Porsche Ukraine LLC
International Financial Reporting Standards
Separate Financial Statements and
Independent Auditor's Report

31 December 2019

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To the Participants and management of Porsche Ukraine LLC

Report on the audit of the separate financial statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of Porsche Ukraine LLC (the Company) as at 31 December 2019, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply, in all material respects, with financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine.

Our auditor's report is consistent with our additional report to the Audit Committee dated 17 February 2020.

What we have audited

The Company's separate financial statements comprise:

- the separate statement of financial position as at 31 December 2019;
- the separate statement of profit or loss and other comprehensive income for the year then ended;
- the separate statement of cash flows for the year then ended;
- the separate statement of changes in equity for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report.

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

Independence

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

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

Our audit approach

Overview

Materiality	Overall materiality: UAH 150 million
Key audit matters	Valuation and classification of provisions

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

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

Materiality

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

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

Overall Company materiality	UAH 150 million
How we determined it	We determined the above materiality as 2% of total revenue of the Company for the current year.
Rationale for the materiality benchmark applied	We chose total revenue because it represents a more stable measure of the Company's operations than profit in recent years given the volatile economic environment in which the Company operates. We chose 2%, which in our experience is within the range of acceptable quantitative materiality thresholds for this benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation and classification of provisions	
We focused on this area because the management makes complex and subjective judgements over the estimation of the recognised amounts and classification of provisions, in particular: the level of probability that an outflow of resources embodying economic benefits and the estimated timing and amount of future outflows of resources. Note 14 Provisions for Liabilities and Charges provide detailed information on the provisions.	Our audit approach included the following: We applied business knowledge in respect of each provision type. We assessed if each provision type corresponds to the recognition criteria based on IAS 37: - if the Company has a present obligation as a result of a past event; - if it is probable that an outflow of resources embodying economic benefits will be required to settle the provision; - a reliable estimate can be made of the amount of the obligation. We analysed in detail basis for provisions recognition and tested key input data. For provisions raised in previous years, we performed the testing of provisions movements. For all provisions, we tested the classification and measurement of respective balances.

Other information including the management report

Management is responsible for the other information. The other information comprises the separate management report (but does not include the separate financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the separate financial statements does not cover the other information, including the separate management report.

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

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

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in separate management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of management and the Audit Committee for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with IFRS and financial reporting requirements of the Law on Accounting and Financial Reporting in Ukraine, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

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

We communicate with management 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 management and the Audit Committee 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 management, 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 and regulatory requirements

Appointment

We were first appointed as auditors of the Company on 3 April 2014. Our appointment has been renewed annually by participants resolution representing a total period of uninterrupted engagement appointment of 6 years.

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

LLC AF PricewaterhouseCoopers (Audit)

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

Lyudmyla Pakhucha
Registration number in the Register of Auditors and Auditing Entities 101808

Kyiv, Ukraine
17 February 2020

In thousands of Ukrainian hryvnias	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Investments in subsidiaries	8	85,782	75,782
Investment property	7	42,042	44,601
Property, plant and equipment		10,656	10,836
Right-of-use-assets	9	44,960	-
Intangible assets		15,077	8,230
Deferred income tax asset	20	57,899	84,066
Total non-current assets		**256,416**	**223,515**
Current assets			
Inventories	10	1,078,782	1,021,789
Trade and other receivables	11	109,941	112,553
VAT receivables		106,263	-
Cash and cash equivalents	12	75,232	87,730
Total current assets		**1,370,218**	**1,222,072**
TOTAL ASSETS		**1,626,634**	**1,445,587**
EQUITY			
Authorised capital	13	44	44
Retained earnings		426,626	191,745
TOTAL EQUITY		**426,670**	**191,789**
LIABILITIES			
Non-current liabilities			
Non-current provisions		73,900	48,403
Non-current lease liabilities	9	31,503	-
Total non-current liabilities		**105,403**	**48,403**
Current liabilities			
Trade payables	15	813,500	749,336
Lease liabilities	9	11,151	-
Provisions for liabilities and charges	14	245,932	362,928
Provision for income tax		23,978	35,606
VAT payable		-	57,525
Total current liabilities		**1,094,561**	**1,205,395**
TOTAL LIABILITIES		**1,199,964**	**1,253,798**
TOTAL LIABILITIES AND EQUITY		**1,626,634**	**1,445,587**

Approved for issue and signed on 17 February 2020.

