

**PRIVATE JOINT STOCK COMPANY
«ELECTROMETALLURGICAL WORKS
«DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN»**

Consolidated financial statements

*for the year ended 31 December 2019,
with consolidated management report and
with independent auditor's report*

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

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1. ORGANISATIONAL STRUCTURE AND DESCRIPTION OF ACTIVITIES OF THE GROUP

General information about the Group

PRIVATE JOINT STOCK GROUP «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN» (the "Group" or «PrJSC «DNIPROSPETSSTAL»») is a successor of a predecessor a state owned enterprise "Electrometallurgical works "Dniprospetsstal" named after A.M. Kuzmin" created in 1994 in the process of reorganisation, founded in 1932, to Open joint stock Group "Electrometallurgical works "Dniprospetsstal" named after A.M. Kuzmin" in accordance with the decree of the President of Ukraine #210 dated 15 June 1993 On Corporatization of Companies and the order of the Ministry of Economics of Ukraine #54 dated 27 August 1993 On Approval of the List of Companies to be Corporatised. Assets and liabilities of the enterprise and certain assets owned by the association of the Group's employees were contributed into its share capital. Following the requirements of the Ukrainian legislation, on 31 March 2011 the Group changed its name from Open joint stock Group "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin" to PUBLIC JOINT STOCK GROUP «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN». On June 7, 2017, the Annual General Meeting of Shareholders of the Group decided to change the type of the Group from the public to private and to change the name from PUBLIC JOINT STOCK GROUP «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN» on a PRIVATE JOINT STOCK GROUP «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN».

The registered office of the Group is 81, Pivdene Shose, Zaporizhzhya, Ukraine. The main production facilities of the Group are located on 83, Pivdene Shose, Zaporizhzhya, Ukraine.

PrJSC «DNIPROSPETSSTAL» has two separate structural subdivisions:

- Separate structural subdivision "Dneprospetsstal Sanatorium" (without the right of a legal entity).
The purpose of separate structural subdivision is to provide health and recreation of the Group's employees and their family members; prevention and reduction of morbidity of employees of the Group; improvement and introduction of new forms of treatment.
- Separate structural subdivision "Dneprospetsstal Concert Hall" (without the right of a legal entity).
The purpose of the separate structural subdivision is the organization of cultural work.

There are no branches of the Group.

Description of activities and products of the Group

Principal activities of the Group include design, manufacture and distribution of stainless, tool, high-speed, powder, bearing and alloy structural steel products, including smelting by powder metallurgy, electroslog and vacuum-arc remelting. The Group's products are used for manufacture of machinery parts, tools for metal and alloy machining, tubes and pipes, and bearings. The technologies used by the Group allow obtaining high-quality materials used in such industries as mechanical engineering, shipbuilding, automotive, aerospace and oil and gas industries.

The products of PrJSC «DNIPROSPETSSTAL are demanded in more than 60 countries of the world. The final customers of the Group's products are about 500 companies. The main markets are Ukraine, CIS countries, EU countries, etc.

The Group supplies 39% of its total sales on the market of Ukraine. For export, respectively, 61%. Major markets (from 100% in the foreign market by the share of sales in exports): Europe - 45%, Russia - 34%, North and South America - 15%, the rest is distributed to the CIS, the Far and the Middle East.

The main competitors of the Group are Russian steel producers, in particular JSC "Oskolsky electrometallurgical combine" (Metalloinvest), JSC "Chelyabinsk metallurgical combine" and PJSC "Izhstal" (Meychell), JSC "Volgograd metallurgical combine "Krasny Oktyabr", JSC "Metallurgical plant "Elektrostal", JSC "Zlatoust electrometallurgical plant" etc.

Organizational structure

The corporate governance bodies of the Group in accordance with the Charter are:

- General Meeting of Shareholders;
- Supervisory board;
- Management.

The General Meeting of Shareholders is the supreme body of the Group.

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The Supervisory Board is the collegial body of the Group, which protects the rights of shareholders and, within the scope of its competence, manages the Group, controls and regulates the activities of the Management Board. The Group's Supervisory Board consists of six persons.

The Management Board of the Group is an executive collegial body that manages the current activities of the Group, arranges implementation of the decisions of the General Shareholders Meeting and the Supervisory Board, and is accountable to these bodies. The Management Board consists of Chairman of the Board and board members.

Control over financial and economic activity of the Group is carried out by the Revision Commission.

Strategy and objectives of the Group

The development strategy of the Group is aimed at strengthening the position of the Group in the international market of metal products and supporting sustainable business development of the Group.

The main objectives of the Group are:

- increase of sales volumes;
- improvement of quality of products;
- increase of competitiveness of metal products on the domestic and foreign markets;
- keeping operational efficiency of activity by reducing the cost of production and optimization of costs,
- increase of product margin by increasing the share of products with high added value.

2. RESULTS OF OPERATIONS FOR 2019

Main activity indicators of the Group:

<i>Indicators</i>	<i>Year ended 31 December</i>			<i>Change, 2019 vs 2018</i>	
	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>Absolute</i>	<i>Relative, %</i>
Revenue from the sales of metal products, UAH thousand	8,164,952	9,630,917	8,291,100	(1,339,817)	-13.9%
Volume of sold metal products, tons	165,576	157,971	147,544	(10,427)	-6.6%
Cost of sales, UAH thousand	(7,151,107)	(9,111,430)	(7,821,661)	1,289,769	-14.1%
Gross profit, UAH thousand	1,013,845	519,487	469,439	(50,048)	-9.6%
Net profit / (loss), UAH thousand	61,023	(428,449)	82,809	511,258	119.3%
Export, UAH thousand, <i>including</i>	5,145,257	5,970,744	5,087,457	(883,287)	-14.8%
• Non-CIS countries	3,507,617	4,242,059	3,295,773	(946,286)	-22.3%
• CIS countries	1,637,640	1,728,685	1,791,684	62,999	3.6%
The share of exports in the total volume of industrial products, %	63.0%	62.0%	61.4%	-0.6%	-1.0%
Metal products produced, UAH thousand	8,149,922	9,616,361	8,281,858	(1,334,503)	-13.9%
Volume of production of metal products, tons	165,576	158,025	148,299	(9,726)	-6.2%

In 2019, the Group earned net revenue from the sale of metal products in the amount of UAH 8,291,100 thousand, which is UAH 1,339,817 thousand more than the corresponding figure in 2018. Such a change in net revenue from sales was due to:

- decrease in prices for finished products, which led to decrease of UAH 902,209 thousand and was caused by trends in the market of metal products of Ukraine and the world, as well as Ukrainian hryvna strengthening against foreign currencies, such as US dollar, Euro, Russian ruble;
- a decrease in the number of orders from buyers due to increased competition from foreign metal producers, which led to a decrease in the physical volume of produced and sold products by 6.6% and caused a negative change in net revenue by UAH 437,608.

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Structure of net revenue from sales in 2019 by types of metal products:

Group of steel	Quantity, tons*	Average price of unit of product, UAH / ton, without VAT*	Net revenue from sales, UAH thousand*
Structural alloyed steel	51,337	30,945	1,588,629
Stainless nickel steel	45,284	86,253	3,905,891
Tool alloyed steel	13,424	61,814	829,786
Stainless steel w/o nickel	14,091	58,476	823,981
Structural carbon	16,861	20,673	348,574
Bearing steel	5,026	36,337	182,628
High-speed tool steel	738	458,653	338,486
Tool carbon steel	439	37,025	16,254
Heat resistant steel	344	708,297	243,654
Other sales		n/a	13,217
Total	147,544	n/a	8,291,100

* rounded to the nearest integer

Despite of decrease in net revenue from sales, in 2019, the Group earned gross profit of UAH 469,439 thousand, which is by 9.6% lower than gross profit in 2018. The main factors behind the increase in the cost price and accordingly the decrease in the gross profit of the Group were: an increase in electricity prices by an average of 4%, as well as an increase in the level of wages of production personnel by at least 8%. Additional factors for reducing gross profit were the rate of decline in metal prices: in 2019, the average price of metal products decreased by 8%. The factors that reduced the effect of rising electricity prices and wages on the Group's gross profit were a decrease in average prices for ferroalloys by 27%, scrap metal - by 14%, and natural gas - by 29%.

In 2019, the Group gained net profit in the amount of UAH 82,809 thousand (2018: net loss UAH 428,449 thousand). Net income from operating and non-operating exchange differences which amounted to UAH 623,462 thousand had significant impact on net profit growth.

In 2019, the Group generated net cash flows from operating activities in the amount of UAH 571,015 thousand (2018: UAH 596,471 thousand), however, net cash flow for the year was negative and amounted to UAH 50,034 thousand (2018: UAH 69,976 thousand).

3. LIQUIDITY AND LIABILITIES

As at 31 December 2019, current assets of the Group exceeded its current liabilities by UAH 258,613 thousand (2018: UAH 745,795 thousand), in its turn, the carrying value of equity of the Group amounted to UAH 1,262,877 thousand (2018: 1,275,775 thousand).

The aggregated structure of assets of the Group as at 31 December:

(UAH thousand)	2019	2018	Absolute change	Relative change, %
Fixed assets and construction in progress	4,709,234	4,967,325	(258,091)	-5%
Non-current deposits	36,243	282,572	(246,329)	-87%
Other non-current assets	8,998	10,880	(1,882)	-17%
Total – non-current assets	4,754,475	5,260,777	(506,302)	-10%
Inventory	1,130,820	1,398,743	(267,923)	-19%
Accounts receivable for goods, works and services	929,193	1,186,397	(257,204)	-22%
Cash and cash equivalents	9,661	67,103	(57,442)	-86%
Settlements with budget (VAT receivable)	68,412	110,724	(42,312)	-38%
Prepayments made	26,348	75,691	(49,343)	-65%
Current deposits	313,583	-	313,583	100%
Other current assets	22,551	22,390	161	1%
Total – current assets	2,500,568	2,861,048	(360,480)	-13%
	7,255,043	8,121,825	(866,782)	-11%

As at 31 December 2019, the decrease in the carrying amount of the Group's assets was primarily due to:

- decrease of market prices for raw materials, which, in its turn, led to a decrease in the monetary expression of work in progress and finished goods balances;
- reduction of the balance of accounts receivable for products, goods, works, services, due to the decrease in sales because of oversaturation of the metal products market.

The major change in the structure of current and current assets was bounded with transferring of non-current deposits to current portion with the maturity date in April 2020 (Note 8 and 14 of consolidated financial statements).

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The aggregated structure of liabilities of the Group as at 31 December:

(UAH thousand)	2019	2018	Absolute change	Relative change, %
Non-current bank loans	2,794,314	3,920,356	(1,126,042)	-29%
Non-current provisions	315	–	315	100%
Other non-current liabilities	646,870	509,679	137,191	27%
Deferred tax liabilities	308,712	300,762	7,950	3%
Total – non-current liabilities	3,750,211	4,730,797	(980,586)	-21%
Accounts payable for goods, works and services	1,373,200	1,748,917	(375,717)	-21%
Current portion of non-current bank loans and interest payable	650,849	158,804	492,045	310%
Payroll related payables and other employee benefits	127,311	102,140	25,171	25%
Advances received	45,799	60,702	(14,903)	-25%
Other current liabilities	44,796	44,690	106	0%
Total – current liabilities	2,241,955	2,115,253	126,702	6%
	5,992,166	6,846,050	(853,884)	-12%
	2,794,314	3,920,356	(1,126,042)	-29%

The main factors of changes in book values and structure of liabilities of the Group:

- In 2019, the Group restructured two of its loans, as a result, the Group agreed with bank-lender new maturity date of repayment of loans in 2021.
- The change in the structure of Non-current and current liabilities was connected with transferring of the long-term portion of loan to the short-term, with maturity date - April 2020 (Note 15 to the separate financial statements).
- The decrease in accounts payable for goods, works and services occurred as a result of decrease of prices for raw materials and other materials.

The financial risks arising from the existing structure of assets and liabilities of the Group are disclosed in the section 6 "Risks" of this report. Information about maturity of financial liabilities is disclosed in Note 33 to the separate financial statements.

Information on contingent liabilities of the Group is disclosed in Note 32 to the separate financial statements.

4. ENVIRONMENTAL ASPECTS

Waste management

Production of metal products leads to the formation of pollutant emissions into the environment. In 2019, emissions of pollutants into the atmosphere from stationary sources equaled to 659 thousand tons, which was by 9.9% less of emissions in 2018, that was a result of decrease in production.

(thousand tons)	2019	2019	Absolute change	Relative change, %
Solid emissions	153.5	177.5	(24.0)	-13.5%
Gaseous and other emissions	505.5	554.0	(48.5)	-8.7%
Total	659.0	731.5	(72.5)	-9.9%

In 2019, industrial waste water discharges amounted to 2,330.5 thousand m³ (2018: 2,514.1 thousand m³), containing 338.5 ton pollutants such as suspended solids, sulphates, calcium, chloride, magnesium, iron etc.

In 2019, 80,576 tons of industrial waste, such as electric steelmaking slag, refractory scrap, sludges, industrial waste, metallurgical dust etc. were exported to the industrial waste landfill of PJSC "Dnipropetsstal"; 533 tons were transferred outside and 20 tons of industrial waste were utilized.

The fee for environmental pollution (environmental tax) in 2019 was UAH 5,193 thousand. The amount of environmental tax of the Group consisted of the following elements:

- charge for the placement of waste – UAH 3,632 thousand;
- charge for air pollution by stationary sources – UAH 1,546 thousand;
- charge for the dropping into water objects – UAH 15 thousand;

The environmental activity of the Group is aimed at compliance of its own production with the norms of Ukrainian legislation. In 2019, the Group spent UAH 2,426 thousand on capital and current repairs, as well as maintenance of environmental facilities.

