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

Consolidated financial statements

for the year ended 31 December 2020,
with consolidated management report and
with independent auditor's report

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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.
- Separate subdivision “Zavod Stolovich Priboriv PjSC" Dniprospetsstal” (without the right of a legal entity). The purpose of the SE "Cutlery Plant of PjSC Dniprospetsstal" is to develop the production of cutlery and manufacture of other finished metal products, as well as the implementation of production and trade activities.

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, electroslag 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 “Dneprospetsstal” 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.

33% of the Group's total sales are delivered to the Ukrainian market. 67% for exports, respectively. The most important markets (from 100% in the foreign market by the share of export sales): Europe - 60%, Russia - 24%, North and South America - 8%, the rest is divided into the CIS, Far and Middle East.

The Group's main competitors are: Oskol Electrometallurgical Plant JSC, Petrostal Metallurgical Plant JSC, Izhstal PJSC (Mechel), Krasny Oktyabr Volgograd Metallurgical Plant JSC, Metallurgical Plant and Electrostiv Metallurgical Plant JSC.

Note that this year there are more competitors in the markets of foreign countries compared to the previous customer surveys: Valbruna, Cogne, DEW, BGH, ABC, RIVA, ASSIAERIE ASIATHICHE (ASIA), VIRAJ, WALSIN, SEAH CHANGWON (DOMESTIC) , SeAH CSS, Italfond, autokumpu, Sidenor, Tloravia, Velete, Askometal, Gloria, Metal Ravne, NAS, Valbruna, Moravia still, Cumic, Chinese mills, ARCO, Brazilian mills, Villares Metals, Ugitech, Donalam, Stomana, BMZ, Huta Bankova, Moravia still, Cognor, Liberty still, Izhstal, Petrostal, Stomana Pernik (Bulgaria), Red October, Dongbey, Beller, Serov, Huta Bankowa, Stalma, Pro-Mar, MTC, Trafil, Ferromoravia, CZ, Duferco, COPO, Dongbey, the main manufacturers of stainless steel and hemmed steel are from the EU, Indian steel producers (for Italy), suppliers from Italy and Taiwan (for the United States).

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.

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 2020

Main activity indicators of the Group:

Indicators	***Year ended 31 December***			***Change, 2020 vs 2019***	
	2018	***2019***	***2020***	***Absolute***	***Relative, %***
Revenue from the sales of metal products, UAH thousand	9,630,917	8,291,100	7,120,058	(1,171,042)	-14,1%
Volume of sold metal products, tons	157,971	147,544	150,634	3,090	2,1%
Cost of sales, UAH thousand	(9,111,430)	(7,821,661)	(6,574,584)	1,247,077	-15,9%
Gross profit, UAH thousand	519,487	469,439	545,474	76,035	16,2%
Net profit / (loss), UAH thousand	(428,449)	82,809	(894,637)	(977,446)	(1,180,4%)
Export, UAH thousand, *including*	5,970,744	5,087,457	4,804,780	(282,677)	-5,6%
• Non-CIS countries	4,242,059	3,295,773	3 382 640	86,867	2,6%
• CIS countries	1,728,685	1,791,684	1,422,140	(369,544)	-20,6%
The share of exports in the total volume of industrial products, %	62,0%	61,4%	67,5%	6,1%	9,9%
Metal products produced, UAH thousand	9,616,361	8,281,858	7,009,984	(1,271,874)	-15,4%
Volume of production of metal products, tons	158,025	148,299	148,862	563	0,4%

Following the results of 2020, the Group received a net income from the sale of metal products in the amount of UAH 7,120,058 thousand, which is UAH 1,171,042 thousand or by 14.1% less than the corresponding indicator in 2019. This change in net sales occurred due to:

• decrease in prices for finished products, which caused a decrease of UAH 1,082,292 thousand due to trends in the market of metal products in Ukraine and the world, as well as the weakening of the national currency to foreign, in particular, US dollar, euro, Russian ruble;

• change in the structure of sales by groups of steel grades due to a decrease in the volume of high-alloy grades, which led to a negative change in net income in the amount of 262,735 thousand UAH;

• increase in the number of orders from customers, which led to an increase in the physical volume of manufactured and sold products by 2.1% and led to an increase in net income by 173,985 thousand UAH.

Structure of net revenue from sales in 2020 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	39,145	82,268	3,220,366
Stainless nickel steel	56,074	25,708	1,441,527
Tool alloyed steel	16,581	54,639	905,968
Stainless steel w/o nickel	12,738	51,447	655,333
Structural carbon	20,895	16,379	342,229
Bearing steel	601	315,967	189 904
High-speed tool steel	3,789	28,855	109,333
Tool carbon steel	553	405,502	224,243
Heat resistant steel	258	36,826	9,501
Other sales			21,635
Total	**150,634**	**б/п**	**7,120,058**

** rounded to the nearest integer*

The Group earned a gross profit of UAH 545,474 thousand, which is 16.2% higher than the gross profit in 2019. In 2020, the factors of gross profit growth were: a decrease in electricity prices by an average of 6%, natural gas by 32%, a decrease average prices for ferroalloys by 6% and scrap by 16%. There was a 1.3% increase in personnel costs due to an increase in the salaries of production personnel and the corresponding social contributions, which the Group compensated by internal measures to reduce costs.

According to the results of operations in 2020, the Group received a net loss in the amount of UAH 894,637 thousand. (2019: net profit in the amount of UAH 82,809 thousand). The loss of operating and non-operating exchange differences in the amount of UAH 697,375 thousand had a significant impact on the decrease in the Group's net profit.

In 2020, the Group generated a net cash flow from operating activities in the amount of UAH 516,338 thousand. (2019: UAH 571,015 thousand), however, the net cash flow for the reporting year was negative and amounted to UAH 23,530 thousand. (2019: UAH 50,034 thousand).

3. LIQUIDITY AND LIABILITIES

As at 31 December 2020, the Group’s current liabilities exceeded current assets by UAH 2,903,256 thousand. (2019: current assets exceeded current liabilities by UAH 258,613 thousand), in turn, the carrying amount of the Group’s equity amounted to UAH 327,185 thousand. (2019: UAH 1,262,877 thousand).

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

(UAH thousand)	***2020***	***2019***	***Absolute change***	***Relative change, %***
Fixed assets and construction in progress	4,482,263	4,709,234	(226,971)	-5%
Non-current deposits		36,243	(36,243)	-100%
Other non-current assets	8,305	8,998	(693)	-8%
Total – non-current assets	**4,490,568**	**4,754,475**	**(263,907)**	**-5%**
Inventory	1,163,412	1,130,820	32,592	3%
Accounts receivable for goods, works and services	835,178	929,193	(94,015)	-10%
Cash and cash equivalents	34,207	9,661	24,546	254%
Settlements with budget (VAT receivable)	73,199	68,412	4,787	7%
Prepayments made	16,752	26,348	(9,596)	-36%
Current deposits		313,583	(313,583)	-100%
Other current assets	24,587	22,551	2,036	9%
Total – current assets	**2,147,335**	**2,500,568**	**(353,233)**	**-14%**
	6,638,034	**7,255,043**	**(617,009)**	**-8%**

As at 31 December 2020, the decrease in the carrying amount of the Group's assets was primarily due to:

- As at 31 December 2020, the decrease in the carrying amount of the Group's assets was primarily due to a decrease in inventories, finished goods and receivables for products, goods, works and services;
- The main change in the structure of non-current and current assets was related to the expiration of deposits in JSC “Ukreximbank” and their subsequent use to repay the Group’s loan to JSC “Ukreximbank”. (Notes 8 and 14 to the consolidated financial statements).

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

(UAH thousand)	***2020***	***2019***	***Absolute change***	***Relative change, %***
Non-current bank loans	415,028	2,794,314	(2,379,286)	-85%
Non-current provisions		315	(315)	-100%
Other non-current liabilities	737,381	646,870	90,511	14%
Deferred tax liabilities	107,849	308,712	(200,863)	-65%
Total – non-current liabilities	**1,260,258**	**3,750,211**	**(2,489,953)**	**-66%**
Accounts payable for goods, works and services	1,692,185	1,373,200	318,985	23%
Current portion of non-current bank loans and interest payable	3,143,764	650,849	2,492,915	383%
Payroll related payables and other employee benefits	110,394	127,311	(16,917)	-13%
Advances received	55,291	45,799	9,492	21%
Other current liabilities	48,957	44,796	4,161	9%
Total – current liabilities	**5,050,591**	**2,241,955**	2,808,636	**125%**
	6,310,849	**5,992,166**	**318,683**	**5%**

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

- During 2020, loans were reclassified in accordance with their repayment deadlines. The Group agreed with OTP Bank JSC on a new debt repayment schedule with a deadline of 2022. This had a corresponding effect on the change in the structure of long-term and short-term liabilities.
- During 2020, the Group repaid part of bank loans totaling UAH 469,540 thousand.

