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

Consolidated financial statements

for the year ended 31 December 2018,
with consolidated management report and
with independent auditor's report

CONTENTS

CONSOLIDATED MANAGEMENT REPORT ..... a

INDEPENDENT AUDITOR'S REPORT ..... (i)

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position 1
Consolidated statement of comprehensive income 3
Consolidated statement of cash flows 5
Consolidated equity statement 7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information 10
2. Going concern 11
3. Basis of preparation 11
4. Accounting policies 12
5. Significant accounting judgments and estimates 23
6. Property, plant and equipment and capital investments in progress 25
7. Intangible assets 26
8. Other non-current assets 27
9. Income tax 27
10. Inventories 28
11. Accounts receivable for goods, works and services 28
12. Accounts receivable on settlements with budget 29
13. Cash and cash equivalents 29
14. Current financial investments 29
15. Bank borrowings 30
16. Trade payables for goods, works and services 31
17. Current liabilities on advances received 31
18. Non-current provisions 31
19. Other current liabilities 31
20. Other non-current liabilities 32
21. Net revenue from sales of goods 34
22. Cost of goods sold 34
23. Selling expenses 34
24. Administrative expenses 34
25. Other operating income and expenses 35
26. Other income and expenses 35
27. Other finance income 35
28. Finance expenses 35
29. Equity 36
30. Subsidiaries and associates 36
31. Related party transactions 37
32. Commitments, contingencies, and operating risks 38
33. Financial risk management 38

1. ORGANISATIONAL STRUCTURE AND DESCRIPTION OF ACTIVITIES OF THE COMPANY AND GROUP

General information about the Group

PRIVATE JOINT STOCK COMPANY «ELECTROMETALLURGICAL WORKS «DNIPROSPETSSTAL» NAMED AFTER A.M. KUZMIN» (the "Company" 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 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, 2017, 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».

The registered office of the Company is 81, Pivdene Shose, Zaporizhzhya, Ukraine. The main production facilities of the Company 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 Company's employees and their family members; prevention and reduction of morbidity of employees of the Company; improvement and introduction of new forms of treatment.
- Separate structural subdivision "Dneprospetsstal Concert Hall" (without the right of a legal entity).
  The purpose of the separate structural subdivision is the organization of cultural work.

There are no branches of the Company.

Description of activities and products of the Group

Principal activities of the Company and its subsidiaries, Ekovtorresurs LLC and Cutlery Plant-DSS LLC, as described in section 8 "Financial investments" of this report (hereafter referred as "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 «DNIPROSPETSSTAL are demanded in more than 60 countries of the world. The customers of the Group 's products are about 500 companies. The main markets are Ukraine, CIS countries, EU countries, etc.

The Group supplies 35-40% of it's total sales on the market of Ukraine. For export, respectively, 60-65%. Major markets (from 100% in the foreign market by the share of sales in exports): Europe - 53%, Russia - 27%, North and South America - 15%, the rest is distributed to the CIS, the Far and the Middle East.

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

Organizational structure

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

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

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

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

The Management Board of the Company is an executive collegial body that manages the current activities of the Company, 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;
- First Deputy Chairman of the Board - Director of Finance and Economics;
- Deputy Chairman of the Board - Production Director;
- Deputy Chairman of the Board - Technical Director;
- Deputy Chairman of the Board - Sales;
- Deputy Chairman of the Board - Economic Security;
- Deputy Chairman of the Board - Human resources.

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 Company 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 2018

Main activity indicators of the Group:

Indicators	*Year ended 31 December*			*Change, 2018 vs 2017*	
	2016	*2017*	*2018.*	*Absolute*	*Relative, %*
Revenue from the sales of metal products, UAH thousand	6,319,107	8,164,952	9,630,917	1,465,965	18.0%
Volume of sold metal products, tons	147,297	165,519	157,971	(7,547)	-4.6%
Cost of sales, UAH thousand	(5,543,947)	(7,151,107)	(9,111,430)	(1,960,323)	27.4%
Gross profit, UAH thousand	775,160	1,013,845	519,487	(494,358)	-48.8%
Net profit / (loss), UAH thousand	(403,651)	61,023	(428,449)	(489,472)	-802.1%
Export, UAH thousand, *including*	3,921,779	5,145,257	5,970,744	825,487	16.0%
• Non-CIS countries	2,581,821	3,507,617	4,242,059	734,442	20.9%
• CIS countries	1,339,958	1,637,640	1,728,685	91,045	5.6%
The share of exports in the total volume of industrial products,%	62.1%	63.0%	62.0%	-1.0%	-1.62%
Metal products produced, UAH thousand	6,305,154	8,149,922	9,616,361	1,466,439	18.0%
Volume of production of metal products, tons	147,398	165,576	158,025	(7,551)	-4.6%

In 2018 the Group earned net revenue from the sale of metal products in the amount of UAH 9,630,917 thousand, which is UAH 1,465,965 thousand more than the corresponding figure in 2017. Such a change in net revenue from sales was due to:

- increase in prices for finished products, which led to increase of UAH 1,784,109 thousand and was caused by trends in the market of metal products of Ukraine and the world;
- a decrease in the number of orders from buyers due to increased competition from foreign metal producers, which led to a decrease in the physical volume of produced and sold products by 4.6% and caused a negative change in net revenue by UAH 318,144.

Structure of net revenue from sales in 2018 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
Stainless nickel steel	46,716	91,710	4,284,304
Structural alloyed steel	57,662	33,897	1,954,588
Tool alloyed steel	16,659	65,901	1,097,843
Stainless steel w/o nickel	14,521	68,875	1,000,131
Structural carbon	13,307	26,035	346,453
Heat resistant steel	271	1,156,376	313,378
Bearing steel	7,759	39,216	304,274
High-speed tool steel	654	443,183	289,842
Tool carbon steel	417	37,813	15,768
Other sales	5	n/a	24,336
Total	**157,971**	**n/a**	**9,630,917**

Despite the increase in net revenue from sales, in 2018 the Group earned gross profit of UAH 519,487 thousand which is by 48.8% lower than gross profit in 2017. The main reason cost of sales growth and respective gross profit reduction of the Group was fluctuations of prices for raw materials and growth of prices for auxiliary materials and energy resources. So, in 2018 average prices for metal scrap increased by 29% compared with 2017, ferroalloys - by 43%, electricity - by 16%, for gas - by 30% etc. Additional reason of gross profit reduction was the increase of salary of the production personnel by at least 25%.

In 2018, the Group incurred net loss in the amount of UAH 428,449 thousand (2017: net profit UAH 61,023 thousand). In addition to the increase in the cost of production of finished products, as noted above, the following factors had a significant impact on the loss-making activity of the Group in 2018:

- Increase of the cost of transportation of products by UAH 101,950 thousand (in 2018 the total amount of forwarding and transportation services was UAH 278,216 thousand).
- The increase of payroll for administrative and selling personnel in 2018 compared to 2017 and the increase of respective expenses for the year by UAH 32,459 thousand.
- Operational and non-operational foreign exchange losses, net of gains incurred in the amount of UAH 12,456 thousand.

In 2018, the Group generated net cash flows from operating activities in the amount of UAH 596,471 thousand (2017: UAH 502,120 thousand), however, net cash flow for the year was negative and amounted to UAH (69,976) thousand (2017: UAH (55,488) thousand).

3. LIQUIDITY AND LIABILITIES

As at 31 December 2018, current assets of the Group exceeded its current liabilities by UAH 745,795 thousand (2017: current liabilities of the Group exceeded its current assets by UAH 1,778,158 thousand), in its turn, the carrying value of equity of the Group amounted to UAH 1,275,775 thousand (2017: 1,402,754 thousand).

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

(UAH thousand.)	*2018*	*2017*	*Absolute change*	*Relative change, %*
Fixed assets and construction in progress	4,967,325	4,818,772	148,553	3%
Non-current deposits	282,572	-	282,572	100%
Other non-current assets	10,880	11,974	(1,094)	-9%
Total – non-current assets	**5,260,777**	**4,830,746**	**430,031**	**9%**
Inventory	1,398,743	1,246,979	151,764	12%
Accounts receivable for goods, works and services	1,186,397	1,331,809	(145,412)	-11%
Cash and cash equivalents	67,103	138,968	(71,865)	-52%
Settlements with budget (VAT receivable)	110,724	107,499	3,255	3%
Prepayments made	75,691	95,750	(20,059)	-21%
Current deposits	-	191,681	(191,681)	-100%
Other current assets	22,390	25,042	(2,652)	-11%
Total – current assets	**2,861,048**	**3,137,728**	**(276,680)**	**-9%**
	8,121,825	**7,968,474**	**153,351**	**2%**

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

- As of 31 December 2018 the increase of the carrying amounts of the Company's assets occurred primarily due modernization and reconstruction of existing fixed assets, as well as acquisition of new fixed assets and items of construction in progress for the total amount of UAH 110,313 thousand.
- The main change in the structure of non-current and current assets was attributable to the maturity of short-term deposits in banks in 2018 (Note 14 to the consolidated financial statements) and placement of new deposits with maturity in 2020 (Note 8 to the consolidated financial statements), as a result of bank loans restructuring, which is discussed below.
- The decrease of balance of accounts receivable as at 31 December 2018 was offset by the increase in the balance of inventories which occurred primary as a result of increase of cost of raw materials and cost of production.

Structure of liabilities of the Group as at 31 December:

(UAH thousand)	*2018*	*2017*	*Absolute change*	*Relative change, %*
Non-current bank loans	3,920,356	866,635	3,053,721	352%
Non-current provisions	509,679	460,273	49,406	11%
Deferred tax liabilities	300,762	322,926	(22,164)	-7%
Total – non-current liabilities	**4,730,797**	**1,649,834**	**3,080,963**	**187%**
Accounts payable for goods, works and services	1,748,917	1,338,343	410,574	31%
Current portion of non-current bank loans and interest payable	158,804	3,358,987	(3,200,183)	-95%
Payroll related payables and other employee benefits	102,140	81,567	20,573	25%
Advances received	60,702	98,952	(38,250)	-39%
Other current liabilities	44,690	38,037	6,653	17%
Total – current liabilities	**2,115,253**	**4,915,886**	**(2,800,633)**	**-57%**
	6,846,050	**6,565,720**	**280,330**	**4%**

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

- In 2018, the Group completed loan restructuring process. As a result, the Group together with the banks-lenders agreed new payment schedules with the maturity dates in 2020-2021. This fact had a corresponding effect on the change in the structure of long-term and short-term liabilities.
- In 2018, the Group partly repaid bank loans in the total amount of UAH 90,946 thousand.
- The increase in accounts payable for goods, works and services occurred as a result of increase of prices for raw materials and other materials in average by 25-30%.