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In order to improve the ecological condition of the city of Zaporizhzhya, where the Group's production is located, in 2019, the following environmental measures were carried out:

- capital repair of gas cleaning system of technological and fugitive emissions CVS Makina in SPC-3, with the replacement of membranes and circuits;
- capital repair of the gas outlet with its partial replacement on the gas purification system GKR SPTS-2;
- capital repair of acids evaporation aspiration of the department of the calibration workshop;
- integrated checks of the efficiency of 435 ventilation installations;
- daily monitoring of the technical condition of environmental objects for the detection and correction of violations.

The Group constantly engages external experts to carry out environmental measures. In 2019, a number of such measures were implemented, in particular:

- annual control inspection of circulating water supply of wet gas purification in SPC-2 in order to increase its operational reliability;
- inventory of stationary sources of pollutant emissions into the air and developed documents that substantiate the amount of pollutant emissions into the air;
- calculation of greenhouse gas emissions from technological units and development of a system for reducing such emissions;
- monitoring the impact of industrial waste landfill of PJSC "Dneprospetsstal" in hollow "average" on the environment;
- development of working documentation "Environmental measures for the improvement and maintenance of favorable hydrological regime and the sanitary state of the highland ditch in the area of the industrial waste landfill in hollow "Average".

One of the priority directions of the Group's development is reducing the amount of harmful emissions into the atmosphere. The Group allocates part of its budget for the implementation of various environmental programs and projects annually.

Usage of resources

The Group pays considerable attention to the rational use of water and electricity per unit of production. Below are volumes of water and electricity consumption for 2019:

	Units of measurement	Actual quantity	Amount, UAH thousand
Technical water consumption	thousand m ³	25,748	30,463
Drinking water consumption	thousand m ³	2,021	9,111
Discharge of sewage into sewage	thousand m ³	1,920	9,027
Electricity consumption	thousand kW/hour	370,367	617,759

In 2019, due to energy saving measures, in particular by reducing the time between blows of arc furnaces and using converting equipment depending on the operating regimes of the equipment, the Group reduced the consumption of electricity by 1,700 thousand kW/hour.

5. SOCIAL ASPECTS AND HUMAN RESOURCES POLICY

As at 31 December 2019, PrJSC "DNIPROSPETSSTAL" and its subsidiaries employed 5,027 people, including 650 employees holding managerial positions, of which 137 are women, representing 21.1% of all executives.

In 2019, the average number of full-time employees of PrJSC "DNIPROSPETSSTAL" was 4,876 people, including 1,058 people working part-time.

Payroll expenses of PrJSC "Dneprospetsstal" and its subsidiaries were UAH 863,275 thousand for 2019 (2018: UAH 793,964 thousand).

The educational level of the Group's employees is set out in the following table:

Kind of education	Head count, people:		Total
	Managers and professionals	Workers	
Completed and basic higher education	1,045	467	1,512
Incomplete higher education	219	585	804
Vocational education	31	1,513	1,544
General secondary education and	28	1,139	1,167
Total	1,323	3,714	5,027

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Encouragement and motivation of employees of the Group

The system of encouragement and motivation of the Group's employees involves material and non-material motivation. All employees are entitled to the terms of the Collective agreement of the Group.

During 2019, the Company increased the average salary by 20% compared with 2018. The change of Group's average monthly salary compared with the average salary in Zaporizhzhia oblast and in Ukraine is set out below:

(UAH)	2019	2018	Absolute change	Relative change, %
The Group's actual average monthly salary	14,609	12,200	2,409	20%
Average monthly salary in Zaporizhzhia oblast*	10,323	8,729	1,594	18%
Average monthly salary in Ukraine*	10,340	8,867	1,473	17%

*in accordance with the information provided by the State Statistics Service of Ukraine

Under the terms of the Collective agreement, additional social benefits are provided based on agreement, in particular:

- one-off material encouragement to veterans of labor upon retirement;
- material assistance to non-working veterans of labor;
- material assistance for the burial of employees and former employees of the Group;
- financial aid for dental services (prosthetics);
- material assistance to single mothers and large families;
- providing of auto transportation of workers to and from work;
- material encouragement upon the achievement of the jubilee period of continuous work with the Group;
- purchase of vouchers for sanatorium and health centers, recreation centers for employees of the Group and their children, etc.

In 2019, on the occasion of the celebration of state and corporate holidays, for the achievement of high production, technical and economic results, more than 350 employees of the Group were encouraged and awarded with distinctions of different levels, such as the Group's medal "For valiant work and personal contribution" (3 employees), the Order "For contributions to the territory of Zaporizhzhya" III degree (3 employees), etc.

Labor protection and safety

Provision of technological safety and labor protection in all spheres of production is one of the key priorities of the Group.

In 2019, the Group registered 11 accidents resulted in work disability for one day or more (2018: 5 accidents). An analysis of occupational injuries shows the following statistics:

	2019	2018	Absolute change
Frequency of traumatism (number of accidents per 1000 employees)	2.20	0.93	1.27
Total number of calendar days of lost work due to accidents	597	483	114
Injury severity factor (number of days of disability per accident)	74.6	96.6	(22)

In 2019, there was an increase in morbidity rate of the Group's employees, as indicated below:

	2019	2018	Absolute change
Total number of cases of disease	3,894	4,359	(465)
Total number of calendar days of lost work due to illness	47,599	52,434	(4,835)
Number of cases of disease per 100 employees	78.1	81.2	(3.1)

In 2019, the Group registered 7 occupational diseases (2018: 8 diseases).

Every year, the Group carries out measures for the protection and safety of work, which include, in particular, the mandatory annual medical examination, narcological and psychiatric examinations of workers, vaccination against influenza, the purchase of milk and other goods, training on occupational safety and the prevention of occupational diseases.

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Training and education of staff

One of the key areas of human resources management of the Group is the continuous improvement of personnel's competence and keeping its ability to perform the tasks set by the management. PrJSC "DNIPROSPETSSTAL" pays considerable attention to the development of new forms of personnel training, enhancement and development of employees' potential; strengthen of the material and technical base and equipment of educational classes. In addition, an adaptation system for new employees is implemented by the Group.

In 2019, the following educational and educational events were held, in particular

- improvement of employees' qualifications obtained directly in the Group (for 599 people) and in external educational institutions (for 167 people);
- improvement of qualification for 40 heads of structural units and subdivisions (heads of divisions, their deputies, heads of bureaus, groups, etc.);
- training on work safety for 1,198 employees;
- retraining courses for employees engaged in production process for 907 people;
- improvement of qualification directly in production process for 221 employees;
- special purpose trainings for 1,233 people.

The results of quality control in respect of organizing the trainings for the Group's subdivisions are taken into account for improvement of the process of assessing the effectiveness and quality of training.

In accordance with the "Regulation on the procedure for conducting attestation of personnel for compliance with the position held" the schedule for conducting certification of managers and specialists of the Group was approved by 2020. In 2019, 101 employees successfully passed the certification.

As a result of external audits of the quality management system in accordance with ISO 9001:2015 carried out in 2019, the compliance of the personnel management system of the Group was confirmed, including the compliance of the trainings of employees organization, with this standard.

Equal employment opportunities

The Group operates in accordance with the legislation on labor and occupational safety and applies the principle of equal opportunities for all employees.

Measures of securing the employment rights of certain population segments in accordance with the legislation of Ukraine are the following:

- providing jobs for the employment of disabled people: in 2019, the average number of such employees was 192 persons (4% required ratio - 192 persons);
- providing jobs for citizens who have additional safeguards to promote employment in accordance with the Law of Ukraine "On Employment ": in 2019, the average number of such employees was 768 persons (5% required ratio - 241 persons).

Respect for human rights

The Group's human resources and social policy is based on the principles of respect for human rights, respect for the honor and dignity of the Individual and Citizen.

Measures against corruption and bribery

The Group ensures the functioning of the internal control system for mitigation and prevention of bribery and corruption. Such measures include introduction of anti-corruption programs and the development of measures to prevent and resolve conflicts of interest. In addition, the Group has the Tender Committee, a collegial body, which ensures efficient use of resources for the purchase of goods, works and services through tender analysis of prices, quality and terms of delivery.

In order to detect and prevent offenses of employees of the Group or third-party organizations, a twenty-four-hour "telephone service" is operating which allows employees, partners, clients and other interested parties to provide such information. Information provision and training of employees in respect of anti-corruption principles is carried out periodically in the form of seminars with the participation of the heads of the economic security service.

6. RISKS

The key operational and financial risks that affect the activities of the Group and the main approaches to managing them are described below.

Operating environment in Ukraine

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation (in particular in 2014-2018) and a significant level of domestic and foreign state debt.

Following the significant decline in 2014 – 2016, the Ukrainian economy started to demonstrate certain signs of recovery and growth. Main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labor emigration and low level of capital inflow.

Commercial risk

The Group's commercial risk is associated with adverse changes in the prices of products due to a decrease in demand from customers, an excess supply from metal producers or unpredictable market fluctuations in the domestic and world markets. The consequence of this risk is a reduction in revenue from sales and profitability, as well as a decrease in cash inflows. In order to minimize this risk, the Group regularly monitors the price dynamics on the metal products market, continuously monitors the quality of products, and expands its product mix to keep sufficient demand for its products from existing and new customers.

Risk of sales markets loss

The introduction of restrictions or prohibitions for the import of Ukrainian metal products within the protectionist policies of foreign countries or due to the deterioration of geopolitical relations with other countries, in particular with the Russian Federation, may lead to a decrease or loss of relevant markets. Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effect to the extent possible.

Risk of prices increase for raw material and transport services

Fluctuations of prices for raw materials, energy, other materials and services have a significant impact on the activities of the Group. The increase of prices for raw materials and other materials as a result of unfavorable macroeconomic situation or a monopoly of specific suppliers leads to an increase in the cost of production and a corresponding reduction in the level of profitability of the Group. A further negative impact relates to the increased cost of transport services, which leads to uncompetitiveness in some markets or low margin sales. In order to minimize risk, the Company uses tender procedures to determine the optimal suppliers of materials, raw materials and services. In addition, the Group implements programs of optimization of production, resource conservation, and reduction of fixed costs to keep the necessary level of profitability.

Foreign currency risk

Since the Group operates both in Ukrainian hryvnia and in foreign currencies, in particular in such currencies as the US dollar, euro and the Russian ruble, currency risk in the form of potential losses from the presence of open positions in foreign currencies as a result of an adverse change exchange rates is attributable for the activity of the Group. Currency risk is primarily due to the following activities of the Group:

- export of manufactured products to CIS countries, Europe and other countries;
- import of materials and non-current assets from other countries;
- attraction of borrowed funds in foreign currency from the domestic banks.

The main instrument of foreign currency risk management used by the Group is to maintain a net monetary position in foreign currency at an acceptable level and forecast cash flows in foreign currency in order to minimize losses from unfavorable changes in the currencies exchange rates.

The assessment of the level of this risk for the activities of the Group is disclosed in Note 33 to the separate financial statements.

Credit risk

Credit risk arises in the case of failure of customers or other counterparties of the Group to meet their obligations. The credit risk of the Group is primarily resulted from the accounts receivables arising from operating activities, as well as cash and deposits in banks.

The credit risk of the Group connected with cash and cash equivalents is related to the default of banks to meet their obligations and is limited by the amounts of deposits, cash and cash equivalents placed on bank accounts. The management of the Group believes that the banks in which the Group's funds are placed, have a minimal probability of non-fulfillment of obligations, and constantly monitors the financial position of these banks.

In order to manage the credit risk of accounts receivable, the Group uses credit policy for customers and continuously monitors the creditworthiness of its customers. Most of the Group's sales are made to the customers with an acceptable credit history, or on the prepayment basis. The Group does not require collateral in respect of its financial assets.

The assessment of the level of this risk for the activities of the Group is disclosed in Note 33 to the separate financial statements.

Interest rate risk

As at 31 December 2019 and 2018 the Group borrowed at fixed rates only, and, respectively, the deposits had also been placed at fixed rates. As the interest rate changes risk primarily relates to floating interest rate instruments, the Group was not exposed to interest rate risk at the reporting date

Liquidity risk

Liquidity risk arises as a result of lack of liquid assets to fulfill falling due obligations by the Group. To manage this risk, the Group analyzes the maturity of its assets and liabilities and plans for cash flows depending on the expected timing of the fulfillment of obligations under the relevant instruments in order to ensure that sufficient funds are available to meet the creditors' requirements on an ongoing basis.

The assessment of the level of this risk for the activities of the Group is disclosed in Note 33 to the separate financial statements.

7. RESERCH AND INNOVATION

The scientific and technical activities of the Group are aimed at the development of production potential, improvement of product quality and increase of the efficiency of the Group's production. The main directions of innovation and investment activity of the Group are:

- renewal and reconstruction of morally and physically obsolete technological equipment;
- energy security and energy saving, implementation of energy and resource saving technologies;
- ensuring product quality control;
- development and modernization of information technologies, automation of technological processes, renewal of computer equipment and networks.

The Group actively introduces new production, energy and resource-saving technologies. Therefore, in order to increase the efficiency of production, the Group carried out the following works in 2018:

- replacement of the forging floor of the forging furnace of the forge-pressing workshop;
- replacement of fibrous lining of the gliding tubes for the furnace 550;
- the purchase of three Fuchs forklifts;
- finalizing of reconstruction process of the DC power supply network of the warehouse-DSS with the replacement of the Fulmen battery;
- purchase of a geodetic instrument electronic theodolite.

