METINVEST

CREATING STRONGER TIES

ANNUAL REPORT 2019

CREATING STRONGER TIES

Metinvest is an international, vertically integrated group of steel and mining companies. In 2019, the Group again demonstrated its ability to successfully navigate adverse market conditions while moving to strengthen ties with all stakeholders in order to secure a sustainable future.

Metinvest revised its health and safety management system to better safeguard its employees and contractors, while launching new human capital programmes to recruit and retain the next generation of skilled workers for its facilities. It made investments of more than US$1 billion in upgrading its asset base, including significant initiatives to reduce environmental impact. The investments also allowed Metinvest to offer customers higher-quality and more tailored products and solutions. The Group also continued to contribute to major projects that are helping its local communities to flourish. In addition, Metinvest worked with international finance providers to extend its debt maturity, bringing benefits to all stakeholders by making the business more sustainable over the long term. As a vital aspect of good corporate citizenship, the Group strives to contribute to the common cause of building a more prosperous and vibrant society.

For a better understanding of Metinvest's financial position and the results of operations, this document and summary financial statements should be read in conjunction with Metinvest's audited financial statements as of and for the year ended 31 December 2019, which include all disclosures required by International Financial Reporting Standards, as adopted by the European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code.

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided and percentages may not precisely reflect absolute figures.

INSIDE THE 2019 REPORT

WHAT WE DO

Metinvest is a vertically integrated steelmaker with a multinational asset base and global sales network.

Read more on page 04

SOLID OPERATIONAL PERFORMANCE

Despite market headwinds, Metinvest was able to deliver greater steel output as new capacity came online.

Read more on page 24

INVESTING IN THE FUTURE

In 2019, the Group set an eight-year record for CAPEX, which exceeded US$1 billion.

Read more on page 40

ENGAGING STAKEHOLDERS

For more than a decade, the Group has worked in close cooperation with its stakeholders for the benefit of all, and this fruitful partnership continues.

Read more on page 44

STEELING OUR BUSINESS FOR A MARKET DOWNTURN

Understanding the cyclical nature of the business, Metinvest was well prepared for the adverse steel market developments in the second half of 2019. Amid considerable challenges, the Group further reduced operating costs, completed crucial maintenance work and implemented the investments planned under the Technological Strategy 2030. It also extended the maturity of its debt portfolio and increased environmental investment significantly. Last, but not least, Metinvest strengthened its health and safety system to achieve its uncompromising goals in this area.

OPERATIONS

CRUDE STEEL OUTPUT

7,578KT

The Group's combined crude steel production rose by 3% year-on-year, primarily due to a 10% increase at Ilyich Steel following the launch of the new continuous casting machine no. 4 as part of the Technological Strategy 2030.

IRON ORE CONCENTRATE OUTPUT

29,028KT

Metinvest's overall production of iron ore concentrate grew by 6% year-on-year, driven by a 15% increase at Northern GOK amid higher ore output, as well as modernisation and renovation of equipment and facilities.

COKING COAL CONCENTRATE OUTPUT

2,961KT

The Group's coking coal concentrate production at United Coal, its US met coal company, rose by 10% year-on-year, driven by an overall productivity increase and favourable geological conditions at the Affinity mine.

SHARE OF STEEL PRODUCTS

86%

In 2019, the share of steel goods reached 86% of the total 8,755 thousand tonnes of merchant semi-finished and finished products, as the Group continues its upward movement on the value-added ladder.

SHARE OF PELLETS

38%

The share of pellets in the merchant iron ore product mix amounted to 38% in 2019, compared with 49% in 2018, reflecting a shift in market demand towards concentrate and a reduction in pellet premiums worldwide.

POKROVSKE COKING COAL SUPPLIES

2,377KT

The Group's coking coal purchases from the Pokrovske coal business, in which Metinvest has had a 24.77% stake since July 2018, rose by 18% year-on-year, in line with the current long-term supply agreement.

FINANCES

REVENUES

US$10,757M

The Group saw a 9% drop in its top line in 2019 amid a challenging steel market environment and lower resale volumes, which was partly compensated by greater in-house steel product sales volumes and higher iron ore sales.

EBITDA

US$1,213M

Metinvest's consolidated EBITDA halved year-on-year due to lower steel prices, upward pressure on costs – including of raw materials, logistics and labour – and unprecedented hryvnia appreciation in the second half of 2019.

NET DEBT

US$2,758M

Net debt rose by 12% year-on-year in 2019, as the Group used the favourable debt market environment to extend its debt maturity and secure roughly US$350 million of new proceeds, used to fund investment and partly repay a pre-export finance facility.

CAPEX

US$1,055M

Capital expenditure increased by 17% year-on-year, as the Group completed or reached important milestones on key projects in the Mining and Metallurgical segments, and carried out maintenance at production assets.

EBITDA MARGIN

11%

The consolidated EBITDA margin amounted to 11% in 2019, compared with 21% in 2018, as profitability from iron ore, the price of which hit a multi-year high, was offset by declining margins on steel products.

NET DEBT TO EBITDA

2.3X

The ratio of net debt to EBITDA rose to 2.3x in 2019, primarily as a function of a deterioration in profitability that was mainly linked to external market factors, and a rise in net debt.

SUSTAINABILITY

LOST-TIME INJURY FREQUENCY RATE

0.790

In 2019, the Group revised its health and safety management system at every level. A new, five-year plan was put in place to ensure that Metinvest is on a realistic path towards achieving its ultimate target of zero injuries. One major result from last year was the reduction of the lost-time injury frequency rate to an all-time low.

DIRECT GREENHOUSE GAS EMISSIONS

-10%

In 2019, Metinvest reduced its direct GHG emissions by 10% year-on-year to 8.8 million metric tonnes of CO_2 equivalent, primarily due to alterations in blast furnace utilisation at Azovstal, as well as the shutdown of blast furnace no. 3 at Ilyich Steel and coke chambers at coke producers for major overhaul.

EMPLOYEE TRAINING SESSIONS

108,742

Metinvest is committed to investing in professional training at all levels. The ultimate aim is to maximise the potential of all employees, while ensuring that they remain up-to-date in their knowledge and skills, particularly regarding the Group's health and safety practices.

GLOBAL TAXES PAID

US$741M

In 2019, the Group increased the amount of all taxes paid globally, including corporate income tax, by 5% year-on-year. Metinvest is committed to being a responsible corporate citizen in all jurisdictions where it operates. As one example of this, the Group has consistently been Ukraine's leading private-sector taxpayer.

ENVIRONMENTAL SPENDING

US$384M

The Group's combined capital and operating expenditure on environmental measures increased by 46% year-on-year in 2019, as Metinvest reinforced its commitment to reducing its footprint. These measures also represent the Group seeking to do its part in the global fight against climate change.

COMMUNITY SPENDING

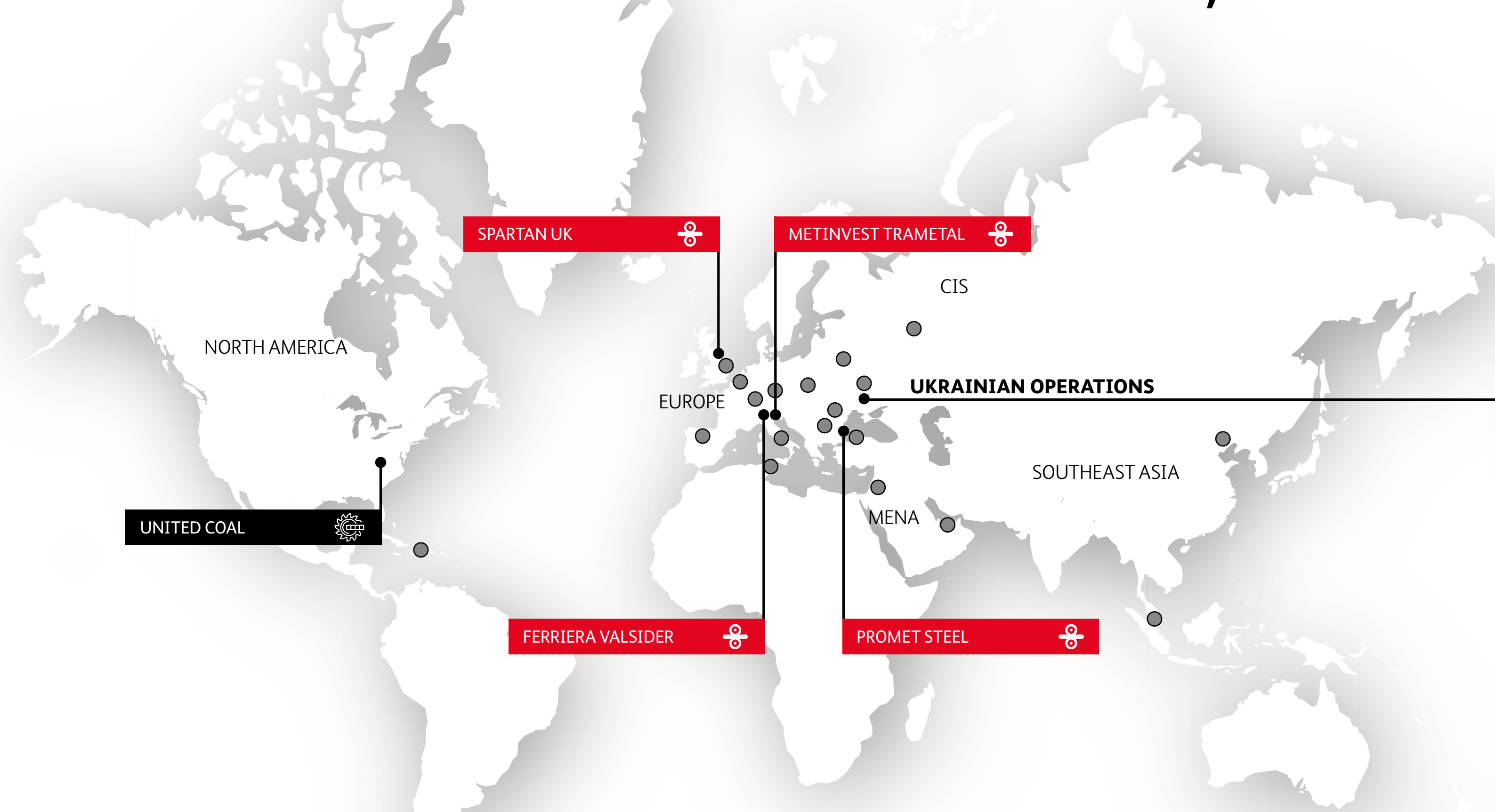
US$11M

The Group continued to invest in its communities in 2019, maintaining its focus on partnerships with local residents, volunteer groups and city governments to pursue projects that bring a direct and rapid benefit.

VERTICALLY INTEGRATED FOR SUCCESS

GLOBAL PRESENCE

KEY ASSETS	SALES OFFICES	COUNTRIES	EMPLOYEES
14	45	100	~67,000



WORLDWIDE NETWORK
Metinvest is a global, vertically integrated steelmaker, present on five continents. The reach of the Group's sales network allows it to adapt quickly to changing market conditions and seize opportunities as they emerge. The Group's European re-rollers are located near end users, while US coal assets provide additional security of raw materials for its production assets in Ukraine.

Map legend

- Sales offices
- Operations

IN THE HEART OF EUROPE

The majority of the Group's assets are located in Ukraine, an ideal geographic position for reaching markets in Europe, MENA and Asia by road, rail and sea. Through its long heritage of mining and steelmaking and low-cost operating base, Metinvest has both the skilled human capital and the infrastructure needed to support its development.

UKRAINIAN OPERATIONS

INTERNATIONAL SALES

71%

IRON ORE SELF-SUFFICIENCY

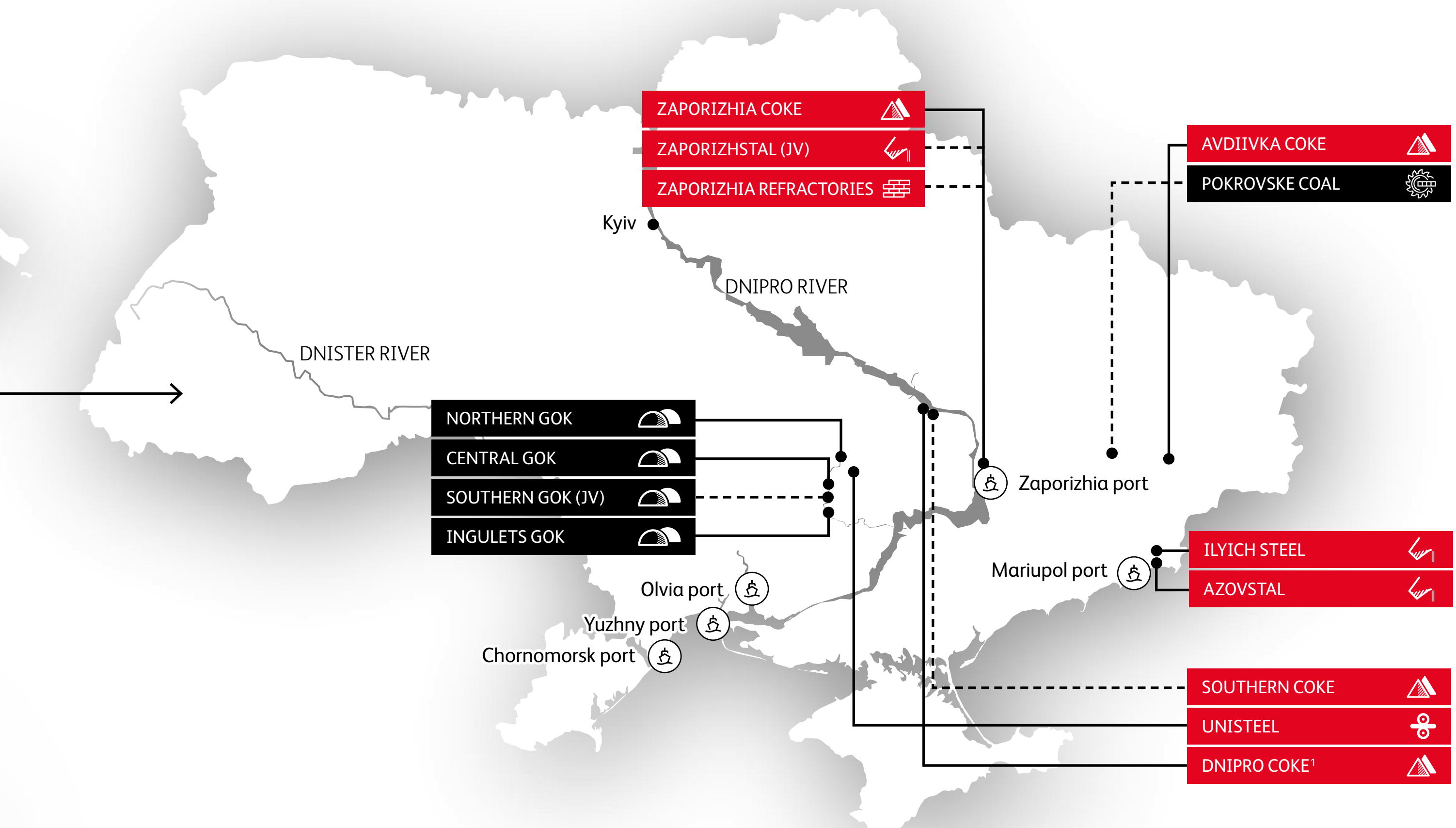
313%

ASSETS IN TOP 100 TAXPAYERS IN UKRAINE

7

ENVIRONMENTAL CAPEX

US$155M



Map legend

- Metallurgical
- Mining
- Associate[2] or JV
- Coking coal
- Coke
- Iron ore
- Integrated steel
- Re-roller
- Refractories

1 Dnipro Coke became a subsidiary of the Group in March 2020.
2 As defined in Note 3 to the Summary IFRS Consolidated Financial Statements 2019.

KEY PRODUCTION ASSETS

IRON ORE

Metinvest's iron ore assets have 2,296 million tonnes of reserves and are all located in the city of Kryvyi Rih, Ukraine. Through direct access to extensive rail links, they supply the Group's steelmakers in Mariupol and third parties worldwide via Black Sea ports.

CUSTOMERS

In 2019, Metinvest used 35% of overall concentrate internally and allocated 65% for third-party sales. Amid a 12% increase in sales volumes, Ukraine accounted for 38% of the Mining segment's external sales, Europe for 37% and Southeast Asia for 23%.

PRODUCTION SITES

- Central GOK
- Ingulets GOK
- Northern GOK

PRODUCTS

- Iron ore concentrate
- Pellets

PRODUCTION IN 2019

16,825KT

Iron ore concentrate

10,152KT

Pellets

COKING COAL

Metinvest's coking coal asset is United Coal, a high-quality producer in the US with reserves of 149 million tonnes. While covering almost half of the Group's needs in this raw material, it is also a natural hedge against coal prices.

PRODUCTION SITE

- United Coal

PRODUCTS

- Coking coal concentrate

CUSTOMERS

United Coal's coking coal primarily goes to the Group's coke production facilities in Ukraine via seaborne deliveries, with additional third-party sales to customers in the US and internationally.

PRODUCTION IN 2019

2,961KT

Coking coal concentrate

METALLURGICAL COKE

Metinvest has four coking facilities in Ukraine. Three are located in Avdiivka, Zaporizhia and Mariupol with a combined annual production capacity of around 7 million tonnes of wet wharf coke. Another one, Dnipro Coke, in Southeastern Ukraine, became a subsidiary of the Group in March 2020 and has an annual production capacity of 600 thousand tonnes.

PRODUCTION SITES

- Avdiivka Coke
- Azovstal's coke facilities
- Dnipro Coke
- Zaporizhia Coke

PRODUCTS

- Blast furnace coke, coke nut, coke breeze, benzol and other coke by-products

CUSTOMERS

The Group's coke facilities cover the needs of its steel production assets. In addition, they sell coke to third parties, primarily to other steelmakers in Ukraine.

PRODUCTION IN 2019

4,667KT

Dry blast furnace coke

INTEGRATED STEEL

Metinvest's integrated steelmakers are located in Mariupol, Ukraine, near the Sea of Azov, and have a combined annual production capacity of 9.6 million tonnes of crude steel. Their proximity to the city's port and railway infrastructure facilitates deliveries of raw materials and shipments of goods to customers in Ukraine, Europe and beyond.

CUSTOMERS

Integrated steel mills are suppliers of semi-finished products to the Group's European re-rollers and other re-rolling plants across the globe. They also produce downstream finished steel products for customers in the construction, machine-building, railway and other industries. In 2019, Europe accounted for 33% of the Metallurgical segment's sales, followed by Ukraine (27%) and MENA (19%).

PRODUCTION SITES

- Azovstal
- Ilyich Steel

PRODUCTS

- Semi-finished: pig iron, slabs
- Finished: flat, long, railway and tubular products

PRODUCTION IN 2019

7,578KT
Crude steel

6,865KT
Merchant semi-finished and finished products

RE-ROLLERS

The Group operates one plant producing galvanised steel in Ukraine and four rolling mills in other parts of Europe with annual production capacity of around 2 million tonnes.

CUSTOMERS

The re-rolling mills process semi-finished products from the integrated steel mills into finished steel goods. Their location in Europe enables the Group to serve end users in that key region and deliver goods worldwide. Their key customers operate in industries such as construction, machine-building and shipbuilding, while they also serve retail clients through steel service centres.

PRODUCTION SITES

- Ferriera Valsider (Italy)
- Metinvest Trametal (Italy)
- Promet Steel (Bulgaria)
- Spartan UK (UK)
- Unisteel (Ukraine)

PRODUCTS

- Hot-rolled coils
- Hot-rolled plates
- Shapes and bars
- Galvanised coils

PRODUCTION IN 2019

1,890KT
Finished steel products

STRATEGIC REPORT

In this section:

CREATING STRONGER TIES

CRM IMPLEMENTATION TRANSFORMS THE CUSTOMER EXPERIENCE

Metinvest is focused on the value proposition for its customers. As part of this drive, in December 2019, it launched the first stage of the SAP Customer Relationship Management (CRM) system at its Swiss trader, which the Group uses to sell its products to European countries, the Middle East, and North and Sub-Saharan Africa, Southeast Asia, and North and Latin America. It provides transparency for all parties as the entire process of any deal and contract is carefully tracked.

The CRM system has been transformative for both the Group's salesforce and its customer base. It consists of two key modules: cloud for customer (C4C) and configure price quote (CPQ). C4C is a single window solution for the sales team that provides visibility of the full history of interactions with a client to build a customer-focused model. C4C is also designed to exchange information in real time to react quickly to potential issues that may arise. CPQ provides a unified online catalogue of products, allowing the creation of tailor-made orders to meet exact specifications and ensure precision. It has also systematised the process of discounts and automated calculation of target prices, logistics and other costs, delivering the best service to the customer.

In 2020, Metinvest plans to continue developing the CRM, including implementing the planning function, adding products to the configuration and other improvements based on user feedback. It also plans to start expanding the modules to other trading companies in Ukraine, Belarus and Western Europe.

AMOUNT OF SALES VIA THE SWISS TRADER IN 2019

US$5,578M

STRATEGIC REPORT

ENGAGING STAKEHOLDERS TO ACHIEVE STRATEGIC GOALS

While 2019 was challenging for the global steel industry, Metinvest retained a clear focus on ensuring its long-term competitiveness, investing in technology and pursuing its sustainability agenda. Our goal is to balance the diverse needs of all stakeholders.

OVERCOMING TURBULENCE WITH PRINCIPLED LEADERSHIP

Last year, I had the privilege of leading the Supervisory Board of Metinvest for a second straight year. I believe that it is precisely the close cooperation of the Board, the international composition of which remained unchanged in 2019, and the management, that allow us to deliver consistently on the Group's long-term objectives.

Despite falling steel prices in the second half of 2019, which led to lower sales, Metinvest still posted annual gains in output of steel, iron ore and coking coal. Our ability to quickly react to volatile market conditions enabled us to fulfil our investment plan for the year, steered by the Technological Strategy 2030. We also proactively extended the maturity of the Group's debt portfolio to make it possible to continue to invest in developing the business sustainably.