Josef Graf
General Director

Nataliya Tymko
Chief Accountant

In thousands of Ukrainian hryvnias	Note	2019	2018
Revenue	16	7,517,390	7,988,725
Cost of sales	17	(6,784,926)	(7,149,061)
Gross profit		**732,464**	**839,664**
Distribution costs	18	(224,244)	(265,941)
General and administrative expenses	18	(177,530)	(100,837)
Other operating income	19	160,059	48,417
Other operating expenses	19	(16,490)	(183,825)
Operating profit		**474,259**	**337,478**
Finance income		22,976	15,337
Finance costs		(5,987)	-
Profit before income tax		**491,248**	**352,815**
Income tax expense	20	(88,490)	(62,130)
PROFIT FOR THE YEAR		**402,758**	**290,685**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**402,758**	**290,685**

In thousands of Ukrainian hryvnias	Note	Authorised capital	Retained earnings	Total equity
At 1 January 2018		**44**	**633,358**	**633,402**
Profit for the year		-	290,685	**290,685**
Total comprehensive income for 2018		-	290,685	**290,685**
Dividends declared	13	-	(732,298)	**(732,298)**
Balance at 31 December 2018		**44**	**191,745**	**191,789**
Profit for the year		-	402,758	**402,758**
Total comprehensive income for 2019		-	402,758	**402,758**
Dividends declared	13	-	(167,877)	**(167,877)**
Balance at 31 December 2019		**44**	**426,626**	**426,670**

In thousands of Ukrainian hryvnias	Note	2019	2018
Cash flows from operating activities			
Profit before income tax		491,248	352,815
Adjustments for:			
Provisions charge		364,687	333,714
Change of provision for inventory obsolescence		4,076	52,503
Depreciation and amortisation of non-current assets	18	28,954	19,393
Finance income		(16,845)	(15,337)
Finance costs		5,987	-
Foreign exchange translation differences		117,448	(23,803)
Operating cash flows before working capital changes		**995,555**	**719,285**
Change in trade and other receivables		7,621	12,182
Change in inventories		(61,069)	38,315
Change in trade payables and provisions for liabilities and charges		(509,516)	(11,524)
Change in taxes payable		(168,796)	69,490
Changes in working capital		**263,795**	**827,748**
Income taxes paid		(73,951)	(76,070)
Net cash from operating activities		**189,844**	**751,678**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(17,000)	(10,785)
Net cash used in investing activities		**(17,000)**	**(10,785)**
Cash flows from financing activities			
Dividends paid to the Company's participants	13	(167,877)	(732,298)
Contribution to authorised capital of subsidiaries	8	(10,000)	-
Finance income received		16,845	15,337
Payment for lease liabilities		(24,310)	-
Net cash used in financing activities		**(185,342)**	**(716,961)**
Net increase / (decrease) in cash and cash equivalents		**(12,498)**	**23,932**
Cash and cash equivalents at the beginning of the year		**87,730**	**63,798**
Cash and cash equivalents at the end of the year	12	**75,232**	**87,730**

1 Porsche Ukraine LLC and its Operations

These separate financial statements have been prepared for Porsche Ukraine LLC (the "Company") in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2019.

The Company was incorporated and is domiciled in Ukraine. The Company is a Limited Liability Company and was set up in accordance with Ukrainian regulations.

As of 31 December 2019 and 31 December 2018 the Company's immediate parent was Porsche Holding Gesellschaft mbH and the Company was ultimately controlled by Volkswagen AG.

Principal activity. The Company`s principal business activity is wholesale of imported cars and spare parts produced by Volkswagen AG within Ukraine.

Registered address and place of business. The Company's registered address is 1V Pavla Tychyny avenue, 02152, Kyiv, Ukraine.

Presentation currency. These financial statements are presented in Ukrainian hryvnias ("UAH" or "Hryvnia"), unless otherwise stated. All figures shown are rounded, so minor discrepancies may arise from adding together these amounts.

2 Operating Environment of the Company

In 2019, the Ukrainian economy was showing signs of stabilisation after years of political and economic tensions. The year over year inflation rate in Ukraine has decreased to 4.1% during 2019 (as compared to 9.8% in 2018 and 13.7% in 2017) while GDP continued to grow at estimated 3.5% (after 3.3% growth in 2018).

After several years of devaluation, Ukrainian currency continued strengthening and in 2019 appreciated by 14% (as at 31 December 2019, the official NBU exchange rate of Hryvnia against USD was UAH 23.69 per USD 1, compared to UAH 27.69 per USD 1 as at 31 December 2018). Among the key mitigating factors for the hryvnia were strong revenues of agricultural exporters, tight UAH liquidity, growth in remittances from labour migrants and high demand for government debt instruments.

Starting from April 2019, the National Bank of Ukraine ("NBU") launched the cycle of easing of the monetary policy and a gradual decrease of its discount rate for the first time in the last two years from 18% in April 2019 to 11% in January 2020, which is justified by a sustainable trend of inflation deceleration.

In December 2018, the IMF Board of Directors approved the stand-by assistance (SBA) 14-month programme for Ukraine, totalling USD 3.9 billion. In December 2018, Ukraine has already received USD 2 billion from the IMF and the EU, as well as USD 750 million credit guarantees from the World Bank. IMF programme's approval significantly increased the chance of Ukraine to meet foreign currency obligations in 2019, and thus has supported the financial and macroeconomic stability of the country. Continuation of cooperation with the IMF depends on Ukraine's success in implementing policies and reforms that underpin a new IMF-supported programme.