As described in the Note 15, at the reporting date, the Group breached certain loan covenants, specified in the loan agreements with two banks. Liabilities under these agreements with the carrying value of UAH 1,082,734 thousand were presented within long-term liabilities in accordance with the loan agreements, as the Group received the letters from the banks, where stated that any sanctions and requirements of early payment would not be applied to the Group, in spite of breached certain loan covenants mentioned above.

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

Production of metal products leads to the formation of pollutant emissions into the environment. In 2018 emissions of pollutants into the atmosphere from stationary sources equaled to 731,5 tons, which was by 2.75% less of emissions in 2017, that was a result of decrease in production.

(ton)	2018	2017	Absolute change	Relative change, %
Solid emissions	177,5	181,7	(4,2)	-2,31%
Gaseous and other emissions	554,0	570,5	(16,5)	-2,89%
Total	**731,5**	**752,2**	**(20,7)**	**-2,75%**

In 2018, industrial waste water discharges amounted to 2,514.1 thousand m3 (2017: 2,097.9 thousand m3), containing 604,9 ton pollutants such as suspended solids, sulphates, calcium, chloride, magnesium, iron etc.

In 2018, 100,176 tons of industrial waste, such as electric steelmaking slag, refractory scrap, sludges, industrial waste, metallurgical dust etc. were exported to the industrial waste landfill of PJSC "DNIPROSPETSSTAL"; 532 tons were transferred outside and 32 tons of industrial waste were utilized.

The fee for environmental pollution (environmental tax) in 2018 was UAH 5,208 thousand. The amount of environmental tax of the Group consisted of the following elements:

- charge for the placement of waste – UAH 4,514 thousand;
- charge for air pollution by stationary sources – UAH 662 thousand;
- charge for the dropping into water objects – UAH 32 thousand;

The environmental activity of the Group is aimed at compliance of its own production with the norms of Ukrainian legislation. In 2018, the Group spent UAH 2,358 thousand on capital and current repairs, as well as maintenance of environmental facilities.

In order to improve the ecological condition of the city of Zaporizhzhya, where the Group 's production is located, in 2018 the following environmental measures were carried out:

- capital repair of gas cleaning system of technological and fugitive emissions CVS Makina in SPC-3, with the replacement of membranes and circuits;
- capital repair of the gas outlet with its partial replacement on the gas purification system GKR SPTS-2;
- integrated checks of the efficiency of 430 ventilation installations;
- daily monitoring of the technical condition of environmental objects for the detection and correction of violations.

The Group constantly engages external experts to carry out environmental measures. In 2018 a number of such measures were implemented, in particular:

- annual control inspection of the gas cleaning system of aggregate SCR in SPTS-2 in order to increase its operational reliability;
- a complex of measures for the optimization of operating regime of hose filter FRIR 7000 in SPTS-2 during the operation of one electric furnace and the regime card was issued;
- monitoring the impact of industrial waste landfill of PJSC "DSS" in hollow "average" on the environment;
- development of working documentation "Environmental measures for the improvement and maintenance of favorable hydrological regime and the sanitary state of the highland ditch in the area of the industrial waste landfill in hollow "Average". Issue #6".

One of the priority directions of the Group's development is reducing the amount of harmful emissions into the atmosphere. The Company 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 2018:

	Units of measurement	Actual quantity	Amount, UAH thousand
Technical water consumption	thousand m^3	27,003	24,981
Drinking water consumption	thousand m^3	2,069	8,930
Discharge of sewage into sewage	thousand m^3	1,966	8,955
Electricity consumption	thousand kW/hour	408,666	671,188

In 2018, due to energy saving measures, in particular by reducing the time between blows of arc furnaces and using converting equipment depending on the operating regimes of the equipment, the Group reduced the consumption of electricity by 1,700 thousand kW/hour.

5. SOCIAL ASPECTS AND HUMAN RESOURCES POLICY

As at 31 December 2018, PrJSC "DNIPROSPETSSTAL" and its subsidiaries employed 5,406 people, including 753 employees holding managerial positions, of which 170 are women, representing 22.6% of all executives.

In 2018 the average number of full-time employees of PrJSC " DNIPROSPETSSTAL" was 5,197 people, including 2,550 people working part-time.

Payroll expenses of PrJSC "DNIPROSPETSSTAL" and its subsidiaries were UAH 793,964 thousand for 2018 (2017: UAH 553,750 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	1,198	474	**1,672**
Incomplete higher education	246	633	**879**
Vocational education	38	1,587	**1,625**
General secondary education and	38	1,122	**1,230**
Total	**1,520**	**3,816**	**5,406**

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 Company.

During 2018, the Group increased the average salary by 47% compared with 2017. The change of Company's average monthly salary compared with the average salary in Zaporizhzhia oblast and in Ukraine is set out below:

(грн)	*2018*	*2017*	*Absolute change*	*Relative change, %*
The Company's actual average monthly salary	12,200	8,286	3,914	47%
Average monthly salary in Zaporizhzhia oblast*	8,729	6,863	1,866	27%
Average monthly salary in Ukraine*	8,867	7,105	1,762	25%

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

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

- one-off material encouragement to veterans of labor upon retirement;
- material assistance to non-working veterans of labor;
- material assistance for the burial of employees and former employees of the Company;
- 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 Company;
- purchase of vouchers for sanatorium and health centers, recreation centers for employees of the Company and their children, etc.

In 2018, on the occasion of the celebration of state and corporate holidays, for the achievement of high production, technical and economic results, more than 200 employees of the Company were encouraged and awarded with distinctions of different levels, such as the title "Honored Metallurgist of Ukraine" (1 employee), the Company's medal "For valiant work and personal contribution" (4 employees), the Order "For contributions to the territory of Zaporizhzhya" III degree (2 employees), the Medal "For personal contribution to the development of the city of Zaporizhzhia" (1 employee), 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 2018, the Group registered 5 accidents resulted in work disability for one day or more (2017: 12 accidents). The decrease of the number of accidents compared to 2017 was due to the strengthening of safety-related measures, that is evidenced by the following statistics:

	2018	2017	Absolute change
Frequency of traumatism *(number of accidents per 1000 employees)*	0,93	2,20	(1,27)
Total number of calendar days of lost work due to accidents	483	1 435	(952)
Injury severity factor *(number of days of disability per accident)*	96,6	119,6	(23)

In 2018 there was an increase in morbidity rate of the Group's employees, as indicated below:

	2018	2017	Absolute change
Total number of cases of disease	4 359	4 161	198
Total number of calendar days of lost work due to illness	52 434	55 326	(2 892)
Number of cases of disease per 100 employees	81,2	76,2	5,0

In 2018 , the Group registered 8 occupational diseases (2017: 8 diseases).

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

Training and education of staff

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

In 2018, the following educational and educational events were held, in particular

- improvement of employees' qualifications, obtained directly in the Company (for 868 people) and in external educational institutions (for 375 people);
- improvement of qualification for 176 heads of structural units and subdivisions (heads of divisions, their deputies, heads of bureaus, groups , etc.);
- training on work safety for 2,115 employees;
- retraining courses for employees engaged in production process for 2,013 people;
- improvement of qualification directly in production process for 280 employees;
- special purpose trainings for 1,395 people.

The results of quality control in respect of organizing the trainings for the Company's subdivisions are taken into account for improvement of the process of assessing the effectiveness and quality of training. Thus, in 2018 two new typical training programs for blue-collar jobs were purchased, new work programs for study were developed and existing programs were improved.

In accordance with the "Regulation on the procedure for conducting attestation of personnel for compliance with the position held" the schedule for conducting certification of managers and specialists of the Company was approved by 2020. In 2018, 242 employees successfully passed the certification.

As a result of external audits of the quality management system in accordance with ISO 9001:2015 carried out in 2018, the compliance of the personnel management system of the Company 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 2018 the average number of such employees was 208 persons (4% required ratio - 208 persons);
- providing jobs for citizens who have additional safeguards to promote employment in accordance with the Law of Ukraine "On Employment ": in 2018 the average number of such employees was 794 persons (5% required ratio - 266 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 Company and its subsidiaries have the Tender Committee, a collegial body, which ensures efficient use of resources for the purchase of goods, works and services through tender analysis of prices, quality and terms of delivery.

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

6. RISKS

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

Operating environment in Ukraine

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

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

Commercial risk

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

Risk of sales markets loss

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

Risk of prices increase for raw material and transport services

Fluctuations of prices for raw materials, energy, other materials and services have a significant impact on the activities of the Group. The increase of prices for raw materials and other materials as a result of unfavorable macroeconomic situation or a monopoly of specific suppliers leads to an increase in the cost of production and a corresponding reduction in the level of profitability of the Group. A further negative impact relates to the increased cost of transport services, which leads to uncompetitiveness in some markets or low margin sales. In order to minimize risk, the Group uses tender procedures to determine the optimal suppliers of materials, raw materials and services. In addition, the Company 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 2018 and 2017 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 the development of production potential, improvement of product quality and increase of the efficiency of the Group's production. The main directions of innovation and investment activity of the Group are:

- renewal and reconstruction of morally and physically obsolete technological equipment;
- energy security and energy saving, implementation of energy and resource saving technologies;
- ensuring product quality control;

- development and modernization of information technologies, automation of technological processes, renewal of computer equipment and networks.