I believe that our ability to overcome the turbulence on the steel market reflects the high level of professionalism of each member of our Supervisory Board and Executive Team, whose deep experience helps Metinvest to navigate such difficulties. This underscores the importance of adhering to values and ethics. It also confirms the soundness of our strategy. All of these serve as our internal compass. Together with the strong fundamentals of the Group's business model – vertical integration, a constant focus on health, safety and the environment, as well as placing a priority on the quality and transparency of the business as a whole – this made it possible for us to stay on track to fulfil our long-term aims for the business while preparing for the uncertainties that we now face.

FOSTERING CONNECTIONS THAT MATTER

We recognise the importance of the Sustainable Development Goals adopted by United Nations member states in 2015 and strive to do our part in creating a better future, not only for ourselves, but also for our children and subsequent generations.

Our first and most important contribution to achieve these goals is economic. We are responsible for almost 67,000 jobs worldwide. In 2019, we paid US$741 million in taxes to the budgets of the various countries in which we operate.

While Metinvest has integrated environmental, social and governance (ESG) topics into its business-decision making since its inception, today we follow the global trend of analysing them under the single ESG umbrella. Ultimately, our approach to ESG matters is a critical component of our long-term ability to compete with top global metals and mining companies.

We understand that our stakeholder groups are interested not only in our visible contributions to local communities, but also in careful financial stewardship, the overall social and economic impact of our operations, our environmental track record and many other aspects of how we conduct our business. We are upgrading our technologies to use finite resources more efficiently, reduce the ecological footprint of the Group's operations and help to fight global climate change, among other efforts. While such concerns are naturally close to home for our employees and local communities, we are now also seeing customers and investors incorporating green metrics into their buying and investment decisions. In this and many other areas of our work, the ESG field covers all of our stakeholders and ties together every strand of our business, driving the life of the Group.

We also recognise that in assessing our results, stakeholders take into account key aspects of our activity such as effective governance and transparency in how we conduct our business. These are vital dimensions of our business that help them to ensure that Metinvest recognises their interests and honours its commitments. In addition to publicly reported financial results in strict adherence to international standards, we are steadily enhancing our ESG reporting.

CAPITALISING ON OUR SYNERGIES

Our employees have always been and remain the basis for the Group's sustainability. That is why we are constantly improving the efficiency of all functions responsible for the people-related aspects of our organisation. In furtherance of this, the departments responsible for human capital, health and safety, environmental protection, public relations and communication have been merged into the Sustainable Development and People Management Directorate.

We are certain that this centralised and more flexible management structure will help us to ensure the Group's long-term viability, safeguard the wellbeing of our employees and local communities, and strengthen relationships with our stakeholders. Put another way, this is the prerequisite to achieving our strategic objectives.

VALUING OUR PEOPLE AND COMMUNITIES

There is nothing more important than the life and health of people. Our core duty and responsibility is to provide a safe workplace for each employee and contractor. In 2019, we have revised our health and safety management system and adopted new practices. For example, senior managers' compensation has been linked directly to performance on relevant key safety metrics. The encouraging initial results of these approaches confirm the soundness of the chosen way forward and motivate us to continue to further transform our way of working in this area.

We are keenly aware that the global mining and steel industries have left a challenging ecological legacy over their long history. Since Metinvest was founded in 2006, we have invested more than US$4 billion in green initiatives. Our Technological Strategy 2030 envisages a long-term agenda to further reduce our environmental footprint and adopt globally accepted standards in this area. Even as the global steel market slowed last year, we ring-fenced ecological projects to prevent any delays in their implementation. In 2019, we increased our environmental spending by 46% year-on-year to US$384 million.

We are proud of the history of our assets and our veteran steelworkers. Equally, we are constantly looking for fresh talent. To ensure operational continuity, we are giving this new cohort the right educational and practical skills to operate the next generation of steelmaking technology by redoubling our efforts with local universities to develop new curricula and offer internships, among other initiatives.

We also work in close partnership with cities in which we are present by investing in their development, including transport and social infrastructure, as well as the improvement of education quality. Together, we have continued with reputable and experienced partners to invest in Mariupol, Zaporizhia and Kryvyi Rih via city development funds to deliver bigger and more impactful projects, which benefit the everyday lives of local communities. We are extraordinarily proud that this mode of cooperation has proved both efficient and a real breakthrough for these kind of community investment projects in Ukraine.

OUTLOOK FOR 2020

The year 2020 is posing no less serious challenges for Metinvest and all of our stakeholders. However, I am confident in our ability to overcome any consequences of the crisis caused by the global COVID-19 pandemic. We are ready to restore and grow economies, and we are ready to help societies in their recoveries. Metinvest will press ahead with its ESG agenda, including our commitment to health, safety and the environment, as it is essential to achieving our long-term strategic goals and creating value for all stakeholders.

On behalf of the entire Supervisory Board, I would like to thank all of the stakeholders of Metinvest, who form the key theme of this year's annual report, for their continued partnership as we build a more sustainable future, together. I would also like to thank each employee of Metinvest – together we will not only manage all of these challenges, but also emerge stronger.

Oleg Popov
Chairman of the Supervisory Board

CEO'S STATEMENT
YURIY RYZHENKOV

ALL HANDS ON DECK

In 2019, faced with numerous global events, Metinvest mustered every available resource, including the skills and experience of its team, the dedication of its partners, as well as the continued backing of international creditors and the broader stakeholder community. With their support, the Group was able to continue investing and managing its debt while also achieving steep reductions in the number of safety incidents and remaining on-track in terms of its environmental and other sustainability commitments.

FACING MARKET HEADWINDS

The year 2019 was a restless one for the global steel industry, as margins were under significant pressure. On one hand, supply disruptions kept the cost of the raw material basket high. On the other hand, weak economic growth in multiple regions, including Europe, and intensified trade tensions hit steel prices particularly hard in the fourth quarter of the year.

Still, Metinvest managed to deliver a resilient performance and gird itself for the uncertainties ahead thanks to its vertically integrated business model, vast iron ore resources, top-notch team and unwavering support from stakeholders.

BECOMING STRONGER TOGETHER

Metinvest strives to build a better, more sustainable future for both its business and its stakeholders, taking a long-term approach to creating stronger ties. This requires the dedication of all parties, which from our side can be seen in many of projects and programmes that we undertook in 2019.

We continued to invest in training and education to build a brighter future for our employees and their families. We also contributed additional resources to our local communities, including social infrastructure, health and sporting facilities and other public amenities. Once again, we have cooperated with authorities around the world to address their competition concerns and facilitate free trade.

Consistent with our core commitment to customer focus, we launched a new customer relationship management system to improve our value proposition. To foster long-term partnerships with our contractors and suppliers who provide equipment and services, we negotiated lengthier contract terms so that they can better plan operations and labour resources in advance. We also worked with our debt providers to ensure that we retain the financial flexibility that the current environment demands.

We understand that we have only reached where we are today thanks to the support of our stakeholders and that we must continue to work together toward the greater good if we want to thrive in difficult times.

DELIVERING ON SUSTAINABILITY

Throughout the year, we had a primary and overarching goal of honouring our sustainability commitments despite the external pressures on the business.

Due to the unsatisfactory safety performance in previous years, and with the ultimate aim of reaching our uncompromising target of zero injuries, we revised our health and safety management system in 2019 to better protect our employees and contractors. Several of our latest initiatives have shown promising initial results, not least of which is a reduction in lost-time injuries throughout the business to the lowest rate in Metinvest's history.

We also invested the largest amount in environmental CAPEX in nearly a decade. Through our actions, we are making it clear that we will not sacrifice our sustainability agenda to the business cycle.

MANOEUVRING WITH UTMOST CARE

We were able to achieve respectable operational results for the year in relation to steel, iron ore and coking coal. Overall, crude steel production rose by 3% and the share of steel products in the metal mix reached 86%, up 5 percentage points year-on-year, while iron ore concentrate production rose by 6% and coking coal output climbed by 10%. At the same time, there is no question that the global steel downturn in the fourth quarter hit our steel output, product mix, as well as overall financial performance.

Several factors in Ukraine also had a significant impact on the Group. The country witnessed smooth presidential and parliamentary elections in 2019, signalling the strength of its democratic institutions. However, real GDP growth of 3.2% year-on-year did not flow through to apparent steel demand, which dropped by 4.0% year-on-year as the double elections constrained investment activity until both races were over. Besides, the Ukrainian currency experienced an unprecedented appreciation against the US dollar, strengthening by 18% year-on-year in December 2019, which elevated our hryvnia-denominated costs and affected our global cost competitiveness.

Despite certain restrictions imposed on metallurgical coal shipments to Ukraine in June 2019, we managed to ensure uninterrupted hot metal output. The Group proved well prepared for such a scenario, as we had put in place sufficient coal stocks, diversified seaborne supplies of this key raw material and acquired a stake in Ukraine's largest coking coal business, securing an additional local source.

Overall, revenues declined by 9% year-on-year to US$10,757 million and EBITDA went down by 52% year-on-year to US$1,213 million. The Mining segment accounted for all of our EBITDA in 2019, reflecting higher iron ore prices, and balancing the negative results of the steelmakers. At the same time, the consolidated EBITDA margin fell to 11%, while net profit decreased to US$341 million.

SHARPENING OUR FOCUS

Importantly, we were ready to take steps in response to adverse developments to make our business more efficient and flexible while continuing to invest in our future. We had the necessary tools at our disposal to reduce costs without undermining our long-term investment projects, imperilling our Technological Strategy 2030 or abandoning our principles.

Late last year, we launched a cost-optimisation programme across the Group to build on our already strong focus on efficiency. We were able to triple our savings from operational improvements to US$63 million in 2019 and believe that our continuous drive to further improve these results in the coming years will help us to remain cost-competitive with leading global peers going forward.

Even as market conditions worsened in 2019, we held firm in our decision to accomplish the annual investment action plan mapped out by our Technological Strategy 2030. Doing so, we delivered on several multi-year projects, which immediately translated into higher-quality products that offer greater margins, while reducing operating costs and our environmental impact. At Ilyich Steel, we performed the large-scale revamp of the hot strip mill 1700. At Azovstal, we launched the overhauled blast furnace no. 3 together with pulverised coal injection facilities. At Northern GOK, we began testing the upgraded Lurgi 278-A roasting machine. We also made sure not to neglect maintenance to improve our asset base and increase the flexibility of our business amid market turbulence. Consequently, total capital expenditure reached US$1,055 million, which is the highest level since 2011.

With the support of the international investment community, we seized the opportunity to ensure our sustainable, longer-term capital structure, in line with our cautious approach to debt. In a landmark deal, we were able to secure US$350 million in new proceeds from our dual-currency bond offering, achieving a 10-year maturity for US dollar financing for the first time in the Group's history, Together with a working capital release exceeding US$160 million, this provided us with additional security during the market downturn.

OUTLOOK FOR 2020

We are currently living in unprecedented times, as the global crisis caused by the "black swan" event of the COVID-19 pandemic continues to develop in unforeseen ways. Whatever the impact on global economic growth in general and steel and iron ore prices in particular, I know that we have worked hard to prepare ourselves for what lies ahead and I believe that we will emerge stronger no matter what happens. The decisions taken in recent years have made us more resilient and have better equipped us for the industry's cyclicality.

The prompt and proactive measures that we have undertaken to prevent the mass spread of the virus among our employees and in our local communities have helped us to weather the emergency so far. Going forward, the safety of our people at all of our assets in Ukraine and internationally will continue to be our number one priority.

We remain committed to sustainability and will continue our relentless focus on health and safety measures and are confident that we have the right human capital strategy in place to attract and retain the best specialists. Recognising that the future outlook is deeply uncertain, we will continue to review all options to enhance efficiency, relieve pressure on cash flows and extend debt maturities yet further.

Most of all, I believe the year 2020 will be about expanding our stakeholder engagement and pursuing our environmental, social and governance (ESG) agenda with all our partners. After all, everything we do is made possible with the support of our stakeholders: our employees, customers, suppliers and contractors, local communities, equity and debt providers, and authorities. Working together, I believe we can overcome the common challenges facing us all and build a more vibrant world.

Yuriy Ryzhenkov
Chief Executive Officer

BUSINESS MODEL

INPUTS

Natural capital

IRON ORE MINING
68,593KT

RAW COKING COAL EXTRACTION
8,332KT

ELECTRICITY
8,398GWH

NATURAL GAS
1,091MCM

RECYCLED AND REUSED WATER
80%

OVERBURDEN REMOVAL
68MCM

Human capital

EMPLOYEE HEADCOUNT
66,565

SUPPLIERS AND CONTRACTORS
6,700+

Financial capital

TOTAL ASSETS
US$13,837M

TOTAL DEBT
US$3,032M

GOAL: SUSTAINABLE GROWTH OF VALUE

FUNDAMENTALS

VERTICAL INTEGRATION	HSE
QUALITY	TRANSPARENCY

VALUE CHAIN

INBOUND LOGISTICS → MINING OF RAW MATERIALS → PROCESSING OF RAW MATERIALS → PRODUCTION OF STEEL

SUPPORTING ACTIVITIES HR | FINANCE | LEGAL | PROCUREMENT |

STRATEGIC GOALS

- Sustain competitive advantages in steelmaking through vertical integration
- Strengthen positions in strategic markets
- Achieve business excellence through best practices

STRENGTHS

Global sales network	Lean manufacturing
Geographic location	Financial prudence
Vast resource base	Human capital
Diversified product mix	Social relationships
Strong institutions	Corporate social responsibility

CASTING OF SEMI-FINISHED PRODUCTS → ROLLING OF FINISHED PRODUCTS → OUTBOUND LOGISTICS → SALES AND SERVICE

DEGREE OF VALUE ADDED

| LOGISTICS | PUBLIC RELATIONS | INFORMATION TECHNOLOGY

GOVERNANCE PRINCIPLES

Specialisation	Global best practices
Vertical integration	Tradition and innovation
Unified strategic management	Commitment to leadership
Centralisation	Personal commitment
Growth and investments	

OUTPUTS AND OUTCOMES

External sales

STEEL AND IRON PRODUCTS
8,823KT

STEEL AND IRON RESALES
5,592KT

IRON ORE PRODUCTS
17,747KT

COKE[1]
1,882KT

Natural capital

ENERGY SAVINGS
4.6PJ

ENVIRONMENTAL SPENDING
US$384M

ISO 50001 CERTIFICATION
8 ASSETS

ISO 14001 CERTIFICATION
15 ASSETS

Human capital

LOST-TIME INJURY FREQUENCY RATE
0.790

HEALTH & SAFETY SPENDING
US$102M

LABOUR COSTS
US$945M

INVESTMENT IN TRAINING
US$6M

Social capital

TAXES PAID
US$741M

INVESTMENT IN COMMUNITIES
US$11M

Financial capital

REVENUES
US$10,757M

EBITDA
US$1,213M

NET PROFIT
US$341M

INTEREST PAID
US$210M

1 Including resales of 251KT.

A COMMUNITY OF SHARED INTERESTS

Metinvest recognises that it co-exists with its stakeholders in the global community. Its long-term goals focus on creating value for them, in both financial and non-financial ways. When making strategic decisions, the Group strives to take into account the needs, interests and expectations of all.

KEY NEEDS AND INTERESTS

Metinvest has undertaken a major exercise for the identification and assessment of the material issues of greatest importance to its stakeholder groups. Along with direct communication and engagement with its stakeholders, the Group also works with them indirectly via many other members of society, such as non-governmental organisations and trade associations around the world.

ESG RATINGS

The Group's environmental, social and governance (ESG) agenda is inextricable from its work with its stakeholders. Metinvest has always considered ESG factors in its business decisions. In order to obtain an external assessment of the Group's ESG performance, as well as provide transparency for stakeholders, Metinvest decided to engage independent, outside agencies to assess its strengths and weaknesses on this front from an objective perspective, as well as its ability to mitigate related risks. The findings have provided the Group with vital feedback about its standing in key areas, allowing it to refine its strategies in line with global best practices.

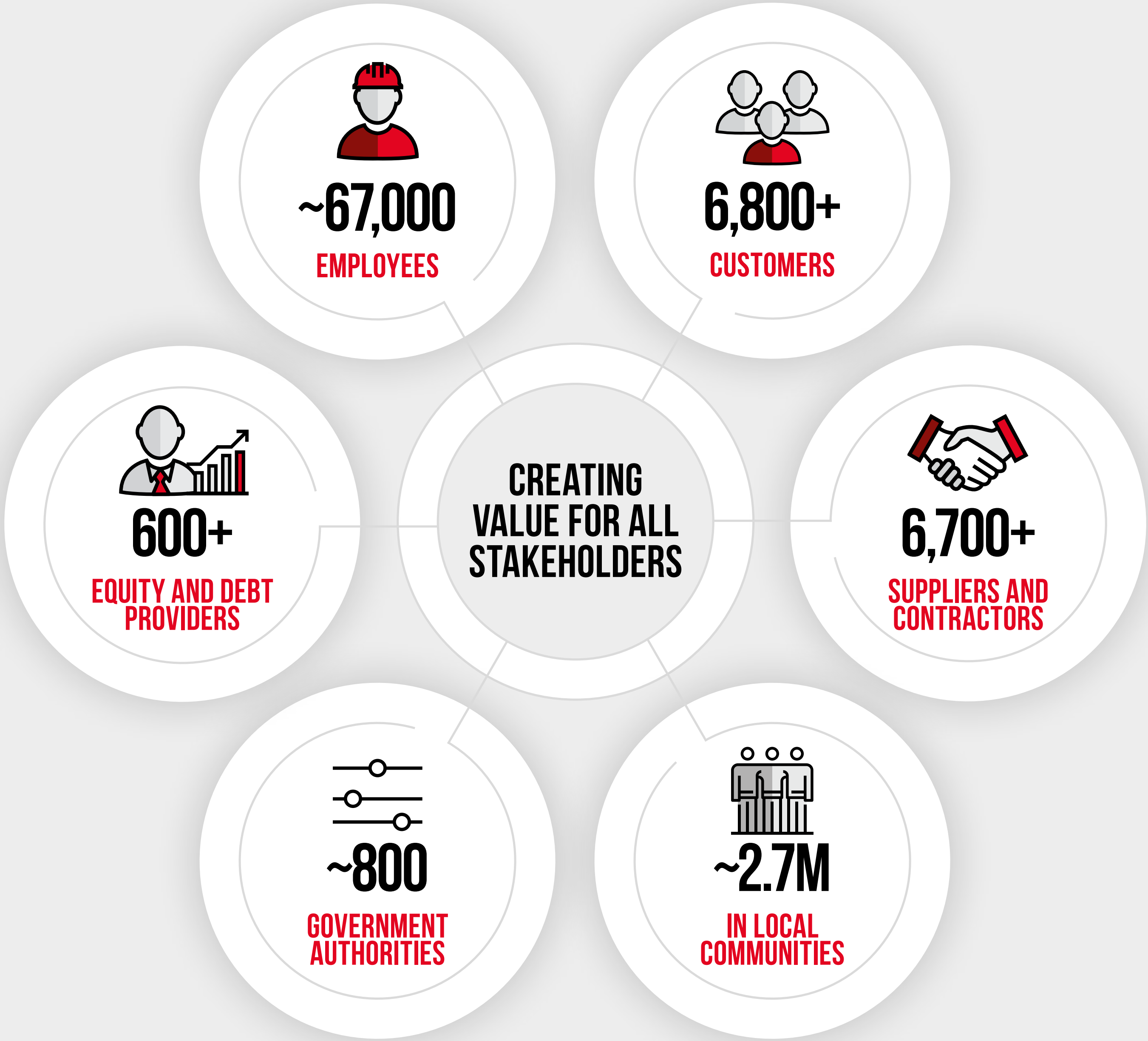
As of 2019, Metinvest received an MSCI ESG Rating of 'B'. MSCI ESG Research provides MSCI ESG Ratings on global public and a few private companies on a scale ranging from 'AAA' ('leader') to 'CCC' ('laggard'), according to exposure to industry-specific ESG risks and the ability to manage those risks relative to peers.

In June 2020, after the reporting date, Metinvest received an overall ESG Risk Ratings score of 32.0 from Sustainalytics, a leading global provider of ESG research, ratings and data. The ESG Risk Ratings score is a measure of unmanaged risk on an absolute scale of 0-100, with a lower score signalling less unmanaged ESG Risk. While the risk of experiencing material financial impacts driven by ESG factors was assessed as 'high' due to the steel industry's significant exposure, Sustainalytics assessed the Group's management of material ESG issues as strong. Compared with other companies in the steel industry analysed by Sustainalytics, Metinvest was ranked in ninth place out of the 140 steel companies worldwide.

ESG ratings

MSCI	SUSTAINALYTICS
B	32.0/HIGH

METINVEST KEY STAKEHOLDER GROUPS



EMPLOYEES
People working for Metinvest around the world, including at production assets, sales offices, service and engineering units, and headquarters.

CUSTOMERS
The global base of buyers of Metinvest's products and services, including many long-term business partners of the Group over many years.

SUPPLIERS AND CONTRACTORS
Companies providing goods and services for the Group on a long-term or project basis.

LOCAL COMMUNITIES
Residents of cities, towns and other localities where the Group has operations, including international, national and local non-government organisations advocating on behalf of communities.

EQUITY AND DEBT PROVIDERS
Metinvest's equity holders, bondholders, bank lenders and other institutions providing financing to the Group.

GOVERNMENT AUTHORITIES
International, national, regional and local authorities, as well as certain multilateral organisations, in jurisdictions where Metinvest carries out production, sales or other activity.

STRATEGY

STRATEGIC GOALS	STRATEGIC OBJECTIVES
SUSTAIN COMPETITIVE ADVANTAGES IN STEELMAKING THROUGH VERTICAL INTEGRATION	Increase operational efficiency and achieve best practices in steelmaking through focused investments in advanced technologies Continue improving Metinvest's self-sufficiency in key raw materials Increase production capacity by growing organically and pursuing selective acquisition opportunities Establish and sustain a continuous improvement culture Increase personnel productivity
STRENGTHEN POSITIONS IN STRATEGIC MARKETS	Increase focus on finished products Improve the product portfolio mix Increase sales of steel products in the Ukrainian and regional markets Build long-term customer relationships and deliver high-quality customer service worldwide
ACHIEVE BUSINESS EXCELLENCE THROUGH BEST PRACTICES	Develop the operating model Strengthen the unified corporate culture and maximise employees' commitment Enhance unified and efficient business processes Maintain transparency of operations and corporate responsibility

STRATEGIC PRIORITIES 2030

- ENHANCE SUSTAINABILITY
- STRENGTHEN LOW-COST STEEL PRODUCER POSITION
- INCREASE PRODUCTION CAPACITY BY GROWING ORGANICALLY
- EXPAND PRODUCT PORTFOLIO TO STRENGTHEN POSITION IN KEY STRATEGIC MARKETS
- FOCUS ON CUSTOMER NEEDS
- INCREASE EFFICIENCY
- PURSUE SELECTIVE ACQUISITION OPPORTUNITIES

SELECT ACHIEVEMENTS IN 2019

The Group increased spending on sustainability improvements in such areas as health, safety and the environment by 36% year-on-year to US$486 million. Multiple environmental initiatives were ongoing during the year, the biggest one being the large-scale reconstruction of the sinter plant at Ilyich Steel, which entered its final stage.