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

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

Ukraine faced presidential elections in March-April 2019, and then early parliamentary elections in July 2019. Amid double elections, the degree of uncertainty including in respect of the future direction of the reforms in 2020 remains very high. Despite certain improvements in 2019, the final resolution and the ongoing effects of the political and economic situation are difficult to predict but they may have further severe effects on the Ukrainian economy and the Company's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16, Leases, effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2019 in addition to the IFRS consolidated financial statements of the Company as required by the Law on Accounting and Reporting in Ukraine. These separate financial statements should be read in conjunction with the consolidated financial statements.

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include recognition and measurement of provisions for liabilities and charges (Note 14).

Investments in subsidiaries. Subsidiaries are those investees, including structured entities, that the Company controls because the Company (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Company has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Company may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

In these separate financial statements investments in subsidiaries are stated at cost less accumulated impairment losses, where required.

Investment property. Investment property is property held by the Company to earn rental income or for capital appreciation, or both and which is not occupied by the Company.

Investment property is initially recognised at cost, including transaction costs. Since investment properties are rented to the entity being related party under common control, it is subsequently measured at cost less depreciation and impairment, where required.

Investment property is depreciated using the straight-line method to allocate the cost to the residual values over the estimated useful life of 20 years.

Earned rental income is recorded in profit or loss for the year within other operating income.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

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

3 Summary of Significant Accounting Policies (continued)

Intangible assets. The Company's intangible assets have definite useful lives and primarily include capitalised computer software, licences and rights for exclusive sale. Acquired intangible assets are capitalised on the basis of the costs incurred to acquire and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives as follows:

	Useful lives in years
Software licences	3 - 10 years
Other licences	5 - 10 years
Rights for exclusive sale of Audi branded cars	5 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

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

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

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

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

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

Impairment of non-financial assets. Intangible and tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis for spare parts and identified cost basis for motor vehicles. The cost of goods comprises cost of acquisition, other direct costs such as transport costs and custom clearance cost and related overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Financial instruments - Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3 Summary of Significant Accounting Policies (continued)

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method.

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

Initial recognition of financial instruments. Financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the price in an active market. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost.

Classification of financial assets. The Company classifies its financial assets as at amortised cost only if both of the following criteria are met: the asset is held within a business model with the objective of collecting the contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The Company's financial assets are term deposits, trade and other accounts receivable, cash and cash equivalents.

3 Summary of Significant Accounting Policies (continued)

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

Financial assets are presented in the statement of financial position net of the allowance for ECL.

The Company adopted the simplified expected credit loss model, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due. Depending on the number of days that a trade receivable is overdue, gross carrying amount multiplied by the applicable percentages, gives the amount of the loss allowance required to be recognized. The percentages are determined based on historical default rates for corresponding overdue category.

Uncollectible assets are written off against the related impairment provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment loss account within profit or loss.

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

Classification of financial liabilities. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include trade and other accounts payable, loans and borrowings and finance lease. Financial liabilities are carried at amortised cost.

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

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at AC using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

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

3 Summary of Significant Accounting Policies (continued)

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

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

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

Authorised capital. The Company was established in a form of a limited liability company and has no issued shares. In accordance with the current legislation of Ukraine and the Company's Charter, the Company's participants have unconditional right to reimburse their share in its capital at any time in cash in the amount of its proportional share in the fair value of assets of the Company. The amount of the reimbursement is a variable amount and depends on the fair value of the Company's net assets determined in accordance with IFRS. The obligation of the Company to provide reimbursement of the participants' shares in its capital results in the financial obligation, the amount of which is equal to the present value of the reimbursement, even if the obligation in question depends on the intention of the participants to exercise their right. However, under certain circumstances, the Company classifies its net assets as capital, provided that the following criteria specified in pp 16A and 16B of IAS 32, are met:

a) The instrument grants the holder the right to a proportional share of the Company`s net assets in case of liquidation. The net assets of the Company are those assets that remain after deducting all other requirements for its assets. The proportional share is determined by:

1) dividing the net assets of the Company during its liquidation on units of equal value; and

2) multiplying this amount by the number of units available from the holder of the financial instrument.

(b) The tool belongs to a class of tools that is subordinate to all other classes of tools. To include in this class the tool:

1) should not have any priority over other requirements for the assets of the Company during its liquidation, and

2) does not necessarily have to be converted to another tool before it is included in the class of tools that are subordinated to all other classes of tools.

(c) All financial instruments of a class subordinated to all other classes of instruments have identical characteristics. For example, all of them should have the right to back up, and all the tools in this class should use the same formula or other method of calculating the price for a repurchase or repayment.

(d) In addition to a contractual obligation of the issuer to repurchase or repay an instrument in exchange for cash or another financial asset, this instrument does not include any other contractual obligation to supply cash or another financial asset to another entity or to exchange financial assets or financial assets obligations with another entity on terms that are potentially unfavourable to the Company; this instrument is also not a contract that is or can be paid off by the Company's own equity instruments.

