cash and cash equivalents

	<i>2020</i>	<i>2019</i>
Cash at banks	2,460,124	5,905,088
Other cash equivalents	14,883	83,801
Short-term deposits	22,539	992,347
	2,497,546	6,981,236

As at 31 December 2020, deposits in the amount of UAH 22,539 thousand (31 December 2019: UAH 992,347 thousand) for period from one to three months were included in short-term deposits within cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

17. Equity

Charter capital

During 2020 and 2019 the charter capital of the Group was of UAH 229,879,115 thousand and was divided into 229,879,115 ordinary nominal shares with a nominal value of UAH 1,000 each.

The Group Reorganisation and additional capital

Joint stock company "Ukrainian Railways" was established on 21 October 2015, when the state registration of the Company was conducted according to the decree of the Cabinet of Ministers of Ukraine dated 2 September 2015 No. 735 *Matters Related to Public Joint Stock Company "Ukrainian Railways"*.

According to the Law of Ukraine dated 23 February 2012 No. 4442-VI *On Peculiarities of Creation of the Public Joint Stock Company for Public Service Railway Transport*, JSC "Ukrainian Railways" is a legal successor of the State Administration of Railway Transport of Ukraine as well as public service railway enterprises and institutions, which were reorganised through the merger according to the Decree of the Cabinet of Ministers of Ukraine dated 25 June 2014 No. 200 *On Establishment of Public Joint Stock Company "Ukrainian Railways"*.

The date of completion of the Reorganisation for the purposes of preparation of the consolidated financial statements is 30 November 2015. Before this date, the Company obtained licenses, permits and other documents allowing JSC "Ukrainian Railways" to commence its economic activities starting from 1 December 2015.

Due to objective inability to conduct all necessary standard reorganisation proceedings (inventory of underlying assets and liabilities, their valuation and formal transfer and acceptance by the Company), it was not possible to contribute net assets related to the temporarily occupied territory of the Autonomous Republic of Crimea and temporarily occupied territory of Donetsk and Luhansk regions to the charter capital of the Company. Instead, the additional capital was formed through the contribution of the above net assets in correspondence with the additional capital. Financial information on the temporarily occupied territory of the Autonomous Republic of Crimea and temporarily occupied territories of Donetsk and Luhansk regions is provided in Note 2.

Additional capital was also formed through contribution of public residential buildings and civil defense facilities, which can't be transferred to the Charter capital of the Company due to legal restrictions, but are included in the Company's assets; as well as through additions and modernisation of property, plant and equipment over a period from the revaluation date of 31 July 2014 till the date of Reorganisation completion, as at 30 November 2015.

Profit distribution and dividends by the Company

Profit distribution and dividends payment are subject to approval by the General meeting of the Company, which shall take into account related Ukrainian legislation. The Company pays dividends in cash only. Dividend payments are transferred directly to the state budget according to a relevant decision approved by the Company's General meeting within the prescribed by the legislation time period.

According to the Law of Ukraine *On Managing State-Owned Entities* No. 185-V dated 21 September 2006, the entities, with state ownership in their share capital, by 1st May of the year after the reporting year, shall approve a relevant decision on declaration of dividends in amount of at least 30% of net profit. As at 31 December 2019, the Company has recognized respective liability on dividend payments for 2019 in amount of UAH 749,205 thousand, which will be payable to the State budget of Ukraine. According to the Ukrainian legislation, General meeting of the Company, which are held no later than 30 April, after the reporting year, is obliged to decide on profit distribution and declare dividends for relevant reporting year. As at the date of approval of these consolidated financial statements, the relevant decision of the General Meeting of Shareholders has not been made in respect of this matter.

According to the Law of Ukraine "On amendments to certain legislative Acts of Ukraine aimed at providing additional social and economic guarantees in connection with the spread of coronavirus disease (COVID-19)" No. 540 dated 30 March 2020 decision on declare dividends for 2019 financial year may be accepted by the general meeting of shareholders no later than three months after the end of quarantine.

During the year ended 31 December 2020, no dividends were declared and paid by the Company. For the year ended 31 December 2019, dividends for 2018 were declared and paid in the amount of UAH 103,101 thousand.

Distribution of portion of net profit to the State by the subsidiaries

During the year ended 31 December 2020, the subsidiaries of the Company declared distribution of net profits to the State in amount of UAH 8,641 thousand (2019: UAH 16,150 thousand). These amounts were included into dividends distribution reflected within "Dividends" in the consolidated statement of changes in equity. During the year ended 31 December 2020, the subsidiaries of the Company paid a portion of their net profit in the amount of UAH 9,908 thousand directly to the state budget (2019: UAH 15,283 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***17. Equity (continued)*****Other changes***

In April 2019, the Group obtained control over PrJSC “Insurance Company “Inter-Policy”. As of the date when control was obtained the assets of the subsidiary amounted to UAH 73,231 thousand, liabilities to UAH 21,640 thousand, net assets comprised UAH 51,591 thousand. The carrying value of investment in PrJSC “Insurance Company “Inter-Policy” amounted to UAH 7,552 thousand (30,965%) was presented within Investment in associate as at 31 December 2018. The Group has recognised the net effect from this business combination under common controls within other changes directly in the consolidated statement of changes in equity from the date when the control was obtained.

In 2020, the Group has disposed certain property, plant and equipment according to the relevant resolutions of the Cabinet of Ministers of Ukraine to the state entities and governmental bodies. The effect from these disposals were accounted for within other changes directly in the consolidated statement of changes in equity.

18. Interest-bearing loans and borrowings

As at 31 December interest-bearing loans and borrowings consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest-bearing bank loans	13,787,145	12,596,263
Eurobonds issued	20,441,824	19,550,901
Other borrowings	<u>505,771</u>	<u>501,274</u>
	<u>34,734,740</u>	<u>32,648,438</u>

During 2013-2019, the Group has placed loan participation notes (Eurobonds) on the Irish Stock Exchange. The Group’s Eurobonds pertain to:

- The remaining loan of USD 500,000 thousand received as a result of loan participation notes (Eurobonds) placed by Shortline plc on Irish Stock Exchange in May 2013. In March 2016 the Group has reprofiled the loan, the maturity was extended to 15 September 2021, annual interest rate increased from 9.5% to 9.875% starting from 21 November 2015 and the principal repayment schedule changed as follows: 60% were paid in 2019, 20% were in 2020 and 20% to be paid in 2021. As at 31 December 2020, the Group timely paid the part of 80% of its Eurobonds placed by Shortline plc.
- The loan of USD 594,902 thousand received as a result of loan participation notes (Eurobonds) placed by Rail Capital Markets plc on Irish Stock Exchange in July and September 2019 with maturity date in July 2024.

As disclosed in Note 2 the Group recorded the liabilities of State Enterprise “Donetsk Railway” on its balance sheet with further division of the balances to controlled and uncontrolled parts. In 2016, majority of lenders of SE “Donetsk Railway” filed court suits with the purpose to recognise JSC “Ukrainian Railways” as a legal successor of the enterprise and recover the debt. In February 2017, some changes to the legislation on the Reorganisation were enacted providing moratorium on foreclosure of assets and enforcement of liabilities of SE “Donetsk Railway” until cessation of antiterrorist operation and completion of legal succession proceedings (inventory of underlying assets and liabilities, their valuation and formal transfer and acceptance by the Company).

Since 1 January 2016, the Group ceased to recognise finance costs and foreign exchange losses related to the above loans and borrowings and as at 31 December 2017, reclassified them into liabilities of uncontrolled territories (Note 2). As such, as at 31 December 2020 and 2019, the liabilities of uncontrolled territories comprised interest-bearing loans and borrowings in amount of UAH 3,663,995 thousand, out of which – loans and borrowings denominated in the US dollars in the amount of USD 116,340 thousand with a fixed interest rate of 10.65%-12% per annum, and interest-bearing loans and borrowings denominated in Hryvnia in the amount of UAH 871,725 thousand with a fixed interest rate of 17.4%-18%.

