Financial statements with Independent Auditor’s Report

Lviv Municipal Enterprise «Lvivelectrotrans»

31 December 2020

Grant Thornton
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Contents

Independent auditor's report

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To the owners and the management

of Lviv" Municipal Enterprise "Lvivelectrotrans"

Sakharova Str., 2,

Lviv, Ukraine

Report on the Audit of Financial Statements

Qualified Opinion

We have audited the financial statements of the Lviv Municipal Enterprise "Lvivelectrotrans" (the "Company") which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and and complies with the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" № 996-XIV on preparation of financial statements.

Basis for Qualified Opinion

The Company does not have documents confirming the contributions to authorized capital in the amount of UAH 60 839 thousand as at 31 December 2020 (31 December 2019: UAH 60 839 thousand).

We were not involved in physical stock count of inventory of UAH 37 897 thousand as of 31 December 2020 (31 December 2019: UAH 37 663 thousand). We were unable to verify the existence of stock quantities as of 31 December 2020 using alternative procedures. As a result, we were unable to determine whether adjustments might have been necessary for the financial statements.

The Company's provision for preferential pensions are carried at UAH 10 275 thousand as at 31 December 2020. We did not obtain sufficient appropriate audit evidence for the expected period of benefit payments to reliably measure the abovementioned pension provisions. As a result, we were unable to determine whether any adjustments were necessary for the financial statements.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibility under these standards is described in Paragraph "Auditor's Responsibility for the Audit of the Financial Statements" of the report hereof. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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

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

Key audit matter	**How the matter was addressed in the audit**
Impairment of non-financial assets	
At the end of each reporting period management should assess whether there is any indication that assets may be impaired or that an impairment loss recognized in previous periods may no longer exist or may have decreased.	We analysed management's assessment of whether there was any indication of potential impairment, as well as indication that an impairment loss recognized in previous periods no longer existed or had decreased: among other things, we compared actual results for 2020 to the projected data used in the impairment testing in the previous periods.
As management's assessment of any indication of potential impairment is largely subjective and due to significance of non-financial assets to the financial statements, the analysis of this assessment is one of the key audit matters.	Information regarding analysis of indication of impairment of non-financial assets is disclosed in Note 3.4 to the financial statements.
Covenants on loans and borrowings	
In accordance with terms of agreements for loans and borrowings the Company should maintain and comply with certain financial covenants. Analysing compliance with covenants is one of the matters of most significance in our audit because it may have a significant impact on the going concern assumption used in the preparation of the financial statements and on the classification of liabilities in the statement of financial position	We inspected the terms of agreements for loans and borrowings including covenant ratios. We examined management's calculations of the covenant ratios. We checked mathematical accuracy of covenant calculations and reconciled input data used in the calculations with data in the financial statements prepared in accordance with the rules on the preparation of financial statements according to IFRS. We compared the classification of loans and borrowings as current or non-current liabilities with the results of analysis of compliance with covenants on relevant loans and borrowings. Information regarding covenants on loans and borrowings is disclosed in Note 20 to the financial statements

Other matter

Management is responsible for the other information. Other information comprises the information included in the Management report as at 31 December 2020 and for the year then ended (but does not include financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the "Basis for Qualified Opinion" section above, we were unable to verify measurement of provision for preferential pensions and unable to verify the existence of stock quantities.

Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect of this matter.

Material uncertainty related to going concern

Without modifying our opinion, we would like to point out that the Company receives significant financial assistance from local authorities in form of contributions to authorized capital to cover losses. We would also like to point out Note 20 to the financial statements which mention the Company did not comply with the requirements for the regulatory value of financial ratios "Debt service coverage ratio" and "Financial Debt to EBITDA ratio" specified in the loan agreements. These circumstances, together with other issues mentioned in Note 3.4, indicate the existence of substantial doubt about the Company's ability to continue as a going concern unless the financial support is available in future. Our qualified audit opinion is not modified in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

In addition, the auditor's responsibility is:

(i) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

(ii) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. In cases where the auditor is also responsible for expressing an opinion on the effectiveness of the internal control system in conjunction with the audit of financial statements, the auditor should omit the stage in which the auditor considers internal control, not to express an opinion on the effectiveness of the company's internal control system;

(iii) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

(iv) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern If auditors conclude that a material uncertainty exists, they are required to draw attention in auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify auditor's opinion. Auditor's conclusions are based on the audit evidence obtained up to the date of auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

(v) assess the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements of the operations and events underlying its compilation are presented in such a way as to achieve a credible reflection.

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

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

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

Report on other legal requirements

Other information required by Article 14 of the Law of Ukraine "On Audit of Financial Statements and Auditing"
In accordance with the requirements of Article 14 of the Law of Ukraine "On Audit of Financial Statements and Auditing", we provide in our independent auditor's report additional information except when such information relates to the same issues as those required to disclose by International Standards on Auditing.

We confirm that the independent auditor's report is consistent with the Supplementary Report to the Audit Committee dated 25 May 2021.

We were first appointed as independent auditors to conduct statutory audit of the Company's separate financial statements for 2019. The total duration of our continuous statutory audit of the Company's is two years.

During this audit engagement, we assessed the risks of material misstatement of these financial statements, including the estimated risks of material misstatement due to fraud. Our audit estimates and procedures included, in particular, an analysis of the judgments and assumptions of management about significant accounting estimates, and an analysis of related events after the reporting date. In addition, the assessment of signs of bias in management, which creates a risk of significant distortion due to fraud. We did not identify any other issues regarding audit assessments other than those identified in the "Key Audit Matters" section of this report, which we consider appropriate to disclose.

We confirm that we did not provide non-audit services, which are limited by Article 6, paragraph 4 of the Law of Ukraine "On Auditing Financial Statements and Auditing", other services not disclosed in the Management Report or in these financial statements, and that the engagement partner and the audit firm were independent of the Company in conducting the audit.

Basic information about the audit company

The audit was performed by an independent auditing company - Limited liability company "Grant Thornton Legis" (hereinafter – LLC "Grant Thornton Legis").

Legal address of the LLC "Grant Thornton Legis" - 11-A Tereschenkivska str. Kyiv, 01004, Ukraine. Actual address - 60 Sichovykh Striltsiv str. Kyiv, 04050, Ukraine.

Certificate of inclusion LLC "Grant Thornton Legis" in the Register of audit firms № 4656 from 21.12.2006, valid to 29.09.2021

Certificate of the NSSMC of inclusion LLC "Grant Thornton Legis" to the Register of Audit Firms, which can conduct audits of professional securities market participants with the validity term till 29.09.2021, series and number No. 000170, registration number 391.

Director

LLC «GRANT THORNTON LEGIS»________________________Chosova C.

Certificate of auditors Serie A № 000998, issued by the Audit Chamber of Ukraine at 16 May 1996 № 45

Engagement partner

LLC «GRANT THORNTON LEGIS»________________________Verchenko V.

Certificate of auditors Serie A № 007568, issued by the Audit Chamber of Ukraine at 22 February 2018 № 355/2

Kyiv, Ukraine

25 May 2021

Statement of Management responsibilities

For the preparation and approval of the financial statements for the year ended 31 December 2020

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 1-4 is made with a view of distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the individual financial statements of Lviv Municipal Enterprise "Lvivelectrotrans" (hereinafter – the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2020 and the Statement of Comprehensive Income, the Statement of Cash Flows and the Individual Statement of Changes in Equity for the year ended 31 December 2020, in compliance with IFRS.

In preparing the individual financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating IFRS basis of preparation have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the Financial Position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Company operates;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2020 were authorised for issue on 25 May 2021.

Director
Svyshcho A.M.
Acting

25 May 2021

Chief Accountant
Davydenko A.P. / Мазепа А.О.