3 Summary of Significant Accounting Policies (continued)

(e) The total expected cash flows of the instrument over its duration mainly depend on profit or loss, changes in recognized net assets or changes in the fair value of the recognized and unrecognized net assets of the Company during the term of the instrument (except for any effects from the tool itself).

The management believes that each of the above criteria is satisfied, therefore the net assets of the Company are classified as equity.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position on a net basis as an asset or liability. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The expected future cost to be incurred in respect of the warranty and income from released provision is recorded as a cost of sales.

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

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

Extension and termination options are included in buildings leases across the Company. These terms are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. Extension options (or period after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

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

3 Summary of Significant Accounting Policies (continued)

Payments associated with short-term leases of vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company, is the national currency of the Ukraine hryvnia.

Monetary assets and liabilities are translated into entity's functional currency at the official exchange rate of the National Bank of the Ukraine ("NBU") at the respective end of the reporting period.

The exchange rates used for translating foreign currency balances were:

	31 December 2019	**31 December 2018**
USD/UAH as of	23.69	27.69
EUR/UAH as of	26.42	31.71

Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into entity's functional currency at year-end official exchange rates of the NBU are recognised in profit or loss as other operating income or other operating expense for transactions and balances directly related to both operating and financing activity of the Company.

Revenue recognition. Revenue is income arising in the course of the Company's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

Revenue is recognised net of discounts, returns and value added taxes.

Revenues from sales of goods

Sales are recognised when control of the good has transferred, being when the goods are delivered to the customer, the customer has full discretion over the goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Revenue from the sales with discounts is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in Provisions for liabilities and charges) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

Revenues from providing services

Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Financing component

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

3 Summary of Significant Accounting Policies (continued)

Employee benefits. Wages, salaries, social contributions to the Ukrainian state funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Company. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the unified social tax.

4 Adoption of New or Revised Standards and Interpretations

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The Company decided to apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without restatement of comparatives and using certain simplifications allowed by the standard. Right-of-use assets for property leases are measured on transition as if the new rules had always applied. All other right-of-use assets are measured at the amount of the lease liability on adoption.

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

The weighted average incremental borrowing rate applied be the Company to the leased liabilities on 1 January 2019 was 9.7% for contracts denominated in USD and 18% for contracts denominated in UAH.

As at 31 December 2018 the Company had non-cancellable lease commitments of UAH 76,063 thousand. Of these commitments, UAH 2,589 thousand related to short-term leases.

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

In thousands of Ukrainian Hryvnias	Impact of adopting IFRS 16
Total future minimum lease payments for non-cancellable* operating leases as at 31 December 2018	76,063
- Discounted using the lessee's incremental borrowing rate of at the date of initial application	(15,395)
- Less short-term leases not recognised as a liability	(2,589)
Total lease liabilities recognised as at 1 January 2019	**58,079**
Of which are:	
Short-term lease liabilities	**16,854**
Long-term lease liabilities	**41,225**

* Non-cancellable leases include those cancellable only: (a) upon the occurrence of some remote contingency, (b) with the permission of the lessor, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

4 Adoption of New or Revised Standards and Interpretations (continued)

The change in accounting policy affected the following items: recognition of right-of-use assets and lease liabilities of UAH 58,079 thousand on 1 January 2019.

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

- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Company has not early adopted.

IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Company is not expecting any impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Company's financial statements.

6 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2019 the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Entities under common control	Immediate parent company
Trade and other receivables	8,755	-
Trade and other payables	797,444	-

At 31 December 2018 the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Entities under common control	Immediate parent company
Trade and other receivables	6,121	-
Trade and other payables	737,243	-

The income and expense items with related parties for the years ended 31 December 2019 and 31 December 2018 were as follows:

	2019		2018	
In thousands of Ukrainian hryvnias	Entities under common control	Subsidiaries	Entities under common control	Subsidiaries
Sales of cars and spare parts	841,460	-	924,562	-
Warranty compensation income	77,308	-	73,594	-
Rental income	8,197	-	6,743	-
Other income	20,297	-	3,161	-
Purchase of goods	(6,221,746)	-	(6,185,956)	-
Information, consulting and other professional services	(30,548)	-	(34,268)	-
Lease expenses	(19,401)	-	(18,331)	(4,604)
Warranty and repair costs	(12,755)	-	(13,422)	-
Other expenses	(1,853)	-	(2,296)	-
Financial aid	(1,143)	(3,100)	-	-

Key management personnel compensation

Key management personnel consists of 2 top executives (2018: 2 top executives). In 2019 total compensation to key management personnel included in administrative expenses amounted to UAH 9,294 thousand (2018: UAH 9,851 thousand). Compensation to the key management personnel consists of salary, bonus payments and apartment lease expenses.