However, during 2020, the Supreme Court of Ukraine recognised the Company as the legal successor to SE “Donetsk Railway” in respect of certain liabilities of uncontrolled territories. As a response, the Company is challenging these decisions (i.e. on introducing the Company as a debtor to the enforcement proceedings) in courts of different instances. Although the Company has been recognised as the successor to SE “Donetsk Railway” by the Supreme Court of Ukraine and certain courts of the first instance, any foreclosure of assets and enforcement of liabilities of the Company on account of SE “Donetsk Railway” is only possible following the completion of legal succession procedures or within six months after the cessation of the national security and defense operations in, and restoration of the sovereignty of Ukraine over the temporarily occupied territories of the Donetsk and Luhansk regions in accordance with the moratorium regime described above. The Group’s possible exposure related to these claims are disclosed in Note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***18. Interest-bearing loans and borrowings (continued)**

As at 31 December effective interest rate and currency split for borrowings were as follows:

	<i>Interest rate</i>	<i>2020</i>	<i>Interest rate</i>	<i>2019</i>
USD				
Fixed rate	8.68%-12%	32,048,341	8.68%-12%	29,279,558
Floating rate	LIBOR 6m + 1%-6%	256,742	LIBOR 6m + 1%-6%	1,213,524
		<u>32,305,083</u>		<u>30,493,082</u>
EUR				
Floating rate	EURIBOR 6m + 0.3%	1,902,769	EURIBOR 6m + 0.3%	1,447,188
		<u>1,902,769</u>		<u>1,447,188</u>
UAH				
Fixed rate	10.46%-16.4%	506,357	10.46%-20.75%	708,168
Floating rate	UIRD 6m + 3%	20,531	–	–
		<u>526,888</u>		<u>708,168</u>
Total interest-bearing loans and borrowings		34,734,740		32,648,438
Less: current portion		<u>(16,398,153)</u>		<u>(14,498,640)</u>
Interest-bearing loans and borrowings, non-current		<u>18,336,587</u>		<u>18,149,798</u>

Some of the loan agreements provide for financial and non-financial covenants, which impose restrictions on certain transactions and financial ratios, including restrictions of the amount of outstanding debt and profitability of the Group.

As a result of worsening of the economic conditions in Ukraine due to the COVID-19 outbreak as described in Note 2, as at 31 December 2020, the Group did not comply with the financial covenant under one of the long-term loan with the carrying amount of UAH 1,902,514 thousand. In November 2020, the Group has initiated negotiations with the relevant bank in order to obtain a waiving letter to remediate this breach before 31 December 2020. However, due to the bank's internal approval policies, this waiving letter was not received by the Group before the reporting date. The internal approval process was completed by the bank subsequent to the reporting date, and in March 2021, the Group has obtained written letters waiving the right for accelerated repayments of this debt. Pursuant to the requirements of IAS 1 *Presentation of Financial Statements* the non-current portion under the above mentioned agreement of UAH 1,893,829 thousand as at 31 December 2020, were reported in these consolidated financial statements within current liabilities.

As at 31 December 2020 and 2019, a breach of undertakings was continuing under loan agreements with one of the creditors in foreign currency that the Group was not able to timely restructure for an outstanding amount of UAH 5,956,799 thousand and UAH 4,591,533 thousand, respectively. As at 31 December 2020 and 2019, the cross-default was rectified as the lenders provided written letters waiving, including the conclusion of additional agreements on Eurobonds in 2017 year, the right for accelerated repayment of debt and accrual of fines related to the breach before the reporting dates. Management undertakes measures to rectify the breach.

As at 31 December 2020 undrawn loan facilities available to the Group were of UAH 5,216,238 thousand (2019: UAH 5,532,863 thousand).

As at 31 December interest-bearing loans and borrowings were secured as follows:

<i>Type of collateral</i>	<i>2020</i>	<i>2019</i>
Property, plant and equipment (Note 9)	216,064	215,607
Inventories (Note 12)	111,251	111,251
Proceeds from future revenue	21,609,618	19,091,351
Guarantees issued by the State of Ukraine (Note 31)	2,088,986	2,482,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

19. Leases

Lease liability is mainly represented by amounts due under agreements for lease of diesel locomotives, electric multiple unit train, equipment and car. Some of lease payments are pegged to USD; the average lease term is 7 years. As at 31 December 2020 and 2019, the interest rates implicit in the lease were within the range of 14%-19% per annum.

The Group reclassified to liabilities of uncontrolled territories, liabilities under lease agreements related to the uncontrolled territories (Note 2). Thus, as at 31 December 2020 and 31 December 2019, the liabilities of uncontrolled territories included liabilities under lease agreements in the amount of UAH 807,487 thousand with a fixed interest rate of 17% per annum (2019: UAH 802,158 thousand).

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	<i>Right of use assets</i>					<i>Lease liabilities</i>
	<i>Buildings, constructions and infra-structure</i>	<i>Locomotives</i>	<i>Vehicles</i>	<i>Plant, equipment, tools and other</i>	<i>Total</i>	
As at 1 January 2020	596	3,570,645	811	727	3,572,779	2,366,244
Addition/(transfer), net	729	—	—	(727)	2	1
Depreciation	(695)	(91,249)	(107)	—	(92,051)	—
Interest expense	—	—	—	—	—	404,543
Foreign exchange difference, net	—	—	—	—	—	4,723
Payments	—	—	—	—	—	(805,247)
Reclassification to liabilities of uncontrolled territories (Note 2)	—	—	—	—	—	(5,329)
As at 31 December 2020	<u>630</u>	<u>3,479,396</u>	<u>704</u>	<u>—</u>	<u>3,480,730</u>	<u>1,964,935</u>

	<i>Right of use assets</i>					<i>Lease liabilities</i>
	<i>Buildings, constructions and infra-structure</i>	<i>Locomotives</i>	<i>Vehicles</i>	<i>Plant, equipment, tools and other</i>	<i>Total</i>	
As at 1 January 2019	—	2,198,458	5,948	—	2,204,406	1,445,305
Addition/(transfer), net	1,093	1,460,248	(4,807)	1,002	1,457,536	1,319,314
Depreciation	(497)	(88,061)	(330)	(275)	(89,163)	—
Interest expense	—	—	—	—	—	421,383
Foreign exchange difference, net	—	—	—	—	—	(5,877)
Payments	—	—	—	—	—	(813,881)
As at 31 December 2019	<u>596</u>	<u>3,570,645</u>	<u>811</u>	<u>727</u>	<u>3,572,779</u>	<u>2,366,244</u>

The Group presents right of use assets within property, plant and equipment (Note 9).

20. Employee benefits

The Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees who are eligible for early retirement benefits due to working in hazardous and/or unhealthy working conditions. The Group has also contractual obligation to pay lump-sum payments to the retiring employees with the long service, certain post retirement and post employment benefits, as well as other long-term employee benefits such as jubilee payments according to collective agreements. These obligations fall under definitions of an unfunded defined benefit plans.