The Group expects that, among other measures, acquired in 2019 lens of x50 magnification for an inverted microscope of reflected light and a radiometer for the specific activity of radionuclides for proper control of the products produced will increase production efficiency and product quality.

In 2020, the Group plans to extend the complex of measures aimed at modernization of production and improvement of its efficiency, in particular:

- modernization of radial forging machines RKM -1000 and RKM-340;
- modernization of technical water metering units and electromechanical part of the gas-oxygen refining unit's control system.

In 2019, the Group performed modernization and reconstruction of existing fixed assets, as well as acquired new fixed assets for the total amount of UAH 92,764 thousand. (2018: UAH 110,313 thousand). Cash outflows for the purchase of non-current assets in the process of investment activity of the Group was in the amount of UAH 46,173 thousand. (2018: 44,625 thousand UAH).

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED MANAGEMENT REPORT
For the year ended 31 December 2019

8. FINANCIAL INVESTMENTS

As at 31 December 2019, the Group's investments in subsidiaries were the following:

<i>Name of the Group</i>	<i>Ownership</i>	<i>Business activities</i>	<i>Carrying value, UAH thousand</i>
Ekovtorresurs LLC, Ukraine	100%	Trading	4,690
Cutlery Plant-DSS LLC, Ukraine	100%	Production	1,244

As at 31 December 2018, the Group had the following investment in associate:

<i>Name of the Group</i>	<i>Ownership</i>	<i>Business activities</i>	<i>Carrying value, UAH thousand</i>
Ferroterm LLC, Ukraine	50%	Trading	–

9. PROSPECTS FOR DEVELOPMENT

The Group's prospects for development in 2019 and subsequent periods depend on the following factors:

1. Macroeconomic development of Ukraine and geopolitical relations have a direct impact on the activities of the Group. The following forecasts will have a positive impact on the future development of the Group.

- Forecasted growth of Ukraine's GDP in 2020 is expected to be 3.3%, accelerating to 3.8% in 2021 (according to the consensus forecast of the National Bank of Ukraine).
- Forecasted inflation rate, according to IMF, is expected to be 5.9%, according to NBU – not more than 5.0%.

2. Development of metallurgy market in Ukraine and in the world

- In subsequent periods, further increase of competition from the Chinese, Russian and other manufacturers of metal products on the world market is expected, which will require the Group to strengthen its own competitive position in the metal products market.
- Today there is a need to develop governmental support programs for production modernization of metallurgical companies.
- Measures of protectionist policies provided by Ukraine and other countries, in particular the introduction and increase of customs tariffs, have a direct impact on the choice of markets and suppliers by the Group.

3. The Group's strategy and plans

- To ensure profitable operations in the future, the Group is developing measures to increase sales volumes by increasing quality of products produced and expanding the assortment.
- The Company continues implementation of program for reducing the cost of production and costs optimization.
- An important development factor is the maintenance of stable business relations with banks in order to attract new financial resources and manage the existing loan portfolio.

10. CORPORATE GOVERNANCE

Corporate governance bodies, their composition and powers

The corporate governance bodies of the Group in accordance with the Charter are the General Shareholders Meeting, the Supervisory Board and the Management Board. The powers of these bodies are described in section 1 "Organizational structure and description of activities of the Group" of this management report. Detailed information on the authority and functioning of management bodies is provided in the Group's Charter¹.

Composition of the Management Board of the Group:

- Kiyko S.G., Chairman of the Board;
- Katerysha A.A., member of the Board;
- Barabash S.O., member of the Board;
- Zinovkin M.V., member of the Board;
- Truhan V.O., member of the Board

¹ The Charter of the Group is placed on the official site of the Unified State Register of Legal Entities, Individuals-Entrepreneurs and Public Units of the Ministry of Justice of Ukraine <https://usr.minjust.gov.ua>, the access code is 264975881555.

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED MANAGEMENT REPORT
For the year ended 31 December 2019

Composition of the Supervisory Board of the Group:

- Chuprun V.M. – representative of shareholder BELLUTON COMMERCE LIMITED;
- Yakumets S.P. – representative of shareholder WENOX HOLDINGS LIMITED;
- Savchuk Y.V. – representative of shareholder AMBELARIA INVESTMENTS LIMITED;
- Troyitska T.M. – representative of shareholder BOUNDRYCO LTD;
- Kovtun M.V. – representative of shareholder MIDDLEPRIME LIMITED;
- Agarkova T.S. – representative of shareholder GAZARO LTD.

The Supervisory Board meetings are held when necessary. In 2019, 70 meetings of the Supervisory Board were held, in which issues in respect of operational, financial and investment activities of the Group were considered, as stipulated by the Group's Charter.

Corporate governance strategy and prospects for corporate governance development

The Group views the corporate governance as a system of interaction between the corporate governance bodies of the Group and the stakeholders, which ensures a balance of interests of the parties and is aimed at increasing the efficiency of the Group. Therefore, PJSC "DNIPROSPETSSTAL" gradually improves the system of corporate governance, taking into account the best world practices in this area, in order to ensure the sustainable development of the Group.

Calling and holding the general meeting of shareholders

Annual General Shareholders Meeting of PrJSC "DNIPROSPETSSTAL" took place on 23 April 2019. At these meeting, the following decisions were taken:

- the reports of the Management Board, the Supervisory Board and the Revision Commission, as well as the Annual report of the Group for 2018, were approved;
- Due to the absence of net profit based on the Group's performance in 2018, the profit for 2018 should not be distributed, dividends not accrued and contributions to the reserve fund not made;
- The full membership of the Group's Audit Committee members was terminated;
- New members of the Audit Committee of the Group were elected;
- Appointed by the entity to provide statutory audit services for the financial statements of PJSC "DNIPROSPETSSTAL" Ernst & Young Limited Liability Group Auditing Services.

The next Annual General Shareholders Meeting of PrJSC "DNIPROSPETSSTAL" is scheduled to be held in April 2020.

Structure of shareholders and their share of ownership in the share capital

As at 31 December 2019, the structure of shareholders of the Group was the following:

<i>Name</i>	<i>Number of shares</i>	<i>Ownership share</i>
WENOX HOLDINGS LIMITED, Cyprus	506,477	47,1128%
GAZARO LTD, Cyprus	177,592	16,5197%
BOUNDRYCO LTD, Cyprus	118,394	11,0131%
MIDDLEPRIME LIMITED, Cyprus	105,247	9,7902%
CRASCODA HOLDINGS LIMITED, Cyprus	71,840	6,6826%
Other shareholders with the individual ownership less than 5%	95,480	8,8916%
	1,075,030	100%

All shares of the Group are ordinary shares and exist exclusively in non-documentary form.

The owners of securities with special control rights and a description of these rights

The rights of the owners of the shares of the Group are specified in Article 4 of the Charter. Among the shareholders of the Group there are no holders of securities with special control rights. There is no information about any restrictions on the shareholders' rights of participation and voting at the general meeting.

The Group's operations with its own shares

During 2019, the Group did not carry out transactions with its own shares.

Main characteristics of internal control system

The system of internal control of the Group is based on the risk-oriented approach and provides for such procedures as identification, assessment and monitoring of risks that have a significant impact on the activities of the Group; development, application and improvement of control over identified risks; control of internal control system.

PrJSC «DNIPROSPETSSTAL»
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For the year ended 31 December 2019

The Group applies internal policies and regulations regarding key business processes to ensure the effective operation of the Group's internal control system.

The Revision Committee exercises control over the financial and business activities of the Group.

The Group prepares the financial statements in accordance with International Financial Reporting Standards. Annually the Group engages an external independent auditor to audit the financial statements.

Dividend policy of the Group

The procedure of Group's profits and losses distribution is determined by the decision of the General Meeting of the Group's shareholders in accordance with the current legislation of Ukraine and the Charter of the Group.

In 2019, the Group has not declared any dividends.

Policies on the formation of corporate governance bodies

The requirements to the members of the Group's corporate governance bodies, in particular, to the Supervisory Board and the Management Board, are set out in the Charter of the Group, as well as in the Regulations on the Supervisory Board.

The procedure for the appointment and dismissal of officials of the Group

The Group's officials are appointed:

- Members of Supervisory Board are elected and dismissed by the General Meeting of Shareholders by cumulative voting in accordance with the Charter of the Group.
- Members of the Revision Committee are elected and dismissed by the General Meeting of Shareholders in accordance with the Charter of the Group.
- Management Board members are appointed and dismissed by the Supervisory Board.
- Chief Accountant is appointed by Chairman of the Board with preliminary approval of the Supervisory Board in accordance with the decision of the Supervisory Board dated 1 November 2019 and dismissed by the Order of the Chairman of the Board in accordance with Code of Labor Laws of Ukraine.

Corporate governance code

PrJSC "DNIPROSPETSSTAL" is guided by principles of corporate governance approved by the Decision of National Commission on Securities and Stock Market "On approval of the corporate governance principles" №955 dated 22 July 2014, available on the Commission's official site <https://www.nssmc.gov.ua>. In the course of its activities, the Group does not apply paragraphs 3.1.5 - 3.1.6 and paragraphs 3.1.12 - 3.1.16 referred to activities of the Supervisory Board due to the fact that the Group is private joint stock Group, which, in accordance with articles 53, 53-1, 56, 56-1, 56-2, 56-3 of the Law of Ukraine "On Joint Stock Companies", is not required to include independent directors to the composition Supervisory Board and to form committees of the Supervisory Board obligatory.

Chairman of the Board

13 March 2020



Sergiy Kiiko



Ernst & Young Audit Services LLC
19A Khreshchatyk Street
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
www.ey.com/ua

ТОВ «Ернст энд Янг
Аудиторські послуги»
вул. Хрещатик, 19А
Київ, 01001, Україна
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030

Independent auditor's report

To the shareholders of PRIVATE JOINT STOCK COMPANY "ELECTROMETALLURGICAL WORKS "DNIPROSPETSSTAL" NAMED AFTER A.M. KUZMIN"

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of PRIVATE JOINT STOCK COMPANY "ELECTROMETALLURGICAL WORKS "DNIPROSPETSSTAL" NAMED AFTER A.M. KUZMIN" (the Company) and its subsidiaries (the Group), which are presented on pages 1-36 and comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated equity statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for qualified opinion

As described in Notes 11, 16, 17, 21 and 22 to the consolidated financial statements, during 2019 and 2018 the Group had a significant concentration of revenue from sales of finished goods, purchases of materials and selling expenses with several counterparties, and as at 31 December 2019 and 2018 - respective balances of trade receivables, trade payables and current liabilities on advances received. The transactions and balances with such counterparties were not disclosed as transactions and balances with related parties in Note 31. We were unable to obtain sufficient appropriate audit evidence to determine whether these operations and respective balances should be disclosed in accordance with IAS 24 *Related party disclosure*.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

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

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



material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<i>Revenue recognition</i>	
<p>Revenue recognition was a key audit matter since the amount of revenue is material to the financial statements and due to large number of customers and management judgment involved in the revenue recognition process. Information on the accounting policy for revenue recognition is disclosed in Note 4 to the consolidated financial statements and disclosures related to revenue are included in Note 21 of the consolidated financial statements.</p>	<p>We gained understanding of the revenue recognition process. We assessed the design and operating effectiveness of controls over revenue recognition, including the timing of revenue recognition. We assessed the Group's revenue recognition accounting principles and tested the application of the accounting principles for a sample of transactions. We analyzed the contractual arrangements with key customers and considered the moment of revenue recognition. We analyzed revenue by months and by customers. Furthermore, we tested a sample of sales transactions recognized close to year-end by comparing dates of recorded revenue to dates according to the relevant primary documents. We analyzed the disclosures in respect of revenue recognition included in the consolidated financial statements.</p>

Other information included in the Group's Management report and the Annual Information of the Issuer of Securities for 2019

Other information comprises the information included in the Management report and in the Annual Information of the Issuer of Securities (including the Corporate Governance Report) for 2019, other than the consolidated financial statements and our auditor's report thereon. We obtained the Management report prior to the date of our auditor's report, and we expect to obtain the Annual information of the Securities Issuer for 2019 after the date of our auditor's report. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other 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. We have nothing to report in this regard. When we read the Annual Information of the Issuer of Securities (including the Corporate Governance Report), if we conclude that there is a material misstatement therein, we will communicate the matter to the Supervisory Board and the Company is required to inform the National Securities and Stock Market Commission of such material misstatement.

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

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

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

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

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

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

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

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



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

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

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

Report on other legal and regulatory requirements

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

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Group's consolidated financial statements on 20 November 2012 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Group is 8 years.

Consistency of independent auditor's report with the additional report to the Supervisory Board

We confirm that our independent auditor's report is consistent with the additional report to the Supervisory Board of the Group, which we issued on 11 March 2020 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

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

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

Alexander Svistich
Partner
for and on behalf of Ernst & Young Audit Services LLC

Kyiv, Ukraine

13 March 2020

Ernst & Young Audit Services LLC is included in the Register of auditors and audit activity entities,
Held by the Audit Chamber of Ukraine
registration number: 3516.