7 Investment Property

Movements in the amount of investment property were as follows:

In thousands of Ukrainian hryvnias	2019	2018
Cost at 1 January	70,246	69,679
Accumulated depreciation at 1 January	(25,645)	(21,985)
Carrying amount at 1 January	**44,601**	**47,694**
Additions	1,154	567
Depreciation charge	(3,713)	(3,660)
Carrying amount at 31 December	**42,042**	**44,601**
Cost at 31 December	71,400	70,246
Accumulated depreciation at 31 December	(29,358)	(25,645)
Carrying amount at 31 December	**42,042**	**44,601**

Rental income is disclosed in Note 19.

8 Investments in Subsidiaries

In 2019 the Company made an additional contribution to authorised capital of Porsche Immobilien Ukraine LLC in the amount of UAH 10,000 thousand (2018: no movements).

The following table provides information about principal subsidiaries of the Company:

Name	Nature of business	Country of registration	Percentage of direct ownership as at 31 December 2019	Percentage of direct ownership as at 31 December 2018
Porsche Immobilien Ukraine LLC	Real estate	Ukraine	100%	100%
Sergo Arhkon LLC	Real estate	Ukraine	0,000446%	0.000602%
Evdak LLC	Real estate	Ukraine	0.001095%	0.001095%
PCK LLC	Real estate	Ukraine	9.33324%	9.33324%

As at 31 December 2019 and 31 December 2018 percentage of voting rights did not differ from percentage of ownership.

Porsche Immobilien Ukraine LLC is immediate parent of Sergo Arhkon LLC, Evdak LLC and PCK LLC holding remaining share in equity of those entities as at 31 December 2019 and 31 December 2018.

9 Right-of-use assets and lease liabilities

The Company leases offices. Rental contracts are typically made for fixed periods of 18 months to 62 months, but may have extension options.

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

9 Right-of-use-assets and lease liabilities (continued)

In thousands of Ukrainian Hryvnias	Buildings	Total
Carrying amount at 1 January 2019	**58,079**	**58,079**
Additions	2,898	2,898
Depreciation charge	(16,017)	(16,017)
Carrying amount at 31 December 2019	**44,960**	**44,960**

The Company recognised lease liabilities as follows:

In thousands of Ukrainian Hryvnias	31 December 2019	1 January 2019
Short-term lease liabilities	11,151	16,854
Long-term lease liabilities	31,503	41,225
Total lease liabilities	**42,654**	**58,079**

Interest expense included in finance costs of 2019 was UAH 5,987 thousand.

Expense relating to short-term leases (not included in lease liabilities) included in general and administrative expenses of 2019 was UAH 23,583 thousand.

10 Inventories

In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
Goods for resale – cars and spare parts	1,075,817	1,019,172
Other	2,965	2,617
Total inventories	**1,078,782**	**1,021,789**

11 Trade and Other Receivables

In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
Restricted cash deposit (12% interest rate, maturity May 2020)	63,000	63,000
Trade receivables	25,368	21,853
Credit loss allowance	(783)	(705)
Total financial trade and other receivables	**87,585**	**84,148**
Other receivables	6,057	4,658
Prepayments	16,299	23,747
Total trade and other receivables	**109,941**	**112,553**

As at 31 December 2019, the Company had UAH 63,000 thousand of cash deposit pledged as collateral to secure borrowings of related party (31 December 2018: UAH 63,000 thousand). In May 2019 the Company signed the agreement with bank to extend the maturity of cash deposit to May 2020. As at 31 December 2019, management estimated the cash deposit as fully recoverable. It was measured at amortised cost net of the allowance for ECL.

The fair values of financial receivables as at 31 December 2019 and 31 December 2018 approximate their carrying values as of these dates.

11 Trade and Other Receivables (continued)

The following table represents financial accounts receivable by currency:

In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
- UAH	79,549	78,273
- EUR	4,381	4,482
- USD	3,655	1,393
Total financial accounts receivable	**87,585**	**84,148**

Analysis of trade and other receivables and financial assistance receivable by quality is as follows:

In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
Current		
- Receivables from related parties	8,752	6,074
- Receivables from Ukrainian dealers	14,982	12,412
- Restricted cash deposit	63,000	63,000
Total current receivables	**86,734**	**81,486**
- less than 90 days overdue	1,634	3,367
Total receivables (gross carrying amount)	**1,634**	**3,367**
Credit loss allowance	**(783)**	**(705)**
Total	**87,585**	**84,148**

12 Cash and Cash Equivalents

In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
Bank balances payable on demand	2,932	87,730
Term deposits with original maturity of less than three months	72,300	-
Total cash and cash equivalents	**75,232**	**87,730**

As at 31 December 2019 and 31 December 2018, there were no cash and cash equivalents denominated in foreign currency.

Analysis by credit quality of bank balances is as follows:

	Bank balances payable on demand	
In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
Rated by Fitch Ratings		
B rated	26,027	47,190
CCC rated	-	1,162
Not rated	49,205	39,378
Total cash and cash equivalents	**75,232**	**87,730**

As at 31 December 2019 and 31 December 2018 cash and cash equivalents were held with subsidiaries of international banks operating in Ukraine.