As stated in Note 15 to the consolidated financial statements, as at the reporting date the Group violated the requirements for certain financial indicators under loan agreements with two banks: OTP Bank and JSC Ukreximbank.

Loans from OTP Bank in the amount of UAH 415,028 thousand, was presented as part of long-term liabilities, and UAH 35,118 thousand, as part of short-term liabilities in accordance with the terms of loan agreements, as the Group received a notification from OTP Bank JSC stating that the Group did not apply penalties for raising interest rates and early repayment of loan, despite breach of loan agreement.

Loans from JSC "Ukreximbank" in the amount of UAH 260,539 thousand was presented as part of current liabilities in accordance with the terms of the loan agreements. The Group intends to apply to the bank for non-application of penalties to increase the credit line management fee, early repayment of credit debt and provision of additional collateral.

The financial risks arising from the Group's existing assets and liabilities structure are disclosed in section 6 "Risks" of this report. Information on maturing financial liabilities is presented in Note 33 to the consolidated financial statements.

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

4. ENVIRONMENTAL ASPECTS

Waste management

The production of metal products leads to the formation of emissions of pollutants into the environment. During 2020, the amount of pollutant emissions into the atmosphere from stationary sources amounted to 670,828 tons, which is 1.8% more than the level of emissions in 2019, which is due to increased production.

(thousand tons)	***2020***	***2019***	***Absolute change***	***Relative change, %***
Solid emissions	159,0	158,4	(0,6)	+0,4%
Gaseous and other emissions	511,8	500,6	(11,23	+2,3%
Total	**670,8**	**659,0**	**(11,8)**	**+1,8%**

In 2020, industrial wastewater discharges amounted to 2,194.9 thousand m3 (2019: 2,330.5 thousand m3), containing 678.9 tons of pollutants, such as suspended solids, sulfates, calcium, chlorides, magnesium, nitrates, iron, etc.

During 2020, 76,020 tons of industrial waste, such as electric steelmaking slag, refractory scrap, sludge, industrial waste, metallurgical dust, etc., were exported to the industrial waste landfill of PrJSC “Dneprospetsstal”, and 643 tons of industrial waste were transferred to the side and disposed of. The fee for environmental pollution (environmental tax) in 2020 amounted to UAH 5,037.0 thousand.

The amount of the Group's environmental tax consisted of the following elements:

- charge for the placement of waste – UAH 3,433.1 thousand;
- charge for air pollution by stationary sources – UAH 1,602.7 thousand;
- charge for the dropping into water objects – UAH 1,2 thousand;

In order to improve the ecological condition of the city of Zaporizhzhya, where the Group's production is located, in 2020, the following environmental measures were carried out:

- Monitoring of the impact of the areas of the industrial waste landfill of PrJSC "Dneprospetsstal", located in the beam "Serednya", on the environment;
- Compliance with regulatory requirements for the maintenance of a 25-meter strip environmental safety along the upland ditch of the industrial waste landfill, in accordance with the requirements of environmental legislation and regulations in order to prevent the ingress of pollutants into the upland ditch;
- Compliance with the standards of maximum permissible discharges of pollutants into the water (Osokorovy Bay of the Dnieper Reservoir) with the surface waters of the upland ditch;
- Compliance with the requirements in the event of adverse weather conditions in steel mills in accordance with the current permit for emissions of pollutants into the atmosphere by stationary sources of emissions;
- Monitoring compliance with the approved standards of maximum permissible emissions of pollutants and emission permit conditions;
- The efficiency of 25 ventilation systems was checked.

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 2020:

	Units of measurement	Actual quantity	Amount, UAH thousand
Technical water consumption	thousand m^3	27,280	36,419
Drinking water consumption	thousand m^3	1,956	9,105
Discharge of sewage into sewage	thousand m^3	1,860	9,696
Electricity consumption	thousand kW/hour	368,660	725,468

In 2020, 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 1,480 thousand kW/hour.

5. SOCIAL ASPECTS AND HUMAN RESOURCES POLICY

As at 31 December 2020, the total number of employees of PrJSC "Dneprospetsstal" and its subsidiaries amounted to 4,819 people, of which 389 employees are in management positions, including 75 women, which is 19.3% of all managers.

During 2020, the average number of full-time employees of PrJSC "Dneprospetsstal" was 4,718 people, of which 1,737 people worked part-time.

Labor costs of PrJSC "Dneprospetsstal" and its subsidiaries in 2020 amounted to UAH 857,054 thousand. (2019: UAH 863,275 thousand).

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

Kind of education	***Head count, people:***		
	Managers and professionals	*Workers*	***Total***
Completed and basic higher education	950	507	**1,457**
Incomplete higher education	194	584	**778**
Vocational education	24	1,468	**1,492**
General secondary education and	24	1,068	**1,092**
Total	**1,192**	**3,627**	**4,819**

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 2020, the Group increased the average salary by 1.2% compared with 2019. The change of Group's average monthly salary compared with the average salary in Zaporizhzhia oblast and in Ukraine is set out below:

(UAH)	***2020***	***2019***	***Absolute change***	***Relative change, %***
The Group's actual average monthly salary	14,780	14,609	171	1,2%
Average monthly salary in Zaporizhzhia oblast*	11,556	10,323	1,233	11.9%
Average monthly salary in Ukraine*	11,591	10,340	1,251	12.1%

**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:

- 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 2020, 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 2020, the Group registered 6 accidents resulted in work disability for one day or more (2019: 11 accidents). An analysis of occupational injuries shows the following statistics:

	2020	***2019***	***Absolute change***
Frequency of traumatism *(number of accidents per 1000 employees)*	1.2	2.2	(1)
Total number of calendar days of lost work due to accidents	507	597	(90)
Injury severity factor *(number of days of disability per accident)*	84.5	74.6	9.9

In 2020, the Group registered 13 occupational diseases (2019: 7 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.

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 their ability to perform the tasks set by the management. PrJSC "Dneprospetsstal" 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.

During 2020, taking into account the implemented anti-coronavirus quarantine, the following educational activities were carried out, in particular:

- improvement of employees' qualifications obtained directly in the Group (for 944 people) and in external educational institutions (for 195 people);
- improvement of qualification for 23 heads of structural units and subdivisions (heads of divisions, their deputies, heads of bureaus, groups, etc.);
- training on work safety for 946 employees;
- retraining courses for employees engaged in production process for 1 093 people;
- improvement of qualification directly in production process for 276 employees;
- special purpose trainings for 456 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 "Regulations on the procedure for attestation of personnel for compliance with the position", the schedule for attestation of managers and specialists of the Group until 2024 was approved. During 2020, certification was not conducted due to the introduction of quarantine measures in the Group.

As a result of external audits of the quality management system in accordance with ISO 9001:2015 carried out in 2020, 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 2020, the average number of such employees was 192 persons (4% required ratio - 187 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 767 persons (5% required ratio - 240 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 operates in Ukraine. Although Ukraine's economy is generally considered to be a market economy, it continues to demonstrate the characteristics of a transition economy. In particular, it is characterized by certain structural imbalances, low liquidity of capital markets, relatively high inflation, and significant external and domestic public debt. Tensions in geopolitical relations with the Russian Federation remain the main risks to sustainable economic dynamics; the COVID-19 pandemic in the world and its consequences, the lack of a clear consensus on the directions of institutional reforms, in particular in public administration; the judiciary and key sectors of the economy; acceleration of labor emigration and low level of investment attraction.

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 Group 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 consolidated 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 consolidated financial statements.

Interest rate risk

As at 31 December 2020 and 2019 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 consolidated financial statements.