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019
(in thousands of Ukrainian hryvnia)

Entity: PrJSC «DNIPROSPETSSTAL»
Location: Factory district
Ownership: private joint stock company
Type of activity: Production of pig iron, steel and ferroalloys
Average headcount: 4,876
Address: 81, Pivdene Highway, Zaporizhzhya, 69008, Zaporizhzhya region, Ukraine
Units of measurement: thousands of UAH
Prepared in accordance with (mark with "v" in relevant box):
Ukrainian Accounting Standards
International Financial Reporting Standards

Date (year, month, date)	2019	12	31
per EDRPOU	00186536		
per KOATUU	2310136600		
per KOPFG	230		
per KVED	24.10		

V

Balance sheet
(Statement of financial position)
as at 31 December 2019

Form № 1

DKUD code

1801001

Assets	Line code	As at 31 December 2018	As at 31 December 2019
1	2	3	4
I. Non-current assets			
Intangible assets	1000	9,144	7,231
historical cost	1001	49,425	50,423
accumulated amortization	1002	(40,281)	(43,192)
Capital investments in progress	1005	28,971	35,294
Property, plant and equipment:	1010	4,938,354	4,673,940
historical cost	1011	5,056,708	5,125,350
accumulated depreciation	1012	(118,354)	(451,410)
Investment property	1015	-	-
Long-term biological assets	1020	-	-
Non-current financial investments:			
accounted for under the equity method	1030	-	-
other financial investments	1035	-	-
Non-current receivables	1040	-	-
Deferred tax assets	1045	-	-
Other non-current assets	1090	284,308	38,010
Total Section I	1095	5,260,777	4,754,475
II. Current assets			
Inventories	1100	1,398,743	1,130,820
Raw materials	1101	638,910	525,601
Work in progress	1102	491,092	367,354
Finished goods	1103	268,706	237,843
Goods	1104	35	22
Current biological assets	1110	-	-
Accounts receivable for goods, works and services	1125	1,186,397	929,193
Accounts receivable on settlements:			
on prepayments made	1130	75,691	26,348
with budget	1135	110,724	68,412
including prepayments for income tax	1136	1	24
with accrued income	1140	2,204	2,760
Other accounts receivable	1155	5,802	3,163
Current financial investments	1160	-	313,583
Cash and cash equivalents:	1165	67,103	9,661
cash in hand	1166	5	6
cash in banks	1167	67,098	9,655
Future expenses	1170	1,970	1,874
Other current assets	1190	12,414	14,754
Total Section II	1195	2,861,048	2,500,568
III. Assets classified as held for sale and discontinued operations	1200	-	-
Balance	1300	8,121,825	7,255,043

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019
(in thousands of Ukrainian hryvnia)

Liabilities and equity	Line code	As at 31 December 2018	As at 31 December 2019
1	2	3	4
I. Equity			
Share capital	1400	49,720	49,720
Contributed capital	1405	3,452,405	3,226,288
Additional capital	1410	114,747	114,747
Reserve fund	1415	12,430	12,430
Retained earnings (accumulated deficit)	1420	(2,353,527)	(2,140,308)
Unpaid capital	1425	-	-
Treasury shares	1430	-	-
Total Section I	1495	1,275,775	1,262,877
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	300,762	308,712
Non-current bank loans	1510	3,920,356	2,794,314
Other non-current liabilities	1515	-	315
Non-current provisions	1520	509,679	646,870
Special purpose financing	1525	-	-
Total Section II	1595	4,730,797	3,750,211
III. Current liabilities and provisions			
Short-term bank loans	1600	-	-
Current liabilities for:			
current portion of non-current liabilities	1610	120,975	618,611
for goods, works and services	1615	1,748,917	1,373,200
with budget	1620	12,964	13,753
with Income tax	1621	-	-
social insurance	1625	10,759	11,529
Wages	1630	33,779	37,314
Current liabilities for advances received	1635	60,702	45,799
Current liabilities for payments to participants	1640	14,330	14,330
Other provisions	1660	73,248	93,555
Deferred revenue	1665	-	-
Other current liabilities	1690	39,579	33,864
Total Section III	1695	2,115,253	2,241,955
IV. Liabilities directly associated with the assets classified as held for sales and discontinued operations			
	1700	-	-
Balance	1900	8,121,825	7,255,043

Chairman of the Board



Sergiy Kiiko

Chief Accountant

Halyna Luchko

13 March 2020

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

Entity: PrJSC «DNIPROSPETSSTAL»

Date (year, month, date)
per EDRPOU

2019	12	31
00186536		

Statement of financial results
(Statement of comprehensive income)
for the year 2019

Form № 2

DKUD code

1801003

I. FINANCIAL RESULTS

Description	Line code	Current period	Preceding period
1	2	3	4
Net revenue from sales of goods (merchandise, works, services)	2000	8,291,100	9,630,917
Cost of goods (merchandise, works, services) sold	2050	(7,821,661)	(9,111,430)
Gross:			
Profit	2090	469,439	519,487
Loss	2095	-	-
Other operating income	2120	136,455	65,737
Administrative expenses	2130	(155,500)	(158,499)
Selling expenses	2150	(296,141)	(330,238)
Other operating expenses	2180	(132,668)	(172,621)
Financial results from operating activities:			
Profit	2190	21,585	-
Loss	2195	-	(76,134)
Income from investments accounted for under equity method	2200	-	-
Other finance income	2220	35,057	31,985
Other income	2240	553,475	61,651
Finance expenses	2250	(491,773)	(519,913)
Losses from investments accounted for under equity method	2255	-	-
Other expenses	2270	(6,632)	(12,782)
Financial results from ordinary activities before taxation:			
Profit	2290	111,712	-
Loss	2295	-	(515,193)
Income tax on ordinary activities	2300	(28,903)	86,744
Financial results from stopped activities after taxation	2305	-	-
Net financial result:			
Profit	2350	82,809	-
Loss	2355	-	(428,449)

II. COMPREHENSIVE INCOME

Description	Line code	Current period	Preceding period
1	2	3	4
Revaluation (impairment) of non-current assets	2400	-	398,019
Revaluation (impairment) of financial instruments	2405	-	-
Accumulated translation differences	2410	-	-
Share of other comprehensive income of associates and joint ventures	2415	-	-
Other comprehensive income	2445	(116,627)	(29,515)
Other comprehensive income before tax	2450	(116,627)	368,504
Income tax related to other comprehensive income	2455	20,920	(64,616)
Other comprehensive income, net of tax	2460	(95,707)	303,888
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	(12,898)	(124,561)

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

PJSC «DNIPROSPETSSTAL»

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended at 31 December 2019

(in thousands of Ukrainian hryvnia)

III. ELEMENTS OF OPERATING EXPENSES

Description 1	Line code 2	Current period 3	Preceding period 4
Cost of materials	2500	6,475,034	8,004,428
Labour costs	2505	863,275	793,964
Social security charges	2510	192,192	169,337
Depreciation and amortization	2515	339,930	349,746
Other operating expenses	2520	404,101	483,706
Total	2550	8,274,532	9,801,181

IV. CALCULATION OF EARNINGS PER SHARE

Description 1	Line code 2	Current period 3	Preceding period 4
Annual average number of ordinary shares	2600	1,075,030	1,075,030
Adjusted annual average number of ordinary shares	2605	1,075,030	1,075,030
Net income per ordinary share	2610	0.077	(0.399)
Adjusted net income per ordinary share	2615	0.077	(0.399)
Dividends per ordinary share	2650	—	—

Chairman of the Board



Sergiy Kiiko

Chief Accountant

Halyna Luchko

13 March 2020

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2019
(in thousands of Ukrainian hryvnia)

Entity: PrJSC «DNIPROSPETSSTAL»

Date (year, month, date)
per EDRPOU

2019	12	31
00186536		

Statement of cash flows
(direct method)
for the year 2019

Form № 3

DKUD code

1801004

Description	Line code	Reporting period	Preceding period
1	2	3	4
I. Cash flows from operating activities			
Cash inflow from:			
Revenue from sales of goods (merchandise, works, services)	3000	9,079,309	10,334,525
Refund of taxes and compulsory payments	3005	299,477	404,276
including refund of VAT	3006	299,477	404,276
Special purpose financing	3010	15,122	12,595
Including receipts of subsidies and grants	3011	15,122	12,595
Receipts of advances received from customers	3015	45,889	60,702
Receipts from return of prepayments	3020	23,145	18,849
Receipts of interests on outstanding balances on current bank accounts	3025	34,485	31,836
Receipts of forfeit from debtors (fines and penalties)	3035	6,883	1,793
Receipts from operational lease	3040	22,633	23,650
Other receipts	3095	2,214	584
Cash disbursements for settlement of liability for:			
Goods (works, services)	3100	(7,748,890)	(9,136,731)
Salary	3105	(656,327)	(595,512)
Deductions for social security charges	3110	(235,019)	(216,357)
Tax liabilities and charges	3115	(200,528)	(186,078)
Payments for income tax liabilities	3116	(55)	(34)
Payments for value added tax liabilities	3117	(1,429)	(1,838)
Payments for other taxes and compulsory payments	3118	(199,043)	(184,206)
Prepayments made	3135	(26,432)	(75,691)
Return of advances received	3140	(3,510)	(5,552)
Other payments	3190	(87,436)	(76,418)
Net cash flow from operating activities	3195	571,015	596,471
II. Cash flows from investing activities			
Proceeds from sale of:			
financial investments	3200	8,588	-
non-current assets	3205	256	136
Receipt of:			
Interests	3215	-	-
Dividends	3220	-	-
Receipts from derivatives	3225	-	-
Receipts from loans settlement	3230	-	-
Other proceeds	3250	17,000	54,400
Cash disbursement for the purchase of:			
financial investments	3255	-	-
non-current assets	3260	(46,173)	(44,625)
Payments for derivatives	3270	-	-
Cash disbursements for loan provision	3275	-	-
Other payments	3290	(92,923)	(142,398)
Net cash flows from investing activities	3295	(113,252)	(132,487)

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2019
(in thousands of Ukrainian hryvnia)

Description 1	Line code 2	Reporting period 3	Preceding period 4
III. Cash flows from financing activities			
Income from:			
Share capital	3300	-	881
Proceeds from borrowings	3305	-	-
Other cash receipts	3340	89,900	-
Cash disbursements for the purchase of:			
Own securities	3345	-	-
Repayment of borrowings	3350	(86,683)	(90,946)
Dividends paid	3355	-	(3)
Interest paid	3360	(417,541)	(443,892)
Other payments	3390	(93,473)	-
Net cash flows from financing activities	3395	(507,797)	(533,960)
Net decrease in cash and cash equivalents	3400	(50,034)	(69,976)
Cash balance at the beginning of the year	3405	67,103	138,968
Net foreign exchange difference	3410	(7,408)	(1,889)
Cash balance at the end of the year	3415	9,661	67,103

Line 3190 «Other payments» of section «Cash flows from operating activities» includes settlements with other creditors in amount of UAH 31,907 thousand (2018: UAH 18,592 thousand), charges for bank loans servicing in amount of UAH 12,378 thousand (2018: UAH 15,403 thousand), settlements with employees and other debtors in amount of UAH 16,168 thousand (2018: UAH 14,718 thousand), payments for liability under individual insurance program in amount of UAH 11,836 thousand (2018: UAH 10,930 thousand) and other disbursements in amount of UAH 15,147 thousand (2018: UAH 16,256 thousand).

Line 3250 "Other proceeds" of section «Cash flows from investing activities» includes receipts from the return of financial aid granted.

Line 3290 «Other payments» of section «Cash flows from investing activities» includes the long-term deposits replenishment in the amount of UAH 79,923 thousand (2018: UAH 90,398 thousand) and financial aid granted in the amount of UAH 13,000 thousand (2018: UAH 52,000 thousand).

Chairman of the Board



Sergiy Kiiko

Chief Accountant

Halyna Luchko

13 March 2020

PJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

Entity: PJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"

Date (year, month, date)
per EDRPOU

2019	12	31
00186536		

**Equity statement
for the year 2019**

Description		Line code	Share capital	Contributed capital	Additional Capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10	
Balance at the beginning of the year	4000	49,720	3,452,405	114,747	12,430	(2,353,527)	-	-	1,275,775	
Adjustments:										
Changes in accounting policies	4005	-	-	-	-	-	-	-	-	
Correction of errors	4010	-	-	-	-	-	-	-	-	
Other adjustments	4090	-	-	-	-	-	-	-	-	
Adjusted balance at the beginning of the year	4095	49,720	3,452,405	114,747	12,430	(2,353,527)	-	-	1,275,775	
Net profit (loss) for the reporting period	4100	-	-	-	-	82,809	-	-	82,809	
Other comprehensive income	4110	-	-	-	-	(95,707)	-	-	(95,707)	
Increase in the value of non-current assets	4111	-	-	-	-	-	-	-	-	
Other income	4116	-	-	-	-	(95,707)	-	-	(95,707)	
Distribution of profit:										
Payments to shareholders (dividends)	4200	-	-	-	-	-	-	-	-	
Distribution of profit to share capital	4205	-	-	-	-	-	-	-	-	
Distribution to the reserve fund	4210	-	-	-	-	-	-	-	-	
Contributions made by shareholders:										
Contributions to capital	4240	-	-	-	-	-	-	-	-	
Repayment of debts from equity	4245	-	-	-	-	-	-	-	-	

Form № 4DKUD code1801005

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

PJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

Description	Line code	Share capital	Contributed capital	Additional Capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Withdrawal of capital:									
Purchase of shares (contributions)	4260	-	-	-	-	-	-	-	-
Re-sale of purchased shares (contributions)	4265	-	-	-	-	-	-	-	-
Cancellation of purchased shares (contributions)	4270	-	-	-	-	-	-	-	-
Withdrawal of contribution in capital	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(226,117)	-	-	226,117	-	-	-
Other changes in equity as a result of new accounting standards adoption	4291	-	-	-	-	-	-	-	-
Total changes in equity	4295	-	(226,117)	-	-	213,219	-	-	(12,898)
Balance at the end of the year	4300	49,720	3,226,288	114,747	12,430	(2,140,308)	-	-	1,262,877