The Group's defined benefit obligation relates to:

	<u>2020</u>	<u>2019</u>
Post retirement and post-employment benefits under collective agreement	2,569,913	2,312,364
State plan for additional pensions for working in hazardous and unhealthy working conditions	631,876	506,821
Other long-term benefits under collective agreement	387,140	367,707
	<u>3,588,929</u>	<u>3,186,892</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***20. Employee benefits (continued)**

Changes in the net present value of the defined benefit obligation were as follows:

	<i>Post retirement and post- employment benefits under collective agreement</i>	<i>State plan for additional pensions for working in hazardous and unhealthy working conditions</i>	<i>Other long-term benefits under collective agreement</i>	<i>Total</i>
At 1 January 2019	1,876,070	424,852	353,183	2,654,105
Interest cost on benefit obligation	240,038	57,539	43,575	341,152
Current service cost	47,740	15,541	33,896	97,177
Benefits paid	(388,131)	(68,035)	(83,628)	(539,794)
Remeasurement gains/(losses) in other comprehensive income from:				
- changes in financial assumptions	593,398	85,521	—	678,919
- changes in demographic assumptions	(328,764)	5,087	—	(323,677)
- experience adjustments	272,013	(13,684)	—	258,329
Remeasurement of other long-term employee benefits obligation	—	—	20,681	20,681
At 31 December 2019	2,312,364	506,821	367,707	3,186,892
Interest cost on benefit obligation	242,104	55,127	35,802	333,033
Current service cost	57,890	21,874	40,509	120,273
Benefits paid	(410,172)	(72,527)	(87,435)	(570,134)
Remeasurement gains/(losses) in other comprehensive income from:				
- changes in financial assumptions	360,632	68,662	—	429,294
- changes in demographic assumptions	47,872	1,437	—	49,309
- experience adjustments	(40,777)	50,482	—	9,705
Remeasurement of other long-term employee benefits obligation	—	—	30,557	30,557
At 31 December 2020	2,569,913	631,876	387,140	3,588,929

The amounts recognised in the consolidated statement of comprehensive income were as follows:

	<i>2020</i>	<i>2019</i>
Current service cost	120,273	97,177
Interest cost on benefit obligation (Note 28)	333,033	341,152
Remeasurement of other long-term employee benefits obligation	30,557	20,681
	483,863	459,010

Current service cost, past service cost, including their amortisation and recognised actuarial gains are included into the staff costs line item in the statement of comprehensive income. Interest cost on benefit obligation included into finance costs.

The average duration of the defined benefit plan obligation at the end of the reporting period is 15.9 years (2019: 16.7 years).

During the year ended 31 December 2020 the expenses from the participation in obligatory state pension program amounted to UAH 7,485,638 thousand (2019: UAH 7,974,982 thousand). The Group expects to deduct a mandatory state pension insurance in the amount of UAH 7,827,785 thousand for the year 2021.

The principal assumptions used in determining defined benefit obligation are shown below:

	<i>2020</i>	<i>2019</i>
Discount rate	11.0%	12.7%
Future benefit increase	6-9%	6-10%
Staff turnover	5-16%	5-16%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***20. Employee benefits (continued)**

The sensitivity analysis is given in the table below:

<i>2020</i>	<i>Increase/ (decrease) in rate</i>	<i>Increase/(decrease) of defined benefit obligation</i>
Discount rate	+1%	(233,181)
Discount rate	-1%	259,888
Future benefit increase	+1%	227,169
Future benefit increase	-1%	(207,354)
Staff turnover	+1%	(119,099)
Staff turnover	-1%	146,728
<i>2019</i>	<i>Increase/ (decrease) in rate</i>	<i>Increase/(decrease) of defined benefit obligation</i>
Discount rate	+1%	(191,704)
Discount rate	-1%	214,606
Future benefit increase	+1%	193,009
Future benefit increase	-1%	(174,983)
Staff turnover	+1%	(103,000)
Staff turnover	-1%	128,050

21. Income tax

The components of income tax expense in the consolidated statement of comprehensive income were as follows:

	<i>2020</i>	<i>2019</i>
Current income tax charge	9,328	1,587,502
Prepaid income tax write off	—	391,196
Deferred income tax benefit	(43,948)	(103,598)
Income tax (benefit)/expense	(34,620)	1,875,100

During 2020 and 2019, the statutory income tax rate in Ukraine was 18%.

Reconciliation between loss or profit before income tax multiplied by the statutory tax rate and income tax expense for the years ended 31 December consisted of the following:

	<i>2020</i>	<i>2019</i>
(Loss)/profit before income tax	(11,934,307)	4,863,347
At statutory tax rate (18%)	(2,148,175)	875,403
Tax effect of:		
Change in unrecognised deferred tax assets	1,846,410	—
Non-deductible expenses for tax purpose	267,145	999,697
Income tax (benefit)/expense	(34,620)	1,875,100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

21. Income tax (continued)

Deferred tax assets and liabilities comprised:

	<i>Consolidated statement of financial position</i>		<i>Consolidated statement of comprehensive income</i>	
	2020	2019	2020	2019
Property, plant and equipment (i)	(45,709)	(22,085)	23,624	(112,058)
Property, plant and equipment (i)	61,968	15,728	(46,240)	(15,728)
Inventories (ii)	27,126	18,507	(8,619)	(6,840)
Trade and other receivables (iii)	109,051	98,033	(11,018)	11,502
Provisions (iv)	1,695	–	(1,695)	19,526
Tax loss available for offsetting against future taxable income (v)	1,846,410	–	(1,846,410)	–
	2,000,541	110,183	(1,890,358)	(103,598)
Less: unrecognised deferred tax assets (v)	(1,846,410)	–	1,846,410	–
Deferred income tax benefit recognised in profit or loss			(43,948)	(103,598)
Deferred tax effect of actuarial gain recognised in OCI	–	–	–	18,055
Net deferred tax assets	154,131	110,183		
Reflected in the statements of financial position as follows:				
Gross deferred tax assets	199,840	132,268		
Less offsetting with deferred tax liabilities	(2,993)	(2,455)		
Recognised deferred tax assets	196,847	129,813		
Gross deferred tax liabilities	(45,709)	(22,085)		
Less offsetting with deferred tax assets	2,993	2,455		
Recognised deferred tax liabilities	(42,716)	(19,630)		
Deferred tax assets, net	154,131	110,183		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***21. Income tax (continued)**

Reconciliation of net deferred tax assets:

	2020	2019
Opening balance as at 1 January	110,183	24,640
Tax benefit recognised in profit or loss	43,948	103,598
Tax expense recognised in other comprehensive income	–	(18,055)
Closing balance 31 December	<u>154,131</u>	<u>110,183</u>

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment – differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles, different cost basis;
- (ii) Inventories – differences in inventories valuation models and the periods of recognition;
- (iii) Trade and other receivables – differences in valuation, including allowances for expected credit losses, differences in the period of recognition;
- (iv) Provisions – differences in recognition principles and timing of recognition.
- (v) Deferred tax assets have not been recognised in respect of losses incurred in 2020 as they may not be used to offset future taxable profits of the Group.

Deferred tax liabilities have not been recognised in respect of unremitted earnings of Ukrainian subsidiaries as the earnings can be remitted free from taxation currently and in future years, based on current legislation.

There are no income tax consequences attached to the payment of dividends the Group to its shareholders.

22. Trade and other payables

	2020	2019
Trade payables	3,190,759	3,679,664
Due to employees	2,105,041	2,748,727
Unused vacation accrual	1,471,892	1,165,226
Payables for property, plant and equipment	770,280	985,234
Dividends payable (Note 31)	755,434	756,695
Other payables	388,461	378,531
	<u>8,681,867</u>	<u>9,714,077</u>

Trade payables are non-interest bearing and are normally settled within 50 days.

23. Taxes payable, other than income tax

	2020	2019
Personal income tax payable	357,310	375,336
Land tax payable	312,204	325,377
VAT payable	379,096	115,066
Other taxes payable	79,968	73,000
	<u>1,128,578</u>	<u>888,779</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***24. Provisions**

Movement in the provisions for the year was as follows:

	<i>2020</i>	<i>2019</i>
At 1 January	1,217,103	1,732,270
Arisen during the year	95,348	104,091
Foreign exchange difference	137,378	(136,500)
Utilised	(166,996)	(482,758)
At 31 December	<u>1,282,833</u>	<u>1,217,103</u>

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. Provision for litigations represents management assessment of the probable outflow of the Group's resources arising from a negative (adverse) outcome of the court and arbitration procedures with foreign and domestic contractors and public authorities. The Group's provisions mostly consists of provision for litigations. As at 31 December 2020 the Group recognised a provision in foreign currency for the court decision in respect of a breach of the construction contract with a foreign contractor in the amount of UAH 793,818 thousand (2019: UAH 658,895 thousand).