25 May 2021

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

Statement of Comprehensive Income

	Note	2020	2019
Revenue from contracts with customers	6	276 033	304 975
Cost of sales	7	(388 226)	(342 759)
Gross profit (loss)		**(112 193)**	**(37 784)**
Administrative expenses	8	(42 741)	(46 848)
Distribution cost	9	(12 078)	(6 048)
Other operating income	10	38 259	26 916
Other operating expenses	11	(22 235)	(15 749)
Operational profit (loss)		**(150 988)**	**(79 513)**
Financial expenses	12	(27 181)	(16 807)
Income (loss) from non-operating forex differences		(139 861)	53 135
Result before tax		**(318 030)**	**(43 185)**
Income tax expenses	13	-	-
Net profit (loss) for the period		**(318 030)**	**(43 185)**
Other comprehensive income			
Revaluation of property, plant and equipment		-	-
Deferred tax liability relating to revaluation		124	164
Revaluation result, net		**124**	**164**
Comprehensive income/(loss)		**(317 906)**	**(43 021)**

Director
Svyshcho A.M.

25 May 2021

Acting Chief Accountant
Davydenko A.P. / Мазепа А.О.

25 May 2021

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

Statement of Financial Position

	Note	31.12.2020	31.12.2019
Assets			
Non-current assets			
Property, plant and equipment	14	1 285 896	1 077 904
Intangible assets		253	54
		1 286 149	**1 077 958**
Current assets			
Inventory	15	37 897	37 663
Trade and other receivables	16	7 831	1 721
Prepayments made and other current assets	17	4 144	8 029
Cash and cash equivalents	18	172 256	19 503
		222 128	**66 916**
Total assets		**1 508 277**	**1 144 874**
Equity and liabilities			
Equity			
Authorized capital	19	1 192 034	1 017 675
Additional capital		779	852
Revaluation surplus		294 762	295 325
Accumulated loss		(972 665)	(655 322)
		514 910	**658 530**
Non-current liabilities			
Loans and borrowings	20	778 996	302 434
Target financing	21	28 400	32 162
Provisions	22	6 849	6 723
Deferred tax liability	13	64 704	64 827
		878 949	**406 146**
Current liabilities			
Loans and borrowings	20	47 240	36 084
Trade and other payables	23	40 478	21 215
Target financing	21	4 085	4 181
Tax liabilities	24	493	254
Provisions	22	21 628	18 163
Contract liabilities		494	301
		114 418	**80 198**
Total liabilities		**993 367**	**486 344**
Total equity and liabilities		**1 508 277**	**1 144 874**

Director

Acting Chief Accountant

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated) 9

Statement of changes in equity

	Authorized capital	Additional capital	Revaluation surplus	Accumulated loss	Total
As at 31 December 2018	**881 103**	**905**	**296 072**	**(613 048)**	**565 032**
Contributions to authorized capital	136 572	-	-	-	136 572
Depreciation of property, plant and equipment received free of charge	-	(53)	-	-	(53)
Deferred tax relating to depreciation of revaluation surplus	-	-	164	-	164
Revaluation surplus disposal	-	-	(911)	911	-
Net loss for the period	-	-	-	(43 185)	(43 185)
As at 31 December 2019	**1 017 675**	**852**	**295 325**	**(655 322)**	**658 530**
Contributions to authorized capital	174 359	-	-	-	174 359
Depreciation of property, plant and equipment received free of charge	-	(73)	-	-	(73)
Deferred tax relating to depreciation of revaluation surplus	-	-	124	-	124
Revaluation surplus disposal	-	-	(687)	687	-
Net loss for the period	-	-	-	(318 030)	(318 030)
As at 31 December 2020	**1 192 034**	**779**	**294 762**	**(972 665)**	**514 910**

Director
Svyshcho A.M.
25 May 2021

Acting Chief Accountant
Davydenko A.P. Мазепа А.О.
25 May 2021

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

Statement of cash flows (direct method)

	2020	2019
Cash flows from operating activity		
Budget subsidies, grants received	158 940	179 070
Cash receipts from customers	124 969	138 136
Forfeits from debtors (penalties, fees received)	3 477	3 532
Receipts from social insurance fund	6 584	5 269
Other receipts	100	575
Salary	(180 236)	(147 957)
Payment to suppliers	(108 728)	(137 284)
Social charges	(92 037)	(77 407)
Value added tax paid	(1 742)	(1 853)
Business trip expenses	(15)	(219)
Other taxes paid	(138)	(442)
Other payments	(11 812)	(8 713)
Net cash flows from operating activity	**(100 638)**	**(47 293)**
Cash flows from investment activity		
Acquisition of non-current assets	(258 941)	(189 698)
Net cash flows from investment activity	**(258 941)**	**(189 698)**
Cash flows from financial activity		
Contributions to share capital	173 850	120 400
Loans and borrowings received	390 996	176 618
Repayments of loans and borrowings	(42 185)	(39 268)
Interest paid	(24 777)	(15 471)
Interest received	986	627
Net cash flows from financial activity	**498 870**	**242 906**
Net cash flows for the period	**139 291**	**5 915**
Cash and cash equivalents at the begin of year	**19 503**	**14 739**
Foreign currency translation differences	13 462	(1 151)
Cash and cash equivalents at the end of the year	**172 256**	**19 503**

Director
Svyshcho A.M.
25 May 2021

Acting Chief Accountant
Davydenko A.P. / Mazepa A.O.
25 May 2021

Notes to financial statements

1. Information about the Company and its core activities

Lviv Municipal Enterprise "Lvivelectrotrans" (hereinafter referred to as the "Company") was registered due to re-registration of State Municipal Utility Enterprise "Lvivelectrotrans" according to the order № 242 effective from December 7, 2001 "On Renaming of the enterprise." The Company had become subordinated to the Lviv City Council from January 1, 1992 according to the decision of the Executive Committee of the Lviv Region Council of National Deputies № 728 effective from December 27, 1991. Currently, the Company operates in accordance with the Charter as a legal entity, on the basis of full economic responsibility, own funding and self-sufficiency. Operating assets are owned by Lviv city, but they are transferred to the Company on the basis of full operational management. The Company is directly subordinated to the Executive Committee of the Lviv City Council.

The Company's core business activity is transportation of passengers by trams and trolleybuses (vehicles).

The average headcount of the Company in 2020 was 1 289 people (2019: 1 153)

2. Impact of the economic situation on the financial situation and performance of the Company

The Company's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and part of the Donetsk and Lugansk regions remain under control of the self-proclaimed republics, and the Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

Ukraine's economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2017 and 2018, the Ukrainian economy showed the first signs of recovery with the inflation rate slowing down, lower depreciation of the hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the "NBU") and general revival in business activity.

As of December 31, 2019, Fitch and Standard & Poor's confirmed Ukraine's sovereign ratings at "B", and Moody's upgraded its rating for Ukraine to "B3" (as of December 31, 2019, Ukraine's sovereign rating was "Caa1 "As rated by Moody's and" B "by Standard & Poor's and Fitch).

On February 7, 2019, new currency laws came into force. In particular, the National Bank expanded the list of currency relaxation for businesses and individuals, and introduced an additional tool for smoothing exchange rate fluctuations - foreign exchange interventions in swaps. The ultimate goal of these legislative and regulatory changes is the transition to a free movement of capital, which, however, will take place gradually.

Further economic growth and preserving macro-financial stability are highly dependent on the success of the planned reforms and continuing cooperation with the International Monetary Fund.

3. Basis of preparation

3.1. Statement of compliance

These financial statements were prepared according to the International Financial Reporting Standards ("IFRS"), approved by the International Accounting Standards Board ("IASB"), as well as the interpretations issued by the IFRS Interpretations Committee ("IFRIC").

3.2. Basis for measurement and preparation

These financial statements have been prepared on the accrual and historical cost basis except for PPE by fair value measurement.

In practice, the substance of transactions and other circumstances and events does not always conform to their legal form.

The Company arranged and maintains records and business transactions and other events according to their substance and economic nature, not merely their legal form.

Certain comparative information presented in the financial statements for the year ended 31 December 2020 and 2019 has been revised in order to achieve comparability with the presentation used in the financial statements for the year ended 31 December 2020. The reclassifications do not to have material impact on the Company.

3.3. Functional and presentation currency

Transactions in a foreign currency are initially recorded in UAH at the exchange rate applicable on the date of the transaction.