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

- modernization of thermal division' heat oven and three heating furnaces in KPS with the introduction of new lining materials and advanced burners within the second stage of the program of modernization of heating and thermal furnaces.
- installation of a new working roller of table frame completed with rollers and spare parts for modernizing of grinding heads on the Loeser machine, as well as a new head for milling forged products of a rectangular profile;
- acquisition of an X-ray fluorescence spectrometer for the analysis of the chemical composition of the scrap;
- installation of photocolorimeters, two muffle furnaces and a heating block on a test vehicle for stretching at elevated temperatures;
- acquisition of two devices for input radiation control for railway and copper divisions, as well as radiometer of the specific activity of radionuclides to improve the quality and control of manufactured products;
- modernization of automatic process control system of the machine-tool FB90E and the correct polishing machine RMB2-80 for finishing metal processing division, etc.

The Group expects that, among other measures, the replacement of the rolling coil of the heating furnace No.15 in the KPC made in 2018, as well as the further use of the fiber lining of the glycerine pipes for a heating furnace 550 will lead to improvement of production efficiency.

In 2019, the Group plans to extend the complex of measures aimed at modernization of production and improvement of its efficiency, in particular:

- modernization of radial forging machines PKM -1000 and PKM-340;
- reconstruction of DC networks "Skladskaya-DSS" with replacement of Fulmen battery;
- modernization of technical water metering units and electromechanical part of the gas-oxygen refining unit's control system.

In 2018, the Group performed modernization and reconstruction of existing fixed assets, as well as acquired new fixed assets for the total amount of UAH 110,043 thousand. (2017: UAH 96,101 thousand). Cash outflows for the purchase of non-current assets in the process of investment activity of the Group was in the amount of UAH 44,803 thousand. (2017: 55,477 thousand UAH).

8. FINANCIAL INVESTMENTS

As at 31 December 2018, the Company's investments in subsidiaries were the following:

Name of the company	*Ownership*	*Business activities*	*Carrying value, UAH thousand*
Ekovtorresurs LLC, Ukraine	100%	Trading	5 613
Cutlery Plant-DSS LLC, Ukraine	100%	Production	1 097

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

Name of the company	*Ownership*	*Business activities*	*Carrying value, UAH thousand*
Ferroterm LLC, Ukraine	50%	Trading	-

9. PROSPECTS FOR DEVELOPMENT

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

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

- Forecasted growth of Ukraine's GDP in 2019 is expected to be 3.7%, accelerating to 4.8% in 2021 (according to the consensus forecast of the National Bank of Ukraine).
- Decrease of inflation in the three-year perspective to 6% (according to the IMF).

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 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 Company and Group*" of this management report. Detailed information on the authority and functioning of management bodies is provided in the Company's Charter[1].

Composition of the Management Board of the Company:

- Kornievskiy V.M., Acting Chairman of the Board;
- Kiyko S.G., Acting member of the Board;
- Panchenko O.I., member of the Board;
- Kasyan S.A., member of the Board;
- Deeva Y.B., member of the Board.

Composition of the Supervisory Board of the Company:

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

The Supervisory Board meetings are held when necessary. In 2018, 63 meetings of the Supervisory Board were held, in which issues in respect of operational, financial and investment activities of the Company were considered, as stipulated by the Company's and 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 Company. Therefore, PJSC "DNIPROSPETSSTAL" and its subsidiaries gradually improve 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 Company 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 PrJSC "DNIPROSPETSSTAL" took place on 26 April 2018. 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 Company for 2017, were approved;
- to direct the Company's profit earned in 2017 for the repayment of previous periods' losses;
- to amend the Statute of the Company due to changes in the legislation of Ukraine.

The next Annual General Shareholders Meeting of PrJSC "DNIPROSPETSSTAL" is scheduled to be held in April 2019.

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

As at 31 December 2018, the structure of shareholders of the Company was the following:

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

All shares of the Company 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 Company are specified in Article 4 of the Charter. Among the shareholders of the Company 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 Company's operations with its own shares

In 2017, during the change of the type of the Company, as indicated in section 1 "*Organizational structure and description of activities of the Company and Group*" of this report, the shareholders were offered to redeem their shares, which resulted in repurchase of its own shares by the Company in the amount of UAH 761 thousand. During 2018, the Company resold these previously repurchased shares for UAH 881 thousand.

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

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

In 2018 the Group has not declared any dividends.

Policies on the formation of corporate governance bodies

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

The procedure for the appointment and dismissal of officials

The Company'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 Company.
- Members of the Revision Committee are elected and dismissed by the General Meeting of Shareholders in accordance with the Charter of the Company.
- 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 4 December 2017 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 Company 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 Company is private joint stock company, 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.

Acting Chairman of the Board — Vitaliy Kornievskiy

ДНІПРОСПЕЦСТАЛЬ ЄДРПОУ 00186536

18 March 2019

Building a better working world

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

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

Independent auditor's report

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

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of PRIVATE JOINT STOCK COMPANY "ELECTROMETALLURGICAL WORKS "DNIPROSPETSSTAL" NAMED AFTER A.M. KUZMIN" (the Company) and its subsidiaries (the Group), which are presented on pages 1-40 and comprise the consolidated statement of financial position as at 31 December 2018, 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 financial position of the Group as at 31 December 2018, and its financial performance and its 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 2018 and 2017 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 2018 and 2017 - respective balances of trade receivables and trade payables. The transactions and balances with such counterparties were not disclosed as transactions and balances with related parties in Note 31. We were unable to obtain sufficient appropriate audit evidence to determine whether these operations and respective balances should be disclosed in accordance with IAS 24 *Related party disclosure*.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (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 audit 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
Fair value of property, plant and equipment	
The Group applies the revaluation model for the measurement of its "Buildings and structures and "Machinery and equipment" groups of the property, plant and equipment. Due to high level of subjectivity in respect of assumptions underlying the assessment of the fair value of property, plant and equipment this matter was one of the most significance in our audit. The Group has a process of external valuations, when the value of property, plant and equipment is being measured by an independent external appraiser. Information about property, plant and equipment is disclosed in Note 6 to the consolidated financial statements. Description of the accounting policy and key judgements and estimates is included in Notes 4 and 5 to the consolidated financial statements.	We assessed the competence, capabilities and objectivity of the external appraiser. We engaged our internal valuation specialists in the assessment of the valuation methodology used and the assumptions made by the appraiser and management. We compared input data used by the external appraiser with internal sources of data and available industry data. We analyzed the underlying assumptions by inspecting historical data, available market data and other evidence provided by management. We compared the amount of revaluation charge recognized in the consolidated financial statements with the valuation report. We assessed the disclosures in the consolidated financial statements related to fair value measurement of the property, plant and equipment.

Other information included in the Group`s Management report and the Annual Information of the Issuer of Securities for 2018

The other information consists of the information included in the Management report and in the Annual Information of the Issuer of Securities for 2018, 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 2018 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 will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

EY
Building a better working world

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 scepticism 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.

EY
Building a better working world

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

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

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

Report on other legal and regulatory requirements

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

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the consolidated financial statements of the Group on 20 November 2012 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Group is 7 years.

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

We confirm that this independent auditor`s report is consistent with the additional report to the Supervisory Board, which we issued on 14 March 2019 in accordance with Article 35 of the 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 the Law No.2258-VIII were provided. In addition, there are no non-audit services which were provided to the Company or its controlled entities and which have not been disclosed in the consolidated financial statements.

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

18 March 2019

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 in the Register: 3516.

Translation from original in Ukrainian

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018
(in thousands of Ukrainian hryvnia)

	Date (year, month, date)	2018	12	31
Entity: PrJSC «DNIPROSPETSSTAL»	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: 5,224
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 2018

Form № 1 DKUD code 1801001

Assets	Line code	As at 31 December 2017 *(restated)*	As at 31 December 2018
1	2	3	4
I. Non-current assets			
Intangible assets	1000	10,056	9,144
historical cost	1001	47,680	49,425
accumulated amortization	1002	(37,624)	(40,281)
Capital investments in progress	1005	27,477	28,971
Property, plant and equipment:	1010	4,791,295	4,938,354
historical cost	1011	4,895,616	5,056,708
accumulated depreciation	1012	(104,321)	(118,354)
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	1,918	284,308
Total Section I	1095	**4,830,746**	**5,260,777**
II. Current assets			
Inventories	1100	1,246,979	1,398,743
Raw materials	1101	503,520	638,910
Work in progress	1102	505,844	491,092
Finished goods	1103	237,534	268,706
Goods	1104	81	35
Current biological assets	1110	–	–
Accounts receivable for goods, works and services	1125	1,331,809	1,186,397
Accounts receivable on settlements:			
on prepayments made	1130	95,750	75,691
with budget	1135	107,499	110,724
including prepayments for income tax	1136	31	1
with accrued income	1140	2,071	2,204
Other accounts receivable	1155	10,256	5,802
Current financial investments	1160	191,681	–
Cash and cash equivalents:	1165	138,968	67,103
cash in hand	1166	7	5
cash in banks	1167	138,961	67,098
Future expenses	1170	1,829	1,970
Other current assets	1190	10,886	12,414
Total Section II	1195	**3,137,728**	**2,861,048**
III. Assets classified as held for sale and discontinued operations	1200	–	–
Balance	1300	**7,968,474**	**8,121,825**

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018
(in thousands of Ukrainian hryvnia)

Liabilities and equity	Line code	As at 31 December 2017 *(restated)*	As at 31 December 2018
1	2	3	4
I. Equity			
Share capital	1400	49,720	49,720
Contributed capital	1405	3,353,743	3,452,405
Additional capital	1410	114,627	114,747
Reserve fund	1415	12,430	12,430
Retained earnings (accumulated deficit)	1420	(2,127,005)	(2,353,527)
Unpaid capital	1425	–	–
Treasury shares	1430	(761)	–
Total Section I	1495	**1,402,754**	**1,275,775**
Non-current liabilities and provisions			
Deferred tax liabilities	1500	322,926	300,762
Non-current bank loans	1510	866,635	3,920,356
Other non-current liabilities	1515	–	–
Non-current provisions	1520	460,273	509,679
Special purpose financing	1525	–	–
Total Section II	1595	**1,649,834**	**4,730,797**
Current liabilities and provisions			
Short-term bank loans	1600	–	–
Current liabilities for:		–	–
current portion of non-current liabilities	1610	3,320,295	120,975
for goods, works and services	1615	1,338,343	1,748,917
with budget	1620	11,643	12,964
with Income tax	1621	28	–
social insurance	1625	8,400	10,759
Wages	1630	26,697	33,779
Current liabilities for advances received	1635	98,952	60,702
Current liabilities for payments to participants	1640	14,333	14,330
Other provisions	1660	57,097	73,248
Deferred revenue	1665	–	–
Other current liabilities	1690	40,126	39,579
Total Section III	1695	**4,915,886**	**2,115,253**
Liabilities directly associated with the assets classified as held for sales and discontinued operations	1700	–	–
Balance	1900	**7,968,474**	**8,121,825**