25. Tax expenses, other than income tax

	<i>2020</i>	<i>2019</i>
Land tax charges	3,630,101	4,020,556
Other taxes	168,520	175,647
Non-recoverable VAT attributable to transit transportation	95,567	3,701
Impairment of current VAT receivable	15,179	29,717
	<u>3,909,367</u>	<u>4,229,621</u>

26. Revenues

Revenue from contracts with customers for the year ended 31 December 2020 comprised the following:

<i>Segments</i>	<i>Cargo</i>	<i>Long-distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Total</i>
Cargo revenues	65,018,753	–	–	–	–	65,018,753
Passenger revenues	–	3,679,552	453,467	–	–	4,133,019
Other revenues	–	–	–	5,296,568	843,220	6,139,788
Total revenue from contracts with customers	<u>65,018,753</u>	<u>3,679,552</u>	<u>453,467</u>	<u>5,296,568</u>	<u>843,220</u>	<u>75,291,560</u>
Timing of revenue recognition						
At a point in time	–	–	–	1,674,140	12,244	1,686,384
Over time	65,018,753	3,679,552	453,467	3,622,428	830,976	73,605,176
Total revenue from contracts with customers	<u>65,018,753</u>	<u>3,679,552</u>	<u>453,467</u>	<u>5,296,568</u>	<u>843,220</u>	<u>75,291,560</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***26. Revenues (continued)**

Revenue from contracts with customers for the year ended 31 December 2019 comprised the following:

<i>Segments</i>	<i>Cargo</i>	<i>Long-distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Total</i>
Cargo revenues	72,488,806	–	–	–	–	72,488,806
Passenger revenues	–	9,139,743	766,052	–	–	9,905,795
Other revenues	–	–	–	7,307,516	650,202	7,957,718
Total revenue from contracts with customers	72,488,806	9,139,743	766,052	7,307,516	650,202	90,352,319
Timing of revenue recognition						
At a point in time	–	–	–	3,381,423	362,592	3,744,015
Over time	72,488,806	9,139,743	766,052	3,926,093	287,610	86,608,304
Total revenue from contracts with customers	72,488,806	9,139,743	766,052	7,307,516	650,202	90,352,319

As at 31 December 2020 and 2019, the contract balances related to the contracts with customers are as follows:

	<i>2020</i>	<i>2019</i>
Trade receivables (Note 13)	800,638	735,649
Contract liabilities	1,680,392	1,936,973

Contract liabilities includes short-term advances received. Advances received from the customers as at 31 December 2019 in the amount of UAH 1,852,070 thousand were recognised as revenue during the year ended 31 December 2020 (2019: UAH 2,294,712 thousand out of advances received from the customers as at 31 December 2018 were recognised as revenue).

27. Other operating income, other operating expenses and other expenses

In 2020, other operating income included income from reversal of bonuses accrual in the amount of UAH 13,791 thousand (2019: UAH 63,103 thousand). The reversal related to the portion of accrual for bonuses created as at the end of the previous reporting period that was not realised in the current reporting period due to change in estimates regarding the actual amount of the bonuses.

In 2020, other operating income also included rental income of UAH 104,733 thousand (2019: UAH 159,828 thousand), arising from operating leases of rolling stock and railway infrastructure objects.

Other operating income also included gain from the sale of scrap metal of UAH 17,330 thousand and UAH 55,181 thousand for 2020 and 2019, respectively.

Other operating expenses consist of the allowance for expected credit losses of trade and other receivables in the amount of UAH 167,876 thousand and UAH 607,927 thousand (Note 13) for 2020 and 2019, respectively; the allowance to net realisable value of inventories in the amount of UAH 194,673 thousand (2019: UAH 33,961 thousand) and the allowance for taxes receivable, other than income tax (namely VAT) in the amount of UAH 683,521 thousand for 2019.

Other expenses mainly consist of impairment of property plant and equipment in the amount of UAH 720,550 thousand (Note 9) for 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***28. Finance income and finance costs**

	2020	2019
Interest expense on loans and borrowings	(3,498,327)	(3,082,457)
Interest expense on lease liabilities	(404,543)	(421,383)
Interest cost on defined benefit obligation (Note 20)	(333,033)	(341,152)
Other finance expenses	(1,138)	–
Total finance costs	(4,237,041)	(3,844,992)
Interest income	186,441	253,821
Other finance income	3,965	5,685
Total finance income	190,406	259,506
Finance costs, net	(4,046,635)	(3,585,486)

29. Foreign exchange (loss)/gain, net

Foreign exchange (loss)/gain arisen on the following items:

	2020	2019
Interest-bearing loans and borrowings	(6,118,402)	4,861,654
Provisions	(137,378)	136,500
Trade and other payables	(26,217)	29,673
Lease liability	(4,723)	5,877
Trade and other receivables	4,257	–
Other current financial assets	190,485	(29,717)
Cash and cash equivalents	606,448	(678,420)
Foreign exchange (loss)/gain, net	(5,485,530)	4,325,567
Including:		
Foreign exchange loss	(6,286,720)	(708,137)
Foreign exchange gain	801,190	5,033,704

30. Contingencies and commitments***Tax matters***

The Group carries out most of its transactions in Ukraine and therefore has to comply with the requirements of Ukrainian tax law. Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When the Group concludes that the material claim is not probable of being accepted, the effect of the uncertainty needs to be reflected in the entity's accounting for income taxes and related provisions.

Litigations

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. As at 31 December 2020, the Group was involved in litigations with tax authorities with respect to additional accrual of liabilities for corporate income tax amounted to UAH 648,105 thousand (2019: UAH 660,723 thousand), VAT and other taxes in the total amount of UAH 798,202 thousand (2019: UAH 924,676 thousand).

As at 31 December 2020 the Group's possible exposure to the ascertained third parties' claims was UAH 2,011,822 thousand (2019: UAH 2,950,348 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***30. Contingencies and commitments (continued)**

As at 31 December 2020, the Group's possible exposure related to the claims in respect of the interest-bearing loans and borrowing of uncontrolled territories (and covered by the moratorium on payment) described in Note 18, was UAH 3,196,484 thousand.

Management believes that the Group's position in the litigations stated above has sustainable legal merits, and therefore the ultimate resolution of these litigations will not have an adverse effect on the Group's financial position, or the results of its future operations, accordingly, no corresponding provisions were recognised in these consolidated financial statements. Provisions were recognised for obligations with probable outflow of resources embodying economic benefits (Note 24).

Capital commitments

As at 31 December 2020 the Group's outstanding commitment in respect of purchase of property and equipment amounted to UAH 235,748 thousand (31 December 2019: UAH 328,270 thousand) and other commitments amounted to UAH 1,777,809 thousand (31 December 2019: UAH 2,083,661 thousand).

Other matters

In 2019 the Company timely fulfilled its obligations on dividends payments for its financial results for 2018 (Note 17) following the relevant decision of the General Meeting of Shareholders. However, starting from December 2019 and up to the date of these financial statements, the governmental authorities of Ukraine considered the matter to recognize additional liability on the dividends payments for 2018 in the amount of UAH 206,203 thousand. As at the date of approval of these consolidated financial statements, the relevant decision of the General Meeting of Shareholders has not been made in respect of this matter. The Company is taking steps to resolve this matter.