**Equity statement
for the year 2018**

Form № 4 DKUD code 1801005

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	49,720	3,342,226	114,627	12,430	(2,134,352)	-	(761)	1,383,890
Adjustments:									
Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other adjustments	4090	-	11,517	-	-	7,347	-	-	18,864
Adjusted balance at the beginning of the year	4095	49,720	3,353,743	114,627	12,430	(2,127,005)	-	(761)	1,402,754
Net profit (loss) for the reporting period	4100	-	-	-	-	(428,449)	-	-	(428,449)
Other comprehensive income	4110	-	328,090	-	-	(24,202)	-	-	303,888
Increase in the value of non-current assets	4111	-	328,090	-	-	-	-	-	328,090
Other income	4116	-	-	-	-	(24,202)	-	-	(24,202)

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

PJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Distribution of profit:									
Payments to shareholders (dividends)	4200	-	-	-	-	-	-	-	-
Distribution of profit to share capital	4205	-	-	-	-	-	-	-	-
Distribution to the reserve fund	4210	-	-	-	-	-	-	-	-
Contributions made by shareholders:									
Contributions to capital	4240	-	-	-	-	-	-	-	-
Repayment of debts from equity	4245	-	-	-	-	-	-	-	-
Withdrawal of capital:									
Purchase of shares (contributions)	4260	-	-	-	-	-	-	-	-
Re-sale of purchased shares (contributions)	4265	-	-	120	-	-	-	761	881
Cancellation of purchased shares (contributions)	4270	-	-	-	-	-	-	-	-
Withdrawal of contribution in capital	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(229,428)	-	-	229,428	-	-	-
Other changes in equity as a result of new accounting standards adoption	4291	-	-	-	-	(3,299)	-	-	(3,299)
Total changes in equity	4295	-	98,662	120	-	(226,522)	-	761	(126,979)
Balance at the end of the year	4300	49,720	3,452,405	114,747	12,430	(2,353,527)	-	-	1,275,775

Chairman of the Board

Sergiy Kiiko

Chief Accountant

Halyna Luchko

13 March 2020



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

PrJSC «DNIPROSPETSSTAL»
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

1. Corporate information

PRIVATE JOINT STOCK COMPANY «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN» (the "Company") is a successor of a predecessor a state owned enterprise "Electrometallurgical works "Dniprospetsstal" named after A.M. Kuzmin" created in 1994 in the process of reorganisation, founded in 1932, to Open joint stock company "Electrometallurgical works "Dniprospetsstal" named after A.M. Kuzmin" in accordance with the decree of the President of Ukraine #210 dated 15 June 1993 *On Corporatization of Companies* and the order of the Ministry of Economics of Ukraine #54 dated 27 August 1993 *On Approval of the List of Companies to be Corporatised*. Assets and liabilities of the enterprise and certain assets owned by the association of the Company's employees were contributed into its share capital. Following the requirements of the Ukrainian legislation, on 31 March 2011 the Company changed its name from Open joint stock company "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin" to PUBLIC JOINT STOCK COMPANY «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN». On June 7, 2018, the Annual General Meeting of Shareholders of the Company decided to change the type of the Company from the public to private and to change the name from PUBLIC JOINT STOCK COMPANY «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN» on a PRIVATE JOINT STOCK COMPANY «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN».

Principal activities of the Company and its subsidiaries (together – "the Group") include design, manufacture and distribution of stainless, tool, high-speed, powder, bearing and alloy structural steel products. The Group's products are used for manufacture of machinery parts, tools for metal and alloy machining, tubes and pipes, and bearings. The information about the Company's subsidiaries is disclosed in Note 30.

The registered office of the Company and principal place of business of the Group is 81, Pivdene Shose, Zaporizhzhya, Ukraine. The main production facilities of the Group are located on 83, Pivdene Shose, Zaporizhzhya, Ukraine. As at 31 December 2019, the Group employed 4,876 people (2018: 5,406 people).

As at 31 December 2019 and 2018, the shares of the Company were held by a number of legal entities and individuals such that none of them or their ultimate owners has unilateral control over the Company.

The financial statements of the Group as at 31 December 2019 and for the year then ended were authorized for issue on 13 March 2020.

Operating environment in Ukraine

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation (in particular in 2014-2018) and a significant level of domestic and foreign state debt.

Following the significant decline in 2014 – 2016, the Ukrainian economy started to demonstrate certain signs of recovery and growth. Main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labor emigration and low level of capital inflow.

The known and estimable effects of the above factors on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements. As at 31 December 2019 and 2018, the Group did not have assets located in Crimea or Donetsk and Lugansk region.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effect to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

2. Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that The Group will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities when they fall due in the normal course of business.

3. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain groups of property, plant and equipment: buildings and structures, machinery and equipment, transport and motor vehicles, fixtures and office equipment, which have been measured at fair value.

PrJSC «DNIPROSPETSSTAL»
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

These consolidated financial statements are presented in the Ukrainian hryvnia and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of The Company and subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS"), in reduction was approved by the International Accounting Standard Board ("IASB") and the requirements of the Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying The Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The subsidiaries' financial statements are prepared as at the same reporting date as the Company's, using consistent accounting policies. Adjustments are made to align any dissimilar accounting policies that may exist.

Subsidiaries were consolidated from the date of incorporation by the Company and continue to be consolidated until the date of disposal.

All intercompany balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

4. Accounting policies

4.1 Changes in accounting policies and disclosures

The Group has adopted IFRS 16 *Leases* 1 January 2019. The nature and impact of the adoption of these standards are described below. In 2019, certain other amendments to the standards and interpretations were also adopted that had no impact on these financial statements of the Group. The Group did not apply earlier adoption of the standards, clarifications or amendments that were issued, but not yet effective.

IFRS 16 *Leases*

IFRS 16 *Leases* replaces IAS 17 *Leases* and becomes effective since 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases.

The Group has applied IFRS 16 modified retrospective approach as at the date of first application, 1 January 2019. Accordingly, the Group did not restate the comparative information provided in accordance with IAS 17. The Group elected to use the recognition exemptions for lease contracts that, at commencement date, have a lease of 12 months or less and do not contain purchase option («short-term leases»), and lease contracts for which the underlying asset is of low-value («low-value asset»).

The effect of the adoption of IFRS 16 as at 1 January 2019 was as follows:

	<i>Line code</i>	<i>1 January 2019</i>
<i>Impact on the separate statement of financial position as at 1 January 2019</i>		
<i>I. Non-current assets</i>		
Fixed assets (Right-of-use assets)	1011	786
		786
<i>II. Non-current liabilities and provisions</i>		
Non-current liability (Long-term portion)	1515	(211)
<i>III. Current liabilities and provisions</i>		
Current liability (Current portion of long-term liability)	1610	(575)
		(786)

As a result of application of IFRS 16, the Group recognized Right-of-use asset and Lease liability at the amount of UAH 786 thousand, respectively.

PrJSC «DNIPROSPETSSTAL»
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

The lease liabilities as at 1 January 2019 is reconciled with the operating lease commitments as at 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	1,048
Weighted average incremental borrowing rate as at 1 January 2019	19.7%
Discounted operating lease commitments at 1 January 2019	786

4.2 Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements are presented in the Ukrainian hryvnia which is the functional currency and the presentation currency of the Group.

Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect as at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the reporting date. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognized in the profit and loss.

Property, plant and equipment

The carrying value of all groups of fixed assets, excluding land and construction in progress and uninstalled equipment, is accounted by using revaluation model. The Group regularly performs an analysis of the carrying value of property, plant and equipment to determine the need for a further revaluation.

The fair value of property is determined by reference to market values of respective items at the valuation date. The fair values of specialized machinery, equipment, tools and fixtures are determined by using depreciated replacement cost approach as no market values are available for such items. Until next regular revaluation these items are carried at the revalued amounts less any subsequent accumulated depreciation and impairment.

For fixed assets that are recognized at fair value in the financial statements on a recurring basis, The Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The land is stated at cost. Significant accounting judgments and factors that are taken into account with determining fair value of property, plant and equipment stated in Note 5.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in other comprehensive income.

A revaluation deficit is recognized in other comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is stated at cost and comprises property, plant and equipment, which have not yet been completed. No depreciation is recorded on such assets until they are ready for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit and loss in the year the item is derecognized.

Accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

PrJSC «DNIPROSPETSSTAL»
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended at 31 December 2019
(in thousands of Ukrainian hryvnia)

Depreciation of fixed assets is accounted for by straight-line method. The depreciation charge starts from the moment when the asset is ready for its intended use. The useful lives of the assets are estimated as follows:

Buildings and structures	2 to 109 years
Machinery and equipment	1 to 82 years
Transport and motor vehicles	3 to 75 years
Fixtures and office equipment	2 to 76 years

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. The items of social infrastructure facilities do not meet the definition of an asset according to IFRS, therefore these items are not recorded in these consolidated financial statements. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

Borrowing costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If they are not attributable to such an asset they are recognized as an expense when incurred. In 2018-2019 The Group did not capitalize the borrowing costs.

Intangible assets

Intangible assets include patent, trademark, accounting software, patents and other property rights acquired separately from business combination and measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

All intangible assets of The Group are assessed to have finite lives from 2 to 20 years.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, The Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use.

An asset's recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the profit and loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, The Group estimates the asset's or cash-generating unit's recoverable amount.

Previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. After such reversal depreciation costs of future periods are adjusted so that to assure an orderly write-off of the reassessed carrying amount of the asset less its residual value during the remaining period of its useful life.

Financial instruments – initial recognition and subsequent measurement

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

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i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and The Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which The Group has applied the practical expedient, The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which The Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 as described in the section *Revenue from contracts with customers* below.

In order to a financial asset to be classified and measured at Amortized cost or fair value through OCI, it needs to give rise to cash flows that are «solely payments of principal and interest (SPPI-test)» on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

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

As at 31 December 2019 and 2018, the Group had no financial assets at fair value through OCI with recycling of cumulative gains and losses, financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition and financial assets at fair value through profit or loss.

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- 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 derecognised, modified or impaired.

The Group's financial assets at Amortized cost includes trade and other receivables, deposits included under other non-current assets and/or current financial investments.

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Derecognition

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

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

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

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

Impairment of financial assets

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

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

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings. The Group has no financial liabilities at fair value through profit or loss or derivative instruments designated as hedging instruments for effective hedging.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Accounts payable, loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

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The Group recognized liabilities for borrowings in the borrowing structure but liabilities for accrued interests in other current liabilities.

Derecognition

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

iii) Offsetting of financial instruments

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

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable 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.

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which The Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Revenue from sale of steel products is recognized at the point in time when control of the asset is transferred to the customer, generally on dispatch or delivery of the products.

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

(i) Variable consideration

If the consideration in a contract includes a variable amount, The Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The existing contracts for the sale of steel products do not provide customers with a right of return of the products of good quality and do not include volume rebates, therefore do not result in variable consideration.

(ii) Significant financing component

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

Warranty obligations

The Group typically provides warranties for repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Refer to the accounting policy on provisions above.

Cost of sales

Cost of revenue that relates to the same transaction is recognized simultaneously with respective revenue.

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Value-added tax receivable

Value-added tax (VAT) receivable relates to purchases of goods and services. The tax authorities permit the settlement of sales and purchases VAT on a net basis.

The Group's management believes that the amount due from the state will be either recovered in cash or will be reclaimed against the VAT liabilities related to sales.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position include cash in banks and in hand and short term deposits with initial maturity less than 3 months.

For the purpose of statement of cash flows, cash and cash equivalents include cash and short term deposits as defined above, less unpaid bank overdrafts.

Provisions

Provisions are recognized when The Group has a present obligation (legal or constructive) as a result of a past event or 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. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Pension obligations

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

In addition, The Group has two significant defined benefit post-employment plans, both of which are unfunded. These plans comprise: a) The Group's legal contractual obligation to its employees to make one-off payment on retirement to employees with long service and other benefits according to the collective bargaining agreements, and b) The Group's legal obligation to compensate the Ukrainian state pension fund for additional pension benefits paid to certain categories of the former and existing employees of The Group.

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to these obligations at each balance sheet date. Actual results could vary from estimates made to the date.

Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax expense is calculated by The Group on the pre-tax income determined in accordance with the tax law of Ukraine using tax rates enacted at the reporting date.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognized 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. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

Contingent liabilities

Contingent liabilities are not recognized in these consolidated financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Leases

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

Group as a lessee

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

Right-of-use assets

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

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Lease liabilities

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

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

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

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

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

Short-term leases and leases of low-value assets

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

Group as a lessor

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

4.3 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

Standards and amendments	Effective date
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Indefinite period
IFRS 17 Insurance Contracts	1 January 2021
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Definition of a Business – Amendments to IFRS 3	1 January 2020
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
The Conceptual Framework for Financial Reporting	1 January 2020

5. Significant accounting judgments and estimates

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

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts. These estimates are based on information available at the reporting date. Actual results could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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Impairment of assets – determination of cash-generating units

IAS 36 *Impairment of Assets* requires an entity to perform impairment tests on cash-generating units. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. For many of The Group's identified cash-generating units a significant proportion of their output is consumed by another cash-generating unit.