To strengthen its competitive standing, Metinvest systematically works to reduce its costs, scrutinising every link of its operations. The Group implemented several initiatives in 2019, including diversifying spare part suppliers for railway transport, transitioning to long-term supply contracts for key and auxiliary goods and materials, ensuring on-time delivery of goods and materials, and further improving the e-procurement system to significantly reduce required man hours. In addition, numerous CAPEX projects are designed to improve cost efficiency, such as the installation of pulverised coal injection technology at Azovstal's blast furnace no. 3, completed in 2019.

In line with the Technological Strategy 2030, Metinvest's organic growth projects include the major overhaul and upgrade of Azovstal's blast furnace no. 3, which was completed last year and is expected to increase its hot metal production capacity by 0.6 million tonnes per year to more than 1.3 million tonnes per year. In addition, the new continuous casting machine no. 4 at Ilyich Steel, the construction of which was completed in late 2018, allowed the plant to deliver a 10% year-on-year increase in crude steel production in 2019.

In the Metallurgical segment, the revamp of the hot strip mill 1700 at Ilyich Steel allowed the Group to advance its product strategy by increasing the plant's coil annual output capacity by around 1 million tonnes, improving quality and offering a wider range of products to existing and new markets. In the Mining segment, the upgrades of the Lurgi 278-A and OK-306 roasting machines at Northern GOK and beneficiation equipment at Central GOK aim to open up premium markets for the Group's iron ore products.

The Group launched a CRM system to provide customers with flexibility in ordering, as well as dedicated service and support on production, logistics and finance issues. Metinvest further developed project-based sales for the construction sector in Ukraine. It also ensured the provision of covered transportation and storage of cold-rolled and galvanised products in Ukrainian seaports. In addition, a programme was launched in 2019 to better define key customers and improve the customer service culture, which led to the introduction of more than 300 related initiatives.

The management intensified the cost optimisation programme and tripled operating efficiencies to US$63 million for the year. The Group enhanced productivity of such equipment as sintering machines, blast furnaces and roasting machines. Metinvest was also able to improve waste management, which reduced the iron content of new tailings. In addition, the Group continued to streamline its back office functions by developing its shared service centre, as well as advancing its digital transformation.

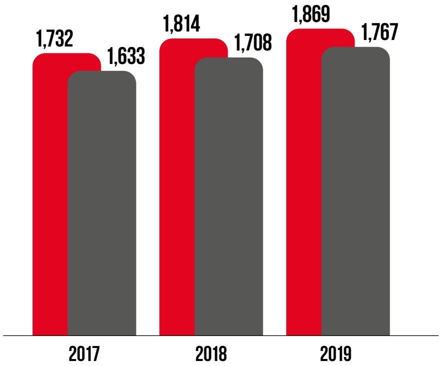
In 2019, Metinvest acquired interests in two Ukrainian metallurgical coke producers: 23.71% of Southern Coke and 49.37% of Dnipro Coke[1]. Both deals enhance the Group's coke supplies and are consistent with its strategic priority of diversifying raw material supplies and improving long-term self-sufficiency to strengthen vertical integration, particularly given the ongoing capacity increase of Metinvest's steelmakers.

1 In March 2020, after the reporting period, Metinvest acquired another 23.64% of Dnipro Coke, increasing its interest to 73.01%.

NAVIGATING A VOLATILE MARKET

In 2019, pressure on steel prices built up during the year, as global steel production continued to rise despite weak consumption in some key regions and a worsening economic outlook due to heightened trade tensions. Meanwhile, iron ore prices remained robust amid greater demand from China and significant supply disruptions in the world's main iron ore exporting countries.

Global steel industry



Source: World Steel Association

GLOBAL STEEL MARKET

In 2019, the global steel market was shaped by weaker demand in certain key regions, intensified trade tensions worldwide, stronger iron ore prices and heightened expectations of global recession.

Global steel production rose by 3.0% year-on-year to 1,869 tonnes and apparent consumption of finished steel products climbed by 3.4% to 1,767 million tonnes. Both indicators were primarily driven by China.

During the year, Chinese steel output and apparent consumption grew by 8.3% and 8.5% year-on-year to 996 million tonnes and 907 million tonnes, respectively, both reaching a new record, mainly due to fiscal stimulus and credit easing measures by the government. Consequently, China's share in global production and consumption reached 53% and 51%, respectively, compared with 50% and 45% four years ago.

Meanwhile, steel supply and demand trends in other regions were multi-directional. Consumption was down in several of Metinvest's most important steel markets, dropping by 5.6% year-on-year in the EU, where Germany saw a decline of 12.0% over the period, mainly driven by weak industrial production and the impact on demand from a sluggish automotive sector.

Turkey saw the steepest demand decline of the world's top-10 steel markets, falling by 15.4% year-on-year, amid sluggish domestic economic growth in 2019. Meanwhile, demand in Russia grew by 5.0% year-on-year amid higher machinery production.

Production rose in the Middle East, where Iran reported a 4.5% rise in output after launching new capacity and higher exports. In addition to China, other countries in Asia saw growth, as well, with production in Vietnam surging by 29.7% due to increased internal consumption and the introduction of trade barriers in the region against Chinese manufacturers. At the same time, output fell in such regions as Europe, North America (mainly Mexico) and South America (primarily Brazil).

Trade disputes persisted as major global players continued to protect their markets and local producers. In addition to the 25% steel tariffs that the US introduced in 2018 and the anti-dumping tariffs that the EU introduced in 2017 covering some 60% of hot-rolled coil (HRC) imports to the region, the EU tightened the tariff rate quotas that it introduced on imports of several steel products in 2018 and effectively extended them until July 2021.

Since peaking in spring 2018, global steel prices have been under pressure from the factors described above. In 2019, the HRC FOB Black Sea benchmark retreated by 16.5% year-on-year to an average of US$468 per tonne. Its sharpest drop was in the fourth quarter, which saw a 10.9% quarter-on-quarter decline to an average of US$415 per tonne and a low of US$388 per tonne in October.

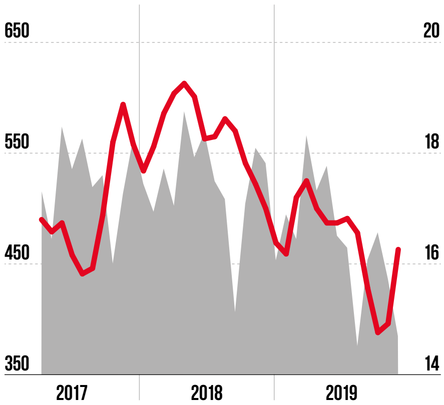
Sluggish demand in Europe amid high prices for raw materials pushed European steel producers to reduce output, which fell by as much as 5.9% year-on-year in 2019. Together with the announcement of economic stimulus measures in major economies, this was sufficient to reverse the benchmark steel price trend in November 2019.

GLOBAL RAW MATERIALS MARKET

On the raw materials market, different forces were at work for iron ore and coking coal.

China is the world's largest consumer and importer of iron ore. While its iron ore producers are focused on the domestic market, their quality and capacity are insufficient to meet the country's needs. Consequently, China accounts for some 65% of global imports, according to the World Steel Association (WSA), which is served primarily by the "Big Four" multinational iron ore producers. Australia and Brazil are the two largest iron ore exporting countries. While they accounted for around 70% of global iron ore trade in 2019, according to Bloomberg and WSA data, and accounted for around 80% of

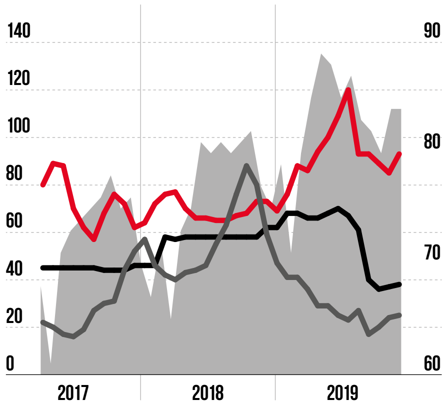
Steel price



Steel production in Europe, MT (RHS)
HRC, FOB Black Sea, US$/tonne (LHS)

Source: World Steel Association, Metal Expert

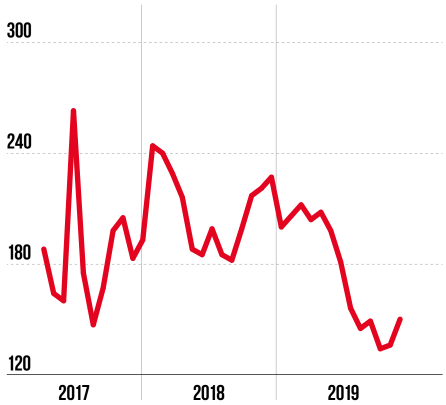
Iron ore price and premiums



Steel production in China, MT (RHS)
62% Fe iron ore fines, CFR China, US$/tonne (LHS)
Atlantic basin pellet premium, US$/tonne (LHS)
Pellet premium in China, US$/tonne (LHS)

Source: Bloomberg, Platts

Hard coking coal price



Daily spot index, FOB Australia, US$/tonne

Source: Platts

global seaborne shipments in 2019, according to Metinvest's estimates, they also saw operational disruptions during the year. Brazil was hit in January 2019 by the collapse of a tailing dam that caused production stoppages at one of the world's largest iron ore producers. In Australia, cyclone Veronica interrupted shipments during the first half of the year. Combined exports from both countries totalled 1,175 million tonnes, down 4.6% year-on-year. On the demand side, Chinese steel output reached a new record during the reporting period.

As a result, iron ore experienced a price rally in the first half of 2019. While there was a moderate contraction in the second half, prices remained at elevated levels. The 62% Fe iron ore fines CFR China benchmark averaged US$94 per tonne in 2019, compared with US$70 per tonne in 2018.

In this environment, European steelmakers sought to cut costs as much as possible. They exhibited a preference for lower-quality iron ore concentrate instead of pellets, which traditional suppliers including Metinvest had redirected to other regions, including China. This caused pellet premiums in both Europe and China to fall beginning in July 2019. Overall, in the second half of the year, the European and Chinese pellet premiums fell by 31.3% and 32.8, respectively, to US$46 per tonne and US$23 per tonne compared with the first half of 2019.

The global coking coal market has seen supply side volatility in recent years, amid such factors as bad weather constraining output in Australia, increasing exports from Mongolia and the imposition of import restrictions in China. In 2019, the spot hard coking coal FOB Australia benchmark decreased by 14% year-on-year to US$177 per tonne. Despite a flat trend in the first half, prices collapsed in the second half, driven by demand factors, such as production cutbacks by large steelmakers late in the year, as well as restrictions on coal imports instituted at Chinese ports. As a result, the price fell by 26.5% half-on-half to an average of US$150 per tonne in July-December 2019.

OUTLOOK FOR 2020

The outlook for 2020 remains profoundly uncertain. While the steel price recovery continued in early 2020 as the US and China signed the first phase of a new trade deal in January, the trend reversed in March. The outbreak of the coronavirus pandemic led to lockdowns in many countries, broke international supply chains and shut down multiple economic sectors, triggering a global recession. Countless industries have been forced to face simultaneous supply and demand shocks.

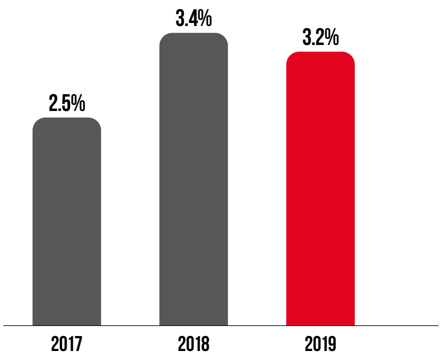
Governments worldwide have responded with unprecedented fiscal and monetary stimulus, including by EU countries, as well as the UK, the US and China.

However, many important questions have yet to be answered, including but not limited to: how quickly the world will return to anything resembling normal life; how deep the economic decline will prove to be; how strongly it will affect the global steel, iron ore and coking coal markets, in terms of both the supply/demand balance and the subsequent impact on prices; and how fast global economies will recover.

OPPORTUNITY AMID UNCERTAINTY

In 2019, Ukraine's economy delivered growth for the fourth year in a row. Real GDP expanded by 3.2% year-on-year, primarily driven by ongoing reforms and improved consumer spending. However, steel consumption fell by 4.0% year-on-year, mainly due to lower demand from pipe manufacturers.

Real GDP growth



Source: State Statistics Service of Ukraine

IMPROVED FUNDAMENTALS

Ukraine's smooth 2019 presidential and parliamentary elections signalled the strength of its democratic institutions. This fostered real GDP growth of 3.2% year-on-year in 2019, propelled by growing consumer spending power and confidence, as well as by a record grain harvest in the agricultural sector.

Still, Ukraine was not immune to external pressures as year-on-year growth slowed from 3.9% in the third quarter to 1.5% in the fourth quarter. This was caused by diminishing industrial production, in part due to Ukraine's manufacturing industries, including steel, feeling the effects of falling global demand.

During the year, the National Bank of Ukraine (NBU) maintained a consistent monetary policy of inflation targeting and kept the local currency floating. In this environment, the interest rate is the NBU's main policy tool. The consumer price index (CPI) descended to below the NBU's target of 5%, slowing in year-on-year terms from 9.8% in December 2018 to 4.1% in December 2019. This enabled the NBU to begin monetary easing. As a result, its key interest rate was cut many times, from 18.0% in early 2019 to 13.5% in December 2019 and, after the reporting period, to 6.0% in June 2020.

In 2019, the NBU also further eased its currency control restrictions. It lifted all limitations concerning the mandatory sale of foreign currency proceeds and the amount of dividend payments that Ukrainian companies can make to non-residents. In addition, it increased the settlement period for import-export transactions in foreign currency to 365 days effective 16 May 2019.

While the key interest rate remained high relative to other countries during 2019, international investors gained easier access to local government bonds in May that year, fuelling a US$4.3 billion inflow of foreign currency into Ukraine during the year, as reported by the NBU. This was the key driver of an unprecedented 18% year-on-year appreciation of the hryvnia against the US dollar from an average of 27.79 in December 2018 to an average 23.61 in December 2019.

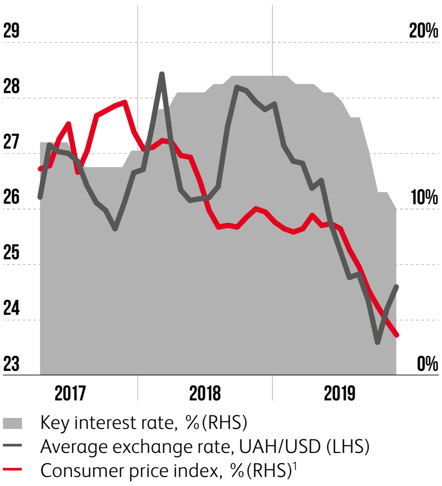
The significant foreign currency inflow helped Ukraine to service its debt and reduce borrowing costs. It also allowed the NBU to increase its international reserves to US$25.3 billion in late 2019, the highest level since 2012. The development of the local bond market has led to a higher share of hryvnia-denominated instruments in the government's debt portfolio, which has improved its sustainability. Exchange rate changes and nominal GDP growth brought down the debt to GDP ratio to 50% by year-end, compared with 61% a year earlier. However, the hryvnia strengthening negatively impacted Ukraine's export-oriented companies, like Metinvest, by driving up their costs in local currency.

Ukraine prudently managed its external debt maturity profile during the year, remaining active on international debt markets and placing local bonds. In March 2019, it tapped the Eurobond due in 2028 and printed an additional US$350 million. In June 2019, Ukraine issued its first euro-denominated tranche in 15 years to raise EUR1 billion due in 2026 at 6.75%, unlocking euro financing for Ukrainian borrowers. This encouraged Metinvest to place a EUR300 million Eurobond due in 2025 with a coupon of 5.625% per annum.

To continue managing peak debt repayments in coming years, Ukraine must retain the support of international financial institutions. The ongoing cooperation with the IMF is viewed as a particularly vital source of liquidity and driver of positive change. In June 2020, after the reporting period, the IMF approved a new 18-month, US$5.0 billion programme, under which Ukraine received US$2.1 billion that same month.

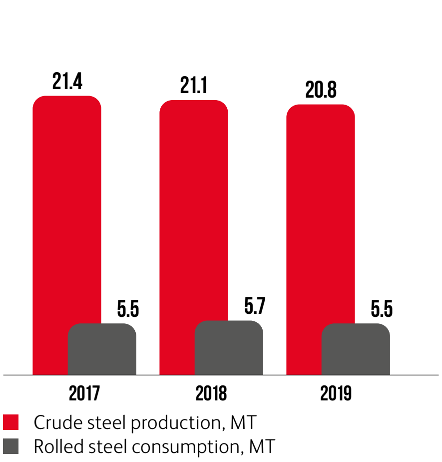
In December 2019, Naftogaz and Gazprom finally reached a settlement in their multi-year dispute covering all outstanding matters. A set of agreements was signed, under which all open claims between the two parties were dropped, Gazprom agreed to pay approximately US$2.9 billion to Naftogaz, and the parties agreed to a five-year gas transit agreement including minimum transit volumes, which finally brought clarity to Ukraine's gas transit revenues.

Monetary policy



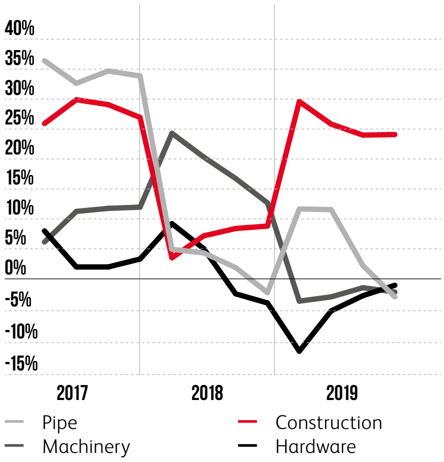
Source: State Statistics Service of Ukraine, NBU

Steel industry



Source: World Steel Association, Metal Expert

Key steel consuming sectors[2]



Source: State Statistics Service of Ukraine, Metal Expert

International credit rating agencies recognised Ukraine's progress in 2019. Both Fitch and S&P upgraded Ukraine's sovereign rating by one notch to 'B' in September 2019, while Moody's changed its outlook to 'positive', affirming the 'Caa1' credit rating and 'B3' country ceiling. In addition, Ukraine advanced in the World Bank's Ease of Doing Business Index, rising to 64th place among 190 countries (compared with 71st in 2018).

TOUGH YEAR FOR STEELMAKERS

It was a challenging year for Ukraine's traditionally export-oriented steel industry, especially in the second half of 2019. This was mainly due to unfavourable export markets, while the hryvnia appreciation led to operating cost pressure.

Moreover, domestic apparent steel consumption fell by 4.0% year-on-year to 5.5 million tonnes, primarily due to a 3.0% decrease in pipe manufacturing, which weakened feedstock demand for seamless and welded pipes, a 2.2% drop in machinery output and a 1.1% decline in hardware production. Although construction activity rose by 23.6% year-on-year in 2019, according to management estimates, this was largely driven by the commissioning of new buildings and structures constructed during previous years, as well as by the predominant growth of construction segments with relatively low rates of steel consumption.

While total steel output in the country declined by 1.2% year-on-year to 20.8 million tonnes, Metinvest was able to ramp up production by 3.5% year-on-year to 7.6 million tonnes after launching the new continuous caster at Ilyich Steel.

Metinvest estimates that in 2019, Ukraine's merchant iron ore product consumption dropped by 1.9% year-on-year to 31.3 million tonnes, driven by lower crude steel and hot metal production. Despite weaker demand, the Group's local sales of iron ore products surged by 12.4% year-on-year. Meanwhile, the country's merchant iron ore product output climbed by 5.1% year-on-year to 72.2 million tonnes in 2019.

After a decade of declining Ukrainian coking coal production, latterly due to the situation in the eastern part of the country, Metinvest estimates that this trend reversed in 2019. Ukraine's raw coking coal output rose by 8.8% year-on-year to 6.3 million tonnes, as the Pokrovske coal business, in which the Group bought a 24.77% stake in July 2018, increased its production of raw coking coal by 25.8% year-on-year to 5.0 million tonnes. This helped to reduce the share of coking coal imports in local consumption to 75% in 2019, down 6 percentage points year-on-year.

All told, Metinvest's overall sales in Ukraine fell by 6% year-on-year in 2019, while the country's share in consolidated revenues reached 29%, up 1 percentage point year-on-year.

OUTLOOK FOR 2020

Despite strengthened economic fundamentals, 2020 is expected to be a testing year for Ukraine as the outbreak of the coronavirus in the beginning of the year has significantly disrupted normal life and economic activity not only in the country, but also in all its major trading partners, breaking global supply chains.

It remains to be seen to what extent economic growth in the world and in Ukraine will suffer from quarantine measures to restrict the spread of the virus. Ukraine's export-oriented metals and mining industry is likely to be affected by these events as iron ore and steel consumption could fall worldwide. The Ukrainian government's support will be important in this situation and much will depend on both the efficiency of these efforts and protective measures taken by governments on key markets to which Metinvest exports its products. Ukraine's financial well-being will also depend on its ability to rapidly implement its ambitious reform agenda and to stimulate economic growth.

1 For CPI, the year-on-year change is for the relevant month.
2 All indexes represent the cumulative index from the beginning of the respective year, year-on-year change.

AN INTEGRATED, FLEXIBLE APPROACH

In 2019, despite adverse steel market conditions in the second half, Metinvest increased its output of crude steel, iron ore concentrate and coking coal concentrate. The completion of major investment projects and greater maintenance work allowed the Group to improve its steel product mix.