31. Related party disclosure

The outstanding balances and transaction with entities under common control of the State, comprised:

	2020	2019
Balances at 31 December		
Prepayments for property, plant and equipment	6,396	171
Trade and other receivables	324,339	195,540
Prepayments, other than dividends	18,204	83,202
Cash and cash equivalents	2,362,176	6,684,694
Trade and other payables, other than dividends	194,105	78,750
Advances received	53,106	2,167
Interest-bearing loans and borrowings and lease liability	2,479,580	2,864,429
Other current financial assets	9,759	2,014,715
Transactions during the year		
Cargo revenues	1,370,817	1,378,358
Passenger revenues	94,226	128,154
Other revenues	437,521	125,380
Electricity	(2,331,194)	(6,403,096)
Materials, maintenance and repairs	(317,381)	(138,045)
Finance income	145,936	232,196
Finance costs	(557,025)	(625,628)
Other operating income	–	131,564

The outstanding balances and transaction with associates comprised:

	2020	2019
Balances at 31 December		
Advances received	3,214	4,662
Transactions during the year		
Other revenues	78,636	121,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***31. Related party disclosure (continued)***Terms and conditions of transactions with related parties*

The sales to and purchases from related parties are made at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the year-end are unsecured, interest free, except for interest bearing loans. Settlement occurs in cash, except for advances received and prepayments. There have been no guarantees provided or received for any related party receivables or payables.

Guarantees issued by the State of Ukraine

As at 31 December 2020 the Group's interest bearing loans with carrying value of UAH 2,088,986 thousand (2019: UAH 2,482,475 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel

Key management personnel is considered to be the Management Board of JSC "Ukrainian Railways" comprising 6 members and the Supervisory Board comprising 5 members as at 31 December 2020.

For 2020 and 2019, total compensation to the Management Board mostly included payroll, payroll related taxes and bonuses amounted to UAH 53,018 thousand and UAH 71,417 thousand, respectively. For 2020 total compensation to the members of the Supervisory Board was UAH 20,676 thousand (2019: UAH 43,425 thousand).

Dividends

As at 31 December 2020, dividends payable to the State in the amount of UAH 753,748 thousand were included in trade and other payables (2019: UAH 755,015 thousand) (Note 22). Dividends for the year ended 31 December 2020 were accrued in amount of UAH 8,641 thousand (2019: UAH 765,355 thousand).

Compensation for transportation of preferential passengers

The state budget and local budgets should compensate the Group for transportation of certain categories of preferential passengers. The compensation in the amount of UAH 85,643 thousand and UAH 113,418 thousand for 2020 and 2019, respectively, were included in passenger revenues.

32. Fair value of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the consolidated statement of financial position:

	<i>Fair value</i>		<i>Carrying value</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
Financial assets				
Trade and other receivables	570,546	656,540	570,546	656,540
Equity instruments of another entities	62,326	62,319	62,326	62,319
Other non-current financial assets	25,969	22,007	25,969	22,007
Other current financial assets	9,759	2,014,715	9,759	2,014,715
Cash and cash equivalents	2,497,546	6,981,236	2,497,546	6,981,236
Financial liabilities				
Interest-bearing loans and borrowings	35,312,824	32,804,165	34,734,740	32,648,438
Trade and other payables	8,681,867	9,714,077	8,681,867	9,714,077

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the end of the reporting period. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for financial assets. The fair value of unquoted instruments, other financial assets, interest bearing loans and borrowings, lease liability is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***32. Fair value of financial instruments (continued)*****Fair value hierarchy***

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of financial assets and liabilities at 31 December 2020 and 2019 (valuation dates) as follows:

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets carried at amortised cost				
Trade and other receivables	–	–	570,546	570,546
Other non-current financial assets	–	–	25,969	25,969
Other current financial assets (domestic government bonds)	9,759	–	–	9,759
Financial assets carried at fair value through profit or loss				
Equity instruments of another entities (i)	–	–	62,326	62,326
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	21,019,910	–	14,292,914	35,312,824
Trade and other payables	–	–	8,681,867	8,681,867
2019				
Financial assets carried at amortised cost				
Trade and other receivables	–	–	656,540	656,540
Other non-current financial assets	–	–	22,007	22,007
Other current financial assets (deposit certificates)	–	2,014,715	–	2,014,715
Financial assets carried at fair value through profit or loss				
Equity instruments of another entities (i)	–	–	62,319	62,319
Financial liabilities				
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	19,706,627	–	13,097,538	32,804,165
Trade and other payables	–	–	9,714,077	9,714,077

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the 2020 and 2019 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

32. Fair value of financial instruments (continued)

(i) *Equity instruments of another entities* are classified and measured at fair value through profit or loss. The fair value of such non-listed equity instruments is determined by the Group using market multiples and applying to the relevant financial information of the investees.

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2020 and 2019 are shown below:

<i>Significant unobservable input</i>	<i>Range</i>	<i>Sensitivity of the input to fair value of the equity instruments</i>
Price to book value	2020: 0.97 2019: 0.97	5% increase/decrease in the multiplier would result in an increase/decrease in fair value by UAH 1,296 thousand (2019: UAH 1,320 thousand)
Enterprise value to invested capital	2020: 0.99 2019: 0.99	5% increase/decrease in the multiplier would result in increase/decrease in fair value by UAH 3,920 thousand (2019: UAH 5,306 thousand)

Reconciliation of fair value measurement of equity instruments of another entities is as follows:

At 1 January 2019	73,546
Remeasurement recognised in profit or loss	(11,227)
At 31 December 2019	62,319
Remeasurement recognised in profit or loss	7
At 31 December 2020	62,326

Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities as at 31 December 2020 and 2019 as follows:

	<i>1 January 2020</i>	<i>Cash flows</i>	<i>Foreign exchange effect</i>	<i>New lease liabilities</i>	<i>Segregation of liabilities of uncont- rolled territories (Note 2)</i>	<i>Other</i>	<i>31 December 2020</i>
Current interest-bearing bank loans	14,498,640	(7,530,388)	2,416,347	–	–	7,013,554	16,398,153
Current obligation under lease contracts	434,396	(805,247)	3,655	–	(5,329)	792,025	419,500
Non-current interest-bearing bank loans	18,149,798	–	3,702,055	–	–	(3,515,266)	18,336,587
Non-current obligation under lease contracts	1,931,848	–	1,068	1	–	(387,482)	1,545,435
Dividends	756,695	(10,052)	–	–	–	8,791	755,434
Total liabilities arising from financing activities	35,771,377	(8,345,687)	6,123,125	1	(5,329)	3,911,622	37,455,109

	<i>1 January 2019</i>	<i>Cash flows</i>	<i>Foreign exchange effect</i>	<i>New lease liabilities</i>	<i>Other</i>	<i>31 December 2019</i>
Current interest-bearing bank loans	17,086,982	(10,688,365)	(1,949,287)	–	10,049,310	14,498,640
Current obligation under lease contracts	286,775	(422,358)	(3,344)	–	573,323	434,396
Non-current interest-bearing bank loans	14,918,287	15,584,786	(2,912,367)	–	(9,440,908)	18,149,798
Non-current obligation under lease contracts	1,158,530	–	(2,533)	1,319,314	(543,463)	1,931,848
Dividends	108,195	(118,520)	–	–	767,020	756,695
Total liabilities arising from financing activities	33,558,769	4,355,543	(4,867,531)	1,319,314	1,405,282	35,771,377

The "Other" column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including obligations under leases to current due to the passage of time and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The Group classifies interest paid as cash flows from financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***33. Financial risk management policies and objectives*****Financial risk management policies and objectives***

The Group's principal financial instruments comprise interest-bearing loans and borrowings, cash in bank, short-term deposits and other financial assets. The Group has various other financial instruments, such as trade and other receivables and payables, which arise directly from its operations.