7. RESERCH AND INNOVATION

The scientific and technical activities of the Group are aimed at developing production capacity, improving product quality and improving the efficiency of the Group's production. The main areas of innovation and investment activities of the Group are:

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

The Group is actively implementing new production, energy and resource-saving technologies. Thus, in order to increase production efficiency, the Group carried out the following set of works during 2020:

- completed the partial modernization of the radial forging machine RKM-1000;
- purchased temperature standards (tubular furnace SUOL);
- purchased the MKS-07 "Search" radiation monitoring device;
- completed the modernization of video surveillance of the dill shop;
- purchased crane scales for SPTs-3;
- purchased Niton XL 3t-800 X-ray fluorescence spectrometer;
- modernized the gas cleaning system at the raw materials preparation site;
- purchased a modern laptop (programmer) for the ASKTP department;
- purchased an electronic control system unit for the installation of bucket breakage;
- purchased a collapsible tower for the shop network and substations;
- purchased a traverse for unloading 20-foot sea containers;
- purchased an uninterruptible power supply for the PRU;
- purchased a droplet printer for the metal adjustment shop;
- purchased 2 cars;
- purchased electronic crane scales of 15 tons for weighing ferroalloys in the CPV;
- purchased air conditioners for control posts №1 and №3 of state 1050;
- purchased units for distribution of chilled and carbonated drinking water "NORMA" for SPTs-2 and SPTs-3;
- purchased air conditioners for the premises of the remote annealing wells and the premises of the control system operators;

In 2021 the Group plans to continue a set of measures aimed at modernizing production and increasing its efficiency, in particular:

- complete the reconstruction of the heat supply system of PJSC "Dniprospetsstal";
- complete the modernization of the electromechanical part of the GCR control system;
- complete the project of setting up incoming radiation monitoring devices;
- complete the replacement of the circulating pump type 10 NKU-7-2 on АКО 500-75-2УХЛ4 cooling circuit of the GCR converter;
- complete the expansion of the area for receiving and processing scrap metal of the drop-hammer plant;
- complete the project for the installation of railway scales at the Zaporizhia-Left warehouse block in the CPMO-2 building (the scales were accepted by “Ukrzaliznytsia”);
- complete the project on modernization of the automatic heating control system of the preheating furnaces and the gas switch (SAUPPNG);

During 2020, the Group modernized and reconstructed existing fixed assets, as well as acquired new fixed assets for a total amount of UAH 158,053 thousand (2019: UAH 92,764 thousand). Expenses for the acquisition of non-current assets in the course of the Group's investment activities amounted to UAH 47,218 thousand. (2019: UAH 46,173 thousand).

8. FINANCIAL INVESTMENTS

As at 31 December 2020, the Group’s investments in subsidiaries were the following:

Name of the Group	*Ownership*	*Business activities*	*Carrying value, UAH thousand*
Ekovtorresurs LLC, Ukraine	100%	Trading	4,690
Cutlery Plant-DSS LLC, Ukraine	100%	Production	-

As of December 31 2020, the Group’s investments in associates were the following:

Name of the Group	*Ownership*	*Business activities*	*Carrying value, UAH thousand*
Ferroterm LLC, Ukraine	50%	Trading	–
Teleradiocompany Omega LLC, Ukraine	50%	Information and telecommunication	–

9. PROSPECTS FOR DEVELOPMENT

The Group's prospects for development in 2021 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 2021 is expected to be 4.2% 2021 (according to the consensus forecast of the National Bank of Ukraine).
- Forecasted inflation rate, according to IMF, is expected to be 7%, with a further decrease to the level of 5% in 2022-2023 (according to the forecast data of the National Bank of Ukraine).

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 Group 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 Charter[1].

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

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;
- Кovtun M.V. – representative of shareholder MIDDLEPRIME LIMITED;
- Agarkova T.S. – representative of shareholder GAZARO LTD.

The Supervisory Board meetings are held when necessary. In 2020, 55 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.

[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.

Calling and holding the general meeting of shareholders

Annual General Shareholders Meeting of PjSC "Dniprospetsstal" took place on 24 April 2020. 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 2019, were approved;
- Profit received by PjSC "Dniprospetsstal" for the results of activities in 2019 in the amount of 78,131 thousand UAH used to cover losses of previous years;
- The full membership of the Group's Audit Committee members was terminated;
- New members of the Audit Committee of the Group were elected;
- Preliminarily agreed to perform significant transactions, the decision-making on which is attributed to the competence of the General Meeting of Shareholders and which will be performed by PrJSC "Dniprospetsstal" within one year from the date of this decision in the course of current economic activity.

The next Annual General Shareholders Meeting of PJSC "Dniprospetsstal" is scheduled to be held in April 2021.

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

As at 31 December 2020, the structure of shareholders of the Group was the following:

Name	***Number of shares***	***Ownership share***
WENOX HOLDINGS LIMITED, Cyprus	506,477	47,11%
GAZARO LTD, Cyprus	177,592	16,52%
BOUNDRYCO LTD, Cyprus	118,394	11,01%
MIDDLEPRIME LIMITED, Cyprus	105,247	9,79%
CRASCODA HOLDINGS LIMITED, Cyprus	71,840	6,68%
Other shareholders with the individual ownership less than 5%	95,480	8,89%
	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 2020, 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.

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 2020, 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 "DNIPROSPESTAL" 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 — Sergiy Kiiko

12 March 2020

Building a better working world

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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 2020, 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 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

Basis for qualified opinion

As described in Notes 11, 16, 21 and 22 to the consolidated financial statements, during 2020 and 2019 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 2020 and 2019 - 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' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue recognition was a key audit matter since the amount of revenue is material to the financial statements and due to a 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.	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 timing 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.

Other information included in the Group`s Management report and the Annual Information of the Issuer of Securities for 2020

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 2020, 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 2020 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, actions taken to eliminate threats or safeguards applied.

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.

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Translation from Ukrainian original

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 Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2012. Our appointment has been renewed annually in line with the procedures set by the legislation. Our engagement has been continued as a result of the open external auditor selection tender and approved by the resolution of the General shareholder meeting on 23 April 2019. The period of our total uninterrupted statutory audit engagement by the Group is 9 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 2021 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

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

12 March 2021

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 2020
(in thousands of Ukrainian hryvnia)

	Date (year, month, date)	2020	12	31
Entity: PrJSC "Electrometallurgical Works "Dniprospetsstal" named after A.M. Kuzmin"	per EDRPOU	00186536		
Location: Factory district	per KOATUU	2310136600		
Ownership: private joint stock company	per KOPFG	230		
Type of activity: Production of pig iron, steel and ferroalloys	per KVED	24.10		

Average headcount: 4,718
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	V

Balance sheet
(Statement of financial position)
as at 31 December 2020

Form № 1 DKUD code 1801001

Assets	Line code	As at 31 December 2019	As at 31 December 2020
1	2	3	4
I. Non-current assets			
Intangible assets	1000	7,231	6,387
historical cost	1001	50,423	51,590
accumulated amortization	1002	(43,192)	(45,203)
Capital investments in progress	1005	35,294	62,820
Property, plant and equipment:	1010	4,673,940	4,419,443
historical cost	1011	5,125,350	5,203,242
accumulated depreciation	1012	(451,410)	(783,799)
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	38,010	1,918
Total Section I	1095	**4,754,475**	**4,490,568**
II. Current assets			
Inventories	1100	1,130,820	1,163,412
Raw materials	1101	525,601	467,018
Work in progress	1102	367,354	516,399
Finished goods	1103	237,843	179,967
Goods	1104	22	28
Current biological assets	1110	–	–
Accounts receivable for goods, works and services	1125	929,193	835,178
Accounts receivable on settlements:			
on prepayments made	1130	26,348	16,752
with budget	1135	68,412	73,199
including prepayments for income tax	1136	24	–
with accrued income	1140	2,760	–
Other accounts receivable	1155	3,163	3,682
Current financial investments	1160	313,583	-
Cash and cash equivalents:	1165	9,661	34,207
cash in hand	1166	6	7
cash in banks	1167	9,655	34,200
Future expenses	1170	1,874	2,187
Other current assets	1190	14,754	18,718
Total Section II	1195	**2,500,568**	**2,147,335**
III. Assets classified as held for sale and discontinued operations	1200	**–**	**131**
Balance	1300	**7,255,043**	**6,638,034**

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2020
(in thousands of Ukrainian hryvnia)

Liabilities and equity	Line code	As at 31 December 2019	As at 31 December 2020
1	2	3	4
I. Equity			
Share capital	1400	49,720	49,720
Contributed capital	1405	3,226,288	3,009,609
Additional capital	1410	114,747	114,747
Reserve fund	1415	12,430	12,430
Retained earnings (accumulated deficit)	1420	(2,140,308)	(2,859,321)
Unpaid capital	1425	–	–
Treasury shares	1430	–	–
Total Section I	1495	**1,262,877**	**327,185**
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	308,712	107,849
Non-current bank loans	1510	2,794,314	415,028
Other non-current liabilities	1515	315	–
Non-current provisions	1520	646,870	737,381
Special purpose financing	1525	–	–
Total Section II	1595	**3,750,211**	**1,260,258**
III. Current liabilities and provisions			
Short-term bank loans	1600	–	–
Current liabilities for:			
current portion of non-current liabilities	1610	618,611	3,121,403
for goods, works and services	1615	1,373,200	1,692,185
with budget	1620	13,753	14,288
with Income tax	1621	-	27
social insurance	1625	11,529	14,934
Wages	1630	37,314	37,105
Current liabilities for advances received	1635	45,799	55,291
Current liabilities for payments to participants	1640	14,330	14,330
Other provisions	1660	93,555	76,831
Deferred revenue	1665	–	–
Other current liabilities	1690	33,864	24,224
Total Section III	1695	**2,241,955**	**5,050,591**
IV. Liabilities directly associated with the assets classified as held for sales and discontinued operations	1700	**–**	**–**
Balance	1900	**7,255,043**	**6,638,034**