RESPONDING TO CHALLENGES

Metinvest's vertically integrated business model and operational flexibility were among the factors that helped it to overcome adverse external conditions and strengthen its asset base in 2019. In contrast to many other steelmakers, the Group's vast reserves of iron ore allowed it to adapt to the shift in margins from steel to iron ore and the change in market demand from pellets to iron ore concentrate.

Metinvest's efforts to diversify its sources of coking coal in Ukraine through its interest in the Pokrovske coal business and seaborne supplies from its US mines and other third-party producers, coupled with the Group's ability to tap into its coal stockpiles, also blunted the operational impact of certain restrictions imposed on exports of this key raw material to Ukraine. This proactive approach to sourcing helped to ensure uninterrupted hot metal output despite the difficulties experienced during the reporting period.

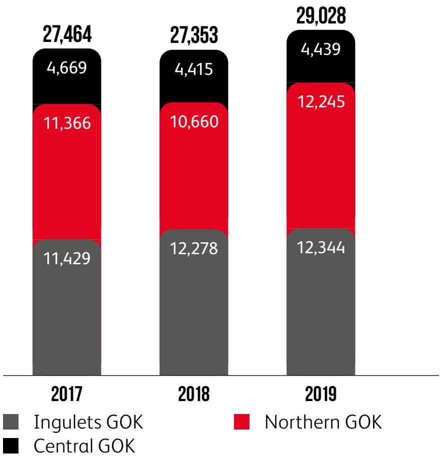
MINING SEGMENT

IRON ORE

Metinvest is one of the top 10 iron ore producers in the world and the second largest[1] in Eastern Europe, in terms of both annual output volumes and reserves. Last year, in the interests of transparency in reporting to its stakeholders and future planning, the Group completed an updated assessment of iron ore resources and reserves as at 31 December 2018, in accordance with the JORC Code (see case study on page 31). As at this date, Metinvest reported Ore Reserves of 2,296 million tonnes grading 34.2% Fe_T and 25.3% Fe_M and Mineral Resources of 10,163 million tonnes grading 35.2% Fe_T and 26.2% Fe_M.

Iron ore concentrate production

29,028KT
+6%



The Group's iron ore extraction and processing assets are Ingulets GOK, Northern GOK and Central GOK. They produce concentrate with an Fe content that ranges from 64.8% to 68.7%, from 64.7% to 67.6% and from 67.5% to 70.5%, respectively.

In addition, Northern GOK and Central GOK have pelletising plants with a total production capacity of 11 million tonnes of pellets a year. These plants produce pellets with an Fe content from 62.5% to 65.0% and from 64.4% to 67.5%, respectively. Following an upgrade of its beneficiation facilities which was completed in April 2020, Central GOK has achieved production of concentrate with 70.5% Fe content and pellets with 67.5% Fe content used in DRI technology.

Moreover, in July 2014, Metinvest acquired 45.9% of Southern GOK, which produces concentrate with an Fe content from 65.1% to 68.2% and sinter with an Fe content from 55.3% to 61.5% and is classified as a joint venture.

The Group's iron ore facilities are all located in the city of Kryvyi Rih, which is around 540-630 kilometres away from its Mariupol steelmakers. This relative proximity helps to ensure the long-term security of iron ore supplies for them.

The Mining segment maintains a quality management system at the iron ore enterprises. It is certified by Bureau Veritas and Ukrainian state authorities as meeting the standards required for producers of merchant iron ore concentrate and pellets. The system is also certified in accordance with the ISO 9001:2015 international standard.

Metinvest currently mines iron ore from open pits at various enterprises (one at Ingulets GOK, two at Northern GOK and three at Central GOK) and one underground operation at Central GOK, drilling, blasting and removing overburden to external dumps. After shipment to onsite crushing, beneficiation and flotation facilities, as well as pelletising plants, the raw material is processed further.

Wastewater from the production process, known as "tails", is sent to the tailings storage facility at each enterprise (see case study on page 26). Each of the Group's four facilities has capacity sufficient for many years of operations. Strict controls are in place to monitor them.

In 2019, Metinvest extracted 68,593 thousand tonnes of iron ore, up 4% year-on-year. At the same time, its overall concentrate output grew by 6% year-on-year to 29,028 thousand tonnes, mainly due to a 15% increase at Northern GOK resulting from higher ore extraction, the continuing upgrade of its mining and ore transportation fleet, efficient utilisation of existing equipment and improved performance at beneficiation plants.

The Group's iron ore self-sufficiency in 2019, calculated as actual iron ore concentrate production divided by actual consumption of iron ore products to produce hot metal, was 313%. Consequently, Metinvest used 35% of total concentrate internally and allocated 65% for third-party sales (40% and 60%, respectively, in 2018).

In 2019, demand from Metinvest's customers for iron ore products was affected by the significantly reduced profitability of steelmakers as prices were low for steel and high for raw materials. In response to these trends, many customers opted for cheaper iron ore concentrate with lower Fe content, rather than pellets. In addition, sales of iron ore concentrate offered greater margins for the Group than pellets in the fourth quarter of 2019, as pellet premiums decreased. In response to these dynamics, Metinvest adjusted its iron ore product mix.

From the iron ore concentrate, the Group produced 10,152 thousand tonnes of pellets[2] in 2019, down 6% year-on-year, keeping the remaining 16,825 thousand tonnes as concentrate. At the same time, the share of high-grade pellets (more than 65% Fe content) in its output was 21% (compared with 28% in 2018), while the share of high-grade concentrate (more than 67% Fe content) was 38% (compared with 45% in 2018).

In 2019, 3,201 thousand tonnes of pellets were produced to be used directly in the Group's hot metal production, while 5,514 thousand tonnes of iron ore concentrate were produced in order to be utilised together with certain volumes of purchased iron ore concentrate and sinter ore to produce 10,939 thousand tonnes of sinter at Ilyich Steel, which is then used in hot metal production at both Mariupol steelmakers.

During the year, the Group's output of merchant iron ore products climbed by 20% year-on-year to 18,262 thousand tonnes. This came as merchant iron ore concentrate production rose by 46% year-on-year to 11,311 thousand tonnes amid lower intragroup consumption, higher total concentrate output and higher margins than pellets in the fourth quarter. At the same time, the output of merchant pellets dropped by 7% over the period to 6,951 thousand tonnes.

As for Southern GOK, the joint venture produced 12,260 thousand tonnes of overall iron ore concentrate in 2019, largely unchanged year-on-year. Production of merchant concentrate increased by 6% year-on-year to 11,497 thousand tonnes, while output of sinter fell by 46% year-on-year to 946 thousand tonnes.

COKING COAL

Metinvest's coking coal asset is United Coal, a high-quality producer in the central Appalachian region of the US with total coal reserves base of approximately 149 million tonnes as at 31 December 2019[3] and coking coal concentrate production capacity of around 3 million tonnes a year.

In 2019, United Coal extracted 8,332 thousand tonnes of raw coal, using both underground and surface mining techniques, up 19% year-on-year. Meanwhile, its production of coking coal concentrate equalled 2,961[4] thousand tonnes, 10% higher than in 2018, driven by higher productivity and improved mining and geological conditions at the Affinity mine, as well as greater production from new mining sections.

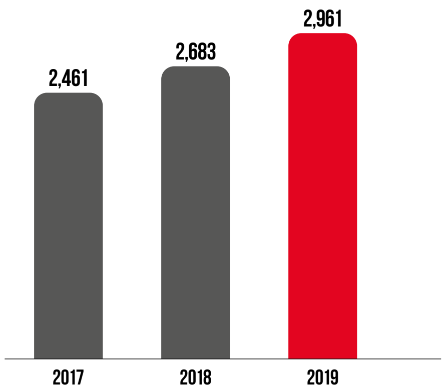
United Coal's coking coal primarily goes to the Group's coke production facilities in Ukraine. During the reporting period, Metinvest's coking coal self-sufficiency was 46%, calculated as actual coking coal concentrate production divided by actual consumption of coking coal concentrate to produce coke required for production of hot metal and PCI coal to produce hot metal.

>> CONTINUED ON PAGE 27

* Production figures for 2017 were updated to exclude production at the assets where control was lost in March 2017.
1 Metinvest's estimate based on companies' public production information for 2019.
2 Including production for intragroup consumption.
3 As evaluated by Marshall Miller, according to the US Geological Survey Circular 891.
4 Total coal concentrate production presents coal production in the equivalent of coal concentrate and does not include the processing of purchased coal.

Coking coal concentrate production

2,961KT
+10%



ENSURING THE LONG-TERM SECURITY OF TAILINGS

In 2019, following the tragic collapse of a tailings dam in Brazil, the long-term integrity of such facilities worldwide came under scrutiny. In response, Metinvest engaged independent consultants to survey its tailings storage areas and related dams.

ENHANCED VIGILANCE

The January 2019 event had a seismic impact on the global iron ore market. Beyond the effect on global supply and pricing, the disaster forced the mining industry to urgently review procedures and inspect tailings dams across the planet. Part of this process included ensuring that miners had sufficient safe capacity for their waste production so as not to overwhelm existing facilities.

As Metinvest's number one priority is to ensure the safety of its employees and communities, the Health, Safety and Environmental Committee of the Supervisory Board tasked the management to have an independent survey of its tailings storage facilities conducted. To this end, the Group engaged reputable international experts, SRK Consulting (UK) Limited, to perform a dam safety operational review (DSOR) audit in accordance with the relevant Mine Association of Canada (MAC) guidelines and Canadian Dam Association (CDA) dam safety guidelines (2013), which are currently considered to represent international best practices. The audit's target was to assess dam stability, which included an analysis of the design and operational parameters of all tailings storage facilities.

"Tails" are a waste stream generated by ore enrichment plants as part of their normal functioning and consist of ground rock and effluent that is stored as tailings in special ponds or dumps. At Metinvest, the flow between the plants and tailings is a closed loop of purified water to limit contamination of ground and river water. The Group has tailings storage facilities at each of its three iron ore assets. These are upstream raised facilities located on terrain with ravines in areas with relatively little seismic activity and less prone to heavy rainstorms.

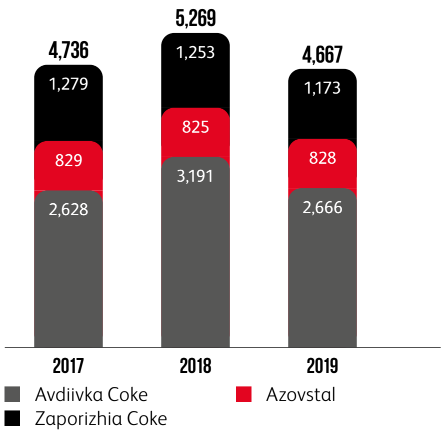
All of the Group's dumps have capacity sufficient for many years of operations. To retain the licences necessary to conduct its business, Metinvest fully meets Ukrainian regulatory requirements. The Group maintains strict controls to monitor the storage facilities and minimise potential risks. Group employees check their dams twice a day; a special commission visits them twice a year; and the state authorities analyse the condition of them once a year.

According to the report obtained from SRK, the Group is in compliance with local regulations. Metinvest will continue to track available technological solutions that make it possible to enhance the security of the tailings storage facilities in line with international best practices and to ensure they remain safe for both communities and the environment for generations to come.

The Group carries out regular scheduled maintenance of tailings storage facilities and recycled water supply at its three iron ore assets. During 2019, projects to manage related waste streams from Metinvest's iron ore assets included a waste thickening project at Northern GOK, for which a feasibility study was completed last year. In 2020, it is planned to proceed with basic engineering development. The project aims to decrease maintenance and operating costs by reducing the volume of transportation of pulp by thickening it.

Coke production

4,667KT
-11%



Additional coking coal volumes required for coke production are sourced externally. In order to minimise the risk of supply disruptions, Metinvest has diversified its coking coal supplier base, including suppliers from such countries as the US, Canada, Australia and Indonesia. In addition, in 2018, the Group acquired a 24.77% stake in the Pokrovske coal business, Ukraine's largest coking coal operation, with which it has signed a long-term supply agreement.

The value of these efforts was proven in June 2019, when certain restrictions on metallurgical coal supplies to Ukraine were introduced. In response, Metinvest increased coking coal production at its US mines, secured additional seaborne volumes and ramped up purchases from the Pokrovske coal business, thereby avoiding major disruptions to hot metal production operations.

METALLURGICAL SEGMENT

COKE AND CHEMICALS

In 2019, Metinvest's coking assets consisted of Avdiivka Coke, Zaporizhia Coke and the facilities at Azovstal, all of which are located in Ukraine. Their total present production capacity is around 7 million tonnes of wet wharf coke a year.

In 2019, these assets produced 4,667 thousand tonnes of dry blast furnace coke, down 11% year-on-year. The decline in output was attributable to a shortage of coking coal related to certain export restrictions imposed by another country, unstable equipment operation at Avdiivka Coke, as well as lower intra-group consumption in the fourth quarter of the year.

During the reporting period, the Group's coke self-sufficiency was 139%, calculated as actual coke production divided by actual consumption of coke to produce hot metal.

In order to secure long-term coke supplies, Metinvest acquired a 23.71% stake in Southern Coke, a Ukrainian metallurgical coke producer, and 49.37% in Dnipro Coke. After the reporting period, in March 2020, Metinvest acquired another 23.64% of Dnipro Coke, as a result of which the company became a subsidiary of Metinvest as its total interest in the entity reached approximately 73%. The current annual wet wharf coke production capacity of Southern Coke is around 900 thousand tonnes and that of Dnipro Coke is roughly 600 thousand tonnes.

>> CONTINUED ON PAGE 30

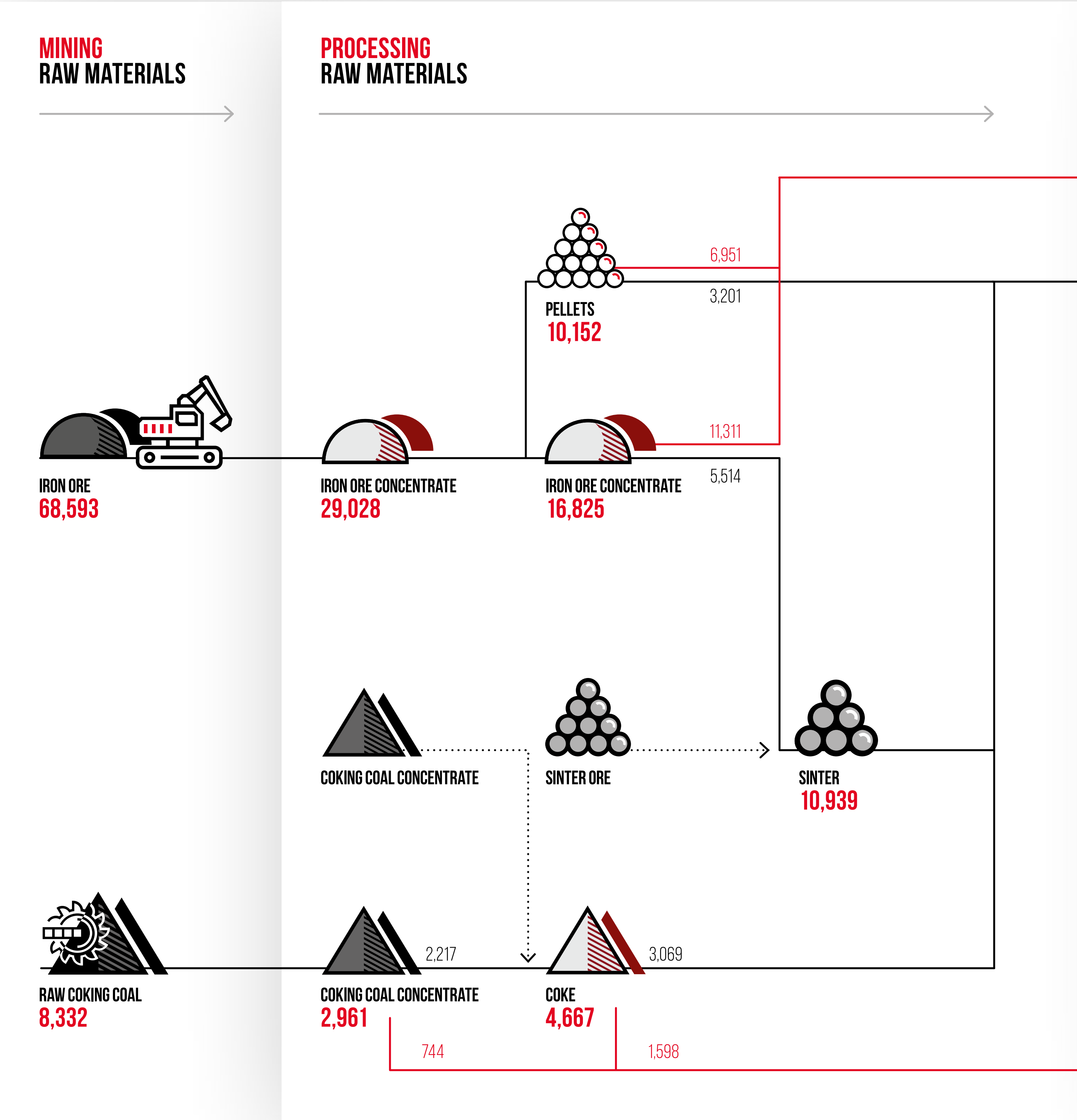
KEY PARAMETERS OF TAILINGS STORAGE FACILITIES AS AT 31 DECEMBER 2019

PARAMETERS	NORTHERN GOK	INGULETS GOK		CENTRAL GOK
		PHASE 1	PHASE 2	
Date of initial operation	1963	1965	2007	1961
Raising type	Upstream	Upstream	Upstream	Upstream
Tailings storage impoundment volume, mcm	584	501	77	168
Volume of annual tailings storage impoundment, mcm/year	12.6	12.6		6.7
Area, hectare	857	319	203	1,708
Absolute filling mark of dam crest, metres	161	148	133	113

OPERATING RESULTS CONTINUED

INTEGRATED PRODUCTION PROCESS

Metinvest's vertically integrated structure allows it to control the entire steelmaking process, from mining iron ore and coking coal to shipping finished goods by rail, road or sea.



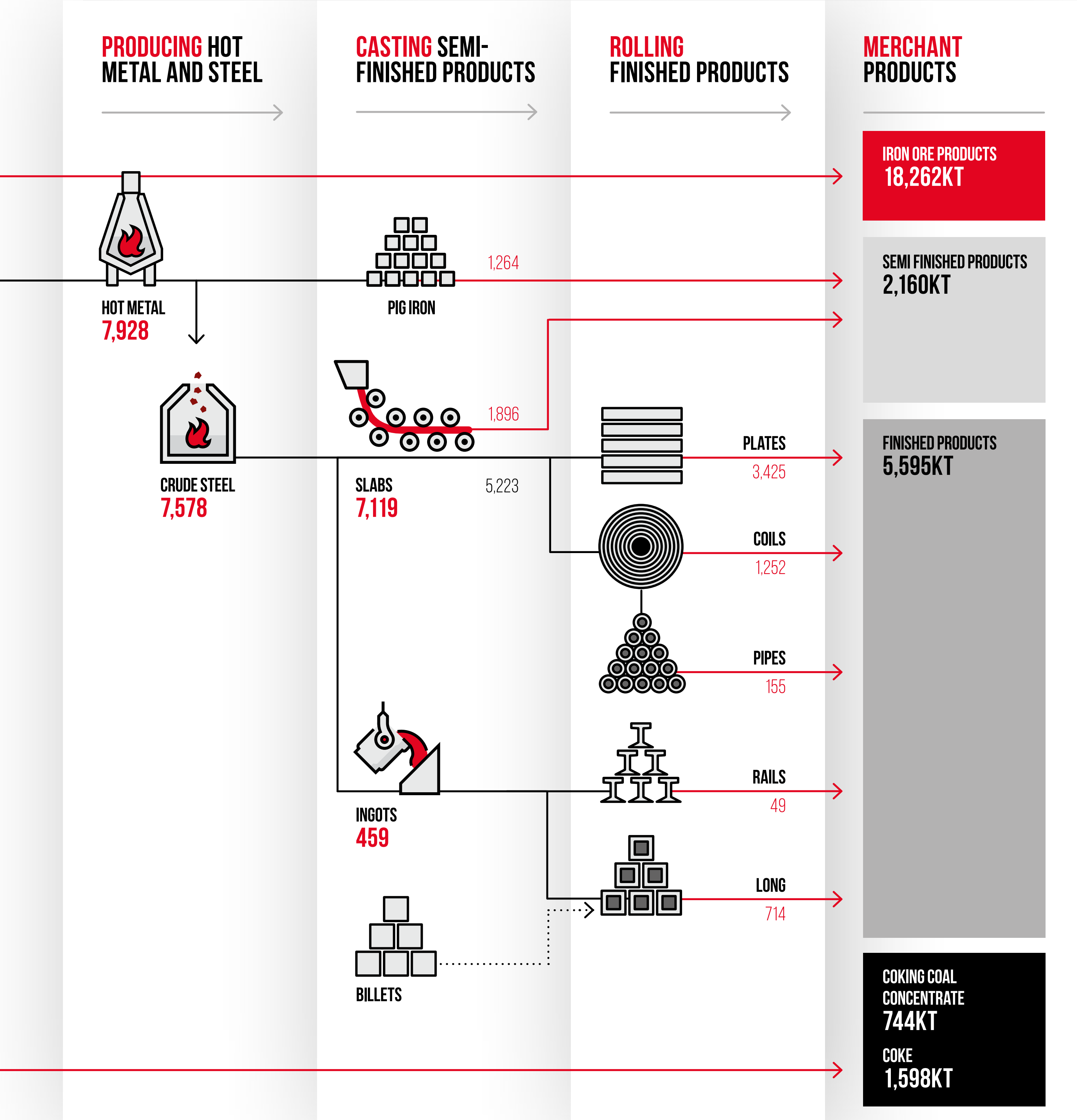
Legend

Total production (KT) **1,234**

Merchant products (KT) 1,234

Production for internal use (KT) 1,234

Third-party supply



OPERATING RESULTS CONTINUED

In addition, the Group's subsidiary Inkor Chemicals makes chemical products in Ukraine. In 2019, this asset produced approximately 20 thousand tonnes of naphthalene and 2.5 thousand tonnes of phenols and cresols.