The Group has not entered into any material derivative transactions. It is the Group's policy not to trade in financial instruments. The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's financial departments. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of cash generated from Group's operations, credit terms provided by suppliers, banks and lenders. Significant aspects of the liquidity risk management are disclosed in Note 2.

In addition to the previously mentioned factors, the Group considers that liquidity risk exposure is predetermined by number of factors, imposed by the government regulations, including:

- Tax charges. The Group is a payer of number of direct and indirect taxes, established by the Tax Code of Ukraine. During 2020-2019, the Group accrued and paid current income tax as follows:

	<u>2020</u>	<u>2019</u>
Income tax payable/(prepaid income tax) at 1 January, net	(105,415)	56,493
Current income tax charge (Note 21)	9,328	1,587,502
Income tax paid	(17,942)	(1,755,587)
Other movements	4,168	6,177
(Prepaid income tax)/income tax payable at 31 December, net	<u>(109,861)</u>	<u>(105,415)</u>

Among other taxes, the Group is the land tax payer, and related charges and payments are as follows:

	<u>2020</u>	<u>2019</u>
Land tax payable at 1 January, net	278,890	59,967
Land tax charge (Note 25)	3,630,101	4,020,556
Land tax paid	(3,710,312)	(3,808,786)
Other movements	4,305	7,153
Land tax payable at 31 December, net	<u>202,984</u>	<u>278,890</u>

- Dividend payments. As described in Note 17, at 31 December 2020, the Company accrued dividends in amount of UAH 755,434 thousand, which are to be paid in 2021 upon relevant approval by the General meeting of shareholders (2019: UAH 749,205 thousand, which were paid directly to the State budget during 2020).

The Group analyses the aging of its assets and cash generation ability versus the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments as well as tax and dividend payments as described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

33. Financial risk management policies and objectives (continued)

The table below summarises the maturity profile of the Group’s financial liabilities at 31 December 2020 and 2019 based on contractual undiscounted payments, assuming no breaches occurred:

	<i>Less than 3 month</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total contractual payments</i>	<i>Less: effect of amortisation</i>	<i>Carrying value</i>
Year ended							
31 December 2020							
Interest bearing loans and borrowings	7,067,323	8,775,469	23,152,495	1,827,023	40,822,310	(6,087,570)	34,734,740
Lease liability	128,278	596,437	2,130,413	41,268	2,896,396	(931,461)	1,964,935
Trade and other payables	7,036,689	1,645,178	–	–	8,681,867	–	8,681,867
	<i>Less than 3 month</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total contractual payments</i>	<i>Less: effect of amortisation</i>	<i>Carrying value</i>
Year ended							
31 December 2019							
Interest bearing loans and borrowings	5,449,659	10,529,989	21,222,482	1,472,007	38,674,137	(6,025,699)	32,648,438
Lease liability	140,092	666,008	2,426,459	465,257	3,697,816	(1,331,572)	2,366,244
Trade and other payables	9,570,964	143,113	–	–	9,714,077	–	9,714,077

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar (“USD”), the euro (“EUR”), the Swiss franc (“CHF”) play a significant role in the underlying economics of the Group’s business transactions.

The exchange rates for foreign currencies, in which the Group’s financial assets and liabilities were denominated, against the Ukrainian hryvnia, as established by the NBU as at the dates stated, were as follows:

	<i>USD</i>	<i>EUR</i>	<i>CHF</i>
31 December 2019	23.6862	26.4220	24.2711
Average for 2019	25.6471	28.6866	25.8404
31 December 2020	28.2746	34.7396	32.0156
Average for 2020	26.9639	30.8013	28.7676
31 March 2021	27.8852	32.7233	29.7658

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies and are attributable to general volatility in exchange rate. Such exposure arises from sales or purchases by the Group in currencies other than its functional currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group’s loss or profit before tax.

<i>31 December 2020</i>	<i>Weakening “+”/ strengthening “-” of the exchange rate</i>	<i>Increase/(decrease) of the profit before tax</i>	<i>Increase/(decrease) of the equity</i>
USD/UAH	+15.00%	(5,206,252)	(5,206,252)
USD/UAH	-12.00%	4,165,001	4,165,001
CHF/UAH	+15.00%	(26,173)	(26,173)
CHF/UAH	-12.00%	20,938	20,938
EUR/UAH	+16.00%	(312,521)	(312,521)
EUR/UAH	-14.00%	273,456	273,456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***33. Financial risk management policies and objectives (continued)**

<i>31 December 2019</i>	<i>Weakening “+”/ strengthening “-” of the exchange rate</i>	<i>Increase/(decrease) of the profit before tax</i>	<i>Increase/(decrease) of the equity</i>
USD/UAH	+14.00%	(3,799,634)	(3,799,634)
USD/UAH	-11.00%	2,985,427	2,985,427
CHF/UAH	+14.00%	(12,998)	(12,998)
CHF/UAH	-14.00%	12,998	12,998
EUR/UAH	+15.00%	(216,296)	(216,296)
EUR/UAH	-13.00%	187,456	187,456

Credit risk

Financial instruments which potentially expose the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits, trade and other receivables. The Group’s credit risk exposure is monitored and analysed on a case-by-case basis, and the Group’s management believes that credit risk is appropriately reflected in expected credit loss allowances recognised against assets. The Group’s maximum credit risk exposure at 31 December 2020 and 2019 is represented by the carrying amounts of the financial assets.

The Group’s cash is primarily held with major reputable Ukrainian banks. The external credit risk of banks, in which cash and cash equivalents, deposits, was placed was represented:

	<i>31 December 2020</i>	<i>31 December 2019</i>
Bank with external credit rating (Moody’s):		
- B2	709,202	1,049,160
- B3	1,762,256	5,916,561
- Caa1	20	99
Bank without credit rating	25,843	15,037
Cash on hand	225	379
	<u>2,497,546</u>	<u>6,981,236</u>

Customer credit risk is managed by each counterparty to the Group’s established policy, procedures and control relating to customer credit risk management. The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed of all customers requiring credit over a certain amount. At 31 December 2020, the Group had 207 customers (2019: 203) that owed it more than UAH 100 thousand each and accounted for approximately 54% (2019: 51%) of all the trade and other receivables outstanding. There were ten customers (2019: nine customers) with balances greater than UAH 6,000 thousand accounting for just over 33% (2019: 31%) of the total amounts of trade and other receivables. Further information about the credit risks exposure on the Group’s trade and other receivables using a provision matrix is disclosed in Note 13.

Interest rate risk

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s long-term debt obligations with floating interest rates.

In 2020 and 2019, the Group primarily borrowed at both fixed and floating rate pegged to the London Inter Bank Offering Rate (“LIBOR”) and the Euro Interbank Offered Rate (“EURIBOR”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2020***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***33. Financial risk management policies and objectives (continued)**

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss or profit before tax (through the impact on floating rate borrowings).

<i>31 December 2020</i>	<i>Increase "+"/ decrease "-" in basis points</i>	<i>Increase/(decrease) of the profit before tax</i>	<i>Increase/(decrease) of the equity</i>
LIBOR	+1.00%	(2,533)	(2,533)
LIBOR	-0.25%	638	638
EURIBOR	+0.20%	(3,805)	(3,805)
EURIBOR	-0.20%	3,805	3,805
<i>31 December 2019</i>	<i>Increase "+"/ decrease "-" in basis points</i>	<i>Increase/(decrease) of the profit before tax</i>	<i>Increase/(decrease) of the equity</i>
LIBOR	+0.35%	(4,247)	(4,247)
LIBOR	-0.35%	4,247	4,247
EURIBOR	+0.15%	(2,171)	(2,171)
EURIBOR	-0.15%	2,171	2,171

The Group has not entered into transactions designed to hedge against the interest rate risk.