Chairman of the Board Sergiy Kiiko

ДНІПРОСПЕЦСТАЛЬ ЄДРПОУ 00186536

Chief Accountant Halyna Luchko

12 March 2021

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

(in thousands of Ukrainian hryvnia)

Date (year, month, date)	2020	12	31
Entity: PrJSC "Electrometallurgical Works "Dniprospetsstal" named after A.M. Kuzmin" per EDRPOU	00186536		

Statement of financial results
(Statement of comprehensive income)
for the year 2020

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	7,120,058	8,291,100
Cost of goods (merchandise, works, services) sold	2050	(6,574,584)	(7,821,661)
Gross:			
Profit	2090	**545,474**	**469,439**
Loss	2095	**–**	**–**
Other operating income	2120	56,886	136,455
Administrative expenses	2130	(153,241)	(155,500)
Selling expenses	2150	(323,621)	(296,141)
Other operating expenses	2180	(211,202)	(132,668)
Financial results from operating activities:			
Profit	2190	**–**	**21,585**
Loss	2195	**(85,704)**	**–**
Income from investments accounted for under equity method	2200	–	–
Other finance income	2220	14,421	35,057
Other income	2240	69	553,475
Finance expenses	2250	(416,253)	(491,773)
Losses from investments accounted for under equity method	2255	–	**–**
Other expenses	2270	(598,927)	(6,632)
Financial results from ordinary activities before taxation:			
Profit	2290	**–**	**111,712**
Loss	2295	**(1,086,394)**	**–**
Income tax on ordinary activities	2300	191,757	(28,903)
Financial results from stopped activities after taxation	2305	–	**–**
Net financial result:			
Profit	2350	**–**	**82,809**
Loss	2355	**(894,637)**	**–**

II. COMPREHENSIVE INCOME

Description	Line code	Current period	Preceding period
1	**2**	**3**	**4**
Revaluation (impairment) of non-current assets	2400	–	–
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	(50,061)	(116,627)
Other comprehensive income before tax	2450	**(50,061)**	**(116,627)**
Income tax related to other comprehensive income	2455	9,006	20,920
Other comprehensive income, net of tax	2460	**(41,055)**	**(95,707)**
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	**(935,692)**	**(12,898)**

(in thousands of Ukrainian hryvnia)

III. ELEMENTS OF OPERATING EXPENSES

Description	Line code	Current period	Preceding period
1	2	3	4
Cost of materials	2500	5,448,614	6,475,034
Labour costs	2505	857,054	863,275
Social security charges	2510	182,906	192,192
Depreciation and amortization	2515	346,516	339,930
Other operating expenses	2520	534,826	404,101
Total	2550	**7,369,916**	**8,274,532**

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	Current period	Preceding period
1	2	3	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	(0.832)	0.077
Adjusted net income per ordinary share	2615	(0.832)	0.077
Dividends per ordinary share	2650	–	–

Chairman of the Board Sergiy Kiiko

ДНІПРОСПЕЦСТАЛЬ ЄДРПОУ 00186536

Chief Accountant Halyna Luchko

12 March 2021

(in thousands of Ukrainian hryvnia)

	Date (year, month, date)	2020	12	31
Entity: PrJSC "Electrometallurgical Works "Dniprospetsstal" named after A.M. Kuzmin"	per EDRPOU	00186536		

Statement of cash flows
(direct method)
for the year 2020

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	7,676,420	9,079,309
Refund of taxes and compulsory payments	3005	276,328	299,477
including refund of VAT	3006	276,328	299,477
Special purpose financing	3010	16,856	15,122
Including receipts of subsidies and grands	3011	16,856	15,122
Receipts of advances received from customers	3015	55,291	45,889
Receipts from return of prepayments	3020	3,926	23,145
Receipts of interests on outstanding balances on current bank accounts	3025	17,156	34,485
Receipts of forfeit from debtors (fines and penalties)	3035	2,593	6,883
Receipts from operational lease	3040	18,841	22,633
Other receipts	3095	3,533	2,214
Cash disbursements for settlement of liability for:			
Goods (works, services)	3100	(6,354,721)	(7,748,890)
Salary	3105	(668,655)	(656,327)
Deductions for social security charges	3110	(240,950)	(235,019)
Tax liabilities and charges	3115	(204,469)	(200,528)
Payments for income tax liabilities	3116	(51)	(55)
Payments for value added tax liabilities	3117	(2,987)	(1,429)
Payments for other taxes and compulsory payments	3118	(201,385)	(199,043)
Prepayments made	3135	(16,752)	(26,432)
Return of advances received	3140	(3,107)	(3,510)
Other payments	3190	(65,952)	(87,436)
Net cash flow from operating activities	3195	**516,338**	**571,015**
II. Cash flows from investing activities			
Proceeds from sale of:			
financial investments	3200	−	8,588
non-current assets	3205	−	256
Receipt of:			
Interests	3215	−	−
Dividends	3220	−	−
Receipts from derivatives	3225	−	−
Receipts from loans settlement	3230	−	−
Other proceeds	3250	386,948	17,000
Cash disbursement for the purchase of:			
financial investments	3255	−	−
non-current assets	3260	(47,218)	(46,173)
Payments for derivatives	3270	−	−
Cash disbursements for loan provision	3275	−	−
Other payments	3290	(23,538)	(92,923)
Net cash flows from investing activities	3295	**316,192**	**(113,252)**

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2020
(in thousands of Ukrainian hryvnia)

Description	Line code	Reporting period	Preceding period
1	2	3	4
III. Cash flows from financing activities			
Income from:			
Share capital	3300	–	–
Proceeds from borrowings	3305	–	–
Other cash receipts	3340	32,800	89,900
Cash disbursements for the purchase of:			
Own securities	3345	–	–
Repayment of borrowings	3350	(469,540)	(86,683)
Dividends paid	3355	–	–
Interest paid	3360	(328,530)	(417,541)
Other payments	3390	(43,730)	(93,473)
Net cash flows from financing activities	3395	**(809,000)**	**(507,797)**
Net decrease in cash and cash equivalents	3400	**23,530**	**(50,034)**
Cash balance at the beginning of the year	3405	9,661	67,103
Net foreign exchange difference	3410	1,016	(7,408)
Cash balance at the end of the year	3415	**34,207**	**9,661**

Line 3190 «Other payments» of section «Cash flows from operating activities» includes settlements with other creditors in amount of UAH 15,566 thousand (2019: UAH 31,907 thousand), charges for bank loans servicing in amount of UAH 6,825 thousand (2019: UAH 12,378 thousand), settlements with employees and other debtors in amount of UAH 18,984 thousand (2019: UAH 16,168 thousand), payments for liability under individual insurance program in amount of UAH 13,343 thousand (2019: UAH 11,836 thousand) and other disbursements in amount of UAH 11,234 thousand (2019: UAH 15,147 thousand).

Line 3250 "Other proceeds" of section «Cash flows from investing activities» includes receipts from the return of financial aid granted in amount UAH 17,000 thousand in 2019 year (2020: zero) and proceeds from redemption of the deposit certificates in amount UAH 386,948 thousand (2019: zero).

Line 3290 «Other payments» of section «Cash flows from investing activities» includes the deposits replenishment in the amount of UAH 23,538 thousand (2019: UAH 79,923 thousand) and financial aid granted in the amount of UAH 13,000 thousand in 2019 (2020: zero).