13 Authorised capital

In 2019 dividends in amount of UAH 167,877 were declared and fully paid to participants. As at 31 December 2019 and as at 31 December 2018 the Company had no liabilities to participants for unpaid dividends.

14 Provisions for Liabilities and Charges

Movements in current provisions for liabilities and charges are as follows:

In thousands of Ukrainian hryvnias	**Carrying amount at 1 January 2019**	Provision/(Reversal of provision) charged to profit or loss	Reclassification from/(to) Non-current provisions	Utilisation of provision	**Carrying amount at 31 December 2019**
Dealers network support	**9,397**	21,261	-	(2,320)	**28,338**
NOx provision	**6,906**	-	-	(247)	**6,659**
Provision for dealers' bonuses	**71,412**	177,463	-	(194,536)	**54,339**
Reimbursement of warranty income	**4,100**	-	-	(4,100)	-
Golf Sportwagen	**155,714**	(3,313)	-	(141,134)	**11,267**
Warranties	**94,900**	69,796	1,621	(85,435)	**80,882**
Certification	-	46,228	-	-	**46,228**
Other	**20,499**	27,755	-	(30,035)	**18,219**
Total	**362,928**	**339,190**	**1,621**	**(457,807)**	**245,932**

In thousands of Ukrainian hryvnias	**Carrying amount at 1 January 2018 (adjusted)**	Provision/(Reversal of provision) charged to profit or loss	Reclassification from/(to) Non-current provisions	Utilisation of provision	**Carrying amount at 31 December 2018**
Dealers network support	**25,457**	(348)	-	(15,712)	**9,397**
NOx provision	**7,150**	321	-	(565)	**6,906**
Provision for dealers' bonuses	**35,073**	179,322	-	(142,983)	**71,412**
Reimbursement of warranty income	**23,394**	(75)	4,187	(23,406)	**4,100**
Golf Sportwagen	-	155,714	-	-	**155,714**
Warranties	**98,427**	(4,258)	731	-	**94,900**
Other	**15,452**	23,922	-	(18,875)	**20,499**
Total	**204,953**	**354,598**	**4,918**	**(201,541)**	**362,928**

NOx Provision. The U.S. California Air Resources Board (CARB) and Environmental Protection Agency (EPA) have informed the public in the United States that the emissions testing of Volkswagen diesel-powered vehicles found some issues proving to be the violation of the U.S. environmental laws. The testing suggests that those issues affect up to 11 million vehicles with specific diesel engines worldwide, out of which nearly 18.5 thousand vehicles are on the Ukrainian market. It primarily deals with Euro engines, motor type 5 EA 189. As per findings, the volumes depend on the version of the affected engines. Technical measures include, depending on the series and model year, software and partially hardware measures. During 2019 the Company continued to refit and recall the affected vehicles as part of those technical measures.

14 Provisions for Liabilities and Charges (continued)

Provision for dealers' bonuses. In 2015 the Company introduced bonuses for dealers for accomplishment of sales targets. Provision in the amount of UAH 54,339 thousand represents management's estimate of the amount of bonuses earned and as such accrued but not paid as at 31 December 2019 (31 December 2018: UAH 71,412 thousand).

Provisions for dealership network. In 2019 management has reassessed the amount of provision for financial support to be made available to the Company's dealership network and as of 31 December 2019 the provision amounts to UAH 28,338 thousand (2018: UAH 9,397 thousand).

Warranty provision. The Company acts as a sole official importer of cars of certain brands in Ukraine and has legal obligation to undertake warranty repairs for customers. As at 31 December 2019, the Company recognised UAH 80,882 thousand of current warranty provision and UAH 36,287 thousand of non-current warranty provision (31 December 2018: UAH 94,900 thousand and UAH 48,403 thousand, respectively).

Golf Sportwagen provision. During 2017 – 2018 cars sold by Porsche Ukraine included approximately 2,5 thousand VW Golf Sportwagen. For these cars new individual certification and registration is planned in Ukraine. As of 31 December 2019 the expected future costs in this regard amounted to UAH 11,267 thousand (31 December 2018: UAH 155,714). During 2019 part of the provision in the amount of UAH 120,492 thousand was utilized as compensation of costs to the related party company in respect of refusing from previously ordered cars.

Certification provision. Considering the certification legislation as of 31 December 2019 the Company has built up UAH 46,228 thousand of current provision and UAH 37,614 thousand of non-current provision for expenses associated with planned actions in this respect.

15 Trade payables

In thousands of Ukrainian hryvnias	**31 December 2019**	**31 December 2018**
Trade payables	813,500	749,336
Total financial trade payables	**813,500**	**749,336**

The following table represents trade payables by currency:

In thousands of Ukrainian hryvnias	**31 December 2019**	**31 December 2018**
- USD	735,479	323,558
- EUR	62,628	414,866
- UAH	15,393	10,912
Total financial trade payables	**813,500**	**749,336**

The fair values of financial payables as at 31 December 2019 and 31 December 2018 approximate their carrying values as of these dates.