ДНІПРОСПЕЦСТАЛЬ
ЄДРПОУ 00186536

Acting Chairman of the Board — Vitaliy Kornievskiy

Chief Accountant — Halyna Luchko

18 March 2019

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

(in thousands of Ukrainian hryvnia)

Entity: PrJSC «DNIPROSPETSSTAL»	Date (year, month, date)	2018	12	31
	per EDRPOU	00186536		

Statement of financial results
(Statement of comprehensive income)
for the year 2018

Form № 2 DKUD code 1801003

I. FINANCIAL RESULTS

Description	Line code	Current period	Preceding period *(restated)*
1	2	3	4
Net revenue from sales of goods (merchandise, works, services)	2000	9,630,917	8,164,952
Cost of goods (merchandise, works, services) sold	2050	(9,111,430)	(7,151,107)
Gross:			
Profit	2090	**519,487**	**1,013,845**
Loss	2095	–	–
Other operating income	2120	65,737	121,732
Administrative expenses	2130	(158,499)	(125,836)
Selling expenses	2150	(330,238)	(216,943)
Other operating expenses	2180	(172,621)	(118,647)
Financial results from operating activities:			
Profit	2190	–	**674,151**
Loss	2195	**(76,134)**	–
Income from investments accounted for under equity method	2200	–	–
Other finance income	2220	31,985	34,244
Other income	2240	61,651	23,946
Finance expenses	2250	(519,913)	(516,880)
Losses from investments accounted for under equity method	2255	–	–
Other expenses	2270	(12,782)	(131,546)
Financial results from ordinary activities before taxation:			
Profit	2290	–	**83,915**
Loss	2295	**(515,193)**	–
Income tax on ordinary activities	2300	86,744	(22,892)
Financial results from stopped activities after taxation	2305	–	–
Net financial result:			
Profit	2350	–	**61,023**
Loss	2355	**(428,449)**	–

II. COMPREHENSIVE INCOME

Description	Line code	Current period	Preceding period *(restated)*
1	2	3	4
Revaluation (impairment) of non-current assets	2400	398,019	1,644,839
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	(29,515)	(95,105)
Other comprehensive income before tax	2450	**368,504**	**1,549,734**
Income tax related to other comprehensive income	2455	(64,616)	(277,806)
Other comprehensive income, net of tax	2460	**303,888**	**1,271,928**
Comprehensive profit (sum lines 2350, 2355 та 2460)	2465	**(124,561)**	**1,332,951**

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

(in thousands of Ukrainian hryvnia)

III. ELEMENTS OF OPERATING EXPENSES

Description	Line code	Current period	Preceding period *(restated)*
1	2	3	4
Cost of materials	2500	8,004,428	6,573,974
Labour costs	2505	793,964	553,750
Social security charges	2510	169,337	128,113
Depreciation and amortization	2515	349,746	220,078
Other operating expenses	2520	483,706	350,425
Total	2550	**9,801,181**	**7,826,340**

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	Current period	Preceding period *(restated)*
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	(0.399)	0.057
Adjusted net income per ordinary share	2615	(0.399)	0.057
Dividends per ordinary share	2650	–	–

Acting Chairman of the Board — Vitaliy Kornievskiy

ДНІПРОСПЕЦСТАЛЬ ЄДРПОУ 00186536

Chief Accountant — Halyna Luchko

18 March 2019

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

(in thousands of Ukrainian hryvnia)

Entity: PrJSC «DNIPROSPETSSTAL»	Date (year, month, date)	2018	12	31
	per EDRPOU	00186536		

Statement of cash flows (direct method) for the year 2018

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	10,334,525	8,738,267
Refund of taxes and compulsory payments	3005	404,276	307,295
including refund of VAT	3006	404,276	307,247
Special purpose financing	3010	12,595	12,067
Including receipts of subsidies and grands	3011	12,595	12,067
Receipts of advances received from customers	3015	60,702	98,952
Receipts from return of prepayments	3020	18,849	33,698
Receipts of interests on outstanding balances on current bank accounts	3025	31,836	33,755
Receipts of forfeit from debtors (fines and penalties)	3035	1,793	1,158
Receipts from operational lease	3040	23,650	6,176
Other receipts	3095	584	10,395
Cash disbursements for settlement of liability for:			
Goods (works, services)	3100	(9,136,731)	(7,708,705)
Salary	3105	(595,512)	(444,864)
Deductions for social security charges	3110	(216,357)	(166,384)
Tax liabilities and charges	3115	(186,078)	(162,262)
Payments for income tax liabilities	3116	(34)	(211)
Payments for value added tax liabilities	3117	(1,838)	(14,192)
Payments for other taxes and compulsory payments	3118	(184,206)	(147,859)
Prepayments made	3135	(75,691)	(95,750)
Return of advances received	3140	(5,552)	(5,477)
Other payments	3190	(76,418)	(156,201)
Net cash flow from operating activities	3195	**596,471**	**502,120**
II. Cash flows from investing activities			
Proceeds from sale of:			
financial investments	3200	-	-
non-current assets	3205	136	-
Receipt of:			
Interests	3215	-	-
Dividends	3220	-	-
Receipts from derivatives	3225	-	-
Receipts from loans settlement	3230	-	-
Other proceeds	3250	54,400	51,400
Cash disbursement for the purchase of:			
financial investments	3255	-	-
non-current assets	3260	(44,625)	(55,822)
Payments for derivatives	3270	-	-
Cash disbursements for loan provision	3275	-	-
Other payments	3290	(142,398)	(55,719)
Net cash flows from investing activities	3295	**(132,487)**	**(60,141)**

(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	881	–
Proceeds from borrowings	3305	–	256,814
Other cash receipts	3340	–	–
Cash disbursements for the purchase of:			
Own securities	3345	–	(761)
Repayment of borrowings	3350	(90,946)	(316,323)
Dividends paid	3355	(3)	(2)
Interest paid	3360	(443,892)	(437,195)
Other payments	3390	–	–
Net cash flows from financing activities	3395	(533,960)	(497,467)
Net decrease in cash and cash equivalents	3400	(69,976)	(55,488)
Cash balance at the beginning of the year	3405	138,968	195,277
Net foreign exchange difference	3410	(1,889)	(821)
Cash balance at the end of the year	3415	67,103	138,968

Line 3190 «Other payments» of section «Cash flows from operating activities» includes settlements with other creditors in amount of UAH 18,592 thousand (2017: UAH 22,096 thousand), charges for bank loans servicing in amount of UAH 15,403 thousand (2017: UAH 19,512 thousand), settlements with employees and other debtors in amount of UAH 14,718 thousand (2017: UAH 10,473 thousand), payments for liability under individual insurance program in amount of UAH 10,930 thousand (2017: UAH 10,230 thousand) and other disbursements in amount of UAH 16,775 thousand (2017: UAH 93,890 thousand, including the short-term deposits replenishment in amount of UAH 65,212 thousand and payments of fines and penalties in the amount of UAH 17,665 thousand).

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

Line 3290 «Other payments» of section «Cash flows from investing activities» includes the long-term deposits replenishment in the amount of UAH 90,398 thousand (2017: UAH 6,719 thousand) and financial aid granted in the amount of UAH 52,000 thousand (2017: UAH 49,000 thousand).

Acting Chairman of the Board Vitaliy Kornievskiy

ДНІПРОСПЕЦСТАЛЬ
ЄДРПОУ 00186536

Chief Accountant Halyna Luchko

18 March 2019

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2018
(in thousands of Ukrainian hryvnia)

Entity: PrJSC "Electrometallurgical Works "Dniprospetsstal" named after A.M. Kuzmin"	Date (year, month, date)	2018 12 31	
	per EDRPOU	00186536	

Equity statement for the year 2018

Form № 4 DKUD code 1801005

Description	Line code	Share capital	Contributed capital	Additional Capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	49,720	3,342,226	114,627	12,430	(2,134,352)	–	(761)	1,383,890
Adjustments:									
Changes in accounting policies	4005	–	–	–	–	–	–	–	–
Correction of errors	4010	–	–	–	–	–	–	–	–
Other adjustments	4090	–	11,517	–	–	7,347	–	–	18,864
Adjusted balance at the beginning of the year	4095	49,720	3,353,743	114,627	12,430	(2,127,005)	–	(761)	1,402,754
Net profit (loss) for the reporting period	4100	–	–	–	–	(428,449)	–	–	(428,449)
Other comprehensive income	4110	–	328,090	–	–	(24,202)	–	–	303,888
Increase in the value of non-current assets	4111	–	328,090	–	–	–	–	–	328,090
Other income	4116	–	–	–	–	(24,202)	–	–	(24,202)
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 2018
(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	–	–	120	–	–	–	761	881
Cancellation of purchased shares (contributions)	4270	–	–	–	–	–	–	–	–
Withdrawal of contribution in capital	4275	–	–	–	–	–	–	–	–
Other changes in equity	4290	–	(229,428)	–	–	229,428	–	–	–
Other changes in equity	4291	–	–	–	–	(3,299)	–	–	(3,299)
Total changes in equity	4295	–	98,662	120	–	(226,522)	–	761	(126,979)
Balance at the end of the year	4300	49,720	3,452,405	114,747	12,430	(2,353,527)	–	–	1,275,775