The Group has determined that sufficient independent pricing information exists to accurately designate cash-generating units on a factory level.

Provision for impairment of assets

Significant judgment is used to estimate doubtful accounts and respective expected credit losses. In estimating expected credit losses such factors are considered as current overall economic conditions, industry-specific economic conditions and historical customer performance.

Changes in the economy, industry, or specific customer conditions may require adjustments to the expected credit losses recorded in the consolidated financial statements. As at 31 December 2019 and 2018, allowances for doubtful accounts have been made in the amount of UAH 3,296 thousand and UAH 9 thousand, respectively (Note 11).

Estimation of net realizable value for inventory

Inventory is stated at the lower of cost or net realisable value (NRV). Estimation of NRV of finished goods is conducted at each reporting date and is based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the period. NRV is estimated on the basis of market conditions and existing prices at the reporting date and determined by the Group, taking into account consultations of third parties and market conditions. As at 31 December 2019, inventory write-down using allowances to its net realisable value amounted to UAH 60,282 thousand (2018: UAH 49,942 thousand) (Note 10).

Deferred tax assets

Deferred tax assets are 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. The estimation of that probability includes judgments based on the expected performance (Note 9).

Value-added tax recoverable

Value-added tax receivable is reviewed at each reporting date and the outstanding balance is reduced to the extent that it is no longer probable that refund or VAT payable will be available within reasonably short period of time (usually twelve months) from the reporting date. The Group considers that VAT as at 31 December 2019 is fully recoverable.

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving the benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). The Group uses all available information about experience of its former employees with the other entities participating in the defined benefit state pension plan. Therefore, The Group accounts for the benefits relating to former employees as if it was a defined benefit plan. More details are provided in Note 20.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end on the basis of expectations of their future usage taking into consideration technological developments, competition, market conditions and other factors. If expectations differ from previous estimate, the changes are accounted for as changes in accounting estimates in accordance with IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*. These estimates may have an impact on the amount of the carrying values of property, plant and equipment in the consolidated statement of financial position and depreciation recognized in the profit and loss.

Fair value of property, plant and equipment

The carrying value of all groups of fixed assets, excluding land and construction in progress and uninstalled equipment, is accounted by using revaluation model.

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The fair value of real estate and non-specific equipment was determined by comparison with market value of similar property (Level 2 inputs) as at 31 December 2018 last valuation date. The fair value of specialized machinery, equipment is established at depreciated replacement cost method because market price for these fixed assets was not available (Level 3 inputs). Method of determining depreciated replacement cost is based on applying the value of the resemble asset to those, being evaluated and adjusted for actual depreciation (physical depreciation, functional depreciation and economic impairment). Assets similar to those, being evaluated, have to meet several requirements: (i) the similarity of the basic characteristics and parameters of the estimated object; (ii) proximity in time to the date of assessment by prices of comparable items.

For assessment of physical deterioration appraiser used as basis the determination of the effective age and useful life of assets. The effective age was determined on the basis of its actual age with adjustments on type of its use and maintenance.

During the last revaluation as at 31 December 2018, in determining the economic impairment for the valuation model, the appraiser applied the basic assumption – the discount of forecasted cash flows for 5 years using rates WACC of 22.93% (in particular, for WACC determination, appraisers have applied rates: risk-free rate in US dollars 3.19%, country risk 7.83%, systematic risk 1.35%, etc.) and the average consumer price index at 5.23%.

Increase in estimated discount rate (WACC) would result in a lower fair value of the items under revaluation; decreases in discount rate would result in a higher value of revalued items.

The Group evaluates the necessity of undertaking revaluation of the above mentioned property, plant and equipment on the annual basis taking into account market and non-market factors that certify on the probability of deviation of the carrying amounts from their fair values, in particular, significant drop or increase in market prices, industry or economic trends (Note 1), changes in market conditions and other factors.

The Group has conducted an appropriate analysis of factors that could indicate the possibility that the carrying amount of property, plant and equipment differed from their fair value, as at 31 December 2019, and concluded that the carrying amount of items of property, plant and equipment did not differ significantly from their fair value determined during the previous revaluation less depreciation that was accrued from that moment.

6. Property, plant and equipment and capital investments in progress

	<i>Land and capital improvements</i>	<i>Buildings and structures</i>	<i>Machinery and equipment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
2019							
Historical or revalued cost							
At 1 January 2019	18,456	2,895,286	1,905,971	149,972	87,023	28,971	5,085,679
Additions	–	2,902	80,190	–	3,160	6,512	92,764
Disposals	–	(44)	(12,211)	(4,842)	(513)	(189)	(17,799)
Revaluation	–	–	–	–	–	–	–
At 31 December 2019	18,456	2,898,144	1,973,950	145,130	89,670	35,294	5,160,644
Depreciation							
At 1 January 2019	(599)	(1,012)	(2,949)	(65,043)	(48,751)	–	(118,354)
Charge for the year	(33)	(138,564)	(182,810)	(7,626)	(7,426)	–	(336,459)
Disposals	–	17	304	2,716	366	–	3,403
Revaluation	–	–	–	–	–	–	–
At 31 December 2019	(632)	(139,559)	(185,455)	(69,953)	(55,811)	–	(451,410)
Net book value							
At 1 January 2019	17,857	2,894,274	1,903,022	84,929	38,272	28,971	4,967,325
At 31 December 2019	17,824	2,758,585	1,788,495	75,177	33,859	35,294	4,709,234

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	<i>Land and capital improvements</i>	<i>Buildings and structures</i>	<i>Machinery and equipment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
2018							
Historical or revalued cost							
At 1 January 2018	18,456	2,754,223	1,888,098	148,660	86,179	27,477	4,923,093
Additions	–	161	102,419	2,739	3,244	1,750	110,313
Disposals	–	(34)	(10,995)	(1,427)	(2,400)	(256)	(15,112)
Revaluation	–	140,936	(73,551)	–	–	–	67,385
At 31 December 2018	18,456	2,895,286	1,905,971	149,972	87,023	28,971	5,085,679
Depreciation							
At 1 January 2018	(566)	(894)	(2,867)	(58,196)	(41,798)	–	(104,321)
Charge for the year	(33)	(132,023)	(197,927)	(7,121)	(9,270)	–	(346,374)
Disposals	–	–	402	274	2,317	–	2,993
Revaluation	–	131,905	197,443	–	–	–	329,348
At 31 December 2018	(599)	(1,012)	(2,949)	(65,043)	(48,751)	–	(118,354)
Net book value							
At 1 January 2018	17,890	2,753,329	1,885,231	90,464	44,381	27,477	4,818,772
At 31 December 2018	17,857	2,894,274	1,903,022	84,929	38,272	28,971	4,967,325

If buildings and structures, machinery and equipment, transport and motor vehicles and fixtures and office equipment were measured using the cost model, the net book value amounts would be as follows:

	<i>Net book value</i>	
	<i>2019</i>	<i>2018</i>
Buildings and structures	175,871	184,374
Machinery and equipment	574,754	545,306
Transport and motor vehicles	10,927	12,744
Fixtures and office equipment	23,144	22,540

As at 31 December 2019, the property, plant and equipment items in the amount of UAH 125,197 thousand (2018: UAH 102,639 thousand) were fully depreciated but were still in use.

As at 31 December 2019, the carrying value of buildings of UAH 2,028,690 thousand (2018: UAH 2,125,333 thousand) and machinery and equipment of UAH 1,552,241 thousand (2018: UAH 1,701,719 thousand) were pledged secured commitments for loans granted by banks (Note 15).

As at 31 December 2019, the Group engaged into a lease contract as lessee, and respective right of use asset was recognized within «fixtures and office equipment» with the carrying value of UAH 786 thousand. At 31 December 2019, the cost of this right of use asset comprised UAH 786 thousand and accumulated depreciation comprised UAH 262 thousand.

7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	<i>2019</i>	<i>2018</i>
Cost		
At 1 January	49,425	47,680
Additions	1,616	2,652
Disposal	(618)	(907)
At 31 December	50,423	49,425
Amortisation		
At 1 January	(40,281)	(37,624)
Charge for the year	(3,475)	(3,372)
Disposal	564	715
At 31 December	(43,192)	(40,281)
Net book value		
At 1 January	9,144	10,056
At 31 December	7,231	9,144

As at 31 December 2019, the intangible assets with historical value of UAH 5,767 thousand (2018: UAH 5,180 thousand) were fully amortized but were still in use.

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8. Other non-current assets

	2019	2018
Deposits in Ukrainian hryvnias	36,243	227,135
Income tax prepayment	1,918	1,918
Deposits in US dollars	–	55,437
Provision for expected loan losses	(151)	(182)
	38,010	284,308

As at 31 December 2019, non-current financial investments included deposits in Ukrainian hryvnia with an annual interest rate of 10.45-11.50% (2018: 9.25%-11.8%). As at 31 December 2019, deposits in US dollars were absent (2018: 1.1%-1.7%).

As at 31 December 2019, maturity of these deposits is November 2021 (2018: November 2020).

As at 31 December 2019, deposits in the amount of UAH 36,243 thousand were pledged as a security for the bank loans obtained by the Group (Note 15).

9. Income tax

The components of income tax expenses were as follows:

Profit and loss	2019	2018
Current income tax expenses	33	36
Deferred income tax (benefit) / expense relating to origination and reversal of temporary differences	28,870	(86,780)
Income tax expense / (benefit)	28,903	(86,744)
Other comprehensive income	2019	2018
Deferred income tax expense attributable to revaluation of PP&E	–	69,929
Deferred income tax benefit attributable to actuarial gains and losses	(20,920)	(5,313)
Income tax (benefit) / expense reflected in other comprehensive income	(20,920)	64,616

Profit/(loss) before tax for financial reporting purposes is reconciled to tax expense as follows:

	2019	2018
Profit / (loss) before tax	111,712	(515,193)
Income tax expense / (benefit) at enacted rate 18%	20,108	(92,735)
Tax effect of disallowable expenses	8,795	5,991
Income tax expense / (benefit)	28,903	(86,744)

Deferred tax assets and liabilities related to the following:

	31 December 2019	Changes recognized in profit and loss for 2019	Changes recognized in other comprehensive income for 2019	31 December 2018
Deferred tax assets				
Tax losses carry-forward	242,188	(81,670)	–	323,858
Non-current provisions (i)	115,262	3,729	20,920	90,613
Inventory (ii)	12,392	1,617	–	10,775
Current provisions (iv)	429	9	–	420
Deferred tax liabilities				
Property, plant and equipment (iii)	(678,983)	47,445	–	(726,428)
Deferred tax liability, net	(308,712)	–	–	(300,762)
Deferred income tax (expense) / benefit	–	(28,870)	20,920	–

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	31 December 2018	Changes recognized in profit and loss for 2018	Changes recognized in other comprehensive income for 2018	31 December 2017
Deferred tax assets				
Tax losses carry-forward	323,858	29,511	–	294,347
Non-current provisions (i)	90,613	4,060	5,313	81,240
Inventory (ii)	10,775	6,038	–	4,737
Current provisions (iv)	420	112	–	308
Deferred tax liabilities				
Property, plant and equipment (iii)	(726,428)	47,059	(69,929)	(703,558)
Deferred tax liability, net	(300,762)	–	–	(322,926)
Deferred income tax benefit / (expense)	–	86,780	(64,616)	–

The nature of temporary differences is the following:

- (i) Non-current provisions – differences in periods of recognition;
- (ii) Inventory – differences in evaluation methods and periods of recognition;
- (iii) Property, plant and equipment – differences in depreciation methods and revaluation estimates;
- (iv) Current provisions - differences in periods of recognition.

As at 31 December 2019, the Group has tax losses in amount of UAH 1,345,489 thousand (2018: UAH 1,799,213 thousand). Deferred tax assets have been recognized in full amount in respect of these losses, as they can be offset against future taxable profits.

10. Inventories

	2019	2018
Finished goods		
Stainless steel (at net realisable value)	125,934	141,419
Structural steel (at net realisable value)	61,510	62,060
Tool steel (at net realisable value)	33,444	43,209
Heat resistant steel (at net realisable value)	6,349	1,471
High-speed tool steel (at net realisable value)	4,359	8,464
Bearing steel (at net realisable value)	4,189	10,286
Other (at net realisable value)	2,058	1,797
Finished goods (at net realizable value)	237,843	268,706
Raw materials		
Materials (at net realisable value)	410,644	531,034
Spare parts (at net realisable value)	103,638	94,645
Other (at net realisable value)	11,319	13,231
Raw materials (at net realizable value)	525,601	638,910
Work in process (at net realisable value)	367,354	491,092
Work in process (at net realizable value)	367,354	491,092
	1,130,798	1,398,708

As at 31 December 2019, raw materials and finished goods for the amount of UAH 627,700 thousand (2018: UAH 627,700 thousand), were pledged as a security for the bank loans (see Note 15).

11. Accounts receivable for goods, works and services

	2019	2018
Accounts receivable for goods, works and services	931,270	1,189,693
Allowance for expected credit losses	(2,077)	(3,296)
	929,193	1,186,397

Trade receivables are non-interest bearing and are generally on 3-45 day contract term.

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As at 31 December 2019, trade accounts receivable for goods, works, services from three counterparties comprised UAH 432,809 thousand (2018: UAH 659,658 thousand).