16 Analysis of Revenue by Category

In thousands of Ukrainian hryvnias	2019	2018
Revenue from contracts with customers from sale of cars	6,768,725	7,248,349
Revenue from contracts with customers from sale of spare parts	728,704	722,413
Revenue from contracts with customers from services rendered	19,961	17,963
Total revenue	**7,517,390**	**7,988,725**

Timing of revenue recognition is as follows:

In thousands of Ukrainian hryvnias	2019	2018
At a point in time	7,517,390	7,988,725
Total revenue	**7,517,390**	**7,988,725**

17 Analysis of Cost of Sales by Category

In thousands of Ukrainian hryvnias	2019	2018
Cost of cars sold	6,229,094	6,643,160
Cost of spare parts sold	492,534	485,297
Cost of warranty net of reimbursement	54,301	8,444
Cost of services provided	8,997	12,160
Total cost of sales	**6,784,926**	**7,149,061**

18 Distribution, General and Administrative Expenses

In thousands of Ukrainian hryvnias	2019	2018
Payroll and social contribution	90,271	78,041
Advertising and marketing costs	82,480	62,585
Transport services and related costs	33,622	40,510
Costs of car certification	33,592	35,057
Depreciation and amortisation	28,954	19,972
Software maintenance	23,479	19,526
Dealers network support	22,160	(348)
Leased cars	19,399	17,992
Legal services	13,284	22,937
Other staff related costs	12,744	11,371
Consulting and audit services	10,964	14,248
Rental costs	4,184	23,177
Non-refundable financial support issued	3,100	-
NOx provision	-	321
Other	23,541	21,389
Classified as:		
- Distribution costs	224,244	265,941
- General and administrative expenses	177,530	100,837
Total	**401,774**	**366,778**

Expenses associated with leased cars (UAH 19,399 thousand) and rental costs (UAH 4,184 thousand) disclosed in 2019 included short-term leases of vehicles and all leases of low-value assets recognised on a straight-line basis. Short-term leases are leases with a lease term of 12 months or less.

19 Other Operating Income and Expenses

In thousands of Ukrainian hryvnias	2019	2018
Foreign exchange gains less losses	117,494	34,604
Rental income from investment properties	8,197	6,743
Other	34,368	7,070
Total other operating income	**160,059**	**48,417**

In thousands of Ukrainian hryvnias	2019	2018
Fines and other penalties	6	125,344
Losses from inventory obsolescence provision	-	52,503
Other	16,484	5,978
Total other operating expenses	**16,490**	**183,825**

20 Income Taxes

(a) Components of income tax expense

Income tax expense comprises the following:

In thousands of Ukrainian hryvnias	2019	2018
Current tax expense	(62,323)	(95,286)
Deferred tax	(26,167)	33,156
Income tax expense for the year	**(88,490)**	**(62,130)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Company in 2019 and 2018 is 18%. A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	2019	2018
Profit before tax	**491,248**	**352,815**
Theoretical tax charge at statutory rate of 18%:	88,425	63,507
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	65	1,401
Recognition of previously unrecognised deferred tax asset	-	(2,778)
Income tax expense for the year	**88,490**	**62,130**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Ukraine give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 18% in both years.

20 Income Taxes (continued)

The tax effects of the movements in the temporary differences for the year ended 31 December 2019 are:

In thousands of Ukrainian hryvnias	1 January 2019	(Charged)/ credited to profit or loss	31 December 2019
Tax effect of deductible/(taxable) temporary differences			
Property plant and equipment	2,178	(165)	2,013
Provisions for liabilities and charges	72,055	(17,186)	54,869
Inventories	9,706	(8,830)	876
Other	127	14	141
Net deferred tax asset/(liability)	**84,066**	**(26,167)**	**57,899**

The tax effects of the movements in the temporary differences for the year ended 31 December 2018 are:

In thousands of Ukrainian hryvnias	1 January 2018	Change in accounting policy	1 January 2018 (adjusted)	(Charged)/ credited to profit or loss	31 December 2018
Tax effect of deductible/(taxable) temporary differences					
Property plant and equipment	2,362	-	2,362	(184)	2,178
Provisions for liabilities and charges	21,061	26,957	48,018	24,037	72,055
Inventories	255	-	255	9,451	9,706
Other	275	-	275	(148)	127
Net deferred tax asset/(liability)	**23,953**	**26,957**	**50,910**	**33,156**	**84,066**

Management estimates that deferred tax assets of UAH 13,664 thousand (2018: UAH 9,871 thousand) are recoverable after more than twelve months after the end of the reporting period. UAH 44,235 thousand (2018: UAH 74,194 thousand) are to be utilised within 12 months.

21 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these financial statements.

At 31 December 2018 the Company was aware of a potential litigation proceedings with the related party company in respect of recoverability of losses (Note 14). A provision of UAH 120,492 thousand has been made based on the information available as at 31 December 2018, which was fully utilized during 2019.