Chairman of the Board — Sergiy Kiiko

Chief Accountant — Halyna Luchko

12 March 2021

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2020
(in thousands of Ukrainian hryvnia)

	Date (year, month, date)	2020 12 31	
Entity: PrJSC "Electrometallurgical Works "Dniprospetsstal" named after A.M. Kuzmin"	per EDRPOU	00186536	

Equity statement
for the year 2020

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**	**3,226,288**	**114,747**	**12,430**	**(2,140,308)**	**–**	**–**	**1,262,877**
Adjustments:									
Changes in accounting policies	4005	–	–	–	–	–	–	–	–
Correction of errors	4010	–	–	–	–	–	–	–	–
Other adjustments	4090	–	–	–	–	–	–	–	–
Adjusted balance at the beginning of the year	4095	**49,720**	**3,226,288**	**114,747**	**12,430**	**(2,140,308)**	**–**	**–**	**1,262,877**
Net profit (loss) for the reporting period	4100	**–**	**–**	**–**	**–**	**(894,637)**	**–**	**–**	**(894,637)**
Other comprehensive income	4110	**–**	**–**	**–**	**–**	**(41,055)**	**–**	**–**	**(41,055)**
Increase in the value of non-current assets	4111	–	–	–	–	–	–	–	–
Other income	4116					(41,055)			(41,055)
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	–	–	–	–	–	–	–	–

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2020
(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	–	(216,679)	–	–	216,679	–	–	–
Other changes in equity as a result of new accounting standards adoption	4291	–	–	–	–	–	–	–	–
Total changes in equity	4295	**–**	**(216,679)**	**–**	**–**	**(719,013)**	**–**	**–**	**(935,692)**
Balance at the end of the year	4300	**49,720**	**3,009,609**	**114,747**	**12,430**	**(2,859,321)**	**–**	**–**	**327,185**

Equity statement for the year 2019

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**	**3,452,405**	**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)**

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2020
(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	–	–	–	–	–	–	–	–
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)**	**–**	**–**	**208,543**	**–**	**–**	**(17,574)**
Balance at the end of the year	4300	**49,720**	**3,226,288**	**114,747**	**12,430**	**(2,140,308)**	**–**	**–**	**1,262,877**

Chairman of the Board Sergiy Kiiko

Chief Accountant Halyna Luchko

12 March 2021

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

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 2020, the Group employed 4,718 people (2019: 4,876 people).

As at 31 December 2020 and 2019, 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 2020 and for the year then ended were authorized for issue on 12 March 2021.

Operating environment in Ukraine and Covid-19 influence

The Group conducts its operations in Ukraine. During last years, the Ukrainian economy started to demonstrate certain signs of recovery and growth following the significant decline in 2014-2016. The main constraints affecting the economic development are still represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms and low level of capital inflow. Until the breakout of the coronavirus disease (COVID-19) in the first quarter 2020, the real GDP has been growing by 2.4-3.4% annually, and annual inflation has been decreased from 17.4% in 2018 to 4.1% in 2019.

Starting from March 2020, Ukraine and other countries have taken quarantine and other measures to prevent the coronavirus outbreak, which had and continue to have a significant effect on the overall business scale. In particular, during 2020, the industrial output in Ukraine dropped by 5.2% comparing to 2019, and the inflation fastened up to 5%. Similarly, in 2020, the industrial producer prices increased by 14.5% in comparison with 2019. The worsening of the economic situation in Ukraine, among other things due to the COVID-19 outbreak, led to UAH devaluation against the foreign currencies: the official exchange rate as at 31 December 2020 was USD/UAH 28.27 comparing to USD/UAH 23.69 as at 31 December 2019 (31 December 2018: USD/UAH 27.69). In an effort to offset the negative impact of the COVID-19 pandemic on Ukrainian economy, the National Bank of Ukraine ("the NBU") gradually reduced the key policy rate from 13,5% p.a., effective from 13 December 2019, to 10% p.a. starting from 13 March 2020 and further – to 6% p.a. effective from 11 June 2020. At the beginning of March 2021, the NBU set up the key policy rate as 6,5% p.a.

Fluctuations on the global steel market in 2020 together with the mentioned economic conditions led to a drop of steel production in Ukraine by 8.6% comparing to 2019 as well as negatively affected the Group`s sales volume and results during the reporting period. In addition, during 2020, as a result of Ukrainian hryvnia`s devaluation against foreign currencies the Group incurred net foreign exchange loss of UAH 697,375 thousand (2019: net foreign exchange gain of UAH 623,463 thousand).

Uncertainty regarding combat of the COVID-19 pandemic and future development of the economic environment have adverse impact of the future operations of the Group, which can`t be measured reliably. Management continues to monitor the developments of the current conditions and take actions to minimize any negative effects to the extent possible.

2. Going concern

As at 31 December 2020, current liabilities of the Group exceeded its current assets by UAH 2,903,256 thousand (2019: current liabilities of the Group exceeded its current assets by UAH 258,613 thousand). In 2020, mainly due to Ukrainian hryvnia`s devaluation against foreign currencies, net loss of the Group comprised UAH 894,637 thousand (2019: net profit of UAH 82,809 thousand).

The management believes that the application of going concern principle for the preparation of these separate financial statements of the Group is appropriate in the current circumstances, based on the following assertions.

The Group is a powerful exporter of metallurgical products and produces a wide range of finished goods having stable demand. The proportion of finished goods export sales in the total revenue from sales of goods comprised 67% for 2020 (2019: 61%), which allowed the Group to generate gross profit of UAH 545,474 thousand (2019: UAH 469,439 thousand) and net cash inflows from operating activities of UAH 516,338 thousand (2019: UAH 571,015 thousand).

Additionally, the Group continuously conducts programs to improve its production effectiveness, mainly, through implementation of energy- and resources-saving technologies as well as optimization of fixed costs. The management believes that the abovementioned programs together with existing stable portfolio of orders for the next year will lead to profitable activity of the Group in the future.

Following past practices in 2020, the Company negotiated another restructuring of the loans with its banks. As a result, payment schedules were adjusted to extend maturity to 2021-2022 followed by respective interest rates decrease. As of the date of the issuance of the separate financial statements, based on the prior experience of the loans prolongation and current status of the negotiations with the banks regarding upcoming restructuring, management expects the completion of the prolongation for the loans due in December 2021, which is necessary for maintaining sufficient liquidity in long term, before the contractual maturities under these loans become due.

Based on abovementioned considerations, these separate 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 carried at revalued amounts, as described in Note 4.

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. Summary of accounting policies

4.1 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended IFRS adopted with effect from 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

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

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.

Foreign exchange differences arising on monetary assets and liabilities in the course of operating activities are operational and are included in other operating income or expenses. Exchange differences arising on monetary liabilities in the course of financial activities (primarily on bank loans) are non-operational and are reflected in other income or expenses.

Property, plant and equipment

All groups of fixed assets, excluding land and construction in progress and uninstalled equipment, are accounted by using revaluation model and carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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.

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.

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.

The land is stated at cost. 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.

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 2019-2020 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.

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 2020 and 2019, 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.

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 subseguently 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.

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 asthe 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.

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.

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.

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;

(in thousands of Ukrainian hryvnia)

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

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.

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 2020 and 2019, allowances for doubtful accounts have been made in the amount of UAH 1,105 thousand and UAH 3,296 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 2020, inventory write-down using allowances to its net realisable value amounted to UAH 37,142 thousand (2019: UAH 60,282 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).

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.

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.

(in thousands of Ukrainian hryvnia)

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.
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 2020. For analysis of possible changes in the fair value of property, plant and equipment as at 31 December 2020, the Group has estimated the present value of the expected cash flows from the use of property, plant and equipment, as described in Note 6, and concluded that the carrying amount of property, plant and equipment did not differ significantly from their fair value as at 31 December 2020.

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

2020	*Land and capital improvements*	*Buildings and structures*	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction in progress and uninstalled equipment*	*Total*
Historical or revalued cost							
At 1 January 2020	**18,456**	**2,898,144**	**1,973,950**	**145,130**	**89,670**	**35,294**	**5,160,644**
Additions	–	19,640	89,064	9,537	4,069	27,526	149,836
Disposals	–	(16,855)	(16,472)	(9,329)	(1,762)	–	(44,418)
Revaluation	–	–	–	–	–	–	–
At 31 December 2020	**18,456**	**2,900,929**	**2,046,542**	**145,338**	**91,977**	**62,820**	**5,266,062**
Depreciation							
At 1 January 2020	**(632)**	**(139,559)**	**(185,455)**	**(69,953)**	**(55,811)**	**–**	**(451,410)**
Charge for the year	(33)	(144,366)	(192,773)	(5,336)	(5,978)	–	(348,486)
Disposals	–	7,464	1,002	7,249	382	–	16,097
Revaluation	–	–	–	–	–	–	**–**
At 31 December 2020	**(665)**	**(276,461)**	**(377,226)**	**(68,040)**	**(61,407)**	**–**	**(783,799)**
Net book value							
At 1 January 2020	**17,824**	**2,758,585**	**1,788,495**	**75,177**	**33,859**	**35,294**	**4,709,234**
At 31 December 2020	**17,791**	**2,624,468**	**1,669,316**	**77,298**	**30,570**	**62,820**	**4,482,263**

2019	*Land and capital improvements*	*Buildings and structures*	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction in progress and uninstalled equipment*	*Total*
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**

As at 31 December 2020 capital investments in progress contained prepayments for property, plant and equipment in the amount of UAH 18,899 thousand (2019: UAH 449 thousand).