3.4. Significant accounting estimates, judgments, and management assumptions

Preparation of the financial statements in accordance with the IFRS requires from the Company's management to make estimates and assumptions which influence the presentation in the financial statements of the amounts of assets and liabilities, incomes and expenses recognized in the financial statements, as well as the disclosure of information about contingent assets and liabilities.

These management estimates and assumptions are based on the information available on the date of preparation of the financial statements. Actual results can differ from the current estimates. These estimates and assumptions are reviewed from time to time, and, if adjustments are necessary, such adjustments are recognized in income statement for the period in which it became known about them. Information on the most significant accounting judgments and assumptions of the Company's management are presented below.

Application of IAS 29 "Financial Reporting in Hyperinflationary Economy"

The Company did not apply the requirements of IAS 29, which are set for the financial statements in a hyperinflationary economy, based on the following assumptions and estimates:

− IAS 29 specifies that all companies and banks operating under hyperinflation in one country shall apply the requirements of IAS 29 starting with the same period of time. The Company's management is unaware of the fact that Ukrainian companies started applying IAS 29. Moreover, the actual examples of Ukrainian public companies and banks show evidence of non-applying of IAS 29 when preparing their annual and financial statements for the reporting periods ended 31 December 2017 and 31 December 2018;

− The Ministry of Finance of Ukraine, as an authority responsible for the state policy in accounting, did not acknowledge Ukraine as a hyperinflationary economy. International organizations that cooperate with Ukraine to different extents (particularly, the International Monetary Fund) did not acknowledge it either;

− The current economic situation was brought about by emergency events in the country caused predominantly by non-economic factors. The management does not expect an exacerbation of unstable economic situation to continue into the foreseeable future.

Impairment of property, plant and equipment

At each reporting date the Company assesses whether there are indicators of possible impairment of a specific asset or a group of assets forming a cash generating unit. The evaluation of impairment of property, plant and equipment requires application of estimates which include the establishment of the reason, time, and the amount of impairment. The estimation of impairment is based on a number of factors such as change in current competitive environment, expectation of the expansion of industry, increase in capital cost, changes in future accessibility of financing, technological deterioration, termination of a certain type of activity, current cost of reimbursement, and other changes in circumstances leading to the impairment recognition.

On the reporting dates, presented in these financial statements, estimate of the recoverable amount was higher than carrying amount of assets, therefore no impairment loss was identified.

Useful lives of property, plant and equipment

The Company estimates the remaining useful lives of property, plant and equipment at least at the end of each financial year. Sometimes new expectations differ from previous estimates; these changes are considered to be a change in accounting estimates and are accounted for prospectively. These estimates can have a material influence on the carrying amount of property, plant and equipment and a depreciation charge recognized in the statement of comprehensive income.

Valuation of inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any estimated selling costs.

As at the reporting date the Company values its inventories and, if needed, writes them off to their net realizable value.

Allowance for expected credit losses

The Company uses an allowance matrix to calculate expected credit losses for trade and other receivables. The allowance rates are based on days past due for groupings of various customer segments that have similar loss patterns. The allowance matrix is based on the Company's historical observed default rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. 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 expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and in forecast of economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Company has created allowance for expected losses in these financial statements

Taxes

There is uncertainty concerning interpretation of complicated tax laws as well as amounts and terms of generation of future taxable income. With a view of nature of operations of the Company and complicated nature of contractual terms the difference which arises between the actual results and assumptions, or future changes in such assumptions, can result in significant adjustments in already presented income and expenses from income tax. The Company does not create provisions, based on reasonable assumptions. Deferred tax assets are recognized in respect of all unused tax losses to the extent to which taxable income is probable. Significant management assumptions concerning the expected amounts of taxable income, terms of its generation, and tax planning strategy are required to define the amount of deferred tax assets.

Deferred Tax Recognition

Deferred tax assets, including those arising from unused tax losses are recognized to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

Going concern assumption

In the foreseeable future the Company could suffer from the effect of unstable economy of the country. Besides, the Company has significant losses during the reporting periods and did not comply with the requirements for the regulatory value of financial ratios "Debt service coverage ratio" and "Financial Debt to EBITDA ratio" specified in the loan agreements. Due to these facts, there is uncertainty which may affect future operations and the possibility of recovering the value of Company's assets, as well as its ability to maintain and repay its liabilities as they mature. Repayment of the Company's loans is guaranteed by the City Council. The city budget includes potential payments to repay loans of municipal companies.

Financial statements of the Company have been prepared on the basis of the going concern assumption, which means realization of assets and repaying liabilities in the course of ordinary activities. Therefore, the financial statements do not contain any adjustments, which could have been necessary if the Company were not able to continue its activity in future and if it were realizing its assets not in the course of its ordinary activities.

3.5. Application of new and revised IFRS

The following standards were first adopted by the Company for the fiscal year beginning on or after January 1, 2020:

Amendments to IFRS 3 Business Combinations: Definition of Business

The amendments to IFRS 3 Business Combinations clarify that in order to define a business, the set of assets and activities must include at least investments and underlying processes that together provide a significant opportunity to obtain initial results. He also explains that a business can exist without returning all the contributions and processes needed to get results. These amendments did not have an impact on the Company's Financial Statements.

Amendments to IFRS 7, IFRS 9 and IAS 39 Basic Interest Rate

Amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of improvements that are provided to all hedging relationships that affect baseline interest rate reform. This reform affects the issue only if the reform results in uncertainty about the timing and / or large cash flows based on management or hedging instruments. These amendments do not affect the Company's financial statements as it does not have a prompt reduction in interest rates.

Amendments to IFRS 16: Concessions Related to Covid-19

On May 28, 2020, the IASB issued an amendment to IFRS 16 Leases - Concessions Related to Covid-19. The amendments allow tenants not to apply IFRS 16 in accounting for accounting modifications to lease concessions that arise directly from a Covid-19 pandemic. In practice, the lessee may choose not to assess whether the lessor's lease concession due to Covid-19 is a modification of the lease. A lessee that makes such a decision shall account for any change in lease payments arising from lease concessions that result directly from the Covid-19 pandemic in a manner similar to how changes are accounted for in accordance with IFRS 16, unless they are modifications. rent. These changes did not have an impact on the Company's financial statements

4. Summary of significant accounting policies

These financial statements have been prepared in accordance with IFRS requirements effective at the reporting date. Main principles of accounting policies used in the preparation of these financial statements are described below.

This policy has been consistently applied in all reporting periods presented in these financial statements.

Foreign currency transactions

Transactions in a foreign currency are initially recorded in UAH at the exchange rate applicable on the date of the transaction. Monetary assets and liabilities, denominated in foreign currency, are translated into UAH at exchange rate as at reporting date. All foreign exchange gains and losses arising in the course of transactions and as a result of remeasurement of assets and liabilities are shown in the Statement of Comprehensive Income as foreign currency exchange gains or losses.

Non-monetary items measured at historical cost in foreign currency are translated into UAH using the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value is determined.

Recognition of revenue and expenses

The Company adopted IFRS 15 «Revenue from Contracts with Customers» on January 1, 2018. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

- Identify the contracts with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The Company recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

Revenue from transportation of passengers

The Company's revenues include income from sales of trip tickets, compensation of preferential transportation terms from the State budget. The Company recognises revenue from one-way tickets upon their issue within profit or loss, and the revenue from regular travel cards is recognized on a proportional basis.

As a municipal enterprise, the Company is entitled to receive compensation from the State budget for free and preferential transportation of passengers. The amount of compensation depends on various factors and conditions. Due to the uncertainty regarding the amount and timing of the refund, the Company recognises this compensation as part of revenue from sales based on accrual basis in the amounts officially approved by the State government.

Financial income and expenses

For all financial instruments that are accounted for at amortised cost, interest income and expenses are recognised using the effective interest rate.

Interest income is charged to financial income in the statement of comprehensive income.

All interest and other expenses related to borrowing costs are expensed in the period in which they arise within the finance expenses except for borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset.

Other income and expenses

Other income and expenses are recognized in the accounting records and in the financial statements in the period in which they are incurred on an accrual basis and according to the matching concept irrespective of the date of cash receipt or payment.