Movements in the allowance for expected credit losses of receivables were as follows:

	2019	2018
At 1 January	3,296	3,002
Charge for the year	–	297
Utilised	–	(3)
Unused amounts reversed	(1,219)	–
At 31 December	2,077	3,296

Set out below is the ageing analysis of trade receivables as at 31 December 2019 and 2018 and information about the credit risk exposure on The Group's trade receivables using a provision matrix:

31 December 2019	Current	Days past due			Total
		<30 days	30-60 days	>60 days	
Expected credit loss rate	0.00%	0.01%	0.17%	0.69%	
Estimated total gross carrying amount at default	106	353,996	370,545	206,623	931,270
Allowance for expected credit loss	–	37	622	1,418	2,077

31 December 2018	Current	Days past due			Total
		<30 days	30-60 days	>60 days	
Expected credit loss rate	0.07%	0.14%	0.28%	1.18%	
Estimated total gross carrying amount at default	3,330	620,677	471,394	94,292	1,189,693
Allowance for expected credit loss	2	865	1,313	1,116	3,296

As at 31 December 2019, trade accounts receivable (before allowance for expected credit losses) arising under contracts whose property rights to future proceeds were pledged as a security for the bank loans obtained by the Group comprised UAH 691,278 thousand (2018: UAH 922,835 thousand) (see Note 15).

12. Accounts receivable on settlements with budget

As at 31 December 2019, accounts receivable on settlements with budget included VAT receivable in the total amount of UAH 68,412 thousand (2018: UAH 110,724 thousand).

13. Cash and cash equivalents

	2019	2018
Cash at banks	9,689	67,171
Cash on hand	6	5
Provision for expected credit losses	(34)	(73)
	9,661	67,103

In 2019 cash at banks balances earned interest at floating rates floating from up to 12% per year (2018: from 1% to 12%).

14. Current financial investments

As at 31 December 2019, current financial investments included deposits with maturity in May 2020, in particular deposits in Ukrainian hryvnias in the amount of UAH 228,589 thousand with an annual interest rate of 12.8% and deposits in US dollars amounting to UAH 86,309 thousand with an annual interest rate 1.2%–1.7% (2018: nil). As at 31 December 2019, the Group recognized expected credit losses for current financial investments amounting to UAH 1,315 thousand (2018: nil).

As at 31 December 2019, deposits in the amount of UAH 311,658 thousand were pledged as a security for the bank loans (see Note 15).

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15. Bank borrowings

Long and short-term borrowings consisted of the following:

	2019	2018
Non-current bank loans (line 1510)	2,794,314	3,920,356
Other non-current lease liability (line 1515)	315	–
	2,794,629	3,920,356
Current portion of non-current bank loans (line 1610)	618,352	120,975
Current portion of non-current lease liability (line 1610)	259	–
	618,611	120,975
	3,413,240	4,041,331

As at 31 December 2019, carrying amount of bank borrowings and lease liability were as follows:

	2019	2018
Bank loans	3,412,666	4,041,331
Lease liability	574	–
	3,413,240	4,041,331

As at 31 December 2019 and 2018, borrowings were denominated in the following currencies and bore the following rates:

2019				2018		
Currency	Maturity	Effective interest rate	Outstanding principal	Maturity	Effective interest rate	Outstanding principal
<i>Fixed rates</i>						
USD	2 December 2021	11.25%	1,212,733	2 December 2021	11.25%	1,450,865
USD	2 December 2021	10.50%	1,212,191	2 December 2021	10.50%	1,450,231
USD	5 April 2020	11.20%	523,737	5 April 2020	11.20%	626,581
USD	26 November 2021	6.25%	225,929	27 November 2020	6.25%	264,627
UAH	26 November 2021	18.25%	238,076	27 November 2020	18.25%	249,027
			3,412,666			4,041,331

In 2019, The Group completed loan restructuring process regarding two loans, as a result of which The Group together with the banks-lenders agreed new payment schedules with the maturity dates in 2021.

As at 31 December 2019, not all financial covenants provided in loan agreement with maturity date in April 2020 from one bank were fulfilled by the Group. The Group transfers liability under this loan with carrying amount of UAH 523,737 thousand to current portion of long-term liabilities. The Group did not require the waiver letter from the respective bank. But, together with that, Bank did not apply any sanctions to the Group and did not require early payment due to breach loan covenants mentioned above.

A summary of the security pledged for borrowings as at 31 December 2019 and 2018 is set out below:

	2019	2018
Property, plant and equipment (Note 6)	3,580,931	3,827,052
Inventories (Note 10)	627,700	627,700
Trade accounts receivable (Note 11)	691,278	922,835
Bank deposits (Note 14)	347,901	278,773
Future proceeds under sales agreements	5,364,163	5,558,173

Changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were the following:

	2019	2018
Bank loans as at 1 January	4,041,331	4,186,930
Proceeds from bank loans	–	–
Repayment of bank loans	(86,683)	(90,946)
Foreign exchange effect	(541,982)	(54,653)
Bank loans as at 31 December	3,412,666	4,041,331

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16. Trade payables for goods, works and services

	2019	2018
Payables to foreign suppliers of materials and services	841,009	992,325
Payables to domestic suppliers of materials and services	532,191	756,592
	1,373,200	1,748,917

Trade payables are non-interest bearing and are normally settled in 30-90 days term.

As at 31 December 2019, trade accounts payable for goods, works, services to three counterparties comprised UAH 673,983 thousand (2018: UAH 838,094 thousand).

17. Current liabilities on advances received

	2019	2018
Advances for metal products received from:		
foreign customers	25,191	3,384
local customers	19,318	57,318
in accordance with commission agreements	1,290	–
	45,799	60,702

In 2019 The Group recognized net revenue from sales of goods in the amount of UAH 58,887 thousand in respect of advances received at the beginning of the year (2018: UAH 97,458 thousand - in respect of advances received as at 1 January 2018 with a carrying value of UAH 98,937 thousand) based on fulfilled obligations under contracts with customers.

18. Non-current provisions

	2019	2018
Material encouragement of workers	48,916	35,683
Unused vacation	41,081	32,678
Litigation provision	1,133	2,491
Other accruals	2,425	2,396
	93,555	73,248

19. Other current liabilities

	2019	2018
Accrued interests for the bank loans	32,238	37,829
Other	1,626	1,750
	33,864	39,579

Changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were the following:

	2019	2018
Interest on bank loans payable as at 1 January	37,829	38,692
Accrued interest for the bank loans	415,021	445,439
Paid interest for the bank loans	(417,541)	(443,892)
Foreign exchange effect	(3,071)	(2,410)
Interest on bank loans payable as at 31 December	32,238	37,829

20. Other non-current liabilities

	2019	2018
Defined benefit pension plan	566,714	436,458
Other employee benefit plans	79,452	72,653
Other non-current liabilities	704	568
	646,870	509,679

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Defined benefit pension plan

The Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the former and existing employees of The Group. Under this pension plan The Group's employees who have working experience in health hazardous environment are eligible to early retirement and entitled to additional compensations financed by The Group and paid through the Ukrainian State Pension Fund. These obligations fall under definitions of a defined benefit pension plan.

As at 31 December 2019, total number of the plan participants accounted for 2,236 people (2018: 2,424 people) including 1,277 people (2018: 1,379 people) receiving the benefit.

Changes in the defined benefit pension obligation

	2019	2018
Defined benefit pension obligation at 1 January	436,458	396,398
Current service costs	13,796	9,942
Interest costs	57,810	53,854
Benefits paid	(52,917)	(49,981)
Actuarial loss/(gain) on obligation due to effect of changes in assumptions	111,567	26,245
- Experience adjustments	62,693	43,376
- Actuarial changes arising from changes in demographic assumptions	(2,248)	705
- Actuarial changes arising from changes in financial assumptions	51,122	(17,836)
Recognized changes in past service cost	—	—
Defined benefit pension obligation as at 31 December	566,714	436,458

Defined benefit pension expense

	2019	2018
Current service costs	13,796	9,942
Interest costs	57,810	53,854
Recognized changes in past service cost	—	—
Benefit expense	71,606	63,796

Benefit expense, with the exception of interest costs, is included in payroll and related expenses within cost of sales. Interest costs are included in finance costs.

As at 31 December 2019, the Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 57,390 thousand (2018: UAH 48,846 thousand).

In 2019 the average duration of the defined benefit plan obligation was 8.2 years (2018: 8.2 years).

Other employee benefit plans

The Group has contractual commitments to pay lump-sum payments to the retiring employees with the long service according to collective bargaining agreements. This unfunded benefit plan covers all employees of The Company amounting to 4,895 people as at 31 December 2019 (2018: 5,307 people). In 2007, The Group introduced two additional types of benefits under the plan: jubilee payments to which all employees of The Group are entitled and quarterly payments to certain categories of former employees. These changes are envisaged by the revised collective bargaining agreements and cover all employees of The Company and, additionally, 3,343 pensioners entitled the benefits as at 31 December 2019 (2018: 3,447 people).

Changes in the defined benefit obligation

	2019	2018
Defined benefit obligation at 1 January	72,653	63,289
Current service costs	2,457	2,489
Interest costs	9,558	8,801
Benefits paid	(9,726)	(5,176)
Actuarial loss/(gain) on obligation due to the effect of changes in assumptions	4,510	3,250
- Experience adjustments	3,298	7,058
- Actuarial changes arising from changes in demographic assumptions	(855)	107
- Actuarial changes arising from changes in financial assumptions	2,067	(3,915)
Recognized changes in past service cost	—	—
Defined benefit obligation at 31 December	79,452	72,653

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Benefit expense recognized in profit or loss

	2019	2018
Current service costs	2,457	2,489
Interest costs	9,558	8,801
Past service costs	—	—
Recognized actuarial loss/(gain)	(551)	(20)
Benefit expense	11,464	11,270

Current service cost is included in payroll and related expenses within cost of sales. Interest costs are included in finance costs.

As at 31 December 2019, the Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 11,380 thousand (2018: UAH 27,266 thousand).

In 2019 the average duration of obligation in accordance with collective agreement was 3.3 years (2018: 3.5 years) and for other obligation 5.0 years (2018: 5.1 years).

Key actuary assumptions

The key assumptions used in determining employee benefit obligations of The Group are shown below:

	2019	2018
Discount rate	13.30%	14.10%
Salary and benefits paid increase	5.00%	5.00%
Employee turnover	6.30%	6.00%
Rate of inflation	5.10%	5.60%

The sensitivity analysis of key assumptions as at 31 December 2019:

	Increase "+" / decrease "-" of the rate	Effect on benefit liability 2019	Effect on benefit liability 2018
Discount rate	+1%	(43,745)	(33,500)
Discount rate	-1%	49,561	37,929
Salary increase (annual)	+1%	33,536	27,441
Salary increase (annual)	-1%	(30,499)	(24,997)
Rate of inflation	+1%	8,529	7,128
Rate of inflation	-1%	(8,465)	(6,975)
Employee turnover	+1%	(646)	(662)
Employee turnover	-1%	711	764

21. Net revenue from sales of goods

	2019	2018
Stainless steel	4,729,872	5,284,435
Structural steel	1,937,203	2,301,041
Tool steel	846,040	1,113,611
Heat resistant steel	338,486	313,378
Bearing steel	243,654	304,274
High-speed tool steel	182,628	289,842
Special nickel-based alloys	—	6,127
Other	13,217	18,209
	8,291,100	9,630,917

In 2019, net revenue from sales of metal products to three counterparties including those under commission agreements amounted to UAH 4,705,432 thousand (2018: UAH 5,523,189 thousand). Commission agreements fee which is included in selling expenses for 2019 year amounted to UAH 1,490 thousand (2018: UAH 675 thousand).

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22. Cost of goods sold

	2019	2018
Materials	5,249,646	6,348,919
Utilities, energy and other services	1,377,051	1,624,096
Payroll and related expenses	785,544	735,123
Depreciation	302,979	308,290
Other	106,441	95,002
	7,821,661	9,111,430

For 2019 purchases of materials and services, which are included in the cost of sales, from three counterparties comprised UAH 1,786,097 thousand (2018: UAH 2,314,810 thousand).

23. Selling expenses

	2019	2018
Forwarding and transportation services	245,543	278,216
Payroll and related expenses	28,654	28,332
Storage and packaging expenses	6,179	6,276
Depreciation	2,552	2,370
Insurance costs relating to inventories and other assets	1,092	1,144
Other selling costs	12,121	13,900
	296,141	330,238

24. Administrative expenses

	2019	2018
Payroll and related expenses	108,553	101,786
Professional services	8,441	12,101
Transportation	7,149	9,906
Bank fees	5,198	7,031
Depreciation	4,344	5,648
Materials	910	1,451
Communication	638	1,016
Other general and administrative costs	20,267	19,560
	155,500	158,499

Audit services and advisory services on transfer pricing provided by the companies of Ernst & Young Global Limited network are included in professional services.

25. Other operating income and expenses

	2019	2018
Operational foreign exchange gains, net of losses	78,410	–
Gains from excess inventory	34,655	44,007
Gain on disposal of inventory, net	8,581	11,835
Fines and penalties received	7,540	1,871
Other income	7,269	8,024
Total other operating income	136,455	65,737
	2019	2018
Maintenance of social infrastructure assets	83,642	50,416
Material encouragement expenses	24,023	12,962
Charity	3,299	3,887
Shortages and losses from impairment of assets	1,979	4,935
Fines and penalties paid	1,294	440
Operational foreign exchange losses, net of gains	–	69,519
Bad debts allowance	51	246
Other expenses	18,380	30,216
Total other operating expenses	132,668	172,621

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26. Other income and expenses

	2019	2018
Non-operational foreign exchange gains, net of losses	545,053	57,063
Reversals of revaluation decreases of prior periods	—	4,571
Other gains	8,422	17
Total other income	553,475	61,651
	2019	2018
Loss from disposal of non-current assets	2,902	6,804
Loss on revaluation of property, plant and equipment	—	5,857
Other losses	3,730	121
Total other expenses	6,632	12,782

27. Other finance income

Other finance income consisted of interest received from cash deposits with banks and from current bank accounts in the amount of UAH 35,057 thousand (2018: UAH 31,985 thousand).