STEEL

The Group is the 42nd largest steelmaker in the world and the fourth in Eastern Europe[5].

Metinvest's steelmaking assets are Azovstal and Ilyich Steel, both integrated producers located in Mariupol, Ukraine, near the Sea of Azov. The Group recently increased its overall steel production capacity by 15% to 9.6 million tonnes per year after commissioning continuous casting machine no. 4 at Ilyich Steel.

In addition, Metinvest has a 49.9% stake in Zaporizhstal, which has annual production capacity of around 4 million tonnes of crude steel and is classified as a joint venture. The partners have been creating considerable synergies: Zaporizhstal is also one of the Group's top purchasers of iron ore, meaning that additional margin can be captured through Metinvest's share of its steelmaking capacity, while Zaporizhstal's product mix is complementary to Metinvest's. The enterprise is located in Zaporizhia, in southeastern Ukraine, home to Metinvest's Zaporizhia Coke. It stands on the banks of the Dnipro River, a strategic transportation route and close to the Group's iron ore facilities in Kryvyi Rih.

The Group also has four rolling mills in Europe – Ferriera Valsider and Metinvest Trametal in Italy, Promet Steel in Bulgaria and Spartan in the UK. The flat producers in Italy and the UK re-roll slabs from Ukrainian steel mills into plates and coils closer to local customers, while the Bulgarian long producer re-rolls third-party square billets into rebar, wire rod and other long products. Metinvest's total re-rolling capacity in Europe is around 2 million tonnes a year.

In addition, in 2018, the Group acquired Unisteel, which operates a coil galvanising line located in Kryvyi Rih, Ukraine. It can produce up to 100 thousand tonnes of such coils a year.

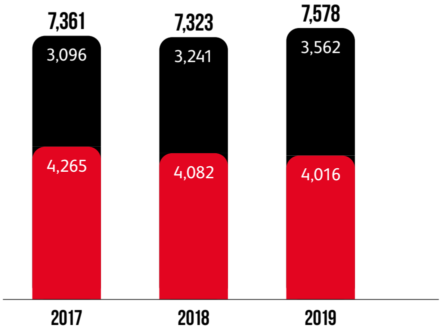
In 2019, Metinvest's hot metal output totalled 7,928 thousand tonnes, down 3% year-on-year. The decline was attributable to the shutdown of blast furnaces nos. 5 and 6 at Azovstal in June, which was partly compensated by the launch of the highly efficient blast furnace no. 3 following a major modernisation and upgrade. In addition, the Group used the unfavourable market environment in the fourth quarter of the year as an opportunity to carry out essential maintenance of several blast furnaces at the Mariupol site to prepare itself to ramp up volumes should markets recover.

Meanwhile, Metinvest's crude steel production rose by 3% year-on-year to 7,578 thousand tonnes in 2019 due to a 10% year-on-year increase at Ilyich Steel following the launch of the new equipment.

From the total volume of crude steel produced, Azovstal and Ilyich Steel casted 7,119 thousand tonnes of slabs, of which 5,223 thousand tonnes were produced for utilisation by their own rolling mills and supply to Metinvest's European re-rollers to produce flat products. In addition, Azovstal produced 459 thousand tonnes of steel ingots, which were used for further production of long products and rails.

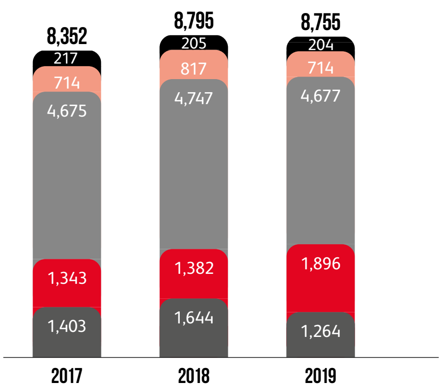
Crude steel production

7,578KT
+3%



Merchant pig iron and steel product output

8,755KT
0%



During the reporting period, the Group's output of merchant pig iron and steel products remained flat year-on-year at 8,755 thousand tonnes. At the same time, the share of steel products reached 86%, up 5 percentage points year-on-year, driven by a 37% growth in slab output primarily due to the redirection of hot metal for making steel and downstream products after the commissioning of the new continuous caster at Ilyich Steel. Meanwhile, output of flat products fell by 1% year-on-year, mainly due to the shutdown of the hot strip mill 1700 for a scheduled major overhaul and upgrade from 27 August to 5 November 2019. Output of long products declined by 13% year-on-year amid lower demand.

In response to greater requirements from the market and customers, Metinvest launched 45 new steel products at Azovstal and Ilyich Steel in the reporting period. Most were additional types of hot-rolled plates, cold-rolled coils, galvanised coils and slabs.

In 2019, the Zaporizhstal joint venture produced 4,004 thousand tonnes of crude steel. Finished steel goods – which include coils, plates, joist web, strip and tin – accounted for 85% of the product mix and merchant pig iron for the remaining 15%.

OUTLOOK FOR 2020

The outbreak of the coronavirus in early 2020 has brought additional uncertainty to the global steel and iron ore markets, as well as heightened concerns about global recession, which has significantly reduced short- and medium-term visibility. Metinvest's management remains ready to take the decisive steps to adapt to changes in market dynamics and its vertical integration will continue to provide an important degree of flexibility.

Along with an overriding focus on the health and safety of its employees and efforts to reduce its environmental impact, the Group will continue to develop solutions to improve the efficient management of its mining and metallurgical assets to drive down operating costs, which is vitally important for any metals and mining company to improve its resilience to economic cycles.

Metinvest will also complete testing works on the hot strip mill 1700 at Ilyich Steel and the upgraded beneficiation plant at Central GOK to ensure its customers receive high-quality hot-rolled coils and iron ore products, respectively.

5 World Steel Association ranking for 2019, based on tonnage produced and geographical location of assets.

ESTIMATING ORE RESERVES IN ACCORDANCE WITH JORC CODE

Last year, Metinvest arranged a reassessment of its mineral resources and ore reserves in accordance with the JORC Code. The aim was to provide stakeholders with the most accurate data, as well as help the Group's long-term planning.

AN INDUSTRY STANDARD

The JORC Code is the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. It is an internationally recognised reporting standard for minerals exploration results, mineral resources and ore reserves that is adopted worldwide for market-related public reporting and financial investments. The code was first published in 1989 and has been regularly updated since, with the last one being done in 2012.

Last year, Metinvest appointed a reputable international independent expert, SRK Consulting (UK) Limited, to prepare Mineral Resources and Ore Reserves statements for its Ukrainian iron ore mining assets Central GOK, Northern GOK and Ingulets GOK in accordance with the JORC Code. The assessment process takes into account several external factors, including the latest legislation governing subsoil resource use, health and safety policies, environmental considerations and other important factors impacting the development of these resources.

According to the results of the assessment, as at 31 December 2018 Metinvest's Mineral Resources totalled 10,163 million tonnes grading 35.2% Fe_T (total iron) and 26.2% Fe_M (magnetic iron) and Ore Reserves totalled 2,296 million tonnes grading 34.2% Fe_T and 25.3% Fe_M.

This represents a 62% and 96% growth in the Group's estimated Mineral Resources and Ore Reserves, respectively, in comparison with the previous assessment conducted as at 1 January 2010, adjusted by management for depletion during the 2010-18 period and other revaluations according to Ukrainian standards. The updated statements reflect the Group's continued successful focus on exploration activities and completion of technical studies to secure the Group's long-term production profile and support the sustainable supply of iron ore for internal and external sales.

Overall, the Group has invested US$2,481 million since 2011 in its three iron ore assets to maintain operations, explore ore deposits, upgrade production facilities to improve output quality, and to manage environmental impacts. As of the date of the assessment and based on current production volumes, Metinvest has sufficient iron Ore Reserves to continue to maintain operations for more than 25 years. Importantly, this assessment helped Metinvest to reconfirm its status as one of the largest iron ore producers in the world, not only based on annual production volumes but also based on iron ore reserves.

MINERAL RESOURCES

10,163MT

ORE RESERVES

2,296MT

WITHSTANDING MARKET TURBULENCE

Despite a significant steel market downturn in the second half of 2019, Metinvest delivered financial results that highlighted the strength of its vertically integrated business model. EBITDA shifted from the Metallurgical to the Mining segment, while the Group took steps to preserve profitability and ensure liquidity.

REVENUES

In 2019, consolidated revenues decreased by 9% year-on-year to US$10,757 million, primarily due to a drop in steel prices in line with global benchmarks, as well as lower resales volumes.

This was partly compensated by greater sales volumes of in-house steel products following the change in the product mix, mainly due to the launch of continuous casting machine (CCM) no. 4 at Ilyich Steel, which allowed the plant to use greater volumes of hot metal for steelmaking and downstream production instead of pig iron. In addition, the Group boosted its iron ore sales due to higher volumes and increased selling prices amid global supply disruptions.

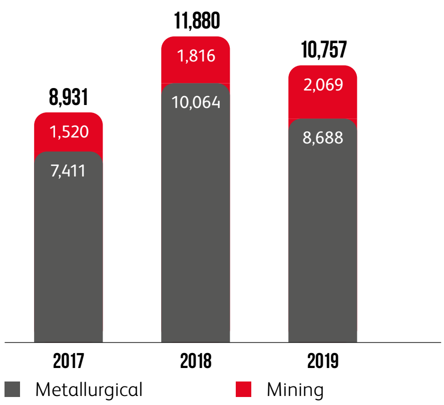
Alongside sales of own products, the Group resells pig iron, steel products and other goods produced by joint ventures and other third parties via its global sales network. Overall, revenues from resales totalled US$3,234 million in 2019, down 20% year-on-year.

During the reporting period, Metinvest sold 14,415 thousand tonnes of pig iron and steel products, of which 8,823 thousand tonnes were manufactured in-house and 5,592 thousand tonnes were purchased from third parties. This compares with a total of 15,008 thousand tonnes of pig iron and steel products in 2018, of which 8,807 thousand tonnes were made in-house and 6,201 thousand tonnes came from third parties.

During the reporting period, the structure of revenues reflected changing market conditions in the metals and raw materials markets.

Revenues by segment

US$10,757M
-9%



In 2019, the Metallurgical segment's revenues decreased by 14% year-on-year to US$8,688 million and accounted for 81% of external sales (compared to 85% in 2018).

Over the same period, the Mining segment's revenues increased by 14% year-on-year to US$2,069 million and accounted for 19% of external sales (15% in 2018).

REVENUES BY MARKET

Sales in Ukraine fell by 6% year-on-year to US$3,156 million in 2019, mainly due to lower steel prices and a 6% drop in coke sales volumes. Meanwhile, volumes of metal and iron ore product sales rose by 6% and 12% year-on-year, respectively. At the same time, the share of Ukraine in consolidated revenues rose by 1 percentage point year-on-year to 29%.

Sales to other markets declined by 11% year-on-year to US$7,601 million in 2019, accounting for 71% of total revenues.

During the year, sales to Europe decreased by 10% year-on-year, primarily amid lower selling prices of steel products, as well as lower sales volumes of pellets (down 32%) and flat products (down 5%). At the same time, the region's share in overall revenues remained unchanged year-on-year at 34%.

Revenues in the Middle East and North Africa (MENA) dropped by 25% year-on-year amid lower sales volumes of flat products (down 10%) and square billets (down 13%), as well as decreased selling prices for them. This caused the region's share in consolidated revenues to fall by 3 percentage points year-on-year to 15%.

In Southeast Asia, sales surged by 34% year-on-year, mainly due to greater sales volumes of iron ore products (up 2.6x), slabs (up 4.0x) and pig iron (up 3.4x), boosting that market's share in total revenues by 3 percentage points year-on-year to 9%.

Revenues in the CIS rose by 9% year-on-year, primarily following a 20% increase in flat product sales volumes. As a result, the region's share in consolidated revenues increased by 2 percentage points year-on-year to 8%.

Sales to North America dropped by 39% year-on-year, mainly due to lower pig iron sales, decreasing the region's share in overall revenues by 2 percentage points year-on-year to 4%.

Revenues from other regions fell by 23% year-on-year, while their share in total revenues remained flat year-on-year at 1%.

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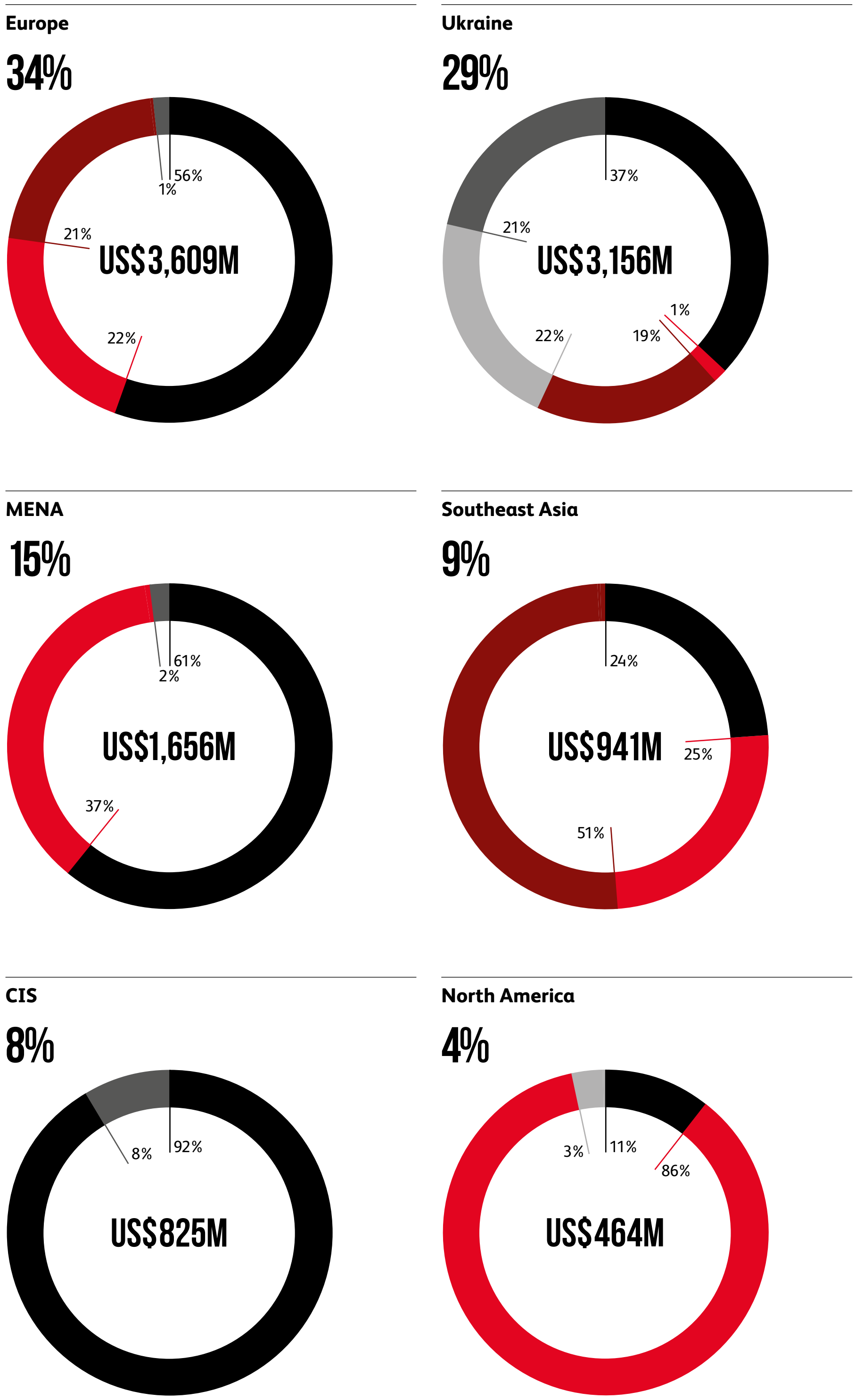
REVENUES BY MARKET



- Finished products
- Semi-finished products
- Iron ore products
- Coke and coal products
- Other products and services

The share of each regional market in the Group's consolidated revenues in 2019 is expressed as a percentage. Sales to all other regions totalled US$106 million, or 1% of total revenues in 2019.

FINANCIAL RESULTS CONTINUED

REVENUES BY PRODUCT

METALLURGICAL SEGMENT

PIG IRON

In 2019, sales of pig iron decreased by 32% year-on-year to US$725 million, driven by a drop in both sales volumes and selling prices. Volumes fell by 24% year-on-year to 2,074 thousand tonnes due to lower in-house volumes (down 424 thousand tonnes) amid less production, as well as lower resales (down 219 thousand tonnes). The share of resales in total volumes reached 40% in 2019, up 2 percentage points year-on-year. Shipments to all key markets for this product decreased, the greatest decline being in North America (down 532 thousand tonnes). At the same time, the Group sold 154 thousand tonnes to Southeast Asia, mainly due to greater demand in the fourth quarter of 2019.

SLABS

In 2019, sales of slabs climbed by 20% year-on-year to US$869 million, as a result of greater sales volumes, which rose by 47% year-on-year to 1,941 thousand tonnes amid greater production and destocking. Incremental volumes were primarily sold to Europe, Southeast Asia and MENA, where they rose by 329, 211 and 51 thousand tonnes, respectively. At the same time, the average selling price followed the slab FOB Black Sea benchmark, which fell by 18% year-on-year.

SQUARE BILLETS

In 2019, sales of square billets decreased by 27% year-on-year to US$514 million, of which 16 percentage points was attributable to lower resales volumes and 11 percentage points to lower selling prices. Resales declined by 219 thousand tonnes year-on-year to 1,136 thousand tonnes. MENA accounted for 79% of shipments (76% in 2018). The average selling price followed the dynamics of the square billet FOB Black Sea benchmark, which fell by 16% year-on-year.

FLAT PRODUCTS

In 2019, sales of flat products fell by 14% year-on-year to US$4,436 million, primarily due to lower selling prices, which were in line with the 16% year-on-year drop in the hot-rolled coil FOB Black Sea benchmark. In addition, volumes went down by 4% year-on-year to 7,673 thousand tonnes, mainly due to lower resales, which dropped by 235 thousand tonnes and accounted for 39% of total volumes (40% in 2018). In addition, sales of in-house flat products decreased by 73 thousand tonnes following lower production, which was partly compensated by destocking. Consequently, shipments to all markets fell, except for the CIS, where they rose by 175 thousand tonnes, as a result of strong demand.

LONG PRODUCTS

In 2019, sales of long products decreased by 14% year-on-year to US$834 million, mainly as a result of lower selling prices, which were in line with the 16% year-on-year drop in the billet FOB Black Sea benchmark. In addition, sales volumes fell by 4% year-on-year to 1,427 thousand tonnes, amid lower in-house volumes (down 131 thousand tonnes) following lower output, which was partly compensated by greater resales (up 65 thousand tonnes). Shipments to all regions decreased except for Ukraine, where they rose by 49 thousand tonnes amid greater demand from the construction sector.

TUBULAR PRODUCTS

In 2019, sales of tubular products rose by 3% year-on-year to US$95 million, driven by a 15% increase in shipments to 163 thousand tonnes amid more sales in Ukraine and Eastern Europe. This was partly offset by a lower average selling price.

COKE

In 2019, sales of coke decreased by 10% year-on-year to US$569 million. This was primarily driven by a 6% decline in volumes to 1,882 thousand tonnes, mainly amid lower production. In addition, the average selling price fell by 4% year-on-year.

MINING SEGMENT

IRON ORE CONCENTRATE

In 2019, sales of iron ore concentrate increased by 52% year-on-year to US$919 million, of which 34 percentage points was attributable to greater volumes and 19 percentage points to a higher average selling price. Volumes rose by 2,709 thousand tonnes year-on-year to 10,697 thousand tonnes, driven by higher output. Incremental volumes were primarily sold to Ukrainian customers and shipped to Southeast Asia, where they rose by 605 and 2,243 thousand tonnes, respectively. At the same time, sales to Europe fell by 124 thousand tonnes amid lower demand. The average selling price followed the 62% Fe iron ore fines CFR China benchmark, which climbed by 35% year-on-year.

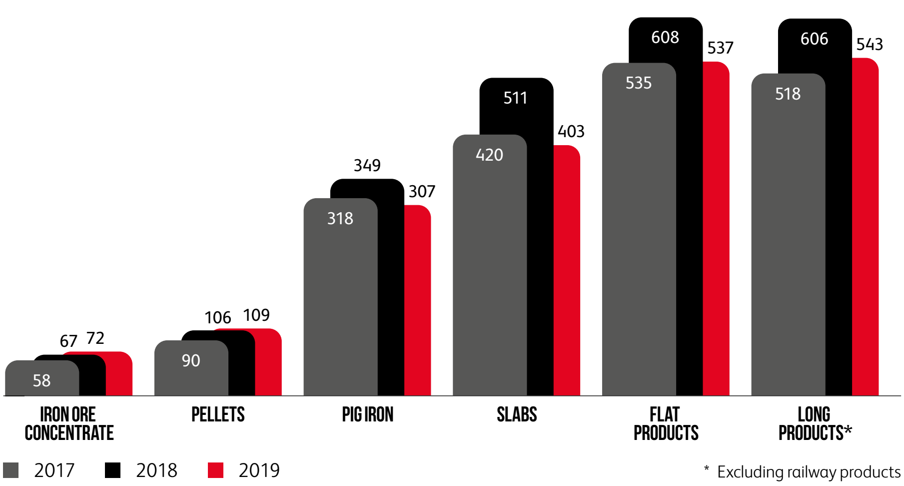
PELLETS

In 2019, sales of pellets rose by 1% year-on-year to US$911 million, driven by a 6% year-on-year increase in the average selling price. While average selling prices in Ukraine and Europe rose by 11% and 21%, respectively, following the 62% Fe iron ore fines CFR China benchmark, the average selling price in Southeast Asia fell by 14%, mainly due to a 51% reduction in the 65% Fe blast furnace pellet premium on a CFR China basis. At the same time, volumes fell by 5% year-on-year to 7,050 thousand tonnes amid lower output. Weak demand in Europe decreased shipments to the region by 1,251 thousand tonnes. Consequently, volumes were redirected to Southeast Asia, where they grew by 771 thousand tonnes. At the same time, sales to Ukraine climbed by 84 thousand tonnes.