Taxes

Current income tax

Current income tax assets and liabilities for the respective period are measured at the amount expected to be recovered from or paid to the taxation authorities according to Ukrainian legislation. The tax rates and tax laws used to compute the amount of tax are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax

Deferred tax is recognised on temporary differences at the reporting date arising between the amounts of assets and liabilities recognized for tax purposes and their carrying amounts recognized 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.

Deferred tax assets are recognised for all deductible temporary differences, unused tax benefits and unused tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax benefits and unused tax losses carried forward can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are 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 utilized.

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income.

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

Value Added Tax

Income, expenses, assets and liabilities are recognized net of VAT, except for the below cases:

- VAT that arises on purchase of assets or services that is not refunded by the tax authority; in this case VAT is recognized as part of cost of purchase of an asset or part of the expense item, depending on the circumstances;
- receivables and payables comprise the VAT amount.

A net VAT amount that is refundable by the tax authority or is payable to it is included in receivables or payables presented in a statement of financial position.

Property, plant and equipment

As at 31 December 2020 the Company applies revaluation model to accounting for all groups of property, plant and equipment. The revaluation policy was initially applied to property, plant and equipment on 01 January 2018 in accordance with IAS 16 “Property, Plant and Equipment”.

An item of property, plant and equipment which fair value can be measured reliably should be accounted for at revaluation cost that is equal to its fair value at the date of revaluation less any further accumulated depreciation and further accumulated impairment losses. Revaluation of property, plant and equipment must be carried out with sufficient regularity for the purpose of avoiding of significant difference between the carrying amount and the amount determined when using fair value at the reporting date.

The entity can revalue an item of property, plant and equipment, if the residual value of this item differs significantly from its fair value at the balance sheet date. If an item of property, plant and equipment is revaluated, the entire class of property, plant and equipment to which that asset belongs shall be revaluated at the same date.

The amount of revaluation surplus of an item of property, plant and equipment is recognized in additional capital and the amount of revaluation decrease is recognized in the expenses.

In the event that (at the date of regular (recent) revaluation surplus of an item of property, plant and equipment) the amount of prior revaluation deficits of the item and impairment losses exceed the amount of prior revaluation surpluses, the amount of regular (recent) revaluation surpluses of a residual value of this item and benefits from its restored utility, the amount of regular (recent) revaluation surplus, but not more than the excess specified, is included in the gains of the reporting period, and the difference (if the amount of the regular (recent) revaluation surplus is more the excess specified) is allocated to increase in other additional capital.

In the event that (at the date regular (recent) revaluation deficit of an item of property, plant and equipment) the amount of prior revaluation surpluses of the item and benefits from its restored utility exceed the amount of prior revaluation deficits of a residual value of this item and impairment losses, the amount of regular (recent) revaluation deficit, but not more than the excess specified, is allocated to decrease of other additional capital, and the difference (if the amount of regular (recent) revaluation deficit is more than the excess specified) is included in expenses of the reporting period.

The increase in carrying amount as a result of a revaluation is recognised directly in equity under the item “Revaluation of property, plant and equipment” and is reported in the Statement of Comprehensive Income.

When the asset is derecognised (retired or disposed of, etc.) remaining revaluation surplus is transferred to retained earnings in the whole size.

All other classes of property, plant and equipment are carried at cost less any depreciation and any impairment provisions. They are not depreciated during the construction period or in the period of bringing the property, plant and equipment to the condition necessary for them to be capable of operating.

The gain or loss arising from disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognized in the Statement of Comprehensive Income.

Depreciation of property, plant and equipment is computed on a straight-line basis during the estimated useful lives of the assets:

Property, plant and equipment group	Useful life, years
Buildings	15-70
Machinery and equipment	30
Vehicles	10-40
Other property, plant and equipment	2-5

The residual value of all classes of property, plant and equipment is assumed to be zero.

Depreciation of items of property, plant and equipment which were obtained as contribution to Company's share capital is recognized in the Statement of comprehensive income. Depreciation of fixed assets contributed via additional capital is charged against additional capital.

Maintenance costs incurred to maintain the assets and which are used to consume initially estimated economic benefits from the use of such assets are recognized as expenses of the period. Changes and improvements, which extend the useful life of the assets or improve the quality of the assets, are capitalised.

Construction in progress includes expenses for construction and reconstruction of the items of property, plant and equipment and for incomplete capital investments. Construction in progress as of the date of preparing financial statements is recorded at cost less any impairment losses. Construction in progress is not depreciated, until the assets are available for use.

Intangible assets

Intangible assets acquired are initially recognized at cost and amortisation is charged on a straight-line basis over the estimated useful life.

The useful life periods for intangible assets are set in the range of 48-60 months.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Impairment of assets

Assets subject to depreciation are assessed for impairment whenever any events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. The asset is impaired when the carrying value of the asset exceeds its recoverable amount. An impairment loss is recognized in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of two evaluations of an asset (or cash-generating unit): fair value less costs to sell and its value-in-use. For the purpose of the impairment assessment, the assets are grouped into the smallest groups for which it is possible to allocate separately identifiable cash flows (cash-generating units).

Inventory

Inventories are initially recognised at acquisition cost, including costs incurred in bringing the inventories to their present location and condition. The inventories are written off under FIFO method ("first in – fist out").

At the reporting date inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash on bank accounts and deposits with repayment period up to three months, together with other short-term, highly liquid investments that are readily convertible into known amounts and are exposed to insignificant risk of changes in value.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of assets which takes significant time to prepare for use by its purpose or sale (qualifying assets) are capitalised as part of the asset's initial cost.

The commencement date for capitalisation is the date when the Company first meets all of the following conditions:

a) it incurs expenditures for the asset;

b) it incurs borrowing costs;

c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could be avoided if it had not made capital expenditure on qualifying assets. Borrowing costs are capitalised at the Company's average cost of funding (the weighted average interest cost is applied to the expenditures on the qualifying assets), except for the funds that are borrowed specifically for the purpose of obtaining a qualifying asset. In this case, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings, if any, are capitalised.

The Company capitalises foreign exchange differences as part of the borrowing costs which arise on the Company's borrowings portfolio denominated in foreign currencies, to the extent that they are regarded as an adjustment to interest costs. If the net foreign exchange differences in the financial year are not economically substantiated by the interest rate parity, they are not included into capitalised cost.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9 are classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost.

Except for trade and other receivables at initial recognition, the Company measures a financial asset at its fair value minus (in the case of a financial asset not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the financial asset.

On initial recognition of financial assets, the Company allocates them to a respective category. Unless the Company changes its business model for managing financial assets, the Company does not change category chosen on initial recognition.

The Company's financial assets include trade and other receivables.

Subsequent measurement

Subsequently, a financial asset is measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

The Company does not have financial assets measured at fair value. The Company's financial assets at amortized cost comprise trade and other receivables.

- Trade and other receivables

The Company classifies loans and trade and other receivables as financial assets at amortized cost if both of the following conditions are met:

a) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Impairment

The Company recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

The Company's approach to measuring expected credit losses is further disclosed in the notes on trade and other receivables and significant accounting judgments, estimates and assumptions.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights of the Company to receive cash flows from the asset have expired;

- the Company retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients without significant delay under a 'pass-through' arrangement; and either

(a) has transferred substantially all the risks and rewards of the asset, or

(b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In this case, the relevant commitment for payment of received cash to the final recipient is retained.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has created or retained.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, or as other financial liabilities which are recognised at amortised cost using the effective interest rate method.

The Company measures a financial liability at its fair value plus (in the case of a financial liability not at fair value through profit or loss) transaction costs that are directly attributable to the issue of the financial liability.

On initial recognition of financial liabilities, the Company allocates them to a respective category. Subsequent reclassification of financial liabilities is not allowed.

The Company's financial liabilities include loans and borrowings and trade and other payables.

Subsequent measurement

The influence of the classification of financial liabilities in case of their initial recognition on their subsequent measurement is described as follows:

- ***Loans and borrowings and trade and other payables***

Loans and borrowings and trade and other payables are the most relevant category to the Company. After initial recognition, loans and payables 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 discounts or premiums 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.