Equity statement for the year 2017

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	2,143,793	114,627	12,430	(2,250,066)	–	–	70,564
Adjustments:									
Changes in accounting policies	4005	–	–	–	–	–	–	–	–
Correction of errors	4010	–	–	–	–	–	–	–	–
Other adjustments	4090	–	–	–	–	–	–	–	–
Adjusted balance at the beginning of the year	4095	49,720	2,143,793	114,627	12,430	(2,250,066)	–	–	70,564
Net profit (loss) for the reporting period	4100	–	–	–	–	61,023	–	–	61,023
Other comprehensive income	4110	–	1,349,920	–	–	(77,992)	–	–	1,271,928
Increase in the value of non-current assets	4111	–	1,349,920	–	–	–	–	–	1,349,920
Other income	4116	–	–	–	–	(77,992)	–	–	(77,992)

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

PrJSC «DNIPROSPETSSTAL»
CONSOLIDATED EQUITY STATEMENT
for the year ended at 31 December 2018
(in thousands of Ukrainian hryvnia)

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	–	–	–	–	–	–	(761)	(761)
Re-sale of purchased shares (contributions)	4265	–	–	–	–	–	–	–	–
Cancellation of purchased shares (contributions)	4270	–	–	–	–	–	–	–	–
Withdrawal of contribution in capital	4275	–	–	–	–	–	–	–	–
Other changes in equity	4290	–	(139,970)	–	–	139,970	–	–	–
Total changes in equity	4295	–	1,209,950	–	–	123,001	–	(761)	1,332,190
Balance at the end of the year	4300	49,720	3,353,743	114,627	12,430	(2,127,005)	–	(761)	1,402,754

Acting Chairman of the Board — Vitaliy Kornievskiy

Chief Accountant — Halyna Luchko

18 March 2019

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, 2017, 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 Company are located on 83, Pivdene Shose, Zaporizhzhya, Ukraine. As at 31 December 2018, the Company employed 5,406 people (2017: 5,540 people).

As at 31 December 2018 and 2017 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 Company as at 31 December 2018 and for the year then ended were authorized for issue on 18 March 2019.

Operating environment in Ukraine

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

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

The known and estimable effects of the above factors on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements. As at 31 December 2018 and 2017 the Group did not have assets located in Crimea or Donetsk and Lugansk region.

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

2. Going concern

As at 31 December 2018, current assets of The Group exceeded its current liabilities by UAH 745,795 thousand (2017: current liabilities of The Group exceeded its current assets by UAH 1,778,158 thousand). In 2018, mainly due to price fluctuation for raw materials and energy, The Group incurred net loss in the amount of UAH 428,449 thousand (2017: net profit of UAH 61,023 thousand).

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

The Group is a one of the largest 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 62% for 2018 (2017: 63%), which allowed The Group to generate gross profit of UAH 519,487 thousand (2017: UAH 1,013,845 thousand) and net cash inflows from operating activities of UAH 596,471 thousand (2017: UAH 502,120 thousand).

Additionally, The Group develops 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 portfolio of orders for the next year will lead to profitable activity of the Group in the future.

In 2018, The Group completed loan restructuring process. As a result, The Group together with the banks-lenders agreed new payment schedules with the maturity dates in 2020-2021. As described in the Note 15, at the reporting date, The Group breached certain loan covenants, specified in the loan agreements with two banks. Liabilities under these agreements with the carrying value of UAH 1,082,734 thousand were presented within long-term liabilities in accordance with the loan agreements, as The Group received the letters from the banks, where stated that any sanctions and requirements of early payment would not be applied to The Group, in spite of breached certain loan covenants mentioned above.

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

3. Basis of preparation

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

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 in respect of preparation of financial statements.

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.

(in thousands of Ukrainian hryvnia)

4. Accounting policies

4.1 Changes in accounting policies and disclosures

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* since 1 January 2018. The nature and impact of the adoption of these standards are described below. In 2018, few other amendments to the standards and interpretations were also adopted that had no impact on these financial statements of the Group. The Group did not apply earlier adoption of the standards, clarifications or amendments that were issued, but not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations and with certain exemptions is applied to all revenue contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires revenue to be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted the new standard using the modified retrospective method. IFRS 15 requires the management to make judgments when analyzing all relevant facts and circumstances at each step of the model for revenue from contracts with customers. Based on the analysis of revenue from contracts with customers, the Management concluded that the application of the new standard to contracts with customers had no impact on the Group's profit or loss.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* and becomes effective since 1 January 2018. IFRS 9 combines three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied IFRS 9 prospectively as at the date of first application, 1 January 2018. Accordingly, the Group did not restated the comparative information provided in accordance with IAS 39 and recognized the difference arising from the first application of IFRS 9 directly in accumulated losses. The effect of the adoption of IFRS 9 as at 1 January 2018 was as follows:

	Line code	*2017*	*Adjustment due to the application of IFRS 9*	*2018*
II. Current assets				
Accounts receivable for goods, works and services	1125	1,331,809	(2,993)	1,328,816
Cash and cash equivalents	1165	138,968	(251)	138,717
Current financial investments	1160	191,681	(55)	191,626
I. Equity				
Retained earnings (accumulated deficit) (restated)	1420	(2,127,005)	(3,299)	(2,130,304)

4.2 Summary of significant accounting policies

Foreign currency translation

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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	4 to 108 years
Machinery and equipment	1 to 81 years
Transport and motor vehicles	2 to 75 years
Fixtures and office equipment	3 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 2017-2018 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 an asset 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)' 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 2018 and 2017 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.

Changes in classification

Certain changes in the classification of other operating expenses were made regarding comparative information in consolidated financial statement in order to match the classification of the reporting period. Such changes have had no effect on the amount of net loss / profit or net assets of the Enterprise.

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.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. It is expected that the amendments will not have impact on The Group's financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is assessing the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and is effective for reporting periods starting on or after 1 January 2021, it establishes a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: a specific adaptation for contracts with direct participation features (the variable fee approach); a simplified approach (the premium allocation approach) mainly for short-duration contracts. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4). IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected. The standard will not have impact on The Group's financial statements or accounting policies.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* which clarifies application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. The interpretation will not have impact on The Group's financial statements or accounting policies.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at Amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The IASB also clarified that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognized in profit or loss. Amendments are effective for annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The Group is assessing the potential effect of the amendments on the financial statements.

Long-term interests in associates and joint ventures – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments are effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The amendments will not have impact on The Group's financial statements or accounting policies.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on The Group's financial statements or accounting policies.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on The Group's financial statements or accounting policies.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on The Group's financial statements or accounting policies.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on The Group's financial statements or accounting policies.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of The Group.

Definition of a Business – Amendments to IFRS 3

The IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, The Group will likely not be affected by these amendments on transition.

Definition of Material – Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied prospectively. Early application is permitted and must be disclosed.

Although the amendments to the definition of material is not expected to have a significant impact on The Group's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organized in the financial statements.

The Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, and guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The revised *Conceptual Framework for Financial Reporting* (the *Conceptual Framework*) is not a standard, and none of the concepts overrides those in any standard or any requirements in a standard.

(in thousands of Ukrainian hryvnia)

For preparers who develop accounting policies based on the *Conceptual Framework*, it is effective for annual periods beginning on or after 1 January 2020.

The changes to the *Conceptual Framework* may affect the application of IFRS in situations where no standard applies to a particular transaction or event.

4.4. Correction of prior period errors

According to the Group's accounting policy, "Buildings and structures" and "Machinery and equipment" groups of its property, plant and equipment are accounted for under revaluation model. In course of determining the fair value of these assets as at 31 December 2018, the Group found an error in the calculation of the fair value of these groups of property, plant and equipment as at 31 December 2017. The error was corrected by recalculation of line items affected of the consolidated financial statements for the previous period as follows:

Changes in the Statement of financial position	*Line code*	*As at 31 December 2017 (as previously reported)*	*Adjustments*	*As at 31 December 2017 (restated)*
I. Non-current assets				
Property, plant and equipment:	1010	4,766,698	24,597	4,791,295
historical cost	1011	4,871,019	24,597	4,895,616
Total Section I	1095	**4,806,149**	**24,597**	**4,830,746**
Balance	1300	**7,943,877**	**24,597**	**7,968,474**
I. Equity				
Contributed capital	1405	3,342,226	11,517	3,353,743
Retained earnings (accumulated deficit)	1420	(2,134,352)	7,347	(2,127,005)
Total Section I	1495	**1,383,890**	**18,864**	**1,402,754**
II. Non-current liabilities and provisions				
Deferred tax liabilities	1500	317,193	5,733	322,926
Total section II	1595	**1,644,101**	**5,733**	**1,649,834**
Balance	1900	**7,943,877**	**24,597**	**7,968,474**

Changes in the Statement of financial results (Statement of comprehensive income) for the year 2017	*Line code*	*2017 (as previously reported)*	*Adjustments*	*2017 (restated)*
I. Financial results				
Other income	2240	9,093	14,853	23,946
Other expenses	2270	(125,651)	(5,895)	(131,546)
Financial result from ordinary activities before taxation: profit	2290	**74,957**	**8,958**	**83,915**
Income tax on ordinary activities	2300	(21,281)	(1,611)	(22,892)
Net financial result: profit	2350	**53,676**	**7,347**	**61,023**
II. Comprehensive income				
Revaluation (impairment) of non-current assets	2400	1,629,200	15,639	1,644,839
Other comprehensive income before tax	2450	**1,534,095**	**15,639**	**1,549,734**
Income tax related to other comprehensive income	2455	(273,684)	(4,122)	(277,806)
Other comprehensive income, net of tax	2460	**1,260,411**	**11,517**	**1,271,928**
Comprehensive income (sum lines 2350, 2355 and 2460)	2465	**1,314,087**	**18,864**	**1,332,951**
IV. Calculation of earnings per share				
Net income per ordinary share	2610	0.050	0.007	0.057
Adjusted net income per ordinary share	2615	0.050	0.007	0.057

The above correction did not have any impact on the Group's cash flows from operating, investing and financing activities.

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 Due to the current economic and political situation in Ukraine (Note 1) it is complicated for The Group to estimate forecasts of generating of future cash flows and The Group is taking all possible actions to the most reliable forecasting of cash flows.

Allowances

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 2018 and 2017, allowances for doubtful accounts have been made in the amount of UAH 3,296 thousand and UAH 9 thousand, respectively (Note 11).