Capital management

The Group considers debt and equity as relevant components of funding, hence part of its capital management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the State and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and further the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and provide flexibility relating to the Group's access to capital markets.

The structure of capital managed is presented below:

	<i>2020</i>	<i>2019</i>
Interest-bearing loans and borrowings	34,734,740	32,648,438
Lease liability	1,964,935	2,366,244
Trade and other payable	8,681,867	9,714,077
	<u>45,381,542</u>	<u>44,728,759</u>
Cash and term deposits	(2,497,546)	(6,981,236)
Net debt	<u>42,883,996</u>	<u>37,747,523</u>
Total equity	<u>199,388,922</u>	<u>211,816,203</u>
Total capital	<u>242,272,918</u>	<u>249,563,726</u>
Gearing ratio	22%	18%

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy. Please, refer to Note 2 which discloses the important uncertainty aspects related to the capital management.

In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2020

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

34. Events after the reporting period

Interest-bearing loans and borrowings management after the reporting date

In March 2021, the Group agreed a revolving credit line with one of the Ukrainian state-owned banks with total limit of USD 38 million at 3.5% p. a. maturity in December 2021.

In March 2021, the Group repaid another part of Shortline plc's Eurobonds in the amount of USD 50 million or the equivalent of UAH 1,386 million (translated using the official exchange rate of the National Bank of Ukraine at the payment date) and paid the next coupon for them according to the payment schedule.

Supplementary financial information

CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)
as at 31 December 2020

Entity: JSC "Ukrainian railways"

Location: Ukraine

Ownership: Joint Stock Company

Type of activity: Freight railroad transport

Average quantity of employees: 249 466

Address, telephone: 03150, Kyiv, Jerzy Giedroyc Str., phone 465-05-52

Units of measurement: UAH thousand

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

Ukrainian Accounting Standards

International Financial Reporting Standards

Date (year month date)

Per EDRPOU

Per KOATUU

Per KOPFG

Per KVED

2020 | 12 | 31

40075815

8038200000

230

49.20

V

Form # 1-c

Per DKUD

1801007

Assets	Line code	As at 31 December 2019	As at 31 December 2020
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	45,859,324	45,876,324
historical cost	1001	46,105,689	46,169,105
accumulated amortization	1002	246,365	292,781
Capital investments in progress	1005	6,334,442	7,039,711
Property, plant and equipment:	1010	182,361,393	177,309,981
historical cost	1011	475,036,834	482,430,713
accumulated depreciation	1012	292,675,441	305,120,732
Investment property	1015	–	–
Non-current biological assets:	1020	–	–
historical cost of non-current biological assets	1021	–	–
accumulated depreciation of non-current biological assets	1022	–	–
Non-current financial investments:			
accounted for under the equity method	1030	737,122	729,058
other financial investments	1035	62,319	62,326
Non-current receivables	1040	13,905	11,945
Deferred tax assets	1045	129,813	196,847
Other non-current assets	1090	13,903,913	13,898,541
Total section I	1095	249,402,231	245,124,733
II. Current assets			
Inventories:	1100	9,129,005	8,725,528
production inventories	1101	8,276,737	8,128,247
work in progress	1102	441,940	253,203
finished goods	1103	399,865	336,576
Commodities	1104	10,463	7,502
Current biological assets	1110	63	33
Accounts receivable for goods, works and services	1125	354,330	319,117
Accounts receivable on settlements:			
on prepayments made	1130	332,981	94,714
with budget	1135	209,752	296,604
including income tax	1136	113,272	112,433
Accounts receivable on intercompany settlements	1145	–	–
Other current accounts receivable	1155	229,706	234,299
Current financial investments	1160	2,014,715	9,759
Cash and cash equivalents:	1165	6,981,236	2,497,546
cash in hand	1166	379	225
cash at banks	1167	5,872,912	2,482 438
Deferred expenses	1170	21,979	11,247
Other current assets	1190	333,926	299,799
Total section II	1195	19,607,693	12,488,646
III. Assets classified as held for distribution	1200	–	96,162
Balance	1300	269,009,924	257,709,541

Supplementary financial information

Liabilities and equity	Line code	As at 31 December 2019	As at 31 December 2020
1	2	3	4
I. Equity			
Share capital	1400	229,879,115	229,879,115
Capital in revaluation	1405	–	–
Additional capital	1410	18,906,066	18,905,900
Reserve fund	1415	–	–
Retained earnings (accumulated deficit)	1420	(36,999,362)	(49,426,445)
Unpaid capital	1425	–	–
Treasury shares	1430	–	–
Non-controlling interests	1490	30,384	30,352
Total section I	1495	211,816,203	199,388,922
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	19,630	42,716
Non-current bank loans	1510	1,660,876	1,508,426
Other non-current liabilities	1515	23,629,802	23,586,653
Other non-current provisions	1520	3,186,892	3,588,929
Non-current provisions for staff expenses	1521	3,186,892	3,588,929
Special purpose financing	1525	16,672	35,113
Total section II	1595	28,513,872	28,761,837
III. Current liabilities and provisions			
Short-term bank loans	1600	–	–
Current liabilities for:			
current portion of non-current liabilities	1610	13,178,929	14,310,974
for goods, works and services	1615	4,664,898	3,961,039
with budget	1620	866,453	1,091,972
with Income tax	1621	7,857	2,572
social insurance	1625	443,538	417,720
wages	1630	1,712,587	1,668,793
Current liabilities on advances received	1635	1,936,973	1,680,392
Current payables to settlements with participants	1640	756,695	755,434
Current liabilities on intercompany settlements	1645	–	–
Other provisions	1660	2,994,373	2,791,091
Deferred income	1665	26,814	25,910
Other current liabilities	1690	2,098,589	2,855,457
Total section III	1695	28,679,849	29,558,782
IV. Liabilities directly associated with the assets classified as held for distribution	1700	–	–
Balance	1900	269,009,924	257,709,541

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2020	12	31
40075815		

CONSOLIDATED STATEMENT OF FINANCIAL RESULTS
(STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2020

Form # 2-c

Per DKUD

1801008

I. FINANCIAL RESULTS

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Net revenue from sales of goods (merchandise, works, services)	2000	75,291,560	90,352,319
Cost of goods (merchandise, works, services) sold	2050	(73,902,120)	(80,774,665)
Gross:			
Profit	2090	1,389,440	9,577,654
Loss	2095	–	–
Other operating income	2120	637,891	5,407,238
Administrative expenses	2130	(838,279)	(931,154)
Selling expenses	2150	(97,426)	(123,019)
Other operating expenses	2180	(9,336,153)	(4,785,559)
Financial results from operating activities:			
Profit	2190	–	9,145,160
Loss	2195	(8,244,527)	–
Income from investments accounted for under the equity method	2200	17,127	86,973
Other finance income	2220	190,406	259,506
Other income	2240	349,099	143,058
Finance costs	2250	(4,237,041)	(3,844,992)
Losses from investments accounted for under the equity method	2255	(9,320)	(8,237)
Other expenses	2270	(51)	(918,121)
Financial results before taxation:			
Profit	2290	–	4,863,347
Loss	2295	(11,934,307)	–
Income tax expense	2300	34,620	(1,875,100)
Income (loss) from discontinued operations after tax	2305	–	–
Net financial result:			
Profit	2350	–	2,988,247
Loss	2355	(11,899,687)	–

II. COMPREHENSIVE INCOME

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Revaluation of non-current assets	2400	–	–
Revaluation of financial instruments	2405	–	–
Accumulated foreign exchange rate differences	2410	–	–
Share of other comprehensive income of associates and joint ventures	2415	10,220	73,138
Other comprehensive income	2445	(488,308)	(613,571)
Other comprehensive income before tax	2450	(478,088)	(540,433)
Income tax related to other comprehensive income	2455	–	(18,055)
Other comprehensive income after tax	2460	(478,088)	(558,488)
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	(12,377,775)	2,429,759
Net financial result attributable to:			
Equity holder of the parent	2470	(11,899,805)	2,988,569
Non-controlling interests	2475	118	(322)
Comprehensive (loss)/income attributable to:			
Equity holder of the parent	2480	(12,377,893)	2,430,081
Non-controlling interests	2485	118	(322)