Derecognition

A financial liability (or part of it) is extinguished when the debtor either:

i) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services; or

ii) is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Offsetting of financial instruments

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

Lease

As described in Note 3, the Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Company as a lessee

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company.

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.

- the Company has the right to direct the use of the identified asset throughout the period of use.

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet.

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in lease liabilities.

Company as a lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

Government grants

Government grants (subsidies, grants or donations) are not recognised in the financial statements until the reasonable confidence arise that the Company will satisfy all conditions in order to receive them.

Government grant that becomes a receivable for compensation of incurred expenses or losses is recognised as income in the period when it becomes a receivable. Grants, related to the depreciable assets, are recognised as income during the periods and in proportions of depreciation of these assets.

Provisions

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Company expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when this reimbursement becomes probable. The amount of the declared reimbursement should not exceed the amount of provision recognised. The expense relating to any provision is recognized in the statement of comprehensive income net of any reimbursement.

In cases when the influence of the time value of money is significant, the amount of the provision has to be the present value of expenditures which, as expected, will be necessary to repay the liability. The pre-tax discount has to reflect current market estimates of the time value of money and risks attributable to the liability. If the discounting is used, the increase in the amount of the provision in the subsequent periods is recognized as financial expenses in the statement of comprehensive income.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements unless there is the possibility of an outflow of resources embodying economic benefits to repay the liability and a reliable estimate of such liabilities can be made. The information on contingent liabilities is disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but they are disclosed when an inflow of economic benefits is possible. If it has become virtually certain that an inflow of economic benefits will take place, the asset and the related income are recognised in the financial statements of the period in which the change of the estimate occurs.

Pension liabilities and other employee benefits

State pension program

The Company pays current contributions for its employees based on State pension program. Contributions are calculated as a percentage of total salary. These costs are attributed to the same period as the respective salary expenses in the statement of comprehensive income.

Pension program with fixed benefits

The Company is obliged to compensate the Pension Fund of Ukraine (hereinafter referred to as PFU) amounts that are paid by PFU to the Company’s employees, who were working in harmful or severe working conditions and had a right to retire at an earlier age compared to standard retirement age, which is set by the law.

Such provision is calculated at amortised cost using the rate of profitability of the state bonds at the reporting date as a discount rate.

Transactions with related parties

The parties are considered to be related if one party has a possibility of controlling the other party or affecting it considerably in taking financial or operational decisions. This definition of a related party may differ from the one under the legislation of Ukraine.

As defined by IAS 24 "Related party disclosures" related parties represent:

(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Events after the reporting date

Events which took place after the reporting date and prior to the date of approval of the financial statements which provide additional information regarding the financial statements of the Company are reflected in the financial statements.

The events which took place from the end of the reporting period to the date of approval of the financial statements which certify about the conditions that arose after the reporting period and which do not influence the financial statements of the Company as at the reporting date, are disclosed in notes to the financial statements if these events are significant.

5. Standards issued but not yet effective

At the date when these financial statements were authorized for issue, some new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

The adoption of the above did not have a material effect on the financial statements.

Management expects that all of the pronouncements will be adopted in the Company’s accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company’s financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

The following standards, amendments to standards and interpretations were in issue but not yet effective at the date of approval of these financial statements:

	Effective for accounting periods beginning on or after:
Amendments to IAS 1 «Presentation of Financial Statements» on the classification of liabilities	1 January 2023
IFRS 17 «Insurance Contracts»	1 January 2023
Admission to the intended use (Amendments to IAS 16)	1 January 2022
Aggravated contracts - cost performance contract (Amendments to IAS 37)	1 January 2022
Annual improvement of IFRS 2018-2020 cycles (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)	1 January 2022
Amendments to references in the Conceptual Basis of Financial Reporting (Amendments to IFRS 3)	1 January 2022

Management expects that when the above Standards or Interpretations become effective in future periods will not have a material effect on the financial statements of the Company.

6. Revenue from contracts with customers

	2020	**2019**
Transportation services	111 219	125 905
Compensation from State budget	164 814	179 070
Total	**276 033**	**304 975**

The disaggregation of the Company's revenue from tickets sold and compensation from the State budget received is presented below:

	2020	**2019**
Revenue from:		
- General one-way ticket	88 835	96 636
- Preferential one-way ticket (for students)	5 919	12 751
- Regular general travel card	12 331	11 165
- Ticket with the right to change	2 494	2 832
- Regular preferential travel card (for students)	1 083	1 979
- Three-months tickets	552	519
- Three-days tickets	5	23
Compensation from State budget for free fare	158 593	165 952
Compensation from State budget for preferential fare	6 221	13 118
Total	**276 033**	**304 975**

	2020	**2019**
At point of time	263 150	293 291
Over time	12 883	11 684
Total	**276 033**	**304 975**

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

7. Cost of sales

	2020	2019
Payroll	218 817	177 205
Depreciation	68 367	48 164
Electricity	65 335	66 937
Materials	23 909	33 636
Third party services	6 453	10 977
Fuel	2 981	3 987
Insurance	1 043	526
Utilities	784	674
Gas	354	558
Other expenses	183	95
Total	**388 226**	**342 759**

8. Administrative expenses

	2020	2019
Payroll	36 536	32 342
Security services	1 158	7 445
Bank services	1 351	1 230
Depreciation	977	981
Materials	665	724
Consulting services	643	521
Professional services	438	986
Communication services	306	167
Electricity	198	102
Fuel	180	289
Taxes	93	530
Office supplies	64	54
Traveling expenses	41	167
Utilities	22	13
Other expenses	70	1 297
Total	**42 742**	**46 848**

9. Distribution expenses

	2020	2019
Payroll	9 503	3 658
Ticket distributors fee	1 419	1 143
Sold tickets costs	695	907
Other expenses	461	340
Total	**12 078**	**6 048**

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

10. Other operating income

	2020	2019
Foreign exchange differences, net	13 888	-
Income recognised proportionately to targeted funding	3 858	3 733
Sub-contractor services	3 780	1 097
Penalties and fines received	3 477	3 531
Advertising	2 857	7 025
Operating lease income	2 749	1 979
Income from recognition of scrap metal	2 280	2 366
Income from sales of scrap and materials	1 647	2 513
Income from sales of foreign currency	1 392	1 277
Compensation of losses	666	1 782
Payables written off	8	-
Reversal of expected credit losses	-	547
Donated current assets received	-	41
Other income	1 657	1 025
Total	**38 259**	**26 916**

11. Other operating expenses

	2020	2019
Payroll	8 511	5 461
Pension program	4 265	1 991
Labor union contributions	2 030	1 648
Impairment of inventories	1 639	746
Cost of sales current assets	938	1 256
Provision for litigation	911	346
Non-currents assets written off	715	1 003
Expected credit losses	515	-
Third party services	312	291
Fines, penalties	260	442
Financial assistance to employees	192	224
Foreign exchange differences, net	-	1 691
Other expenses	1 947	650
Total	**22 235**	**15 749**

12. Financial (income)/expenses

	2020	2019
Interest expenses	25 528	15 327
Unwinding of discount for financial liabilities	1 653	1 480
Total	**27 181**	**16 807**

13. Income tax expenses

During 2020, the tax rate was 18% (2019: 18%). The components of the income tax expenses for the years ended 31 December, are presented below:

	2020	2019
Current income tax expenses	-	-
Deferred income tax	-	-
Total	**-**	**-**

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The components of the deferred income tax expenses for the years ended 31 December, are presented below:

	2020	2019
Revaluation of fixed assets	124	164
Deferred tax charged to other comprehensive income	**124**	**164**

The reconciliation of income tax expenses (income) and the product of accounting result before tax multiplied by the applicable tax rate is presented below:

	2020	2019
Loss before tax	**(318 030)**	**(43 185)**
Theoretical income tax at the rate of 18%	(57 245)	(7 773)
Deferred tax assets write-off due to non-recognition	57 245	7 773
Total	**-**	**-**