In addition, The Group calculates the net realizable value if inventories as at each reporting date. As at 31 December 2018, inventory write-down using allowances to its net realizable value amounted to UAH 49,942 thousand (2017: UAH 16,028 thousand) (Note 10). Estimates of net realizable value of finished goods are 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.

Deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance (Note 9).

Value-added tax recoverable

Value-added tax receivable is reviewed at each reporting date and the outstanding balance is reduced to the extent that it is no longer probable that refund or VAT payable will be available within reasonably short period of time (usually twelve months) from the reporting date. The Group considers that VAT as at 31 December 2018 is fully recoverable.

Pension obligations under defined benefit plan

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

Useful lives of property, plant and equipment

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

Fair value of property, plant and equipment

The carrying value of all groups of fixed assets, excluding land and construction in progress and uninstalled equipment, is accounted by using revaluation model. As at 31 December 2018 The Group performed the regular revaluation of the carrying value of items included in these groups of property, plant and equipment: (i) buildings and structures and (ii) machinery and equipment.

The fair value of real estate and non-specific equipment was determined by comparison with market value of similar property as at last valuation date 31 December 2018 (Level 2 inputs). 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). In assessing the fair value of assets of Level 3 of the hierarchy, appraisers used method for determining depreciated replacement cost, based on applying the value of the resemble asset to those, being evaluated and adjusted for actual depreciation (physical depreciation, functional depreciation and economic impairment). Assets similar to those, being evaluated, have to meet several requirements: (i) the similarity of the basic characteristics and parameters of the estimated object; (ii) proximity in time to the date of assessment by prices of comparable items.

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

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

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

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

The Group has conducted an appropriate analysis of factors that could indicate the possibility that the carrying amount of property, plant and equipment differed from their fair value as at 31 December 2018 and concluded that the carrying amount of items of property, plant and equipment included in the groups vehicles and inventory and office equipment did not differ significantly from their fair value determined during the previous revaluation less depreciation that was accrued from that moment.

(in thousands of Ukrainian hryvnia)

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

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

2017 (restated)	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 2017	**18,456**	**1,718,554**	**1,563,497**	**148,308**	**81,433**	**42,179**	**3,572,427**
Additions	–	5,217	100,475	1,638	5,034	(14,702)	**97,662**
Disposals	–	(1,480)	(24,193)	(1,286)	(288)	–	**(27,247)**
Revaluation	–	1,031,932	248,319	–	–	–	**1,280,251**
At 31 December 2017	**18,456**	**2,754,223**	**1,888,098**	**148,660**	**86,179**	**27,477**	**4,923,093**
Depreciation							
At 1 January 2017	**(533)**	**(76,938)**	**(123,645)**	**(41,832)**	**(32,839)**	**–**	**(275,787)**
Charge for the year	(33)	(75,515)	(114,299)	(17,282)	(9,149)	–	**(216,278)**
Disposals	–	339	8,234	918	190	–	**9,681**
Revaluation	–	151,220	226,843	–	–	–	**378,063**
At 31 December 2017	**(566)**	**(894)**	**(2,867)**	**(58,196)**	**(41,798)**	**–**	**(104,321)**
Net book value							
At 1 January 2017	**17,923**	**1,641,616**	**1,439,852**	**106,476**	**48,594**	**42,179**	**3,296,640**
At 31 December 2017	**17,890**	**2,753,329**	**1,885,231**	**90,464**	**44,381**	**27,477**	**4,818,772**

As at 31 December 2018 The Group conducted another revaluation of it's groups of property, plant and equipment (i) buildings and structures, (ii) machinery and equipment. The total increase of revalued amount of property, plant and equipment is UAH 396,733 thousand (in accordance with revaluation as at 31 December 2017: UAH 1,658,314 thousand). Increase of revalued amount that recognized in other comprehensive income in amount UAH 398,019 thousand (2017: UAH 1,644,839 thousand). Part of increase in revalued amount, which reverse losses on revaluation decrease of prior periods amounted UAH 4,571 thousand (2017: UAH 23,883 thousand) was recognized as other income in the profit and loss of current period (Note 26). Loss on revaluation of property, plant and equipment that exceeds increase of revalued amount of previous periods was recognized in the profit and loss through other expenses amounted to UAH 5,857 thousand (2017: UAH 10 408 thousand) (Note 26).

The following table provides the fair value measurement hierarchy of The Group's fixed assets:

Date of valuation	*(Level 2)*	*(Level 3)*	*Total*
31 December 2018	770,944	4,026,352	**4,797,296**
31 December 20187	556,190	4,082,370	**4,638,560**

(in thousands of Ukrainian hryvnia)

For property, plant and equipment items categorized within Level 3 of fair value hierarchy, according to valuation methods applied by independent appraiser, the fair value was as follows:

	Fair value of Level 3	
	2018	*2017*
As at 1 January 2018	4,082,370	2,867,212
Transfers into Level 3	8,950	25,436
Transfers out of Level 3	(308,892)	(179,603)
Remeasurement recognized in profit or loss	(1,365)	8,022
Remeasurement recognized in other comprehensive income	378,589	1,385,376
Depreciation	(228,165)	(167,968)
Purchases	94,865	143,895
As at 31 December 2018	**4,026,352**	**4,082,370**

The assets are transferred from Level 3 when there is a possibility to use valuation techniques, whose inputs that have a significant impact on the fair value can be directly or indirectly observed in the market.

The assets are transferred to Level 3 when there is no possibility to use valuation techniques with observable market inputs.

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	
	2018	*2017*
Buildings and structures	184,374	202,011
Machinery and equipment	545,306	489,367
Transport and motor vehicles	12,744	13,851
Fixtures and office equipment	22,540	27,019

As at 31 December 2018, the property, plant and equipment items in the amount of UAH 102,639 thousand (2017: UAH 78,529 thousand) were fully depreciated but were still in use.

As at 31 December 2018, the carrying value of buildings of UAH 2,125,333 thousand (2017: UAH 1,898,267 thousand) and machinery and equipment of UAH 1,701,719 thousand (2017: UAH 1,694,472 thousand) were pledged secured commitments for loans granted by banks (Note 15).

7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	2018	*2017*
Cost		
At 1 January	**47,680**	**48,412**
Additions	2,652	1,645
Disposal	(907)	(2,377)
At 31 December	**49,425**	**47,680**
Amortisation		
At 1 January	**(37,624)**	**(36,104)**
Charge for the year	(3,372)	(3,800)
Disposal	715	2,280
At 31 December	**(40,281)**	**(37,624)**
Net book value		
At 1 January	**10,056**	**12,308**
At 31 December	**9,144**	**10,056**

As at 31 December 2018, the intangible assets with historical value of UAH 5,180 thousand (2017: UAH 3,724 thousand) were fully amortized but were still in use.

(in thousands of Ukrainian hryvnia)

8. Other non-current assets

	2018	*2017*
Deposits in hryvnias with an average annual interest rate of 9.25%-11.8%	227,135	–
Deposits in US dollars with an average annual interest rate of 1.1%-1.7%	55,437	–
Income tax prepayment	1,918	1,918
Provision for expected loan losses	(182)	–
	284,308	**1,918**

As at 31 December 2018 maturity of these deposits is May 2020 and November 2020 (2017: The Group had no long-term deposits).

As at 31 December 2018 deposits in the amount of UAH 278,773 thousand were pledged as a security for the bank loans obtained by The Group (see Note 15).

9. Income tax

The components of income tax expenses were as follows:

Profit and loss	*2018*	*2017 (restated)*
Current income tax expenses	36	28
Deferred income tax (benefit) / expense relating to origination and reversal of temporary differences	(86,780)	22,864
Income tax (benefit) / expense	**(86,744)**	**22,892**

Other comprehensive income

	2018	*2017 (restated)*
Deferred income tax expense attributable to revaluation of PP&E	69,929	294,919
Deferred income tax benefit attributable to actuarial gains and losses	(5,313)	(17,113)
Income tax expense reflected in other comprehensive income	**64,616**	**277,806**

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

	2018	*2017 (restated)*
(Loss)/profit before tax	**(515,193)**	**83,915**
Income tax (benefit)/expense at enacted rate 18%	**(92,735)**	**15,105**
Tax effect of disallowable expenses	5,991	7,787
Income tax (benefit)/expense	**(86,744)**	**22,892**

Deferred tax assets and liabilities related to the following:

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

(in thousands of Ukrainian hryvnia)

	31 December 2017 (restated)	*Changes recognized in profit and loss for 2017 (restated)*	*Changes recognized in other comprehensive income for 2017 (restated)*	*31 December 2016*
Deferred tax assets				
Tax losses carry-forward	294,347	(44,467)	-	338,814
Non-current provisions (i)	81,240	(3,656)	17,113	67,783
Inventory (ii)	4,737	(2,013)	-	6,750
Current provisions (iv)	308	308	-	-
Deferred tax liabilities				
Property, plant and equipment (iii)	(703,558)	26,964	(294,919)	(435,603)
Deferred tax liability, net	**(322,926)**	**-**	**-**	**(22,256)**
Deferred income tax (expense)/benefit	**-**	**(22,864)**	**(277,806)**	**-**

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 2018 The Group has tax losses in amount of UAH 1,799,213 thousand (2017: UAH 1,635,261 thousand). Deferred tax assets have been recognized in full amount in respect of these losses, as they can be offset against future taxable profits.

10. Inventories

	2018	*2017*
Finished goods		
Stainless steel	148,436	116,267
Structural steel	70,870	57,502
Tool steel	48,172	40,954
Bearing steel	11,198	6,542
High-speed tool steel	8,605	16,479
Heat resistant steel	1,610	3,006
Other	1,797	2,206
Allowance for impairment	(21,982)	(5,422)
Finished goods (at net realizable value)	**268,706**	**237,534**
Raw materials		
Materials	533,913	406,020
Spare parts	95,158	87,970
Other	13,302	9,778
Allowance for impairment	(3,463)	(248)
Raw materials (at net realizable value)	**638,910**	**503,520**
Work in process	515,589	516,202
Allowance for impairment	(24,497)	(10,358)
Work in process (at net realizable value)	**491,092**	**505,844**
	1,398,708	**1,246,898**

As at 31 December 2018, raw materials and finished goods for the amount of UAH 627,700 thousand (2017: UAH 627,700 thousand), were pledged as a security for the bank loans (see Note 15).