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

21 Contingencies and Commitments (continued)

Transfer pricing. There were no significant changes in Ukrainian transfer pricing (hereinafter – TP) rules in 2019 comparing to 2017 and 2018. Under Ukrainian TP rules effected in 2017, transactions are considered as controlled transactions for the TP purposes, if the volume of all transactions with the same counterparty exceeds UAH 10,000 thousand (net of VAT), provided the total annual income of the taxpayer exceeds UAH 150,000 thousand (net of VAT). The following cross-border transactions are defined as controlled:

- business transactions that have an impact on taxable profits, with related parties non-residents of Ukraine;
- sale of goods through non-resident commissionaires;
- business transactions that have an impact on taxable profits, with residents of jurisdictions determined by the Cabinet of Ministers of Ukraine on the following criteria:
- states (territories) where the corporate profit tax rate is less than the Ukrainian rate by not less than 5 percentage points;
- states which do not have international agreements with Ukraine containing provisions on exchange of information.
- a business transaction between related parties through a non-related intermediary is considered, if such intermediary does not perform significant functions, does not use significant assets and does not bear significant risks in respect of such transaction.

The deadline for submission of the report on controlled transactions is by 1 October following the reporting year, and for submission of TP documentation is not later than 1 month after a request is made by the tax office (if any) as prescribed by the Tax Code.

Given that implementation of the new transfer pricing rules in Ukraine is relatively new and the administration and interpretation of the legislation by the tax authorities is developing, the impact of any challenge of the Company's transfer prices cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Company depending on how the local tax authorities interpret the rules.

Assets pledged and restricted. As at 31 December 2019, the Company had UAH 63,000 thousand of cash deposit pledged as collateral to secure borrowings of related party (31 December 2018: UAH 63,000 thousand). In May 2019 the Company signed the agreement with the bank to extend the maturity of cash deposit to May 2020. As at 31 December 2019, management estimated the cash deposit as fully recoverable. It was measured at amortised cost net of the allowance for ECL.

22 Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Company's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position as follows:

In thousands of Ukrainian hryvnias	31 December 2019	31 December 2018
Trade and other receivables (Note 11)	87,585	84,148
Cash and cash equivalents (Note 12)		
– Bank balances payable on demand	2,932	87,730
– Term deposits with original maturity of less than three months	72,300	-
Total maximum exposure to credit risk	**162,817**	**171,878**

22 Financial Risk Management (continued)

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Company's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 11.

Credit risks concentration. The Company is exposed to concentrations of credit risk. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 1% of the Company's net assets. At 31 December 2019 the Company had 1 counterparty (31 December 2018: 3 counterparties) with aggregated receivables balances above UAH 4,267 thousand (31 December 2018: UAH 1,918 thousand). The total aggregate amount of these balances was UAH 63,000 thousand (31 December 2018: UAH 70,352 thousand) or 72% of the gross amount of financial trade and other receivables (31 December 2018: 84%).

As at 31 December 2019 the Company's cash and cash equivalents are held with two banks (31 December 2018: three banks).

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

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

Currency risk. The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2019			**At 31 December 2018**		
In thousands of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
Euros	4,381	62,628	(58,247)	4,482	414,866	(410,384)
US Dollars	3,655	735,479	(731,824)	1,393	323,558	(322,165)
Total	**8,036**	**798,107**	**(790,071)**	**5,875**	**738,424**	**(732,549)**

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency, with all other variables held constant:

	At 31 December 2019	**At 31 December 2018**
In thousands of Ukrainian hryvnias	**Impact on profit or loss and equity**	**Impact on profit or loss and equity**
US Dollar strengthening by 10% (2018: strengthening by 10%)	(73,182)	(32,217)
US Dollar weakening by 10% (2018: weakening by 10%)	73,182	32,217
Euro strengthening by 10% (2018: strengthening by 10%)	(5,825)	(41,038)
Euro weakening by 10% (2018: weakening by 10%)	5,825	41,038

Interest rate risk. The Company has limited exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

22 Financial Risk Management (continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by management of the Company. Management monitors monthly rolling forecasts of the Company's cash flows.

The Company seeks to maintain a stable funding base primarily consisting of trade and other payables.

As at 31 December 2019 and 31 December 2018 all financial liabilities have maturity less than one year.

23 Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to participants, return authorised capital to participants and receive contributions to capital from owners. The amount of capital that the Company managed as of 31 December 2019 was UAH 426,670 thousand (31 December 2018: UAH 191,789 thousand).

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade and other financial receivables approximate fair values.

The Company classifies all financial assets as measured at amortised cost.

Liabilities carried at amortised cost. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Carrying amounts of other financial liabilities and trade and other payables approximate fair values.

All assets and liabilities of the Company where fair value is disclosed are of level 2 fair value hierarchy.

25 Accounting Policies for Leases before 1 January 2019

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

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

25 Accounting Policies for Leases before 1 January 2019 (continued)

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