COKING COAL CONCENTRATE

In 2019, sales of coking coal concentrate rose by 75% year-on-year to US$147 million, following a comparable increase in volumes to 752 thousand tonnes due to greater output. Additional volumes were sold to Ukraine, North America and a new customer in Brazil.

Price trends, FCA basis (US$/t)



* Excluding railway products

NET OPERATING COSTS

In 2019, Metinvest began presenting items previously presented under "cost of sales", "distribution costs", "general and administrative expenses" and "other operating income and expenses", under net operating costs, excluding impairment of property, plant and equipment and impairment of financial assets, which are shown separately. Net operating costs consist primarily of the cost of raw materials; goods and services for resale; energy materials; payroll and related expenses for employees; depreciation and amortisation; repair and maintenance expenses; transportation services; taxes; and other costs. In the factor analysis below, all costs are presented net of an impact of the effect of exchange rate fluctuations between the hryvnia and the presentation currency, which is presented as a separate factor.

In 2019, net operating costs remained almost unchanged year-on-year at US$10,270 million. The following factors had negative impacts on costs during the reporting period:

- greater spending on raw materials (US$313 million), including (i) purchased scrap, coke, refractory and iron ore materials, mainly due to a 3% year-on-year steel output growth; (ii) inventory destocking; and (iii) increased purchases of third-party coils for further processing at Unisteel, as well as Ilyich Steel's cold-rolling mill after its hot strip mill 1700, which produces hot-rolled coil, was stopped for a revamp in August-November 2019;
- higher labour costs (US$190 million), resulting from increased salaries for production personnel (25% in April 2018, 10% in October 2018 and 15% in April 2019) and corresponding social security expenses;
- the negative effect of the hryvnia's appreciation against the US dollar on costs of US$171 million;
- greater depreciation and amortisation (US$120 million) amid an intensified investment programme;
- higher spending on goods transportation expenses (US$101 million), due to (i) an increase in railway costs of US$62 million, which in turn was driven by higher railcar usage fees and a 14% rail tariff hike by the Ukrainian state railway operator starting from April 2019 amid increased shipments of iron ore products and slabs; and (ii) a rise of US$36 million in freight costs primarily following a 2.6x increase in iron ore sales volumes to Southeast Asia; and
- higher repair and maintenance expenses (US$36 million).

These factors were primarily compensated by:

- lower cost of goods and services for resale (US$728 million) amid lower prices and volumes;
- operating foreign exchange gains of US$57 million (compared with losses of US$70 million a year earlier), which arose mainly from the revaluation of outstanding accounts payable balances and intragroup dividend receivable; and
- lower expenses for energy materials (US$100 million), mainly due to reduced prices for natural gas (down 29% year-on-year) and PCI coal (down 10% year-on-year), as well as lower natural gas consumption (down 3% year-on-year).

As a percentage of consolidated revenues, net operating costs grew by 9 percentage points year-on-year to 95% in 2019.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In 2019, impairment of property, plant and equipment rose to US$84 million, compared with US$5 million in 2018, primarily due to an impairment of certain fixed assets of steelmakers and iron ore producers.

As a share of consolidated revenues, impairment of property, plant and equipment rose to 1% in 2019 from 0% a year earlier.

IMPAIRMENT OF FINANCIAL ASSETS

In 2019, impairment of financial assets, namely trade and other financial receivables, increased by 7% year-on-year to US$78 million, mainly due to changes in expected credit loss provision.

As a share of consolidated revenues, impairment of financial assets remained flat year-on-year at 1% in 2019.

OPERATING PROFIT

In 2019, operating profit fell by 79% year-on-year to US$325 million, primarily due to a drop in revenues of US$1,123 million.

At the same time, the operating margin fell by 10 percentage points year-on-year to 3% in 2019.

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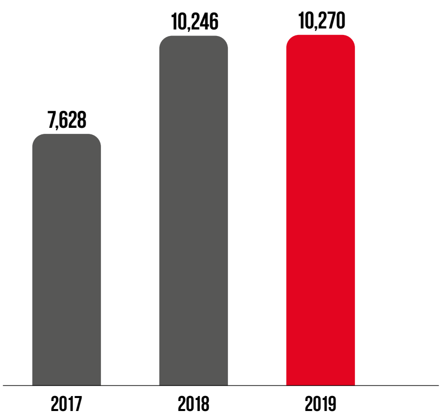
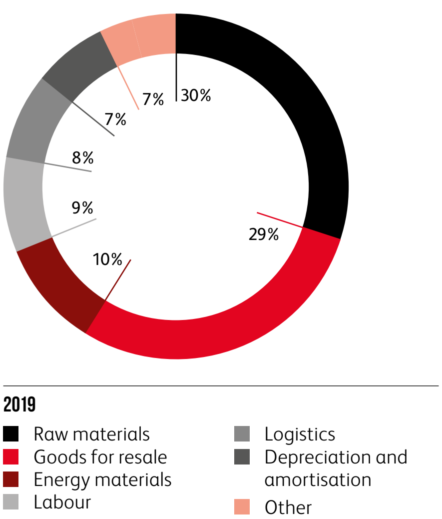
Net operating costs

US$10,270M
0%



Net operating costs by nature



OPERATIONAL EFFICIENCY IN FOCUS

IMPROVING OPERATIONAL EFFICIENCY

In 2019, Metinvest made further progress in continuous operational improvements, sharpening its focus across the business and tripling the gains made in the previous year.

A CULTURAL SHIFT

In 2019, Metinvest made important progress on growing the effect of operational efficiency to make it more resilient and ensure its long-term competitiveness as a business. Accelerating the pace of this work has become an important element for the Group in achieving its strategic goals.

The process involves optimising operating costs, through both investments in technology, which can deliver long-term productivity gains, and changes to processes within the organisation. It also involves evolving existing work practices. This cannot be a simple top-down approach. Identifying opportunities to achieve operational gains requires a cultural shift in which employees at every level are focused on searching for potential improvements.

Workers on the shop floor often have vital insight into how to transform a production process. Therefore, Metinvest has begun changing the working culture to reward employees for innovation, as well as to encourage them to make suggestions and raise questions regarding health and safety, working life and other important matters. This also increases employee engagement.

Effect of operational improvements in 2019

US$63M

DELIVERING RESULTS

This continued organisation-wide focus on operational efficiency allowed Metinvest to achieve US$63 million of savings, compared with US$21 million in 2018. At the same time, the management believes the Group is only at the beginning of this process and that there are considerable further efficiencies to be extracted from the business.

In the Metallurgical segment, Metinvest enhanced the efficiency of Ilyich Steel's sintering machines by 13% year-on-year to 1.6 thousand tonnes of sinter per square metre per hour. The rearrangement of operating blast furnaces at Azovstal contributed to a 12% increase in the Group's average daily hot metal productivity to around 2.2 thousand tonnes per cubic metre by the end of 2019, compared with the 2018 average figure and helped to lower blast furnace fuel consumption by 5%.

In the Mining segment, a major project was to reduce the iron content of new tailings at all three iron ore producers, which helped to increase concentrate output. In addition, the continuing refurbishment of the Lurgi 278-A and OK-306 roasting machines led to a 5% betterment in productivity at Northern GOK.

A positive effect was achieved through the transformation of the sales function, including the launch of the SAP Customer Relationship Management system providing a global platform for Metinvest's global salesforce and enhanced customer experience.

Importantly, the Group improved efficiencies by continuing to centralise and rationalise administrative functions, as well as implementing related IT functions through SAP to unify business processes and specific initiatives within departments.

FUTURE PLANNING

The operational improvement programme will remain among the key priorities for management in the coming years. The Group's management recognises that a relentless focus on efficiency is required if it is to bring a prodigious asset base to levels of efficiency matching leading global standards of productivity and environmental impact.

Metinvest's management has also been pleased to receive a large number of proposals from employees to deliver further improvements. This is a dialogue, and the Group is motivating its workers to seek out high-quality ideas that can translate into a real financial effect on the business, a part of which will be awarded to the employee involved.

EBITDA

In 2019, the Group's EBITDA[1] fell by 52% year-on-year to US$1,213 million, primarily due to the Metallurgical segment's EBITDA dropping to negative US$107 million, compared with a positive US$1,291 million a year earlier. At the same time, the Mining segment's EBITDA increased by US$75 million to US$1,343 million, while corporate overheads and eliminations decreased by US$23 million to US$23 million. As a result, all EBITDA (before adjusting for corporate overheads and eliminations) was generated by the Mining segment, compared with the 50% to 50% split between the segments in 2018.

The decrease in the Group's EBITDA was primarily driven by two factors. First, lower average steel prices affected sales of in-house pig iron and steel products, as well as earnings from resales and the contribution from the Metallurgical JV. Second, there was cost pressure stemming mainly from the negative effect of the hryvnia's appreciation against the US dollar, as well as higher spending on raw materials, personnel and goods transportation services.

These factors were partly compensated by higher average iron ore selling prices, which also improved the contribution from the Mining JV; greater sales volumes of iron ore and steel products manufactured at Metinvest's facilities; and lower spending on energy materials.

In 2019, the consolidated EBITDA margin dropped by 10 percentage points year-on-year to 11%. The Metallurgical segment's EBITDA margin fell by 14 percentage points to negative 1%, while the Mining segment's EBITDA margin edged down by 1 percentage point to 40%[2].

FINANCE INCOME

In 2019, finance income increased to US$253 million, compared with US$68 million a year earlier, following a rise in net foreign exchange gain from financing activities of US$173 million, which mainly originated from intragroup dividend payable balances.

As a percentage of consolidated revenues, finance income reached 2% in 2019, up 1 percentage point year-on-year.

FINANCE COSTS

In 2019, finance costs fell by 17% year-on-year to US$276 million. This was mainly due to lower expenses relating to refinancing transactions, which decreased by US$34 million. In addition, interest expenses went down by US$23 million following a drop in the amount outstanding under the pre-export finance (PXF) facility and the repayment of shareholder loans.

As a percentage of consolidated revenues, finance costs remained flat year-on-year at 3% in 2019.

SHARE OF RESULT OF ASSOCIATES AND JOINT VENTURE

In 2019, the share of net income from associates and joint ventures fell by 50% year-on-year to US$86 million, mainly as a result of a negative contribution from the Metallurgical JV of US$63 million amid losses incurred during the reporting period, compared with a positive contribution of US$100 million a year earlier. This was partly compensated by higher contributions from the Mining JV (US$45 million) and other associates (US$31 million).

INCOME TAX EXPENSE

In 2019, the income tax expense decreased by 83% year-on-year to US$47 million. First, current tax expense dropped by US$118 million, mainly due to the deterioration of the Metallurgical segment's profitability. In addition, income from changes in deferred taxes rose by US$110 million due to the recognition of deferred tax asset arisen on tax losses carried forward resulting from loss-making activities of steelmakers. The effective tax rate, calculated as total income tax divided by profit before tax, was 12% in 2019, a reduction of 7 percentage points year-on-year.

NET PROFIT

In 2019, net profit amounted to US$341 million, down 70% year-on-year, primarily due to lower revenues. In addition, it was driven by a smaller contribution from associates and joint ventures, higher impairment of property, plant and equipment and greater net operating costs. These factors were partly compensated by a decrease in income tax expense, an increase in finance income and a reduction in finance costs. The net profit margin amounted to 3% in 2019, down 7 percentage points year-on-year.

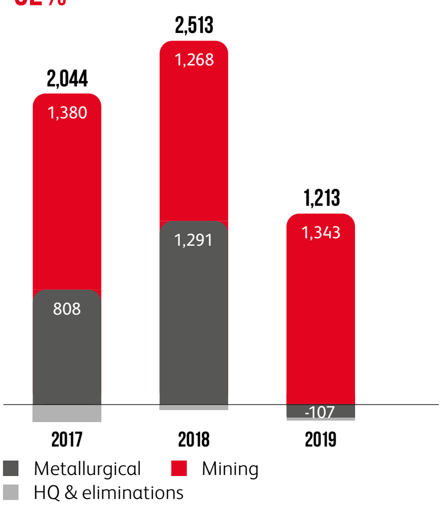
>> CONTINUED ON PAGE 38

1 EBITDA is calculated as earnings before income tax, finance income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, foreign-exchange gains and losses, the share of results of associates and other expenses that the management considers non-core, plus the share of EBITDA of joint ventures.

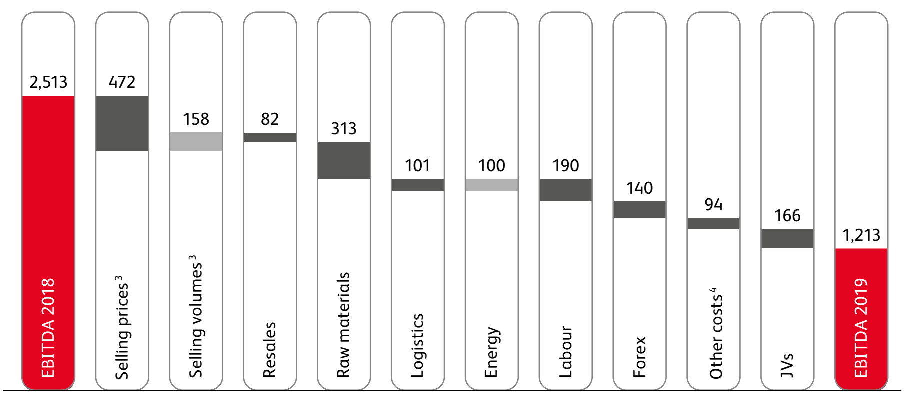
2 The management has changed the presentation of sales of coal produced by third parties, excluding them from intersegment mining sales to allow a better understanding of segment results and improve their comparability. This reduced the Mining segment's sales to other segments in 2018 by US$628 million to US$1,303 million.

EBITDA by segment

US$1,213M
-52%



EBITDA drivers (US$M)



3 Net of resales.
4 Other costs include fixed costs (excluding labour costs) and other expenses; net of resales.

FINANCIAL RESULTS CONTINUED

LIQUIDITY AND CAPITAL RESOURCES

NET CASH FROM OPERATING ACTIVITIES

In 2019, net cash flow from operating activities fell by 26% year-on-year to US$814 million, due to a 50% drop in operating cash flows before working capital changes. This was partly compensated by a working capital release of US$163 million during the reporting period (compared with working capital additions of US$500 million a year earlier) due to:

– a drop in inventory of US$340 million (mainly slabs, flat products and scrap, as well as lower cost of coal);
– a rise in trade and other accounts payable of US$151 million; and
– an increase in trade and other accounts receivable of US$328 million (primarily from iron ore customers).

At the same time, income tax paid fell by US$75 million year-on-year to US$240 million amid lower profitability, while interest paid decreased by US$78 million year-on-year to US$210 million following the repayment of non-bank borrowings in 2018.

NET CASH USED IN INVESTING ACTIVITIES

In 2019, net cash used in investing activities totalled US$943 million (US$430 million in 2018). Total cash used to purchase property, plant and equipment and intangible assets climbed by 16% year-on-year to US$895 million, as the Group continued to implement its Technological Strategy 2030.

In addition, US$146 million was spent on loans issued (US$46 million in 2018), US$45 million on other payments (US$20 million in 2018) and US$1 million on acquisitions of associates (US$30 million on the acquisition of the 23.71% stake in Southern Coke a year earlier). At the same time, the Group received US$124 million of dividends from the Mining JV (US$418 million in 2018), US$17 million of interest on loans issued and deposits (US$18 million in 2018) and US$3 million of proceeds from the sale of property, plant and equipment (nil in 2018).

NET CASH USED IN FINANCING ACTIVITIES

In 2019, net cash generated from financing activities totalled US$123 million. During the reporting period, the Group raised US$871 million of gross new proceeds from loans and borrowings (US$824 million from dual-currency eurobond offering completed in October 2019 and US$46 million from equipment financing) and US$37 million of net proceeds from trade finance facilities. At the same time, US$586 million was used to repay loans and borrowings (US$440 million to tender eurobonds due in 2023, US$123 million to repay the PXF facility and US$23 million to repay equipment financing), US$100 million to pay dividends, US$55 million to fully settle the remaining balance for the acquisition of 24.77% stake in Pokrovske coal business, US$33 million to pay loans commission (including a premium paid to bondholders for tendering bonds due in 2023) and US$11 million on other purposes.

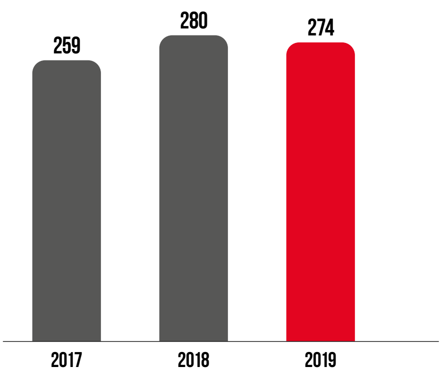
This compares with US$643 million used in financing activities a year earlier. While the Group raised US$1,460 million of gross new proceeds from loans and borrowings in 2018 (mainly from the refinancing, several minor bank term loans and finance leases) and US$79 million of net proceeds from trade finance facilities, it used US$1,975 million to reduce its liabilities, both voluntarily and as per the agreed schedules under several debt instruments (such as bonds, bank and non-bank loans and borrowings, seller notes, deferred consideration and finance leases). In addition, US$79 million was used to pay loan commissions (primarily due to a premium paid to bondholders for tendering bonds due in 2021 and other expenses related to refinancing), US$58 million to pay dividends, US$50 million to finance an acquisition of non-controlling interest in subsidiaries and US$20 million on other needs.

As a result of the above-mentioned factors, at the end of 2019, total debt[5] equalled US$3,032 million, up 11% year-on-year. As of 31 December 2019, the cash balance was US$274 million (down 2% year-on-year), while net debt[6] amounted to US$2,758 million (up 12% year-on-year).

5 Total debt is calculated as the sum of bank loans, bonds, trade finance, lease liabilities and deferred consideration.
6 Net debt is calculated as total debt less cash and cash equivalents.

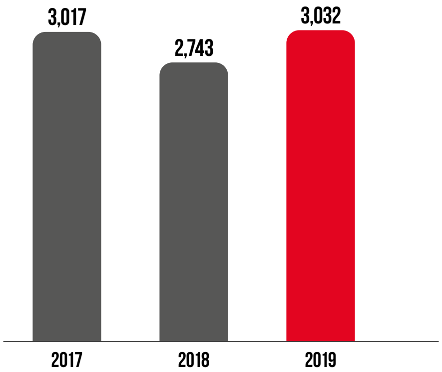
Year-end cash balance

US$274M
-2%



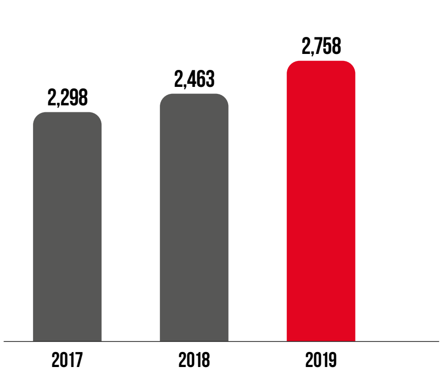
Year-end total debt

US$3,032M
+11%



Year-end net debt

US$2,758M
+12%



FINANCING IN FOCUS

EXTENDING DEBT MATURITY

In 2019, Metinvest successfully completed a bond issue that smoothed and extended its debt maturity, reducing refinancing risks and strengthening its overall stability.

PROACTIVE MANAGEMENT

Since its founding in 2006, the Group has built credibility in international financial markets and maintains strong relationships with bond investors, banks and other lenders. Metinvest has relied on market instruments to work with creditors during the most challenging times to find equitable solutions. Such an approach allowed the Group to proactively optimise its debt profile in 2019.

During the year, the Group successfully completed the debut dual-currency offering, consisting of tranches denominated in US dollars and euros, which helped to effectively extend the maturity of US$440 million of eurobonds due in 2023 by 6.5 years. At the same time, the net proceeds from the deal amounted to roughly US$350 million.

The Group conducted two simultaneous and interdependent transactions. It made a tender offer to holders of eurobonds due 2023, of which US$944,515,000 was outstanding, to make the cash purchase of up to US$440 million of the paper. At the same time, the Group carried out a new, dual-currency eurobond offering, including a US$500 million tranche with a coupon of 7.75% per annum due in October 2029 and a EUR300 million tranche with a coupon of 5.625% per annum due in June 2025.

Despite challenging market conditions, Metinvest was able to arrange 10-year, US dollar financing, previously only available to the Ukrainian sovereign borrower, with the lowest US dollar-denominated yield in the history of the Group.

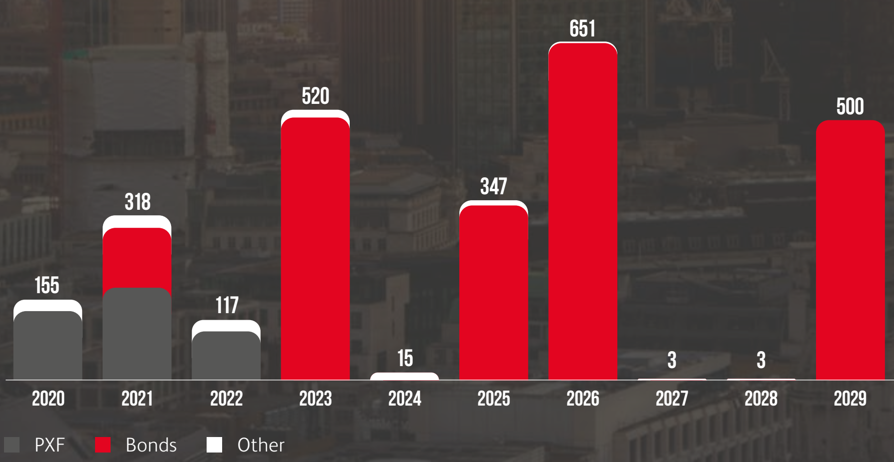
At the same time, the euro-denominated tranche helped Metinvest diversify the currency mix of its debt portfolio and expand the size and quality of the investor base. At the time of issuance, it was the lowest yield achieved by any Ukrainian issuer. In addition, the new euro-denominated funding has provided an important source of financing flexibility during the steel price downcycle. As a result, the Group has been able to pay, ahead of schedule, US$75 million of its PXF facility, leaving a remainder of US$406 million due under the facility as of the end of 2019.