(in thousands of Ukrainian hryvnia)

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:

	Net book value	
	2020	***2019***
Buildings and structures	177,933	175,871
Machinery and equipment	589,695	574,754
Transport and motor vehicles	17,223	10,927
Fixtures and office equipment	20,236	23,144

As at 31 December 2020, the property, plant and equipment items in the amount of UAH 124,283 thousand (2019: UAH 125,197 thousand) were fully depreciated but were still in use.

As at 31 December 2020, the carrying value of buildings of UAH 1,191,493 thousand (2019: UAH 2,028,689 thousand) and machinery and equipment of UAH 1,458,548 thousand (2019: UAH 1,552,241 thousand) were pledged secured commitments for loans granted by banks (Note 15).

Analysis of fair value of property, plant and equipment

To analyse possible changes in the fair value of property, plant and equipment as at 31 December 2020, the Group estimated total present value of expected cash flows from the use of property, plant and equipment and then the results were compared with the carrying amount of property, plant and equipment determined as the fair value at 31 December 2018 (date of the latest revaluation) less accumulated depreciation that has been accrued since then.

The Group engaged an independent appraiser to determine the total present value of the expected cash flows from the use of property, plant and equipment – the complex of production assets, which comprises 98% of carrying value of property, plant and equipment.

Analysis of the discounted cash flows is prepared for five years. Key assumptions using for the impairment testing were following:

	Assumptions used as at 31 December 2020
Post-tax discount rate	17,43%
Average volume increase	2021: 3.8%; 2022: 3.5%; 2023: 2.9%: 2024: 2.6%; 2025: 2.6%
Average price increase	2021: 14.4%; 2022: 12.6%; 2023: 7.3%; 2024: 6.9%; 2025: 6.2%
EBITDA margin	From 7.3% in 2021 to 11.7% in 2025 p.
Growth rate in perpetual period	4.9%

Numerical values of key assumptions reflect future trends estimated by the Group’s management, and these assumptions are based on the external and internal sources of the Group.

Based on the results of this analysis, the Group concluded that the carrying amount of property, plant and equipment did not differ significantly from their fair value as at 31 December 2020.

(in thousands of Ukrainian hryvnia)

7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	2020	***2019***
Cost		
At 1 January	**50,423**	**49,425**
Additions	2,729	1,616
Disposal	(1,562)	(618)
At 31 December	**51,590**	**50,423**
Amortisation		
At 1 January	**(43,192)**	**(40,281)**
Charge for the year	(3,285)	(3,475)
Disposal	1,274	564
At 31 December	**(45,203)**	**(43,192)**
Net book value		
At 1 January	**7,231**	**9,144**
At 31 December	**6,387**	**7,231**

As at 31 December 2020, the intangible assets with historical value of UAH 27,593 thousand (2019: UAH 5,767 thousand) were fully amortized but were still in use.

8. Other non-current assets

	2020	***2019***
Deposits in Ukrainian hryvnias	–	36,243
Income tax prepayment	–	1,918
Provision for expected loan losses	1,918	(151)
	1,918	**38,010**

During the 2020 an annual interest rate for deposits in Ukrainian hryvnia was of 4.5%-10%. As at 31 December 2019, non-current assets included deposits in Ukrainian hryvnia with an annual interest rate of 10.45-11.50%. In July 2020, deposits were repaid and proceeds from them were used for further repayments of loans.

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 Company (Note 15).

9. Income tax

The components of income tax expenses were as follows:

Profit and loss	***2020***	***2019***
Current income tax expenses	100	33
Deferred income tax (benefit) / expense relating to origination and reversal of temporary differences	(191,857)	28,870
Income tax expense / (benefit)	**(191,757)**	**28,903**

Other comprehensive income	***2020***	***2019***
Deferred income tax expense attributable to revaluation of PP&E	–	–
Deferred income tax benefit attributable to actuarial gains and losses	(9,006)	(20,920)
Income tax (benefit) / expense reflected in other comprehensive income	**(9,006)**	**(20,920)**

(in thousands of Ukrainian hryvnia)

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

	2020	*2019*
Profit / (loss) before tax	**(1,086,394)**	**111,712**
Income tax expense / (benefit) at enacted rate 18%	**(195,551)**	**20,108**
Tax effect of disallowable expenses	3,794	8,795
Income tax expense / (benefit)	**(191,757)**	**28,903**

Deferred tax assets and liabilities related to the following:

	31 December 2020	*Changes recognized in profit and loss for 2020*	*Changes recognized in other comprehensive income for 2020*	*31 December 2019*
Deferred tax assets				
Tax losses carry-forward	385,130	142,942	-	242,188
Non-current provisions (i)	131,673	7,405	9,006	115,262
Inventory (ii)	8,166	(4,226)	-	12,392
Current provisions (iv)	332	(97)	-	429
Deferred tax liabilities				
Property, plant and equipment (iii)	(633,150)	45,833	-	(678,983)
Deferred tax liability, net	**(107,849)**	**-**	**-**	**(308,712)**
Deferred income tax (expense) / benefit		**191,857**	**9,006**	**–**

	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 benefit / (expense)	**–**	**(28,870)**	**20,920**	**–**

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 2020, the Group has tax losses in amount of UAH 2,139,611 thousand (2019: UAH 1,345,489 thousand). Deferred tax assets have been recognized in full amount in respect of these losses, as they can be offset against future taxable profits.

(in thousands of Ukrainian hryvnia)

10. Inventories

	2020	*2019*
Finished goods		
Stainless steel (at cost or net realisable value)	92,000	125,934
Structural steel (at cost or net realisable value)	37,386	61,510
Tool steel (at cost or net realisable value)	29,199	33,444
Heat resistant steel (at cost or net realisable value)	6,519	6,349
High-speed tool steel (at cost or net realisable value)	8,987	4,359
Bearing steel (at cost or net realisable value)	4,689	4,189
Other (at cost or net realisable value)	1,187	2,058
	179,967	**237,843**
Raw materials		
Materials (at cost or net realisable value)	362,718	410,644
Spare parts (at cost or net realisable value)	92,346	103,638
Other (at cost or net realisable value)	11,954	11,319
	467,018	**525,601**
Work in process (at cost or net realisable value)	516,399	367,354
	516,399	**367,354**
	1,163,384	**1,130,798**

As at 31 December 2020, inventory write-down using allowances to its net realisable value amounted to UAH 37,142 thousand (2019: UAH 60,282 thousand).

As at 31 December 2020, raw materials and finished goods for the amount of UAH 627,700 thousand (2019: UAH 627,700 thousand), were pledged as a security for the bank loans (see Note 15).

11. Accounts receivable for goods, works and services

	2020	*2019*
Accounts receivable for goods, works and services	836,283	931,270
Allowance for expected credit losses	(1,105)	(2,077)
	835,178	**929,193**

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

As at 31 December 2020, trade accounts receivable for goods, works, services from three counterparties comprised UAH 765,162 thousand (2019: UAH 691,278 thousand).

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

	2020	*2019*
At 1 January	**2,077**	**3,296**
Unused amounts reversed	(972)	(1,219)
At 31 December	**1,105**	**2,077**

Set out below is the ageing analysis of trade receivables as at 31 December 2020 and 2019 and information about the credit risk exposure on The Group's trade receivables using a provision matrix:

		Days past due			
31 December 2020	***Current***	***<30 days***	***30-60 days***	***>60 days***	***Total***
Expected credit loss rate	0.00%	0.02%	0.15%	0.89%	
Estimated total gross carrying amount at default	109	541,707	217,507	76,960	**836,283**
Allowance for expected credit loss	–	101	316	688	**1,105**

		Days past due			
31 December 2019	***Current***	***<30 days***	***30-60 days***	***>60 days***	***Total***
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**

(in thousands of Ukrainian hryvnia)

As at 31 December 2020, trade accounts receivable (before allowance for expected credit losses) were pledged as a security for the bank loans obtained by the Group comprised UAH 765,162 thousand (2019: UAH 691,278 thousand) (see Note 15).

12. Accounts receivable on settlements with budget

As at 31 December 2020, accounts receivable on settlements with budget included VAT receivable in the total amount of UAH 73,199 thousand (2019: UAH 68,412 thousand).

13. Cash and cash equivalents

	2020	*2019*
Cash at banks	34,200	9,655
Cash on hand	7	6
	34,207	**9,661**

In 2020 cash at banks balances earned interest at floating rates floating from up to 10% (2019: up to 12%).

14. Current financial investments

As at 31 December 2019, current financial investments included deposits in Ukrainian hryvnia comprised UAH 228,589 thousand with an annual interest rate of 12.8% and deposits in US dollars comprised UAH 86,309 thousand with an annual interest rate of 1.2%–1.7%. As at 31 December 2019, the Group recognized expected credit losses for current financial investments of UAH 1,315 thousand.

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

During 2020, proceeds from deposits were used for further repayments of loans.