11. Accounts receivable for goods, works and services

	2018	*2017*
Accounts receivable for goods, works and services	1,189,693	1,331,818
Allowance for expected credit losses	(3,296)	(9)
	1,186,397	**1,331,809**

(in thousands of Ukrainian hryvnia)

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

As at 31 December 2018 trade accounts receivable for goods, works, services from three counterparties comprised UAH 659,658 thousand (2017: UAH 838,691 thousand).

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

	2018	2017
At 1 January	9	23
Effect of application of IFRS 9 (Note 4.1)	2,993	–
Charge for the year	297	–
Utilised	(3)	(9)
Unused amounts reversed	–	(5)
At 31 December	**3,296**	**9**

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

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

		Days past due			
31 December 2017	*Current*	*<30 days*	*30-60 days*	*>60 days*	*Total*
Expected credit loss rate	0.07%	0.13%	0.26%	1.12%	
Estimated total gross carrying amount at default	265	697,606	586,686	47,261	**1,331,818**
Allowance for expected credit loss*	–	922	1,549	531	**3,002**

** Allowance for expected credit loss as at 31 December 2017 includes the effect of adoption of IFRS 9 in the amount of UAH 2,993 thousand (Note 4).*

As at 31 December 2018 trade accounts receivable (before allowance for expected credit losses) in the amount of UAH 922,835 thousand (2017: UAH 978,318 thousand) were pledged as a security for the bank loans obtained by The Group (see Note 15).

12. Accounts receivable on settlements with budget

As at 31 December 2018 accounts receivable on settlements with budget included VAT receivable in the total amount of UAH 110,724 thousand (2017: UAH 107,499 thousand).

13. Cash and cash equivalents

	2018	2017
Cash at banks	67,171	138,961
Cash on hand	5	7
Provision for expected credit losses	(73)	–
	67,103	**138,968**

In 2018 cash at banks balances earned interest at floating rates floating from 1% to 12.5% per year (2017: from 1% to 16.25%).

14. Current financial investments

As at 31 December 2018, The Group did not have current financial investments. As at 31 December 2017 current financial investments included deposits with maturity in November 2018, in particular deposits in Ukrainian hryvnias in the amount of UAH 174,841 thousand with an annual interest rate of 10.2-14.5% and deposits in US dollars amounting to UAH 16,840 thousand with an annual interest rate of 1.1-3.2%.

(in thousands of Ukrainian hryvnia)

As at 31 December 2017 deposits in the amount of UAH 190,716 thousand were pledged as a security for the bank loans (see Note 15).

15. Bank borrowings

Long and short-term borrowings consisted of the following:

	2018	2017
Non-current bank loans (line 1510)	3,920,356	866,635
Current portion of non-current liabilities (line 1610)	120,975	3,320,295
	4,041,331	4,186,930

As at 31 December 2018 and 2017, borrowings were denominated in the following currencies and bore the following rates:

	2018			2017		
Currency	Maturity	Effective interest rate	Outstanding principal	Строк погашення	Effective interest rate	Outstandin g principal
Fixed rates						
USD	2 December 2021	11.25%	1,450,865	5 October 2018	11.25%	1,504,403
USD	2 December 2021	10.50%	1,450,231	31 July 2019	10.50%	1,503,760
USD	5 April 2020	11.20%	626,581	5 October 2018	11.20%	649,705
USD	27 November 2020	6.25%	264,627	29 November 2018	5.75%	272,248
UAH	27 November 2020	18.25%	249,027	29 November 2018	17.25%	256,814
			4,041,331			4,186,930

In 2018, The Group completed loan restructuring process as a result of which The Group together with the banks-lenders agreed new payment schedules with the maturity dates in 2020-2021.

As at 31 December 2018 not all financial covenants provided in loan agreements with two banks were fulfilled by The Group. As The Group received the waiver letters from the respective banks where stated that any sanctions and requirements of early payment would not be applied to The Group, in spite of breached loan covenants mentioned above, the liabilities under these loans with the carrying value of UAH 1,082,734 thousand were accounted for by The Group as a part of long-term liabilities in accordance with the terms of agreements.

A summary of the security pledged for borrowings as at 31 December 2018 and 2017 is set out below:

	2018	2017
Property, plant and equipment (Note 6)	3,827,052	3,592,739
Inventories (Note 10)	627,700	627,700
Trade accounts receivable (Note 11)	922,835	978,318
Bank deposits (Note 14)	278,773	190,716
Future proceeds under sales agreements	5,558,173	5,572,520

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

	2018	2017
Bank loans as at 1 January	**4,186,930**	**4,136,382**
Proceeds from bank loans	-	256,814
Repayment of bank loans	(90,946)	(316,323)
Foreign exchange effect	(54,653)	110,057
Bank loans as at 31 December	**4,041,331**	**4,186,930**

(in thousands of Ukrainian hryvnia)

16. Trade payables for goods, works and services

	2018	2017
Payables to foreign suppliers of materials and services	992,325	790,240
Payables to domestic suppliers of materials and services	756,592	548,103
	1,748,917	1,338,343

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

As at 31 December 2018 trade accounts payable for goods, works, services to three counterparties comprised UAH 838,094 thousand (2017: two counterparties UAH 712,364 thousand).

17. Current liabilities on advances received

	2018	2017
Advances for metal products received from:		
local customers	57,318	93,589
foreign customers	3,384	5,360
in accordance with commission agreements	-	3
	60,702	98,952

In 2018 The Group recognized net revenue from sales of goods in the amount of UAH 97,458 thousand in respect of advances received at the beginning of the year (2017: UAH 44,285 thousand - in respect of advances received as at 1 January 2017 with a carrying value of UAH 45,237 thousand) based on fulfilled obligations under contracts with customers.

18. Non-current provisions

	2018	2017
Material encouragement of workers	35,683	30,870
Unused vacation	32,678	24,000
Litigation provision	2,491	517
Other accruals	2,396	1,710
	73,248	57,097

19. Other current liabilities

	2018	2017
Accrued interests for the bank loans	37,829	38,692
Other	1,750	1,434
	39,579	40,126

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

	2018	2017
Interest on bank loans payable as at 1 January	**38,692**	**33,959**
Accrued interest for the bank loans	445,439	442,890
Paid interest for the bank loans	(443,892)	(437,195)
Foreign exchange effect	(2,410)	(962)
Interest on bank loans payable as at 31 December	**37,829**	**38,692**

(in thousands of Ukrainian hryvnia)

20. Other non-current liabilities

	2018	2017
Defined benefit pension plan	436,458	396,398
Other employee benefit plans	72,653	63,289
Other non-current liabilities	568	586
	509,679	**460,273**

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 2018, total number of the plan participants accounted for 2,424 people (2017: 1,815 people) including 1,379 people (2017: 1,430 people) receiving the benefit.

Changes in the defined benefit pension obligation

	2018	2017
Defined benefit pension obligation at 1 January	**396,398**	**335,335**
Current service costs	9,942	8,929
Interest costs	53,854	50,372
Benefits paid	(49,981)	(41,026)
Actuarial loss/(gain) on obligation due to effect of changes in assumptions	26,245	88,456
- Experience adjustments	43,376	43,657
- Actuarial changes arising from changes in demographic assumptions	705	(443)
- Actuarial changes arising from changes in financial assumptions	(17,836)	45,242
Recognized changes in past service cost	–	(45,668)
Defined benefit pension obligation as at 31 December	**436,458**	**396,398**

Defined benefit pension expense

	2018	2017
Current service costs	9,942	8,929
Interest costs	53,854	50,372
Recognized changes in past service cost	–	(45,668)
Benefit expense	**63,796**	**13,633**

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 2018 The Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 48,846 thousand (2017: UAH 52,473 thousand).

In 2018 the average duration of the defined benefit plan obligation was 8.2 years (2017: 8 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 5,307 people as at 31 December 2018 (2017: 5,466 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, 3,447 pensioners entitled the benefits as at 31 December 2018 (2017: 3,610 people).

(in thousands of Ukrainian hryvnia)

Changes in the defined benefit obligation

	2018	*2017*
Defined benefit obligation at 1 January	**63,289**	**49,413**
Current service costs	2,489	1,925
Interest costs	8,801	7,527
Benefits paid	(5,176)	(4,729)
Actuarial loss/(gain) on obligation due to the effect of changes in assumptions	3,250	9,177
- Experience adjustments	7,058	4,921
- Actuarial changes arising from changes in demographic assumptions	107	(122)
- Actuarial changes arising from changes in financial assumptions	(3,915)	4,378
Recognized changes in past service cost	–	(24)
Defined benefit obligation at 31 December	**72,653**	**63,289**

Benefit expense recognized in profit or loss

	2018	*2017*
Current service costs	2,489	1,925
Interest costs	8,801	7,527
Past service costs	–	(24)
Recognized actuarial loss/(gain)	(20)	2,528
Benefit expense	**11,270**	**11,956**

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 2018 The Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 27,266 thousand (2017: UAH 20,304 thousand).

In 2018 the average duration of obligation in accordance with collective agreement was 3.5 years (2017: 4.3 years) and for other obligation 5.1 years (2017: 5.3 years).