As a consequence of these two major transactions, as well as other deals during the year, at the end of 2019, the Group's debt portfolio structure changed year-on-year. In terms of instruments, the share of bonds reached 69% while the one of PXF dropped to 14%, compared with 62% and 20%, respectively, a year earlier. In terms of currency, US dollar and euro-denominated debt accounted for 92% and 7% of total debt, respectively, and are naturally hedged by the Group's revenues in hard currencies, compared with the corresponding figures of 94% and 4% in 2018.

CREDIT RATINGS

2019 saw improvements in Metinvest's ratings. In September, Fitch and S&P both upgraded Metinvest's credit ratings to 'BB-' and 'B', respectively, with a 'stable' outlook. After the upgrade, Fitch's rating was two notches above Ukraine's sovereign level and S&P's was in line with it. In November, Moody's changed its outlook on Metinvest's corporate family rating to 'positive', affirming its 'B3' rating, which is capped by Ukraine's long-term foreign currency bond ceiling.

Corporate debt maturity as of 31 December 2019 (US$M)[1]



1 Excluding trade finance and lease liability under IFRS 16.

Credit ratings as of 31 December 2019

Fitch

BB- STABLE

S&P

B STABLE

Moody's

B3 POSITIVE

CAPEX IN FOCUS

MODERNISING FACILITIES AND PROTECTING THE ENVIRONMENT

Guided by the Technological Strategy 2030, Metinvest fulfilled its capital expenditure plans in 2019. Among other achievements, the Group expanded production capacity, increased the range of value-added products, reduced costs and improved its environmental footprint.

DELIVERING ON STRATEGY

Metinvest's capital expenditure follows the blueprint of the Group's Technological Strategy 2030, adopted in 2017, with three critical objectives: to enhance operational and environmental standards; to boost steel production capacity to 11 million tonnes a year, improving cost efficiency while focusing on the downstream; and to increase iron ore product quality while keeping costs low.

The Group's capital investments have grown steadily since 2017. In 2019, Metinvest fulfilled its investment plan for the year with CAPEX of US$1,055 million, up 17% year-on-year. Investments were almost evenly split between the Mining and Metallurgical segments at 48% and 49%, respectively, compared with 41% and 57% a year earlier. Total investment was the highest since 2011.

Importantly, US$717 million or 68% of CAPEX was spent on maintenance work at steelmakers, re-rollers, iron ore producers, coke plants and coal mines. This represented a 17% year-on-year increase. Strategic projects accounted for 32% of investments, or US$338 million, up 18% year-on-year. Last year saw important progress on several projects, including the launch of new facilities with an immediate positive impact on the Group's output volumes, product portfolio, production costs and environmental footprint.

STRENGTHENED INVESTMENT PROCESS

Compared with the US$285 million invested in 2015, CAPEX in 2019 was nearly quadruple that amount. As a consequence, there are multiple external contractors involved in the implementation of different projects, and their number has grown from around 1,000 four years ago to around 3,000 last year. This means it is more critical than ever to effectively coordinate the work of each contractor to ensure projects stay on time and on budget. Such an approach became possible thanks to the improvements in the internal investment process and project management over the recent years with the aim of cutting costs and reducing timelines to ensure the maximum efficiency of investment spending.

First, Metinvest updated the project management methodology. It developed a policy governing capital investments, updated the investment department's procedures, formalised the decision-making matrix for managing strategic projects in the Group, established a science and technology council as the technical expertise centre to approve technological solutions and revised the approach to compensating project managers.

Second, it updated the project justification methodology. It introduced the practice of feasibility assessments for maintenance projects, KPIs for all projects and a continuity evaluation for the Technological Strategy 2030, as well as developing a methodology to rank and assess risks during the project approval phase.

Finally, the management-level Investment Committee was relaunched. Its focus has intensified on the impact of projects on the Group's value and strategy, while the review of technological solutions has been transferred to the science and technology council.

KEY PROJECT DETAILS

In the Metallurgical segment, the overhaul of blast furnace no. 3 at Azovstal, at a cost of around US$150 million, was completed simultaneously with the installation of the pulverised coal injection (PCI) unit in June. The combined project increases the blast furnace's annual hot metal output capacity to over 1.3 million tonnes, decreases production costs by eliminating the need for natural gas and utilising coke more efficiently, as well as reduces the environmental footprint. Now all of the Group's operating blast furnaces are equipped with PCI technology.

The new continuous casting machine (CCM) no.4 at Ilyich Steel, which was completed for around US$140 million at the end of 2018, effectively increased the Group's total annual steel production capacity by 14% to 9.6 million tonnes. Importantly, the CCM has allowed Ilyich Steel to produce higher-quality slabs designed to be primarily re-rolled at its upgraded hot strip mill (HSM) 1700. The mill was shut down for a scheduled major overhaul from 27 August to 5 November 2019. The project's cost was around US$110 million. The first coils were produced in November 2019. Equipment testing and the mastering of the new product mix are expected to be completed in the middle of 2020.

The reconstruction of the HSM 1700 is expected to increase its capacity to 2.5 million tonnes of hot-rolled coils per year and enhanced the Group's sales portfolio of higher value-added products thanks to improved coil quality with the reduction of the minimum thickness to 1.2 millimetres, increasing weight capacity to 27 tonnes, and permitting widths of 900 to 1,600 millimetres. The new product meets the highest global standards for durability. As a result of these two projects, Metinvest started continuous casting and eliminated the ingot stage at Ilyich Steel, completing the transition from open-hearth to modern production technology which began in 2014.

In the Mining segment, CAPEX has focused on improving pellet quality, including the reconstruction of beneficiation and pelletising facilities. At Central GOK, the upgrade of the beneficiation plant at a cost of around US$20 million is designed to enable the production of premium concentrate with 70.5% Fe content, which will permit making pellets with 67.5% Fe content, increased strength and a more homogeneous size that is used in DRI technology. This project has required the installation of new fine screening and a de-watering area, and the update of one of the sections of the plant, completed in April 2020. At Northern GOK, the first phase of the revamp of Lurgi 278-A roasting machine, at a cost of US$6 million, was completed. This modernisation will result in an increase in the output of pellets with diameter from 10 to 14 millimetres, up to 75% of the total volume.

Other continuing projects at iron ore assets include the construction of crusher and conveyor systems, which are designed to reduce the cost and enhance the efficiency and safety of transporting ore from mining to production facilities, as well as maintain output volumes. Such systems at the Eastern conveyor line of Ingulets GOK and the Pervomaisky quarry of Northern GOK cost approximately US$50 million and US$220 million, respectively.

In addition, environmental investments were among the key priorities in 2019, with total spending amounting to US$155 million, up 68% year-on-year. Along with the reconstruction of the sinter plant at Ilyich Steel at a cost of US$150 million, progress has been made on multiple other environmental projects. Also at Ilyich Steel, the Group has carried out the construction of a new dedusting system at blast furnace no. 3, the replacement of a gas cleaning system at basic oxygen furnace no. 3 and the refurbishment of the sewage system. At Azovstal, the Group has carried out the reconstruction of a gas treatment system at the hot metal desulphurisation unit and continued the major overhaul of coke oven battery no. 1. At Avdiivka Coke and Zaporizhia Coke, there has been an extensive maintenance of oven chambers. Northern GOK advanced the project to replace gas cleaning units of the Lurgi 552-A roasting machine. Central GOK proceeded with the maintenance of tailings storage facilities and carried out related work on recycled water supply and slurry pipelines.

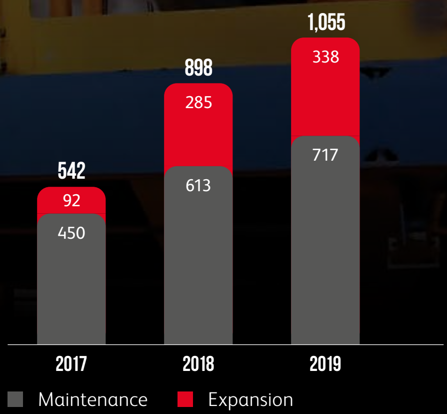
OUTLOOK FOR 2020

Against a backdrop of the heightened uncertainty facing global markets in 2020, Metinvest has set out its investment priorities in line with its long-term strategy. First, environmental CAPEX remains in place and the Group expects to complete the reconstruction of the sinter plant at Ilyich Steel. Second, it will continue to prioritise crucial maintenance, while showing flexibility as the situation requires. Third, it will focus on the completion of ongoing projects, including the modernisation of such auxiliary infrastructure at Ilyich Steel as the air separation unit to meet the steelmaker's increased requirements, as well as the upgrade of the OK-306 roasting machine at Northern GOK. Fourth, Metinvest is engaged in the detailed planning of new projects in the pipeline, such as the major overhaul of blast furnace no. 6 at Azovstal and the reconstruction of the cold-rolling mill at Ilyich Steel.

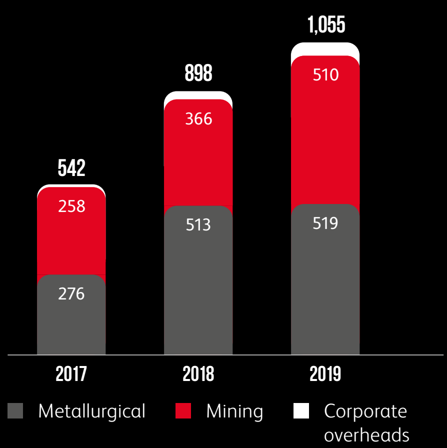
At the same time, Metinvest also plans a mid-term review of the Technological Strategy 2030 to ensure that recent changes in the market environment are taken into account.

CAPEX by purpose

US$1,055M
+17%



CAPEX by segment



CREATING STRONGER TIES

BUILDING SOCIAL INFRASTRUCTURE WITH CITY DEVELOPMENT FUNDS

Today, city development funds have become the primary channel through which Metinvest engages with its local communities. In Mariupol, Kryvyi Rih and Zaporizhia, these funds permit the pooling of funding and expertise for larger and more complex projects in close dialogue with residents, who best understand the requirements of their neighbourhoods.

Partnering with global experts in this field like the US Agency for International Development, UNICEF and the European Bank for Reconstruction and Development makes such investments more effective, as they bring global best practice in transparency and project management.

Tatiana Sakharuk, Chairperson of the Board of the UN Compact Network in Ukraine, stated:

“Metinvest has been a substantial contributor to the achievement of the UN’s Sustainable Development Goals by delivering, in cooperation with public organisations, a multi-faceted strategic development programme in the cities where the Group operates. Mariupol is a vivid example of this. As a result of Metinvest’s long-term social partnership with the Mariupol Development Fund and the local government, the quality of life in the city has reached a new level.”

Metinvest is the largest investor in community development in Ukraine, and implements large-scale social projects in Mariupol, Kryvyi Rih and Zaporizhia in partnership with city development funds. In 2019, the Group and the Zaporizhstal JV contributed US$9 million to these funds, almost a four-fold increase compared with 2016, when this investment model was launched. These initiatives aim to improve life for residents, including by upgrading medical and sport infrastructure, supporting educational institutions, developing administrative service centres and refurbishing public spaces (such as Mariupol’s Veselka park, pictured opposite).

SUSTAINABILITY REPORT

In this section:

SUSTAINABILITY REPORT

BUILDING OUR FUTURE TOGETHER

Metinvest works closely with each of its key stakeholder groups to carefully balance their diverse interests. Together with its employees, customers, suppliers and contractors, equity and debt providers, local communities, and government authorities, the Group strives to follow sustainable business practices that will meet the needs of future generations.

EMPLOYEES

IMPORTANCE FOR METINVEST

Metinvest's most valuable assets are its people, without whom none of its achievements would be possible. Around the world, the Group's almost 67,000 employees mine and process raw materials to make steel, which they then cast and roll into finished products, while office workers and managers support the smooth functioning of the vertically integrated structure and the supply chain that brings the final product to customers.

ENGAGEMENT

The Group carries out regular employee engagement surveys in order to improve the effectiveness of measures taken to increase employee satisfaction. Staff meetings are conducted with the presence of senior managers who can act on the ideas and concerns raised. Metinvest also provides internal training opportunities. These are used to deliver comprehensive health and safety instruction. In addition, the Group provides internal courses to develop work skills and partners with universities to provide managers the opportunity to increase their qualifications. The Group also maintains a confidential Trust Line, providing staff with a safe means to communicate concerns and complaints.

RESULTS FOR 2019

During 2019, the average salary in the Group rose by 37% year-on-year in US dollar terms, driven in part by Metinvest's efforts to expand financial benefits for employees. In addition, the Group is also focused on augmenting non-financial benefits. For instance, a major project is under way to improve employee amenities to raise the quality of overall working conditions. More than 108,000 training sessions were held in 2019 as Metinvest deployed new e-learning tools to facilitate remote learning opportunities. Consequently, Metinvest's turnover rate decreased year-on-year to 11%. Importantly, the Group hired around 1,500 new graduates as part of its drive to recruit the brightest young minds.

CUSTOMERS

IMPORTANCE FOR METINVEST

Meeting the needs of its customers represents Metinvest's core mission as a business. The Group's global network of 45 sales offices reaches around 6,800 customers from 100 countries in such diverse regions of the world as Europe, the CIS, MENA, North America and Southeast Asia.

ENGAGEMENT

The Group strives for excellence through improving customer service, including the quality enhancement of existing products, development of new products tailored to the needs of customers, as well as the optimisation of logistics to minimise delivery times. Metinvest carries out regular communication to measure customer satisfaction levels and swiftly address their concerns. In addition, it organises events and production site visits, as well as participation in public exhibitions, which drive open dialogue.

RESULTS FOR 2019

As part of its improved customer engagement, Metinvest has carried out the integration of SAP CRM into its operations to standardise the sales process and unify information and workflow overall, which leads to faster decision making and improved transparency. In addition, Metinvest launched 45 new steel products at Azovstal and Ilyich Steel, mainly additional types of hot-rolled plates, cold-rolled coils, galvanised coils and slabs.

STAKEHOLDER ENGAGEMENT CONTINUED

SUPPLIERS AND CONTRACTORS

IMPORTANCE FOR METINVEST

Metinvest's suppliers and contractors provide many of the goods and services that it needs to achieve its goals. The Group engages with around 6,700 suppliers and contractors to receive key production inputs and perform a wide range of vital services at its facilities.

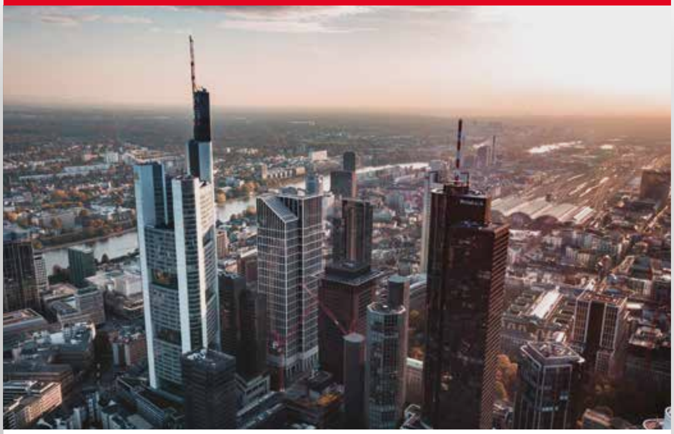
ENGAGEMENT

Metinvest engages with suppliers to ensure a fair and level playing field for everyone and to create attractive and convenient conditions for cooperation. The Group has established an extensive yet clear set of requirements to ensure strict compliance with the Code of Ethics, as well as health and safety rules. Technological solutions permit the efficient and regular auditing of suppliers, while streamlining the process for contractors.

RESULTS FOR 2019

During the year, to improve the efficiency of procurement for all parties and increase the transparency of this process, Metinvest expanded the use of electronic trading platforms. As part of the introduction of the SAP ARIBA SLP Module, the Group has unified the pre-qualification procedures for all suppliers and made it possible to self-register, in line with the overall drive to automate processes. During 2019, there were around 5,000 pre-qualification procedures, which resulted in the selection of about 500 new suppliers, while some 60 existing suppliers were disqualified.

EQUITY AND DEBT PROVIDERS



IMPORTANCE FOR METINVEST

Metinvest's equity and debt providers help to provide the financial flexibility to overcome market turbulence. With the ongoing support of shareholders and around 600 investors, bank lenders and a wide range of international financial institutions, the Group continues to implement its Technological Strategy 2030.

ENGAGEMENT

Metinvest has carried out regular disclosure of relevant financial and non-financial information for more than a decade, and reports publicly available annual and sustainability reports with a strong emphasis on open discussions with the investment community, including via such channels as meetings with the Group's senior management and participation in conferences.

RESULTS FOR 2019

During the reporting period, the Group published monthly and quarterly financial results, quarterly operating results, semi-annual and annual financial statements, as well as corporate presentations and other materials. Management communicated regularly with the investment community, including by conducting one deal roadshow and two non-deal roadshows. Metinvest also participated in nine investor conferences.

LOCAL COMMUNITIES

IMPORTANCE FOR METINVEST

The local communities where Metinvest operates are more than just the home of the Group and its workforce. The Group plays a major role in the social, economic and environmental wellbeing of its 2.7 million neighbours in cities and towns throughout Ukraine, Italy, Bulgaria, the UK and the US.

ENGAGEMENT

Metinvest maintains partnerships with local communities to implement developmental programmes and improve the quality of life, support for and organisation of public environmental, sporting and educational initiatives, as well as regular communication with communities' representatives to identify key issues and carry out large-scale investment projects.

RESULTS FOR 2019

During the year, Metinvest expanded its social partnerships through its close work with city development funds in such Ukrainian cities as Mariupol, Kryvyi Rih and Zaporizhia. Their projects cover such key areas as social infrastructure, the environment, education, healthcare, sports and culture. In Italy, Metinvest sponsored several events, including the Genoa half-marathon.

GOVERNMENT AUTHORITIES

IMPORTANCE FOR METINVEST

Metinvest must meet the stringent requirements of government authorities in the various jurisdictions in which it operates. The Group works with regulatory agencies in key areas such as environmental protection, occupational health and safety, ethical business practices, labour rights and financial activity.

ENGAGEMENT

The Group continued to foster partnership through meeting legal obligations to the state, assisting in the socio-economic development of regions and payment of taxes. The main approach is regular direct communication or communication via public meeting platforms.

RESULTS FOR 2019

During the year, Metinvest was able to develop its active dialogue with government authorities all around the world and achieve, overall, balanced outcomes providing the Group and its industry with the opportunity to carry out their work without an undue regulatory burden, while contributing their fair share to the development of communities on the local and national scale. Among other opportunities, Metinvest participated in the events of the European Business Association, where it held meetings with senior officials and provided input on legislation with a potential direct or indirect effect on the Group.

RELENTLESS PURSUIT OF ZERO INCIDENTS

In 2019, Metinvest conducted a comprehensive review of its health and safety management system and approved a new five-year roadmap, as part of its uncompromising drive towards zero incidents. The initial results were encouraging, as the Group recorded the lowest lost-time injury frequency rate in its history.

SAFETY CULTURE

Metinvest understands that an effective strategy to achieve zero incidents must focus on everyone involved in its operations. This includes efforts to enhance standards for employees and contractors, as well as to improve their safety awareness. The Group also openly shares its experiences and best practices in this field with other companies.

Consistent with the belief that human life is a key asset, in 2019, Metinvest was the first company in Ukraine to join Vision Zero, a global movement that unites hundreds of companies worldwide with a commitment to working without harming people. At the heart of the campaign are seven "golden rules" that help employers of any scale around the globe to reduce occupational injury and morbidity rates.

Metinvest's approach to health and safety cascades down from the highest level of the organisation, beginning with the Supervisory Board's Health, Safety and Environmental Committee, which provides effective oversight to ensure compliance with local regulations and practicable global standards. Notably, the Group's policy is to inform the CEO within two hours of any fatal incident and within 24 hours of any lost-time incident. Further, whenever unsafe working conditions are identified or an injury occurs, a root-cause analysis is performed to determine the ultimate causes of incidents and suggest steps to prevent future occurrences.

The Group continues to keep its assets in compliance with common global standards in this area. In 2018, Metinvest embarked on a transition to ISO 45001 when it replaced OHSAS 18001 as the best practice in international occupational health and safety management system standards. As of 2019, a total of four assets were ISO 45001 certified. Another six enterprises plan to undergo ISO certification audits once their current OHSAS certificates expire.

Metinvest has 15 corporate health and safety standards, which are based on leading international guidelines. In addition, the Group also conducts risk assessments as part of a mandatory system encompassing every aspect of the business, beginning with the design phase of investment projects and ending at the final step of the production process. Across the Group, it has introduced globally recognised standards, including Hazard Identification (HAZID), Environmental Hazard Identification (ENVID) and Hazard and Operability Study (HAZOP), job safety and work safety analysis procedures, and lock out, tag out (LOTO) and permit-to-work methods[1].

Metinvest also maintains an internal safety audit system. This includes regular inspections to evaluate the effectiveness of the safety management systems at each facility, making initial assessments and recommendations for improvement. Moreover, in order to highlight the importance of adherence to these guidelines, every year, each member of the Executive Team visits at least two subsidiaries to check compliance with internal standards and regulations.

Each Group enterprise has a fully-staffed health and safety department, which provides advice on relevant issues and ensures compliance with corporate standards and all applicable laws and regulations.

NEW ROADMAP

In 2019, Metinvest launched a new, five-year roadmap that aims to revise the Group's health and safety management system and correct its course to work towards achieving the ultimate goal of zero incidents. The focus of the new plan is to gain a wider understanding and application of a risk-based approach that significantly changes the process of monitoring performance, planning precise action and tracking progress. The system engages the whole organisation to improve safety using a revised employee motivation system, upgrading corporate standards, implementing revised qualification requirements for employees, introducing contractor safety ratings during the selection process and applying modern training methods.

The initial results of the new programme's implementation appear cautiously optimistic when viewed in terms of the Group's overall performance on key metrics in 2019, although the full scale of results from the activities launched in the year will not be visible until the entire set of management tools has been implemented.

In an effort to change the approach from punishment to motivation, in 2019, Metinvest introduced a supplemental incentive tool for the Executive Team and general directors of production assets called a Health and Safety Trigger to strengthen their focus on the area. The trigger modifies upwards or downwards the amount of their bonus, based on the Group's performance in the area. In 2020, this trigger will be extended to senior management of the Group's assets. In addition, starting from 2020, the bonus system for all line managers links a certain portion of the bonus to relevant KPIs.