28. Finance expenses

	2019	2018
Interest expenses on borrowings (Note 15)	415,021	445,439
Interest expense on pension obligations (Note 20)	67,368	62,655
Other finance expenses	9,384	11,819
	491,773	519,913

29. Equity

Share capital

As at 31 December 2019 and 2018, The Group's authorized, issued and paid-in share capital comprised 1,075,030 ordinary shares, with a nominal amount value of UAH 46.25 each.

Contributed capital

Contributed capital consist of the increase in the cost of property, plant and equipment, accounted for by the revaluation model.

Additional capital

	2019	2018
Hyperinflation adjustment to share capital (i)	114,747	114,627
Resale of repurchased shares (ii)	—	120
	114,747	114,747

(i) The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, The Group has applied IAS 29 Financial Reporting in Hyperinflationary Economies and, accordingly, the consolidated financial statements present share capital at the nominal value of the shares on the reporting dates at their restated value by applying the relevant conversion factor for hyperinflation as at 1 January 2001.

Reserve capital

The Group created reserve capital in accordance with the requirements of the statute of The Group.

Dividend distribution

The Group has not declared any dividends for the years ending 31 December 2019 and 2018. In 2019, the Group did not pay dividends declared for the earlier years (2018: UAH 3 thousand).

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30. Subsidiaries and associates

Subsidiaries of the Group

Name of the Company	Country of incorporation	Business activities	Ownership	
			2019	2018
Ekovtoresurs LLC	Ukraine	Trading	100%	100%
Cutlery Plant-DSS LLC	Ukraine	Production	100%	100%

Cutlery Plant-DSS LLC was established in 2002. It produces and sells houseware products to domestic and foreign customers.

Ekovtoresurs LLC was established in 2007. The subsidiary purchases scrap metals and other raw materials and supplies them primarily to The Group.

Associates of the Group

Name of the Company	Country of incorporation	Business activities	Ownership	
			2019	2018
Ferroterm LLC	Ukraine	Trading	50%	50%

On 16 October 2012 The Group bought 50% of equity stake in Ferroterm LLC for agreed price of UAH 500, which corresponds to the nominal value of the stake. Ferroterm LLC carries out bulk trade in metal and metallic ore. It is a private company shares of which are not listed.

Summarized information on investment in Ferroterm LLC for the year ended 31 December is as follows:

	2019	2018
Current assets	3,545	38,970
Non-current assets	46	66
Current liabilities	(50,394)	(54,482)
Deficit in net assets	(46,803)	(15,446)
Company's share	50%	50%
The carrying amount in the investment	–	–
Unrecognized share of accumulated losses in an associate	(23,402)	(7,723)
	2019	2018
Other income	9,080	3,357
Other expenses	(40,437)	(8,655)
Loss/profit before tax	(31,357)	(5,298)
Income tax expenses	–	–
Net financial result	(31,357)	(5,298)
Company's share of (loss)/profit for the period	(15,679)	(2,649)

Investments in the associate are accounted for at equity method.

31. Related party transactions

Set out below is the total amount of sales and purchase transactions which have been entered with related parties for the relevant financial year:

		Sales to related parties	Purchase from related parties	Receivables due from related parties	Payables due to related parties
Associated companies	2019	15	9	11,750	–
Associated companies	2018	41	660	11,754	66

Terms and conditions of transactions with related parties

Sales to related parties mainly include sales of metal products. Outstanding balances at the year-end are unsecured, interest free and settlements occurs in cash. For the years ended 31 December 2019 and 2018 The Group had not recorded any allowance for expected credit losses in respect amounts owed by the related parties. The assessment of expected credit losses for the respective receivables is undertaken each financial year through examining the financial position of the related parties.

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Purchases from related parties mainly include purchases of scrap metals, ferrous-based alloys and other raw materials. Outstanding balances at the year-end are unsecured, interest free and settlements occurs in cash.

There have been no guarantees provided or received for any related party receivables or payables.

Key management personnel

As at 31 December 2019, key management personnel of The Group included six members of the Supervisory Board of The Group and five members of the Management Board of The Group (31 December 2018: six members of the Supervisory Board and five members of the Management Board of The Group).

In 2019 and 2018 the members of the Supervisory Board received no compensation from The Group. In 2019 the total compensation to key management personnel representing short-term employee benefits amounted to UAH 9,287 thousand (2018: UAH 7,008 thousand) and was included in general and administrative expenses.

32. Commitments, contingencies, and operating risks

Tax and other regulatory compliance matters

Ukrainian legislations and regulations regarding taxation and other regulatory matters, including currency exchange control and custom regulations, continue to evolve. The legislations and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations continue to be not unusual.

Management believes that The Group has complied with all regulations and paid or accrued all taxes that are applicable. However, the uncertainty and controversy in the application of Ukrainian tax legislation leads to an increased risk of additional substantial amounts of taxes, fines and penalties to be accrued that can not be measured reliably, but, if applied, may have a significant impact on the financial position of The Group, the results of operations and cash flows. However, where risks of possible outflow of resources exist, The Group accrues tax liabilities based on the management's best estimate. As at 31 December 2019 and 2018, the Group identified that it had no such potential tax liabilities except those that have been already accounted (Note 18) for or disclosed in these financial statements (section *Litigations* of this note).

Transfer pricing

In 2019 and 2018 the activities of The Group were the subject of state regulation on transfer pricing in Ukraine. The management of The Group believes that during this period The Group carried out activities in accordance with the current transfer pricing requirements and norms, and all necessary charges were reflected in these financial statements.

However, the legislation on transfer pricing in Ukraine is in the process of formation. Interpretation of requirements for enterprises that are the subject of transfer pricing is not always unambiguous. As a result, the risks of possible additional taxes, fines and penalties accruals are not quantifiable.

Litigation

In the ordinary course of business, The Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or financial results of The Group and will not exceed amounts of provisions already recognized in these financial statements.

The Group has identified possible tax contingencies, which based on management best estimates are not required to be accrued. Such contingencies may materialize and require The Group to pay additional amount of taxes. As at Management estimates that such contingencies will not exceed UAH 28 mln as at 31 December 2019 (2018: UAH 23 mln).

Lease of land

The Group uses land mainly on the basis of concluded land lease agreements with the exception of one plot of land for which it has the right to permanent use or land title. There are production and infrastructure facilities. The Group pays rent for public or state plots of land or land tax with regard to annual indexation rate of land valuation estimate. Plots of land that do not belong to Ukraine are used in accordance with existing legislation through concluding of land lease agreements and on the grounds of State Act for the permanent use.

Contractual commitments for the acquisition of property, plant and equipment and intangibles

As at 31 December 2019, the Group has contractual commitments for acquisition of property, plant and equipment and intangible assets amounted UAH 3,376 thousand (2018: UAH 22,430 thousand).

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33. Financial risk management

The main financial instruments used by The Group in the ordinary course of business comprise of trade receivables and payables, borrowings, deposits and cash. The main risks arising from The Group's financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. The policy of The Group does not involve the use of derivative financial instruments in order to manage financial risks arising from the activities of The Group. The policies for managing each of these risks are summarized below.

Foreign currency risk

Since the Group operates both in Ukrainian hryvnia and in foreign currencies, in particular in such currencies as the US dollar, euro and the Russian ruble, currency risk in the form of potential losses from the presence of open positions in foreign currencies as a result of an adverse change exchange rates is attributable for the activity of The Group. Currency risk is primarily due to the following activities of The Group:

- export of manufactured products to CIS countries, Europe and other countries;
- import of materials and non-current assets from other countries;
- attraction of borrowed funds in foreign currency from the domestic banks.

The exchange rates for those currencies to UAH as set by the National Bank of Ukraine ("NBU") as at the dates stated were as follows:

	USD	EUR	RUB
As at 31 December 2019	23.686	26.422	0.382
Average exchange rate per 2019	25.837	28.941	0.399
As at 31 December 2018	27.688	31.714	0.398
Average exchange rate per 2018	27.100	32.134	0.437

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of The Group's profit before tax.

	Increase "+" / decrease "-" in currency exchange rate, %	Effect on profit before tax
<i>For the year ended 31 December 2019</i>		
USD/UAH	+14.00%	(529,181)
RUR/UAH	+16.00%	36,101
EUR/UAH	+15.00%	7,382
USD/UAH	-11.00%	415,785
RUR/UAH	-14.00%	(31,589)
EUR/UAH	-13.00%	(6,398)
	Increase "+" / decrease "-" in currency exchange rate, %	Effect on profit before tax
<i>For the year ended 31 December 2018</i>		
USD/UAH	+6.00%	(271,141)
RUR/UAH	+16.00%	41,501
EUR/UAH	+8.00%	15,484
USD/UAH	-6.00%	271,141
RUR/UAH	-16.00%	(41,501)
EUR/UAH	-8.00%	(15,484)

The main instrument of foreign currency risk management used by The Group is to maintain a net monetary position in foreign currency at an acceptable level and forecast cash flows in foreign currency in order to minimize losses from unfavorable changes in the currencies exchange rates.

Liquidity risk

Liquidity risk arises as a result of lack of liquid assets to fulfill falling due obligations by The Group. To manage this risk, The Group analyzes the maturity of its assets and liabilities and plans for cash flows depending on the expected timing of the fulfillment of obligations under the relevant instruments in order to ensure that sufficient funds are available to meet the creditors' requirements on an ongoing basis.

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The tables below summarize the maturity profile of The Group's financial liabilities based on contractual undiscounted payments:

<i>At 31 December 2019</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 6 years</i>	<i>Total</i>
Borrowings	652,254	412,371	3,226,544	4,291,169
Trade and other accounts payable	1,373,200	–	–	1,373,200
Other current liabilities	14,330	–	–	14,330
	2,039,784	412,371	3,226,544	5,678,699

<i>At 31 December 2018</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 6 years</i>	<i>Total</i>
Borrowings	153,040	452,373	4,544,571	5,149,984
Trade and other accounts payable	1,748,917	–	–	1,748,917
Other current liabilities	14,330	–	–	14,330
	1,916,287	452,373	4,544,571	6,913,231

Credit risk

Credit risk arises in the case of failure of customers or other counterparties of The Group to meet their obligations. The credit risk of The Group is primarily resulted from the accounts receivables arising from operating activities, as well as cash and deposits in banks.

The credit risk of The Group connected with cash and cash equivalents is related to the default of banks to meet their obligations and is limited by the amounts of deposits, cash and cash equivalents placed on bank accounts. The management of The Group believes that the banks in which The Group's funds are placed, have a minimal probability of non-fulfillment of obligations, and constantly monitors the financial position of these banks.

In order to manage the credit risk of accounts receivable, The Group uses credit policy for customers and continuously monitors the creditworthiness of its customers. Most of The Group's sales are made to the customers with an acceptable credit history, or on the prepayment basis. The Group does not require collateral in respect of its financial assets.

The need for recognition of impairment is analyzed for each reporting date using the provision matrix for expected credit losses. The reserve rates are set by The Group depending on the number of overdue payment days for customers grouped according to different characteristics, in particular, the country of origin and creditworthiness of customers, and take into account historical information on the fulfillment of obligations by the customers of The Group and the expected future economic conditions. Information on The Group's exposure to credit risk for accounts receivable using the provision matrix for expected credit losses is disclosed in Note 11.

The Group's management believes that as at 31 December 2019 The Group does not bear a significant risk of loss exceeding the amount of allowances for expected credit losses recognized for accounts receivables (Note 11), cash (Note 13) and bank deposits (Note 8).

Interest rate risk

As at 31 December 2019 and 2018, the Group borrowed at fixed rates only, and, respectively, the deposits had also been placed at fixed rates. As the interest rate changes risk primarily relates to floating interest rate instruments, The Group was not exposed to interest rate risk at the reporting date.

Capital management

The Group considers borrowed capital and equity capital as the main sources of capital. The purpose of capital management is to safeguard The Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as to provide financing of its operating requirements, capital expenditures and The Group's development strategy. The capital management policy of The Group is aimed at ensuring and maintaining an optimal capital structure in order to reduce the cost of capital. During the reporting year, the approach to capital management has not changed.

Fair value of financial instruments

As at 31 December 2019 and 2018, the carrying amounts of financial instruments did not differ materially from their fair values. The fair values of such financial instruments as cash, current accounts receivable and payables approximate to their carrying values due to the fact that these instruments are short-term. In its turn, the fair values of long-term bank loans and bank deposits did not differ materially from the book values, since these instruments were received and placed by the Group at market rates.

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34. Events after the reporting date

With the recent and rapid development of the coronavirus outbreak, many countries have required entities to limit or suspend business operations and implemented restrictions and quarantine measures. These measures have significantly disrupted the activities of many entities, such as those in tourism and entertainment, transportation, retail, while there are also anticipated further effects on other sectors such as manufacturing and the financial sector.

When making the judgement, the Group's management takes into consideration all available information about the nature and the timeline of the virus outbreak. As the outbreak continues to progress and evolve, it is challenging at this juncture, to predict the full extent and duration of its economic impact. The Group's management believes coronavirus did not have immediate material impact on its business and the related events, occurred after the reporting date, are non-adjusting and shall not be reflected in the assets and liabilities of the Group in the consolidated financial statements.