Key actuary assumptions

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

	2018	*2017*
Discount rate	14.10%	14.50%
Salary and benefits paid increase	5.00%	6.00%
Employee turnover	6.00%	6.00%
Rate of inflation	5.60%	5.70%

The sensitivity analysis of key assumptions as at 31 December 2018:

	Increase "+" / decrease "–" of the rate	*Effect on benefit liability 2018*	*Effect on benefit liability 2017*
Discount rate	+1%	(33,500)	(28,593)
Discount rate	-1%	37,929	32,270
Salary increase (annual)	+1%	27,441	21,927
Salary increase (annual)	-1%	(24,997)	(19,904)
Rate of inflation	+1%	7,128	6,252
Rate of inflation	-1%	(6,975)	(6,068)
Employee turnover	+1%	(662)	(598)
Employee turnover	-1%	764	690

(in thousands of Ukrainian hryvnia)

21. Net revenue from sales of goods

	2018	*2017*
Stainless steel	5,284,435	4,385,159
Structural steel	2,301,041	1,805,589
Tool steel	1,113,611	1,058,859
Heat resistant steel	313,378	176,428
Bearing steel	304,274	365,920
High-speed tool steel	289,842	344,411
Special nickel-based alloys	6,127	10,219
Other	18,209	18,367
	9,630,917	**8,164,952**

For 2018 year net revenue from sales of metal products to three counterparties including those under commission agreements amounted to UAH 5,523,189 thousand (2017: UAH 4,611,113 thousand). Commission agreements fee which is included in selling expenses for 2018 year amounted to UAH 675 thousand (2017: UAH 705 thousand).

22. Cost of goods sold

	2018	*2017*
Materials	6,348,919	4,965,498
Utilities, energy and other services	1,624,096	1,405,147
Payroll and related expenses	735,123	500,757
Depreciation	308,290	202,380
Other	95,002	77,325
	9,111,430	**7,151,107**

For 2018 purchases of materials and services, which are included in the cost of sales, from three counterparties comprised UAH 2,314,810 thousand (2017: UAH 1,996,317 thousand).

23. Selling expenses

	2018	*2017*
Forwarding and transportation services	278,216	176,266
Payroll and related expenses	28,332	21,692
Storage and packaging expenses	6,276	4,794
Depreciation	2,370	2,455
Insurance costs relating to inventories and other assets	1,144	939
Other selling costs	13,900	10,797
	330,238	**216,943**

24. Administrative expenses

	2018	*2017*
Payroll and related expenses	101,786	75,967
Professional services	12,101	4,282
Transportation	9,906	8,471
Bank fees	7,031	6,616
Depreciation	5,648	3,295
Materials	1,451	1,554
Communication	1,016	1,043
Other general and administrative costs	19,560	24,608
	158,499	**125,836**

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

(in thousands of Ukrainian hryvnia)

25. Other operating income and expenses

	2018	2017
Gains from excess inventory	44,007	34,651
Gain on disposal of inventory, net	11,835	3,770
Fines and penalties received	1,871	3,632
Return of excessively paid import duty	69	2,011
Operational foreign exchange gains, net of losses	–	66,669
Other income	7,955	10,999
Total other operating income	**65,737**	**121,732**

	2018	2017
Operational foreign exchange losses, net of gains	69,519	–
Maintenance of social infrastructure assets	50,416	37,767
Material encouragement expenses	12,962	10,098
Shortages and losses from impairment of assets	4,935	2,181
Charity	3,887	4,017
Vat liability for operations not connected with business activities	3,174	2,516
Litigation accrual expenses	1,974	–
Fines and penalties paid	440	18,152
Bed debts allowance	246	18,867
VAT liability accrued according to the court decision	–	12,149
Other expenses	25,068	12,900
Total other operating expenses	**172,621**	**118,647**

26. Other income and expenses

	2018	2017 (restated)
Non-operational foreign exchange gains, net of losses	57,063	–
Reversals of revaluation decreases of prior periods	4,571	23,883
Other gains	17	63
Total other income	**61,651**	**23,946**

	2018	2017 (restated)
Loss from disposal of non-current assets	6,804	12,242
Loss on revaluation of property, plant and equipment	5,857	10,408
Non-operational foreign exchange losses, net of gains	–	108,877
Other losses	121	19
Total other expenses	**12,782**	**131,546**

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 31,985 thousand (2017: UAH 34,244 thousand).

28. Finance expenses

	2018	2017
Interest expenses on borrowings (Note 15)	445,439	442,890
Interest expense on pension obligations (Note 20)	62,655	57,899
Other finance expenses	11,819	16,091
	519,913	**516,880**

(in thousands of Ukrainian hryvnia)

29. Equity

Share capital

As at 31 December 2018 and 2017, The Group's authorized, issued and paid-in share capital comprised 1,075,030 ordinary shares, with a nominal amount value of UAH 46.25 each.

Contributed capital

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

Additional capital

	2018	2017
Hyperinflation adjustment to share capital (i)	114,627	114,627
Resale of repurchased shares (ii)	120	–
	114,747	114,627

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

(ii) In 2017, as a result of a change in the type of the company, as specified in Note 1, shareholders were offered to redeem their shares, as a result of which the company repurchased its own shares in the amount of UAH 761 thousand that were reflected in the withdrawn capital as at 31 December 2017. During 2018, The Group resold these previously repurchased shares for UAH 881 thousand, resulting in the formation of additional capital from the resale of redeemed shares in the amount of UAH 120 thousand.

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 2018 and 2017. In 2018, The Group paid UAH 3 thousand of dividends declared for the earlier years (2017: UAH 2 thousand).

30. Subsidiaries and associates

Subsidiaries of the Company

Name of The Group	*Country of incorporation*	*Business activities*	*Ownership 2018*	*Ownership 2017*
Ekovtorresurs LLC	Ukraine	Trading	100%	100%
Cutlery Plant-DSS LLC	Ukraine	Production	100%	100%

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

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

Associates of the Group

Name of The Group	*Country of incorporation*	*Business activities*	*Ownership 2018*	*Ownership 2017*
Ferroterm LLC	Ukraine	Trading	50%	50%

On 16 October 2012 The Group bought 50% of equity stake in Ferroterm LLC for agreed price of UAH 500, which corresponds to the nominal value of the stake. Ferroterm LLC carries out bulk trade in metal and metallic ore. It is a private company shares of which are not listed.
Summarized information on investment in Ferroterm LLC for the year ended 31 December is as follows:

(in thousands of Ukrainian hryvnia)

	2018	2017
Current assets	38,970	39,066
Non-current assets	66	119
Current liabilities	(54,482)	(49,333)
Deficit in net assets	**(15,446)**	**(10,148)**
Company's share	50%	50%
The carrying amount in the investment	-	-
Unrecognized share of accumulated losses in an associate	(7,723)	(5,074)

	2018	2017
Other income	3,357	3,229
Other expenses	(8,655)	(9,477)
Loss/profit before tax	(5,298)	(6,248)
Income tax expenses	–	–
Net financial result	(5,298)	(6,248)
Company's share of (loss)/profit for the period	(2,649)	(3,124)

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	2018	41	660	11,754	66
Associated companies	2017	45	792	11,687	–

Terms and conditions of transactions with related parties

Sales to related parties mainly include sales of metal products. Outstanding balances at the year-end are unsecured, interest free and settlements occurs in cash. For the years ended 31 December 2018 and 2017 The Group had not recorded any allowance for expected credit losses in respect amounts owed by the related parties. The assessment of expected credit losses for the respective receivables is undertaken each financial year through examining the financial position of the related parties.

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

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

Key management personnel

As at 31 December 2018 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 2017: six members of the Supervisory Board and five members of the Management Board of The Group).

In 2018 and 2017 the members of the Supervisory Board received no compensation from The Group. In 2018 the total compensation to key management personnel representing short-term employee benefits amounted to UAH 7,008 thousand (2017: UAH 3,527 thousand) and was included in general and administrative expenses.

32. Commitments, contingencies, and operating risks

Tax and other regulatory compliance matters

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

Management believes that The Group has complied with all regulations and paid or accrued all taxes that are applicable. However, the uncertainty and controversy in the application of Ukrainian tax legislation leads to an increased risk of additional substantial amounts of taxes, fines and penalties to be accrued that can not be measured reliably, but, if applied, may have a significant impact on the financial position of The Group, the results of operations and cash flows. However, where risks of possible outflow of resources exist, The Group accrues tax liabilities based on the management's best estimate. As at 31 December 2018 and 2017 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 2018 and 2017 the activities of The Group were the subject of state regulation on transfer pricing in Ukraine. The management of The Group believes that during this period The Group carried out activities in accordance with the current transfer pricing requirements and norms, and all necessary charges were reflected in these financial statements.

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

Litigation

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

The Group has identified possible tax contingencies, which based on management best estimates are not required to be accrued. Such contingencies may materialize and require The Group to pay additional amount of taxes. As at Management estimates that such contingencies will not exceed UAH 22,108 thousand as at 31 December 2018 (2017: UAH 55,926 thousand).

Lease of land

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

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

As at 31 December 2018 The Group has contractual commitments for acquisition of property, plant and equipment and intangible assets amounted UAH 22,430 thousand (2017: UAH 23,072 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:

(in thousands of Ukrainian hryvnia)

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

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

	USD	*EUR*	*RUB*
As at 31 December 2018	27.688	31.714	0.398
Average exchange rate per 2018	27.100	32.134	0.437
As at 31 December 2017	28.067	33.495	0.487
Average exchange rate per 2017	26.603	30.069	0.456

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 2018	*Increase "+" / decrease "–" in currency exchange rate, %*	*Effect on profit before tax*
RUR/UAH	+16.00%	41,501
EUR/UAH	+8.00%	15,484
USD/UAH	+6.00%	(271,141)
RUR/UAH	-16.00%	(41,501)
EUR/UAH	-8.00%	(15,484)
USD/UAH	-6.00%	271,141

For the year ended 31 December 2017	*Increase "+" / decrease "-" in currency exchange rate, %*	*Effect on profit before tax*
RUR/UAH	+25.00%	57,049
EUR/UAH	+22.00%	87,466
USD/UAH	+14.00%	(617,320)
RUR/UAH	-16.50%	(37,652)
EUR/UAH	-9.00%	(35,782)
USD/UAH	-10.00%	440,943

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

Liquidity risk

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

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

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

(in thousands of Ukrainian hryvnia)

At 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 6 years*	*Total*
Borrowings	172,590	3,544,671	891,137	4,608,398
Trade and other accounts payable	1,338,343	-	-	1,338,343
Other current liabilities	14,333	-	-	14,333
	1,525,266	**3,544,671**	**891,137**	**5,961,074**

Credit risk

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

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

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

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

The Group's management believes that as at 31 December 2018 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 2018 and 2017 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 2018 and 2017, 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.