15. Bank borrowings

Long and short-term borrowings consisted of the following:

	2020	*2019*
Non–current bank loans (line 1510)	415,028	2,794,314
Other non–current lease liability (line 1515)	–	315
	415,028	**2,794,629**
Current portion of non–current bank loans (line 1610)	3,121,088	618,352
Current portion of non–current lease liability (line 1610)	315	259
	3,121,403	**618,611**
	3,536,431	**3,413,240**

As at 31 December 2020, carrying amount of bank borrowings and lease liability were as follows:

	2020	*2019*
Bank loans	3,536,116	3,412,666
Lease liability	315	574
	3,536,431	**3,413,240**

As at 31 December 2020 and 2019, borrowings were denominated in the following currencies and bore the following rates:

	2020			*2019*		
Currency	***Maturity***	***Effective* interest rate**	**Outstanding principal**	***Maturity***	***Effective* interest rate**	**Outstandin g principal**
Fixed rates						
USD	2 December 2021	8.00%	1,413,729	2 December 2021	11.25%	1,212,733
USD	2 December 2021	8.00%	1,411,701	2 December 2021	10.50%	1,212,191
USD	18 December 2021	5.48%	260,539	5 April 2020	11.20%	523,737
USD	25 November 2022	1.25%	264,189	26 November 2021	6.25%	225,929
UAH	25 November 2022	11.00%	185,958	26 November 2021	18.25%	238,076
			3,536,116			**3,412,666**

(in thousands of Ukrainian hryvnia)

During 2020, the Group completed loan restructuring process regarding three loans obtained from two Ukrainian banks, as a result of which a new payment schedules with the maturity in 2021-2022 were agreed. The Group also agreed to reduce bank interest rates in 2020 due to the reduction of the discount rate by the National Bank of Ukraine to 6% per annum starting from June 11, 2020. The Group has estimated that the effect of the modification of loan terms is insignificant.

As at 31 December 2020, not all financial covenants provided in the loan agreements with carrying amount of UAH 450,147 thousand and maturity in November 2022 from one bank were fulfilled by the Group. As at 31 December 2020 carrying amount of these loans were presented as long–term liabilities. The Group received the waiver letter from the respective bank that waive early payment and apply no sanctions to the Group due to breach loan covenants mentioned above.

During 2020, the Group breached some financial covenants provided in the loan agreement with carrying amount of UAH 260,539 thousand as at 31 December 2020, specified in the credit loan agreement. The Bank did not apply penalties (in the form of revision of the credit limit, the use of the right of early payment or increase in the amount of collateral). As at 31 December 2020, the carrying amount of this loan was presented within current liabilities in accordance with the payment schedule under the loan agreement.

A summary of the security pledged for borrowings as at 31 December 2020 and 2019 is set out below:

	2020	***2019***
Property, plant and equipment (Note 6)	3,450,041	3,580,931
Inventories (Note 10)	627,700	627,700
Trade accounts receivable (Note 11)	765,162	691,278
Bank deposits (Note 14)	-	347,901
Future proceeds under sales agreements	4,773,332	5,364,163

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

	2020	**2019**
Bank loans as at 1 January	**3,412,666**	**4,041,331**
Proceeds from bank loans	–	–
Repayment of bank loans	(469,540)	(86,683)
Foreign exchange effect	592,990	(541,982)
Bank loans as at 31 December	**3,536,116**	**3,412,666**

16. Trade payables for goods, works and services

	2020	***2019***
Payables to foreign suppliers of materials and services	1,048,020	841,009
Payables to domestic suppliers of materials and services	644,165	532,191
	1,692,185	**1,373,200**

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

As at 31 December 2020, trade accounts payable for goods, works, services to three counterparties comprised UAH 973,628 thousand (2019: UAH 673,983 thousand).

17. Current liabilities on advances received

	2020	***2019***
Advances for metal products received from:		
foreign customers	2,990	25,191
local customers	52,301	19,318
in accordance with commission agreements	–	1,290
	55,291	**45,799**

In 2020 The Group recognized net revenue from sales of goods in the amount of UAH 42,468 thousand in respect of advances received at the beginning of the year based on fulfilled obligations under contracts with customers (2019: UAH 58,887 thousand - in respect of advances received as at 1 January 2019 with a carrying value of UAH 60,501 thousand.

(in thousands of Ukrainian hryvnia)

18. Non-current provisions

	2020	*2019*
Material encouragement of workers	24,703	48,916
Unused vacation	48,586	41,081
Litigation provision	886	1,133
Other accruals	2,656	2,425
	76,831	**93,555**

19. Other current liabilities

	2020	*2019*
Accrued interests for the bank loans	22,365	32,238
Other	1,859	1,626
	24,224	**33,864**

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

	2020	*2019*
Interest on bank loans payable as at 1 January	**32,238**	**37,829**
Accrued interest for the bank loans	319,481	415,021
Paid interest for the bank loans	(328,526)	(417,541)
Foreign exchange effect	(828)	(3,071)
Interest on bank loans payable as at 31 December	**22,365**	**32,238**

20. Other non-current liabilities

	2020	*2019*
Defined benefit pension plan	658,760	566,714
Other employee benefit plans	78,601	79,452
Other non-current liabilities	20	704
	737,381	**646,870**

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 2020, total number of the plan participants accounted for 2,323 people (2019: 2,236 people) including 1,242 people (2019: 1,277 people) receiving the benefit.

Changes in the defined benefit pension obligation

	2020	*2019*
Defined benefit pension obligation at 1 January	**566,714**	**436,458**
Current service costs	17,147	13,796
Interest costs	71,708	57,810
Benefits paid	(55,112)	(52,917)
Actuarial loss/(gain) on obligation due to effect of changes in assumptions	58,303	111,567
- Experience adjustments	6,993	62,693
- Actuarial changes arising from changes in demographic assumptions	2,010	(2,248)
- Actuarial changes arising from changes in financial assumptions	49,300	51,122
Defined benefit pension obligation as at 31 December	**658,760**	**566,714**

(in thousands of Ukrainian hryvnia)

Defined benefit pension expense

	2020	*2019*
Current service costs	17,147	13,796
Interest costs	71,708	57,810
Benefit expense	**88,855**	**71,606**

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 2020, the Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 62,067 thousand (2019: UAH 57,390 thousand).

In 2020 the average duration of the defined benefit plan obligation was 8,4 years (2019: 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 4,736 people as at 31 December 2020 (2019: 4,895 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, 3,209 pensioners entitled the benefits as at 31 December 2020 (2019: 3,343 people).

Changes in the defined benefit obligation

	2020	*2019*
Defined benefit obligation at 1 January	**79,452**	**72,653**
Current service costs	2,951	2,457
Interest costs	10,104	9,558
Benefits paid	(6,971)	(9,726)
Actuarial loss/(gain) on obligation due to the effect of changes in assumptions	(6,935)	4,510
- Experience adjustments	702	3,298
- Actuarial changes arising from changes in demographic assumptions	(7,981)	(855)
- Actuarial changes arising from changes in financial assumptions	344	2,067
Defined benefit obligation at 31 December	**78,601**	**79,452**

Benefit expense recognized in profit or loss

	2020	*2019*
Current service costs	2,951	2,457
Interest costs	10,104	9,558
Recognized actuarial loss/(gain)	1,307	(551)
Benefit expense	**14,362**	**11,464**

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 2020, the Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 11,174 thousand (2019: UAH 11,380 thousand).

In 2020 the average duration of obligation in accordance with collective agreement was 5.1 years (2019: 3.3 years) and for other obligation 4.9 years (2019: 5.0 years).

Key actuary assumptions

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

	2020	*2019*
Discount rate	11,50%	13.30%
Salary and benefits paid increase	5,10%	5.00%
Employee turnover	6,80%	6.30%
Rate of inflation	5,10%	5.10%

(in thousands of Ukrainian hryvnia)

The sensitivity analysis of key assumptions as at 31 December 2020:

	Increase "+" / decrease "–" of the rate	*Effect on benefit liability 2020*	*Effect on benefit liability 2019*
Discount rate	+1%	(54,196)	(43,745)
Discount rate	-1%	61,791	49,561
Salary increase (annual)	+1%	42,325	33,536
Salary increase (annual)	-1%	(38,269)	(30,499)
Rate of inflation	+1%	10,323	8,529
Rate of inflation	-1%	(10,176)	(8,465)
Employee turnover	+1%	(516)	(646)
Employee turnover	-1%	590	711

21. Net revenue from sales of goods

	2020	*2019*
Stainless steel	3,875,699	4,729,872
Structural steel	1,764,868	1,937,203
Tool steel	915,469	846,040
High-speed tool steel	224,243	338,486
Heat resistant steel	189,904	243,654
Bearing steel	109,333	182,628
CQ steel	18,888	–
Special nickel based superalloys	5,070	–
Steel with special properties	2,749	–
Other	13,835	13,217
	7,120,058	**8,291,100**

In 2020, net revenue from sales of metal products to three counterparties including those under commission agreements amounted to UAH 4,544,730 thousand (2019: UAH 4,705,432 thousand). Commission agreements fee which is included in selling expenses for 2020 year amounted to UAH 1,722 thousand (2019: UAH 1,490 thousand).