Deferred taxes arising from temporary differences over the reporting and comparable periods are given below:

	31 December 2019	Recognised in comprehensive income	Recognised in income and expenses	31 December 2020
Equity				
Revaluation reserve for additional capital	64 827	(124)	-	64 704
Total	**64 827**	**(124)**	**-**	**64 704**
Recognized as gross:	-			-
Deferred tax assets	-	-	-	-
Deferred tax liabilities	64 827	(124)	-	64 704

	31 December 2018	Recognised in comprehensive income	Recognised in income and expenses	31 December 2019
Equity				
Revaluation reserve for additional capital	64 991	(164)	-	64 827
Total	**64 991**	**(164)**	**-**	**64 827**
Recognized as gross:	-			-
Deferred tax assets	-	-	-	-
Deferred tax liabilities	64 991	(164)	-	64 827

In accordance with International Accounting Standard 12 "Income Taxes" the deferred tax asset is recognised when there is a reasonable assurance that the Company will have sufficient taxable income against which tax loss arising from the deferred tax asset can be utilized. Since the probability of future profits against which tax asset can be used is low, the Company did not recognise deferred tax assets from tax losses in amount of UAH 98,280 thousand as at 31 December 2020 (UAH 89,096 thousand as at 31 December 2020).

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14. Property, plant and equipment

Information on movement of property, plant and equipment in 2020 and 2019 can be found below.

	31.12.2020	31.12.2019
Property, plant and equipment	1 160 047	954 853
Construction in progress and uninstalled equipment	21 317	65 408
Capital prepayments	104 532	57 643
Total	**1 285 896**	**1 077 904**

Information on movement of property, plant and equipment in 2020 and 2019 is presented below.

	Buildings	Machinery and equipment	Vehicles	Other	Total
Cost					
As at 31 December 2018	**437 980**	**95 309**	**377 060**	**2 018**	**912 367**
Additions	29 846	2 303	104 803	140	137 092
Disposal	(1 035)	(234)	(731)	(55)	(2 055)
As at 31 December 2019	**466 791**	**97 378**	**481 132**	**2 103**	**1 047 404**
Additions	10 705	3 323	260 442	745	275 215
Disposal	(480)	(66)	(212)	(70)	(828)
As at 31 December 2020	**477 016**	**100 635**	**741 362**	**2 778**	**1 321 791**
Accumulated depreciation					
As at 31 December 2018	**12 721**	**3 807**	**26 649**	**415**	**43 592**
Accrued for the period	13 160	4 100	31 392	383	49 035
Disposal	(13)	(23)	(26)	(14)	(76)
As at 31 December 2019	**25 868**	**7 884**	**58 015**	**784**	**92 551**
Accrued for the period	13 732	4 642	50 353	577	69 304
Disposal	(25)	(36)	(19)	(31)	(111)
As at 31 December 2020	**39 575**	**12 490**	**108 349**	**1 330**	**161 744**
Carrying amount					
As at 31 December 2018	425 259	91 502	350 411	1 603	868 775
As at 31 December 2019	440 923	89 494	423 117	1 319	954 853
As at 31 December 2020	**437 441**	**88 145**	**633 013**	**1 448**	**1 160 047**

No asset pledged as a security for loans as at 31 December 2020 and as at 31 December 2019.

15. Inventory

	31.12.2020	31.12.2019
Materials	21 075	21 463
Spare parts	15 558	15 244
Low value items	789	662
Fuel	444	264
Other	31	30
Total	**37 897**	**37 663**

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16. Trade and other receivables

	31.12.2020	31.12.2019
Trade receivables	2 236	1 759
Allowance for expected credit losses for trade receivables	(279)	(38)
Receivables from state budget	5 874	1 120
Allowance for expected credit losses for other receivables	-	(1 120)
Total	**7 831**	**1 721**

The fair value of trade and other receivables approximately equals their carrying amount due to the fact that, as expected, they will be repaid in the near future.

As at 31 December 2020 and as at 31 December 2019, the ageing analysis the Company's trade receivables was as follows:

	Neither past due, not impaired	Past due but not impaired			Impaired	Total
		Up to 90 days	90-180 days	180-365 days		
31.12.2020	1 616	296	9	36	279	**2 236**
31.12.2019	1 611	85	24	1	38	**1 759**

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

	2020	2019
At the beginning of period	**1 158**	**1 390**
Accrued for the year	248	-
Used	(1 127)	(232)
At the end of period	**279**	**1 158**

17. Prepayments made and other current assets

	31.12.2020	31.12.2019
Prepayments made	3 457	6 782
Tax prepayments	842	1 297
Deferred expenses	513	351
Allowance for doubtful debts	(668)	(401)
Total	**4 144**	**8 029**

18. Cash and cash equivalents

	31.12.2020	31.12.2019
Current accounts in EUR	169 395	7 000
Current accounts in UAH	2 708	11 500
Cash on hand in UAH	153	178
Cash in transit in UAH	-	825
Total	**172 256**	**19 503**

There is a restriction of cash using in amount of UAH 150,993 thousand according to agreement loan transfer agreement No. 13010-05/230 dated 12 December 2019 with the Ministry of Finance of Ukraine, Ministry of Infrastructure of Ukraine and Lviv City Council within terms and conditions of

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Agreement "Urban Public Transport" between European Investment Bank and Ukraine.

19. Authorized capital

Owner	Share, %	31.12.2020	31.12.2019
Lviv City Council	100	1 192 034	1 017 675
Total	**100**	**1 192 034**	**1 017 675**

20. Loans and borrowings

Type of loan	Creditor	Interest rate, %	Currency	31.12.2020	31.12.2019
Long-term portion of loan	European Bank for Reconstruction and Development	0.75-5.75%	EUR	567 607	302 351
Long-term portion of loan	European Investment Bank	0,592%	EUR	211 389	-
Long-term portion of loan	Lviv City Council	0%	UAH	-	83
				778 996	**302 434**
Short-term portion of loan	European Bank for Reconstruction and Development	0.75-5.75%	EUR	47 021	35 763
Short-term portion of loan	Lviv City Council	0%	UAH	219	321
				47 240	**36 084**
Total				**826 236**	**338 518**

The Company signed an agreement with the European Bank for Reconstruction and Development No. 39299 dated 16 July 2009. The amount of the loan agreement is EUR 12,000 thousand. The maturity of the loan is 12 September 2024.

The Company signed an agreement with the European Bank for Reconstruction and Development No. 49844 dated 18 January 2019. The amount of the loan agreement is EUR 17,500 thousand. The maturity of the loan is 15 October 2031. Undrawn loan facility amounted to EUR 5,000 thousand as at 31 December 2020 (as at 31 December 2019: EUR 11,200 thousand).

The Company signed a loan transfer agreement No. 13010-05/230 dated 12 December 2019 with the Ministry of Finance of Ukraine, Ministry of Infrastructure of Ukraine and Lviv City Council within terms and conditions of Agreement "Urban Public Transport" between European Investment Bank and Ukraine. The amount of the loan transfer agreement is EUR 12,000 thousand. The maturity of the loan is 20 November 2042. Undrawn loan facility amounted to EUR 5,915 thousand.

The loans are granted in Euro as a credit line. The loan should be used for the improvement of tram infrastructure and substations, modernisation of tram depot and training of the staff, improving energy efficiency in depot, acquisition of rolling stock, investment in IT system. The founder - Lviv City Council - is acting as the guarantor for this loan.

Complying with covenants of loan agreements

The Company is obliged to comply with the covenants of loan agreements. Loan agreements stipulate different covenants, including financial and non-financial ones. The breach of such covenants may bring about negative consequences for the Company, such as immediate repayment of long-term loan liabilities, increase of the interest rate on loans. Repayment of the Company's loans is guaranteed by the City Council. The city budget includes potential payments to repay loans of municipal companies.

For the year ended 31 December 2020 (in thousands of UAH, unless otherwise stated)

As at 31 December 2020, the Company did not comply with the requirements for the regulatory value of financial ratios "Debt service coverage ratio" and "Financial Debt to EBITDA Ratio" specified in the loan agreements, which may have a negative impact on the financial and business activities of the Company. The reasons for this are insufficient to meet the normative value of the financial ratio indicator of net cash flow from operating activities, EBITDA and the amount of contributions of local authorities to the authorized capital and additional capital.