Supplementary financial information

III. ELEMENTS OF OPERATING EXPENSES

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Cost of materials	2500	17,223,680	21,614,734
Labour costs	2505	33,831,882	36,285,637
Social security charges	2510	7,284,487	7,770,571
Depreciation and amortization	2515	12,786,783	12,402,695
Other operating expenses	2520	12,795,120	8,047,327
Total	2550	83,921,952	86,120,964

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Annual average number of ordinary shares	2600	229,879,115	229,879,115
Adjusted annual average number of ordinary shares	2605	229,879,115	229,879,115
Net income per ordinary share	2610	(51.76498)	12.99921
Adjusted net income per ordinary share	2615	–	–
Dividends per ordinary share	2650	–	–

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2020	12	31
40075815		

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method) FOR THE YEAR ENDED 31 DECEMBER 2020

Form # 3-ci

DKUD code

1801010

Description 1	Line code 2	For the reporting period		For the previous period	
		proceeds 3	expense 4	proceeds 5	Expense 6
I. Cash flows from operating activities					
Profit (loss) from ordinary activities before tax	3500	–	11,934,307	4,863,347	–
Corrections on:					
depreciation of fixed assets	3505	12,786,783	X	12,402,695	X
increase (decrease) in provisions	3510	–	759,963	–	932,410
loss (profit) on unrealized exchange differences	3515	5,854,343	–	–	4,311,845
loss (profit) from non-operating activities and other non-cash transactions	3520	–	547,261	436,821	–
Financial expenses	3540	4,237,041	–	3,844,992	–
Decrease (increase) in current assets	3550	1,407,036	–	–	283,252
increase (decrease) in inventories	3551	1,201,855	–	–	281,808
decrease (increase) in accounts receivable for products, goods, works, services	3553	15,274	–	–	159,320
decrease (increase) in other current receivables	3554	138,125	–	–	171,455
decrease (increase) in deferred expenses	3556	10,731	–	–	212
decrease (increase) in other current assets	3557	41,051	–	329,543	–
Increase (decrease) in current liabilities, including:	3560	–	623,621	931,702	–
increase (decrease) in current accounts payable for goods and services	3561	–	523,709	–	179,099
increase (decrease) in current budget settlements	3562	234,972	–	314,850	–
increase (decrease) in current insurance settlements	3563	–	25,818	32,370	–
increase (decrease) in current salary settlements	3564	–	43,794	174,182	–
increase (decrease) in deferred income	3566	–	904	–	16,623
Increase (decrease) in other current payables	3567	–	264,368	606,022	–
Cash from operating activities	3570	10,420,051	–	16,952,050	–
Income tax paid	3580	X	17,942	X	1,755,587
Borrowings interest paid	3585	X	–	X	–
Net cash flow from operating activities	3195	10,402,109	–	15,196,463	–
II. Cash flows from investing activities					
Proceeds from sale of:					
financial investments	3200	2,186,701	X	–	X
Fixed assets	3205	21,125	X	37,619	X
Proceeds from received:					
interests	3215	38,055	X	9,116	X
Dividends	3220	26,084	X	37,297	X
proceeds from derivatives	3225	–	X	–	X
other proceeds	3250	162,882	X	234,039	X
Payments on acquisition:					
financial investments	3255	X	9,999	X	2,057,881
fixed assets	3260	X	9,221,094	X	9,285,375
payments for derivatives	3270	X	–	X	–
other payments	3290	X	–	X	–
Net cash flows from investing activities	3295	–	6,796,246	–	11,025,185
III. Cash flows from financing activities					
Proceeds from share capital	3300	–	X	–	X
Proceeds from borrowings	3305	23,521,480	X	35,875,540	X
Other proceeds	3340	–	X	89,626	X
Payments for:					
own securities	3345	X	–	X	–
repayment of borrowings	3350	X	28,050,365	X	31,068,745
dividends paid	3355	X	10,052	X	118,591
Borrowings interest paid	3360	X	2,642,444	X	2,236,291
Finance lease interests paid	3365	X	805,247	X	813,881
Other payments	3390	X	359,059	X	155,804
Net cash flows from financing activities	3395	–	8,345,687	1,571,854	–
Net (decrease)/increase in cash and cash equivalents	3400	–	4,739,824	5,743,132	–
Cash balance at the beginning of the year	3405	6,981,236	X	1,251,826	X
Net foreign exchange difference	3410	256,134	–	–	13,722
Cash balance at the end of the year	3415	2,497,546	X	6,981,236	X

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2020	12	31
40075815		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Form # 4-c

DKUD code

1801011

Description	Line code	Share capital	Capital in revaluation	Additional capital	Reserve fund	Retained earnings (accumulated deficit)	Unpaid capital	Treasury capital	Total	Non-controlling interests	Total changes in equity
1	2	3	4	5	6	7	8	9	10	11	12
Balance at the beginning of the year	4000	229,879,115	–	18,906,066	–	(36,999,362)	–	–	211,785,819	30,384	211,816,203
Adjustments:											
Changes in accounting policies	4005	–	–	–	–	–	–	–	–	–	–
Correction of errors	4010	–	–	–	–	–	–	–	–	–	–
Other adjustments	4090	–	–	–	–	–	–	–	–	–	–
Adjusted balance at the beginning of the year	4095	229,879,115	–	18,906,066	–	(36,999,362)	–	–	211,785,819	30,384	211,816,203
Net profit (loss) for the reporting period	4100	–	–	–	–	(11,899,805)	–	–	(11,899,805)	118	(11,899,687)
Other comprehensive income for the current period including:	4110	–	–	–	–	(478,088)	–	–	(478,088)	–	(478,088)
Revaluation (disposal) of fixed assets	4111	–	–	–	–	–	–	–	–	–	–
Other comprehensive income	4116	–	–	–	–	(478,088)	–	–	(478,088)	–	(478,088)
Distribution of profit:											
Payments to shareholders (dividends)	4200	–	–	–	–	(8,641)	–	–	(8,641)	(150)	(8,791)
Distribution to share capital	4205	–	–	–	–	–	–	–	–	–	–
Distribution to the reserve fund	4210	–	–	–	–	–	–	–	–	–	–
Total net profit, due to the budget in accordance with the law	4215	–	–	–	–	–	–	–	–	–	–
Total net income for the establishment of special (earmarked) funds	4220	–	–	–	–	–	–	–	–	–	–
Total net profit on financial incentives	4225	–	–	–	–	–	–	–	–	–	–
Contributions made by shareholders:											
Contributions to capital	4240	–	–	–	–	–	–	–	–	–	–
Repayment of debts from equity	4245	–	–	–	–	–	–	–	–	–	–
Withdrawal of capital:											
Purchase of shares (contributions)	4260	–	–	–	–	–	–	–	–	–	–
Re-sale of purchased shares (contributions)	4265	–	–	–	–	–	–	–	–	–	–
Cancellation of purchased shares (contributions)	4270	–	–	–	–	–	–	–	–	–	–
Withdrawal of contribution in capital	4275	–	–	–	–	–	–	–	–	–	–
Other changes in equity	4290	–	–	(166)	–	(40,549)	–	–	(40,715)	–	(40,715)
Total changes in equity	4295	–	–	(166)	–	(12,427,083)	–	–	(12,427,249)	(32)	(12,427,281)
Balance at the end of the period	4300	229,879,115	–	18,905,900	–	(49,426,445)	–	–	199,358,570	30,352	199,388,922