Net revenue from sales of goods are recognized at a point of time.

	2020	*2019*
Domestic sales in Ukraine	2,315,278	3,203,643
Export	4,804,780	5,087,457
	7,120,058	**8,291,100**

22. Cost of goods sold

	2020	*2019*
Materials	4,198,250	5,249,646
Utilities, energy and other services	1,136,916	1,377,051
Payroll and related expenses	823,957	785,544
Depreciation	316,909	302,979
Other	98,552	106,441
	6,574,584	**7,821,661**

For 2020 purchases of materials and services, which are included in the cost of sales, from three counterparties comprised UAH 1,981,347 thousand (2019: UAH 1,786,097 thousand).

23. Selling expenses

	2020	*2019*
Forwarding and transportation services	280,357	245,543
Payroll and related expenses	24,638	28,654
Storage and packaging expenses	5,377	6,179
Depreciation	2,569	2,552
Insurance costs relating to inventories and other assets	1,092	1,092
Other selling costs	9,588	12,121
	323,621	**296,141**

(in thousands of Ukrainian hryvnia)

24. Administrative expenses

	2020	*2019*
Payroll and related expenses	112,634	108,553
Professional services	4,778	8,441
Transportation	5,830	7,149
Bank fees	6,337	5,198
Depreciation	4,018	4,344
Materials	597	910
Communication	674	638
Other general and administrative costs	18,373	20,267
	153,241	**155,500**

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

	2020	*2019*
Gains from excess inventory	39,860	34,655
Gain on disposal of inventory, net	4,228	8,581
Fines and penalties received	3,128	7,540
Operational foreign exchange gains, net of losses	–	78,410
Other income	9,670	7,269
Total other operating income	**56,886**	**136,455**

	2020	*2019*
Operational foreign exchange losses, net of gains	105,213	–
Maintenance of social infrastructure assets	53,809	83,642
Material encouragement expenses	15,275	24,023
Charity	3,247	3,299
Shortages and losses from impairment of assets	2,917	1,979
Fines and penalties paid	505	1,294
Other expenses	30,236	18,431
Total other operating expenses	**211,202**	**132,668**

26. Other income and expenses

	2020	*2019*
Non-operational foreign exchange gains, net of losses	–	545,053
Other gains	69	8,422
Total other income	**69**	**553,475**

	2020	*2019*
Non-operational foreign exchange losses, net of gains	592,162	–
Loss from disposal of non-current assets	6,736	2,902
Other losses	29	3,730
Total other expenses	**598,927**	**6,632**

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 14,421 thousand (2019: UAH 35,057 thousand).

(in thousands of Ukrainian hryvnia)

28. Finance expenses

	2020	2019
Interest expenses on borrowings (Note 15)	319,481	415,021
Interest expense on pension obligations (Note 20)	81,812	67,368
Other finance expenses	14,960	9,384
	416,253	**491,773**

29. Equity

Share capital

As at 31 December 2020 and 2019, 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.

Contributed capital

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

Additional capital

Additional capital consists of the cumulative effect from hyperinflation on contributed capital as at 1 January 2001 as result of adoption of IAS 29 «Financial Reporting in Hyperinflationary Economies».

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 2020 and 2019. In 2019 and 2020, the Group did not pay dividends declared for the earlier years.

30. Subsidiaries and associates

Subsidiaries of the Group

Name of the Company	*Country of incorporation*	*Business activities*	*Ownership*	
			2020	*2019*
Ekovtorresurs LLC	Ukraine	Trading	100%	100%
Cutlery Plant-DSS LLC	Ukraine	Production	100%	100%

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

Cutlery Plant-DSS LLC was established in 2002. It produces and sells houseware products to domestic and foreign customers. In 2020, the termination procedure of this subsidiary was initiated, which was not completed before the date of issue of these consolidated financial statements. The Group does not expect to incur additional costs to complete the termination procedure.

Associates of the Group

Name of the Company	*Country of incorporation*	*Business activities*	*Ownership*	
			2020	*2019*
Ferroterm LLC	Ukraine	Trading	50%	50%
Teleradiocompany Omega LLC	Ukraine	Communication	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.

On 18 December 2000 the Group bought 9% of equity stake in Teleradiocompany Omega LLC for agreed price of UAH 12,782, which corresponds to the nominal value of the stake. At the end of 2019, as a result of the ownership reorganization, the Company received 50% ownership in Teleradiocompany Omega LLC. A company is considered to be dormant. (The company as not active?)

(in thousands of Ukrainian hryvnia)

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

	2020	***2019***
Current assets	9,143	3,545
Non-current assets	29	46
Current liabilities	(53,582)	(50,394)
Deficit in net assets	**(44,410)**	**(46,803)**
Company's share	50%	50%
The carrying amount in the investment	–	–
Unrecognized share of accumulated losses in an associate	**(22,205)**	**(23,402)**

	2020	***2019***
Other income	7,624	9,080
Other expenses	(5,231)	(40,437)
Loss/profit before tax	2,393	(31,357)
Income tax expenses	–	–
Net financial result	2,393	(31,357)
Company's share of (loss)/profit for the period	**1,197**	**(15,679)**

The performance indicators of Teleradiocompany Omega LLC are insignificant for disclosure in these consolidated financial statements.

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	2020	-	-	-	1
Associated companies	2019	15	9	11,750	–

Terms and conditions of transactions with related parties

Sales to related parties mainly include, other current assets disposal and rent services. Outstanding balances at the year-end are unsecured, interest free and settlements occurs in cash. For the years ended 31 December 2020, The Group impaired advances issued to related parties in the amount of UAH 9,791 thousand (2019: zero).

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

Key management personnel

As at 31 December 2020, 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 2019: six members of the Supervisory Board and five members of the Management Board of The Group).

In 2019-2020 the members of the Supervisory Board received no compensation from The Group. In 2020 the total compensation to members of the Management Board representing short-term employee benefits amounted to UAH 9,157 thousand (2019: UAH 9,287 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 cannot 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 2020 and 2019, 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 2020 and 2019 the activities of the Group were the subject of state regulation on transfer pricing in Ukraine. The legislation on transfer pricing in Ukraine is in the process of formation, hence interpretation of requirements for enterprises that are the subject of transfer pricing is not always unambiguous. 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.

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 10 mln as at 31 December 2020 (2019: UAH 28 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. Land lease payments are other variable payments that do not depend on an index or rate, so in accordance with the requirements of IFRS 16, the obligations under this lease should not be recognized, but are expenses of the period.

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

As at 31 December 2020, the Group has contractual commitments for acquisition of property, plant and equipment and intangible assets amounted UAH 21,497 thousand (2019: UAH 3,376 thousand).

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.

(in thousands of Ukrainian hryvnia)

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 2020	28.275	34.740	0.378
Average exchange rate per 2020	26.958	30.788	0.374
As at 31 December 2019	23.686	26.422	0.382
Average exchange rate per 2019	25.837	28.941	0.399

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.

For the year ended 31 December 2020	*Increase "+" / decrease "−" in currency exchange rate, %*	*Effect on profit before tax*
USD/UAH	15.00%	(611,615)
RUR/UAH	20.00%	36,155
EUR/UAH	16.00%	(7,559)
USD/UAH	-12.00%	489,292
RUR/UAH	-16.00%	(28,924)
EUR/UAH	-14.00%	6,614

For the year ended 31 December 2019	*Increase "+" / decrease "-" in currency exchange rate, %*	*Effect on profit before tax*
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)

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

At 31 December 2020	*Less than 3 months*	*3 to 12 months*	*1 to 6 years*	*Total*
Borrowings	106,779	3,289,869	440,767	3,837,415
Trade and other accounts payable	1,141,832	550,353	–	1,692,185
	1,248,611	**3,840,222**	**440,767**	**5,529,600**

At 31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 6 years*	*Total*
Borrowings	652,254	412,371	3,226,544	4,291,169
Trade and other accounts payable	1,373,200	-	-	1,373,200
	2,025,454	**412,371**	**3,226,544**	**5,664,369**

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-fulfilment 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 fulfilment 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 loses is disclosed in Note 11.

The Group's management believes that as at 31 December 2020 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 2020 and 2019, 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 2020 and 2019, 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.