Within the terms of the loan agreement, the EBRD may require early repayment of the loan. However, fail to comply covenants do not lead to unconditional right of demand for early repayment of the loan, and to the reclassification of loan long-term part as current.

Changes in liabilities arising from financial activities are presented below:

	Interest bearing loans and borrowings	**Interest-free loans and borrowings**	**Interest payable**	**Total**
As at 31 December 2018	**253 066**	**560**	**4 525**	**258 151**
Cash flows	137 671	(321)	(15 471)	121 879
Accrual of interest	-	-	15 327	15 327
Discounting and unwinding of discount	1 315	165	-	1 480
Exchange differences	(53 938)	-	540	(53 398)
As at 31 December 2019	**338 114**	**404**	**4 921**	**343 439**
Cash flows	349 132	(321)	(24 777)	324 034
Accrual of interest	-	-	25 528	25 528
Discounting and unwinding of discount	1 517	136	-	1 653
Exchange differences	137 254	-	2 607	139 861
As at 31 December 2020	**826 017**	**219**	**8 279**	**834 515**

21. Targeted financing

In 2015, the Company received targeted funding from the State and local budgets for the amount of UAH 48,581 thousand to purchase trams.

Starting from 2017, the Company recognises the revenue pro rata to the amount of depreciation as targeted financing.

Long-term liabilities	
As at 31 December 2018	**35 895**
Additions for the year	-
Realized for the year	(3 733)
As at 31 December 2019	**32 162**
Additions for the year	-
Realized for the year	(3 762)
As at 31 December 2020	**28 400**
Current liabilities	
As at 31 December 2018	**4 085**
Additions for the year	4 085
Realized for the year	(3 989)
As at 31 December 2019	**4 181**
Additions for the year	3 762
Realized for the year	(3 858)
As at 31 December 2020	**4 085**

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22. Provisions

	31.12.2020	31.12.2019
Long-term provisions and allowances	6 849	6 723
Provision for preferential pensions	**6 849**	**6 723**
Current provisions and allowances		
Provision for unused vacations	16 945	14 275
Provision for preferential pensions	3 426	3 023
Provision for legal cases	1 257	865
	21 628	**18 163**

Information on the changes in provision amounts is presented below:

	Provision for unused vacations	Provision for preferential pensions	Provision for legal cases	Total
As at 31 December 2018	**5 325**	**11 301**	**519**	**17 145**
Accrued	25 473	5 062	355	30 890
Utilized	(16 523)	(6 617)	(9)	(23 149)
As at 31 December 2019	**14 275**	**9 746**	**865**	**24 886**
Accrued	25 323	4 265	392	29 980
Utilized	(22 653)	(3 736)	-	(26 389)
As at 31 December 2020	**16 945**	**10 275**	**1 257**	**28 477**

Sensitivity analysis of main assumptions of provision amount for preferential pensions is presented below:

	31.12.2020	31.12.2019
Change of discount rate:		
Increase by 1%	(209)	(196)
Decrease by 1%	202	201
Change in the pension amounts:		
Increase by 1%	100	98
Decrease by 1%	(100)	(98)
Change in a number of employees:		
Increase by 1 person	64	84
Decrease by 1 person	(64)	(84)

23. Trade and other payables

	31.12.2020	31.12.2019
Trade payables	22 872	12 019
Accrued interest	8 279	4 921
Payroll	7 934	4 153
Social insurance	823	-
Trade union contributions	221	31
Other payables	349	91
Total	**40 478**	**21 215**

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24. Tax liabilities

	31.12.2020	31.12.2019
Personal income tax	425	-
VAT	68	254
Total	**493**	**254**

25. Fair value of financial instruments

The management of the Company believes that the carrying amount of financial assets and financial liabilities recognized in the financial statements, approximately equals their fair value.

The main categories of the Company's financial instruments as at the reporting dates are the following:

	31.12.2020	31.12.2019
Financial assets		
Trade and other receivables (Note 16)	7 831	1 721
Cash and cash equivalents (Note 18)	172 256	19 503
	180 087	**21 224**
Financial liabilities		
Loans and borrowings (Note 20)	826 236	338 518
Trade and other payables (Note 23)	40 478	21 215
Provisions (Note 22)	28 477	24 886
	895 191	**384 619**

26. Transactions with related parties

The parties are considered to be related if one party has a possibility to control the other party or to affect it considerably in taking financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of relationships, and not merely to legal form. Related parties may set the agreements that cannot be set with unrelated parties and transactions between related parties may not be based on the same terms, conditions and amounts as transactions between unrelated parties.

Due to the fact that the Company is in the full ownership of the local municipal authority of the city of Lviv, local authorities can influence the selection of contractors who are also in municipal ownership.

The Company's management believes that during the years ended 31 December related parties' transactions were performed on market conditions and can be disclosed as follows:

	2020	2019
Purchase of goods and services	18	17
Refund received for preferential fare	6 221	13 118
Refund received for free fare	158 593	165 952
Cash contributions to the authorised capital	173 850	120 400
Transfer of property, plant and equipment to the authorised capital	509	16 172

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The Company had the following balances with related parties:

	31.12.2020	31.12.2019
Other receivables	-	1 120
Allowance for expected credit losses	-	(1 120)
Prepayments made and other current assets	6	8
Trade and other payables	(54)	(31)
Borrowings and loans	(219)	(404)
Total	**(267)**	**(427)**

The Lviv City Council acted as a guarantor under the loan agreements of LME "Lvivelectrotrans" with the European Bank for Reconstruction and Development No. 39299 dated 16 July 2009 and No 49844 dated 18 January 2019 and under the loan transfer agreement No. 13010-05/230 dated 12 December 2019 within terms and conditions of Agreement "Urban Public Transport" between European Investment Bank and Ukraine. The amount of the loan agreement No. 39299 is EUR 12,000 thousand and No. 49844 is EUR 17,500 thousand.

Management remuneration

For the year ended 31 December 2020 remuneration to the key management which comprised of one person amounted to UAH 824 thousand (2019: UAH 383 thousand).

27. Financial risk management

Financial risk factors

In its activity the Company is exposed to some financial risks, including market risk, credit risk, liquidity risk which result from influence of financial instruments it owns as well as operating risk and other risks.

The Company's overall risk management programme is concentrated on uncertainties of financial markets and targeted at minimisation of potential negative consequences.

During the years ended 31 December 2020 and 2019 there were no material changes to the objectives, policies and process for the Company's risk management.

The Company's risk management policy is presented below.

27.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, foreign currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, trade and other receivables, trade and other payables, cash and cash equivalents.

The Company is affected by the following risks of changes in market prices:

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates.

Market interest rates fluctuations affect the financial position and cash flows of the Company.

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term loans and borrowings.

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The Company does not use derivative financial instruments to manage interest rate risk.

The table below shows the sensitivity analysis of the result before taxes and equity of the Company to probable change in interest rate, provided all other variables do not change:

	Increase (decrease) in interest rate, %	Effect on loss before tax
2020		
Increase in interest rate, %	2	(10 322)
Decrease in interest rate, %	(2)	10 322
2019		
Increase in interest rate, %	2	(6 762)
Decrease in interest rate, %	(2)	6 762

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates in respect to the national currency. Exposure to foreign currency risk relates to monetary assets and liabilities denominated in foreign currencies.

The Company operates in the Ukrainian market and generates cash in Ukrainian Hryvnia (functional currency). The prices of non-current assets purchased by the Company are determined by the exchange rate of Euro which causes the Company to be affected by exchange rates fluctuations. The Company also attracts loans denominated in foreign currency and thus it is exposed to foreign currency risk. The Company has not entered into transactions designed to hedge against these foreign currency risks.

The exchange rates of foreign currencies in which the Company's financial liabilities are denominated in relation to the Ukrainin Hryvnia according to the National Bank of Ukraine ("NBU") were the following:

	EUR
As at 31 December 2018	**31.7141**
Average for 2019	28.9405
As at 31 December 2019	**26.4220**
Average for 2020	30.7900
As at 31 December 2020	**34.7396**

The table below shows the concentration of foreign currency risk as at 31 December:

	31.12.2020	31.12.2019
Assets		
Cash (Note 18)	169 395	7 000
	169 395	**7 000**
Liabilities		
Bank loans (Note 20)	(826 017)	(338 114)
Accrued interest (Note 23)	(8 279)	(4 921)
	(834 296)	**(343 035)**
Net position	**(664 901)**	**(336 035)**

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The table below shows the sensitivity analysis of profit (loss) before tax of the Company to probable change in foreign currency exchange rate, provided all other variables do not change.

	Currency rates increase (decrease), %	Effect on loss before tax and equity
2020		
EUR	20	(132 980)
EUR	(20)	132 980
2019		
EUR	20	(67 207)
EUR	(20)	67 207

27.2 Credit risk

The Company faces credit risk that is determined as the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations as these falls due. Financial assets that potentially expose the Company to material credit risk are trade and other receivables.

In general, the Company provides its services after receiving payment that minimizes credit risk. Sometimes, nevertheless, services are provided on credit terms. Before approving a new client, to whom services will be provided on credit, the Company uses an internal credit system to assess credit history of a potential client.

In determining the recoverable amount of trade receivables, the Company considers any change of credit quality of trade receivables from the date of initial recognition to the reporting date. The management makes assessment of allowance for expected credit losses by applying individual estimates.

Clients of the Company pay for transportation at the moment of receiving the service. However, among clients of the Company there are such to whom the State and local authorities provide preferential terms for transportation. The State authorities compensate to the Company for the transportation of preferential passengers. The volume of payments for preferential transportation is always negotiated with the State authorities and is subject to regular discussions. As indicated in Note 6 "Revenue from contract with clients" approximately 40% (2019: 41%) of revenue is received by the Company from sales of services to non-preferential categories of clients and the rest is received from the local and State authorities as compensation for travel of preferential passengers. In general, receivables on such transactions are recognized in the statement of financial positions of the Company and are repaid in the following financial period.

27.3 Liquidity risk

Liquidity risk is the risk that the Company may face difficulties during the repayment of its financial liabilities. Increase in a risk level may arise when the maturity of assets and liabilities does not match: the maturity of financial assets exceeds the maturity of financial liabilities.

The objective of the Company's management is to keep the balance between continual financing and availability of sufficient cash and other highly liquid assets, and keeping a proper level of credit liabilities to suppliers and banks. The Company analyses its financial assets and liabilities according to repayment periods and plans its liquidity depending on the expected maturity terms under respective financial instruments.

The following table details the Company’s remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows as of 31 December 2020 and 2019. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

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	On request	Within 1 year	From 1 to 3 years	From 3 to 5 years	After 5 and more years	Total
31.12.20						
Loans, including EBRD loan (nominal value + interest)	-	85 309	333 446	175 903	886 147	1 480 805
Trade and other payables (Note 23)	-	40 478	-	-	-	40 478
Provisions (nominal value)	18 202	3 974	6 361	4 381	-	32 918
	18 202	**129 761**	**339 807**	**180 284**	**886 147**	**1 554 201**

	On request	Within 1 year	From 1 to 3 years	From 3 to 5 years	After 5 and more years	Total
31.12.19						
Loans, including EBRD loan (nominal value + interest)	-	36 084	118 085	164 003	323 670	641 842
Trade and other payables (Note 23)	-	21 215	-	-	-	21 215
Provisions (nominal value)	15 140	3 506	6 275	4 266	-	29 187
	15 140	**60 805**	**124 360**	**168 269**	**323 670**	**692 244**

27.4 Concentration risk

About 60% (2019: 59%) of sales revenue is received through compensation from local and State budget of Ukraine. The mechanism of compensation is always discussed and formula is being agreed. In case of unfavorable economic situation in Ukraine, the mechanism of compensation may be determined with negative effect for the Company that can cause inability of the Company to finance its operating costs.

27.5 Capital management risk

The Company's policies for capital management is to ensure the Company's ability to continue as going concern in order to maximize profit and to finance operational and capital expenses and to support a strategy on development of the Company.

The Company manages its capital structure and adjusts it according to changes in the economic environment, market trends and strategies. During the reporting period presented in these financial statements there were no changes in the Company's goals or policies in capital management.

The Company manages its capital using the financial leverage ratio that is defined as a ratio of net debt to equity and net debt. Net debt includes borrowings and loans, targeted financing, trade and other payables, tax liabilities, provisions, advances received and cash and cash equivalents. Equity includes all equity components.

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	31.12.2020	**31.12.2019**
Loans and borrowings	826 236	338 518
Targeted financing	32 485	36 343
Trade and other payables	40 478	21 215
Tax liabilities	493	254
Provisions	28 477	24 886
Advances received	494	301
Less: Cash and cash equivalents	(172 256)	(19 503)
Net debt	**756 407**	**402 014**
Equity	**512 049**	**658 530**
Equity and net debt	**1 268 456**	**1 060 544**
Gearing ratio	***60%***	***38%***

28. Contingent liabilities

Taxation

Ukrainian tax authorities are paying a lot of attention to business community as the result of overall economic situation in Ukraine. In this regard local and State tax environment in Ukraine is constantly changing and contradiction often occurs in its application, interpretation and implementation. Non-compliance with Ukrainian laws and regulations may result in significant penalties and fines. Future tax audits may lead to additional liabilities, assessment of tax liabilities by controlling authorities may contradict to the tax returns of the Company. Such assessments may be related to taxes, penalties and fines, and these amounts can be significant. Although the Company's management believes that they complied with the requirements of tax laws, in recent years there were many changes to tax and currency laws and other legislation which are not always clearly defined.

Litigations

The Company is being involved in various legal proceedings. The management believes that there is the need for provision for possible losses because the outcome of these court processes will have a significant effect on the Company's financial position and financial performance. In this regard management decided to create a respective provision (Note 22).

Contingent liabilities

There are no significant contingent liabilities for non-cancellable rent agreements.

The Company signed an agreement with the European Bank for Reconstruction and Development No. 39299 dated 16 July 2009 (Note 20) for the total amount of EUR 12,000 thousand. As at 31 December 2020, the Company's liability under the loan comprised EUR 5,414 thousand (31 December 2019: EUR 6,767 thousand) which makes EUR 5,352 thousand at amortised cost (2019: EUR 6,670 thousand).

The Company signed an agreement with the European Bank for Reconstruction and Development No. 49844 dated 18 January 2019 (Note 20) for the total amount of EUR 17,500 thousand. As at 31 December 2019, the Company's liability under the loan comprised EUR 12,500 thousand (31 December 2019: EUR 6,300 thousand) which makes EUR 12,341 thousand at amortised cost (2019: EUR 6,127 thousand).

The Company signed an agreement with the Ministry of Finance of Ukraine, Ministry of Infrastructure of Ukraine and Lviv City Council regarding loan transfer agreement No. 13010-05/230 dated 12 December 2019 within terms and conditions of Agreement "Urban Public Transport" between European Investment Bank and Ukraine (Note 20) for the total amount of the loan transfer agreement of EUR 12,000 thousand. As at 31 December 2020 the Company's liability under the loan comprised EUR 6,085 thousand which makes EUR 6,085 thousand at amortised cost.

Under the above loan agreement, the Company is obliged to comply with certain financial and non-financial covenants. The Company assesses the deviations from these covenants as insignificant as at the reporting date.

The Company pays pensions to employees based on Ukrainian Law requirements. The total amount of pensions to be paid by the Company is disclosed in Note 27 "Liquidity risk". As at each reporting date the Company determines the fair value of pension liabilities using the appropriate discount rate based on government bonds interest rate for similar instruments.

29. Events after the reporting date

After the reporting date and until the date of signing these financial statements there were no significant events that would require to be disclosed or provide additional information on the financial positions or financial performance of the Company and that have to be reflected in the financial statements.