To ensure that every level of the organisation is proactively engaged, the Group developed in 2019 and launched in 2020 a new Safe Work Award programme, which provides for a daily assessment of each employee's safety practices. Bonuses are tied to hazard elimination, sharing health and safety knowledge and preventing accidents. The goal is to provide immediate incentives for not just compliance with the rules, but also active promotion of safe practices.

The Group also launched a programme to raise corporate standards for critical risk management. They cover such areas as working at height, electricity isolation and goods transportation where roughly 90% of serious injuries have occurred in the past. In addition, Metinvest began to implement a new corporate IT tool to increase the effectiveness of corrective measures and allocation of resources to improve safety standards.

Another new initiative involves the wholesale revision of qualification standards and training programmes to improve the health and safety capacity of every level of the Group, as well as contractors. As standards on HSE are often voluminous, Metinvest is developing short paper and electronic manuals on key risks and requirements that employees can keep with them as they work. Equally, this information will be provided in clear language with supporting materials on the corporate portal. Another aspect is a shift in training to improve the way new employees are provided with information, to ensure greater retention of critical safety instructions, while imparting additional information over time. In addition, the Group is changing how health and safety trainers themselves are trained, in line with UK practices, considered among the most effective in the world. As such, in 2019, Metinvest introduced new training courses for the senior management team and the health and safety function, and prepared a team of internal trainers to roll out the programme within the Group.

1 HAZID (Hazard Identification), ENVID (Environmental Hazard Identification) and HAZOP (Hazard and Operability Study) are procedures for assessing the safety and environmental effect of both new projects and existing processes. LOTO (lock out, tag out) is a safety procedure to ensure that potentially dangerous equipment has been shut down correctly to prevent hazardous releases during maintenance, repair or cleaning activities.


МЕТІНВЕСТ

RESULTS IN 2019

Consistent with international best practices, Metinvest uses the lost-time injury frequency rate (LTIFR) and fatality frequency rate (FFR) metrics, which are measured in terms of incidents per million man-hours worked, to monitor its performance in this area. Despite experiencing a total of 83 injuries at its enterprises and six fatalities among the Group's employees in 2019, which is still far from the Group's ultimate long-term goal of zero incidents, the key metrics show important incremental progress with the further reduction of the LTIFR to 0.790, which was the lowest level in the Group's history, while the FFR decreased to 0.053.

In 2019, nearly all of Metinvest's production facilities improved their performance on key metrics in year-on-year terms. One notable example was Ilyich Steel reporting the longest period without a lost-time injury in its history: 153 days. Even more encouraging, Ingulets GOK delivered its first year without any lost-time injuries, partly thanks to the introduction of an automated system that monitors the well-being of employees whose work requires constant concentration and utmost care, including operators of complex equipment with inherent hazards. This is an impressive achievement that we aim to reproduce year after year and replicate throughout the organisation.

Overall, Metinvest invested a total of US$102 million to improve operational safety during the reporting period, up 7% year-on-year. Of this amount, occupational health accounted for 50% and the share of the Group's expenditure on the safety of buildings, facilities and transportation was 24%. Meanwhile, workplace safety accounted for 17% of spending, emergencies and fire safety for 5% and medical and other expenses for 4%.

In 2019, 1,611 employees attended corporate health and safety trainings. A total of 31 HAZID-based risk assessments were performed across the Group's enterprises and business units in Ukraine and two HAZOPs were conducted. In addition, 22 new HAZID chairpersons and 15 new HAZOP chairpersons went through theoretical and practical training.

During the reporting period, the internal safety audit system performed around 116 thousand audits by line managers, detecting over 167 thousand nonconformities and developing around 127 thousand risk-mitigation actions. In addition, senior executives performed 23 safety audits during the year.

HEALTHCARE DEVELOPMENT

Metinvest's healthcare development strategy is designed to improve employee health, provide effective first aid and prevent occupational incidents related to personal medical issues.

In 2019, the Group prioritised its efforts to prevent non-work-related incidents through enhanced screening. Other initiatives included transitioning to a new procedure for providing medical supplies such as first aid kits, as well as efforts to prevent sudden health decline at the workplace and to train employees in pre-medical first aid.

OUTLOOK FOR 2020

Metinvest's absolute priority is the well-being of its people. In response to the COVID-19 pandemic in early 2020, the Group has taken unprecedented measures to prevent the further spread of the virus. The chosen strategy in combating the virus is to reduce the number of contacts where possible, including requiring employees who can to work remotely, eliminating events that do not comply with social distancing practice, cancelling non-essential business trips and providing means for personal protection in those instances where people cannot stay home.

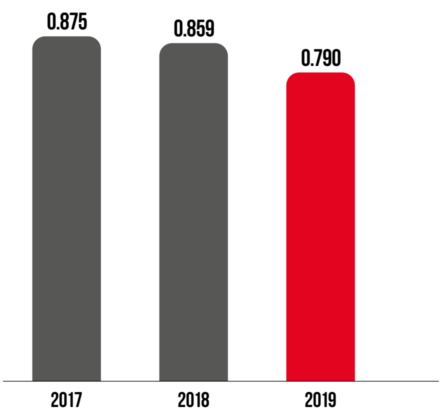
In terms of the safety revision, Metinvest's primary quantitative objective for 2020 is to further decrease the number of accidents at its facilities. Qualitatively, the objective of the whole team is to continue implementing the new roadmap.

A major part of these efforts in 2020 will focus on contractors, which is one area where Metinvest recognises that significant improvements can be made. This will include a review of the contractor selection process at both the pre-qualification and tender phases to include their health and safety performance during previous work for Metinvest as part of the criteria in the contractor selection process. In addition, a new standard for risk-based management of contractors' safety is planned to be revised. Besides this, in order to implement the new risk management system, the integration of health and safety goals in KPIs throughout the organisation will go on.

The Group will continue its phased increase in health and safety standards with a focus on the most critical areas. As a steady reduction in injuries is achieved, control measures will become ever more stringent in line with Metinvest's strategy for the coming years to gradually shift the emphasis from control to more effective risk management measures.

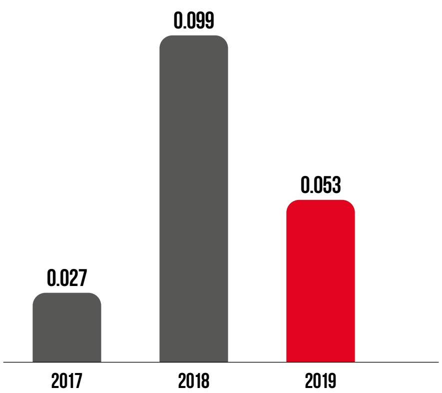
Lost-time injury frequency rate

0.790



Fatality frequency rate

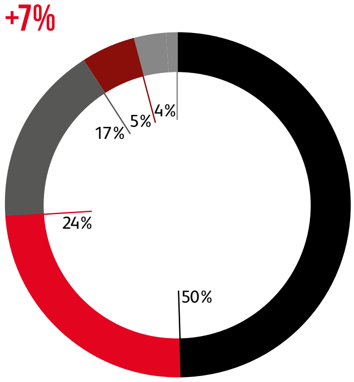
0.053



Spending on health and safety

US$102M

+7%



2019

- Occupational health
- Safety of buildings, facilities and transportation
- Safety in the workplace
- Emergencies and fire safety
- Medical and other expenses

PEOPLE ARE OUR FUTURE

Recognising that sustainability is derived from its people, the Group works hard to retain the best talent and recruit the brightest young minds. As the global steel industry enters a period of rapid technological advancement, the unmatched experience and insight of Metinvest's multiple generations of employees will help to ensure the enduring strength of its business in the interest of all stakeholders.

AN EMPHASIS ON PEOPLE

Human capital management ensures that Metinvest has the right workforce to meet current and future demands. During the reporting period, this critical business function was incorporated into the Sustainable Development and People Management Directorate, along with the health and safety, environmental protection, public relations and communications teams, all of which now report to the new Chief Sustainability Officer at the Executive Team level. This move puts people, Metinvest's greatest asset, at the centre of its strategic focus and planning by transforming the way the Group engages with its employees.

The new directorate is called upon to revamp the Group's system of working relations, enhance efficiency of remuneration and employee development system, improve internal communications with staff and strengthen the corporate culture, as well as upgrade the system of labour protection and employee safety.

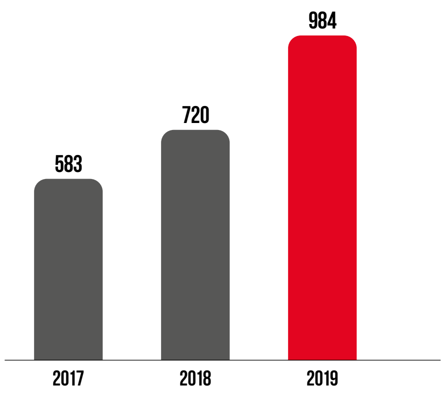
CARING FOR THE TEAM

Among the key challenges facing Metinvest in 2019 were the migration of the labour force, an ageing population and greater employee requirements regarding working conditions and options for personal career growth, which were compounded by the steel market downturn. The Group undertook significant efforts to maintain stable workforce relationships to prevent an outflow of labour and avoid production stoppages.

First of all, Metinvest revised its remuneration to reflect market conditions. In April 2019, it provided an average salary increase of 15% for its Ukrainian production personnel, following two

Average monthly salary

US$984
+37%



previous boosts in 2018. In addition, the Group introduced a single salary system for blue-collar staff: a particular salary is assigned to every blue-collar job, while specialists of working professions are entitled to a bonus in addition to their salary, based on their individual performance evaluation. Together with the appreciation of the Ukrainian currency against hard currencies, the average monthly salary in the Group climbed by 37% year-on-year to US$984 per month in 2019, compared with US$720 a year earlier.

Understanding that salary is no longer the only incentive for existing and potential employees, Metinvest has taken measures to improve its value proposition as an employer by enhancing the package of financial and non-financial benefits it offers to its staff. This includes improving working conditions, such as the modernisation of facilities at plants, not to mention sustained investments in occupational health practices and safety equipment and training.

Metinvest cares for the cities where it operates and encourages its employees to propose social infrastructure projects, which, if approved, receive funding from the Group to improve the communities where employees and their families live.

In addition, Metinvest continues to develop the social facilities under its ownership, like children's camps and health resorts, as part of a long-term plan to improve their management. To benefit the community, the Group has almost completed the process of transferring many of these leisure facilities to the ownership of local authorities under agreements that ensure they are managed properly and its employees retain access to them.

During the year, Metinvest further developed its shared human capital management service, centralising the function from the enterprise level to the Group level. This ensures the application of unified standards and provision of a single, high-quality set of services to all employees, while maximising the productivity of human capital management staff. This improves efficiency and allows employees to receive speedy service regarding questions on such issues as benefits, compensation and other administrative matters. Together, these initiatives helped to decrease staff turnover to 11% in 2019.

MANAGING INEVITABLE CHANGE

In 2019, Metinvest hired additional staff for investment projects and for new equipment operations required by the Technological Strategy 2030, as well as in accordance with production plans. In parallel, the Group carried out optimisation measures to increase its efficiency.

These measures were based on the results of internal benchmarking and the zero-based budgeting approach, as well as in relation to the centralisation of the human capital management function. This drive was accelerated amid the adverse steel market developments in the second half of the year, as the Group scrutinised all fixed costs, including labour, by planning to eliminate 30% of administrative staff positions. As this decision was taken in late 2019, the effects on Metinvest's performance will be seen in 2020.

Overall, the total headcount decreased by around 2,000 in the second half of 2019 while remaining relatively flat in year-on-year terms at 66,565. Metinvest provides crucial support services to all employees affected by layoffs, who also receive free assistance in conducting their job search. As part of this approach, agreements were signed with three city administrations to provide ex-employees with job opportunities in public utilities.

ATTRACTING THE NEXT GENERATION

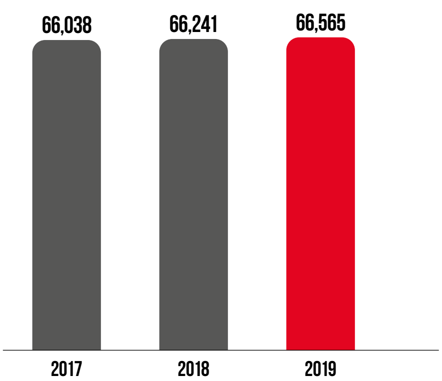
Amid the challenges of the present, the Group is planning for the future. While retaining its skilled workforce is an essential task, Metinvest's human capital management strategy envisages promoting the Group as an employer of choice. This, in turn, should help to attract the next generation of employees who will replace Metinvest's skilled and experienced workforce, many of whom have worked at its mines, mills and quarries for decades. In 2019, nearly 1,500 new graduates were hired, accounting for 14% of total recruitment during the year.

2019 was a landmark year for Metinvest in relation to the development of programmes for interacting with young people and educational institutions. The Group unveiled a wide range of solutions targeting school-age children to increase the number of students in specialised technical courses including through career guidance programmes, as well as by promoting mathematical contests and offering assistance in exam preparation.

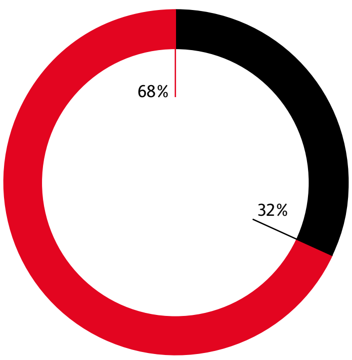
Metinvest also strengthened its close relationships with key educational institutions in Ukraine by signing long-term cooperation agreements with them. The Group introduced scholarships for the best students in specialised Ukrainian universities.

Employee headcount

66,565 EMPLOYEES
0%

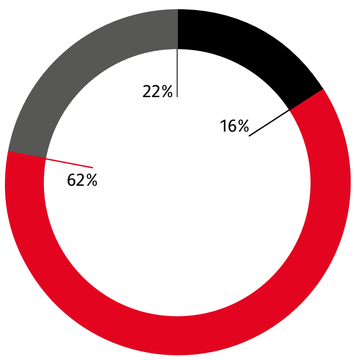


Staff structure by gender



2019
Women
Men

Staff structure by age



2019
Under 30
30 to 50
Above 50

HUMAN CAPITAL CONTINUED

For local universities in Kryvyi Rih, Mariupol and Zaporizhia, Metinvest developed programmes that combine classroom and workplace learning in a dual education track, with on-the-job experience making students familiar with production environments and the Group's employees.

Metinvest also developed fast-track programmes for young professionals who demonstrate the greatest potential for growth within the Group, offering them a one-to-two-year path to more senior positions. Importantly, Metinvest also continued to provide internships at all of its assets, after the completion of which the best students could receive a job offer from the Group. As such, almost 3,000 students from 26 educational institutions undertook an internship at Metinvest and more than 400 were hired.

To foster young employee development and motivate them, Metinvest holds an annual internal competition among its leaders under the age of 35 to prove and enhance their skills. Winners of the fifth season of this contest, which took place during 2019, visited the Group's Bulgarian and Italian re-rollers. This helped to transfer knowledge from preceding generations of employees to young professionals, as well as from Europe to Ukraine.

OFFERING EQUAL OPPORTUNITIES

The Group provides equal opportunities to all employees and does not discriminate according to gender, age or other factors. While most production roles in the steel and mining industries historically have been dominated by men, technological progress has reduced the physical burden on staff, enabling women to do jobs that were previously considered too physically demanding for them. In 2019, nearly 68% of the Group's employees were men and just over 32% were women. Notably, the ratio of women at the level of the Executive Team and the Supervisory Board was 27% and 10%, respectively.

In terms of age distribution, 62% of the workforce is aged between 30 and 50 years old, 22% is over 50 and 16% is under 30. The Group prizes the experience and skills of its older employees and regularly invites retired employees and managers to train younger staff.

PROVIDING CONTINUOUS LEARNING

Metinvest invests in training on all levels to provide the necessary resources to build a career within the Group and unlock the full potential of each employee, make sure their knowledge and skills correspond to today's changing job requirements, as well as to maintain its relentless focus on health and safety. Overall, a total of 108,742 employee training sessions were conducted during the reporting period.

Metinvest is developing and implementing a variety of e-learning tools, including the Eduson online learning management platform, which offers multiple available training courses. The Group also has separate e-learning programmes for health and safety, the Code of Ethics and cybersecurity.

New hires receive hands-on, supervised onboarding training at the workplace, in addition to which they also use training machines and simulators to practice using complex equipment in a virtual environment.

A wide range of training programmes are available for workers, including health and safety, professional competencies, additional skills and corporate standards. For mid-level managers, the Group's strategy is focused on addressing key skills areas with the support of Metinvest's Corporate University. A total of 12 technical academies have been created for line managers of production shops to cover crucial engineering and business disciplines, fill potential skills gaps and teach new techniques.

The Group has more than 20 managerial training programmes in place, which provided a total of 21,861 training sessions in 2019. They are aimed at acquiring competencies and skills that help to effectively solve emerging problems, develop value thinking, manage changes amid uncertainty, find new and innovative solutions for business, as well as interact and communicate within a team. Among the managerial training courses tailored to increase professional skills in particular areas were the Sales Academy, HR Academy and Project Management Academy.

To ensure continuity and sustainable development, Metinvest devotes significant resources to the succession pool, a group of promising managers being prepared to one day take over senior roles at Metinvest, at both its assets and headquarters. The Group has partnered with INSEAD for many years as it has developed the pool, and last year, they launched a new programme, Metinvest Tomorrow Builders, involving 39 high-potential managers.

Metinvest also provides continuing education programmes for senior management of the Group. Last year, it partnered with Wharton Business School to develop a series of courses. One module brought senior managers to China, a trend-setting country for the metals and mining industry, to meet and learn from local business and academic leaders about new technologies and digitalisation.

IMPROVING INTERNAL COMMUNICATION

Metinvest uses employee engagement surveys as an additional tool to gain valuable feedback about employee sentiment. This helps to provide all employees with a greater voice in the management of the Group.

Important changes that were suggested in past surveys include providing employees with choices in selecting their own set of benefits, rather than a fixed package. Now, they can choose what they want in terms of benefits for themselves and their families, without wasting resources on blanket services that many employees never choose to use.

The management has also changed how it conducts staff meetings, holding them more often and with the presence of senior executives, so staff can express ideas and concerns to those who can help them make a difference.

OUTLOOK FOR 2020

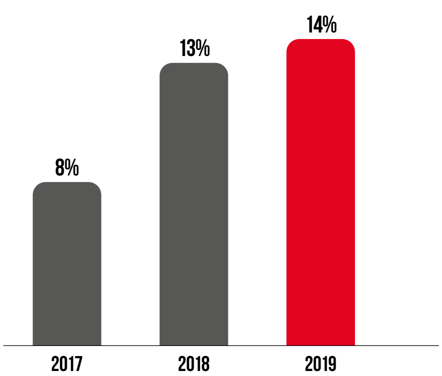
The year 2020 has brought a new, rather unexpected set of challenges for Metinvest and its people: COVID-19. The Sustainable Development and People Management Directorate is playing an important role in the Group's response to the pandemic at its assets worldwide, taking all necessary measures to prevent the spread of the virus among its staff and local communities.

This year, Metinvest will continue to implement its five-year human capital management strategy. The main tasks for human capital management will focus on increasing Metinvest's attractiveness as an employer by enhancing working conditions, as well as improving personnel efficiency by increasing their skills and the automation of processes to permit employees to perform more value-added activities. Other priorities include the formation and construction of a self-learning organisation and the introduction of knowledge preservation tools to prevent losing key expertise as the most experienced employees retire or move on to other opportunities.

One project is to review how Metinvest sets out its mission to make sure there is a shared set of values with its employees and common commitment to building a sustainable business. The ultimate goal is to ensure that the Group's people feel they are working in partnership with the Group and improve feedback on both sides.

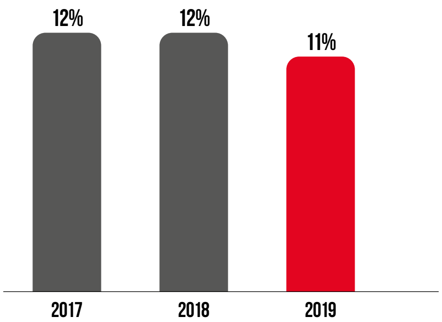
Share of graduates in new hires

14%
+1PP



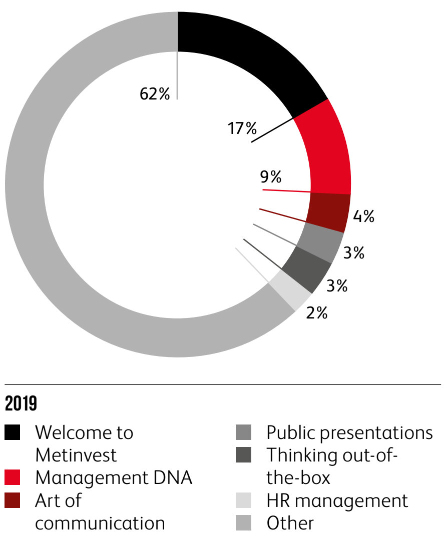
Staff turnover

11%
-1PP



Management trainings

21,861 TRAINING SESSIONS



ENSURING A GREENER FUTURE

Metinvest recognises the growing concern about environmental issues among stakeholders and worldwide. In this light, it has made environmental investment an integral part of the Technological Strategy 2030, while focusing on programmes to reduce resource consumption and protect the ecosystems surrounding its facilities.

A CLEAR AGENDA

Metinvest's strategic priority is modern, energy-efficient and environmentally friendly production, which has a clear investment case and moral basis.

As part of the global community, and given Ukraine's increasing integration with Europe, Metinvest understands that its Ukrainian operations need to exceed the local environmental standards. This is why it strives to adhere to international requirements, including measuring its carbon footprint in accordance with European standards.

The Group is working to consistently achieve incremental reductions in pollutant emissions, modernising production assets and introducing new technology. A central part of the Technological Strategy 2030 involves upgrading all gas-cleaning, dust-trapping and wastewater processing equipment at major production units, including beneficiation and roasting machines, sinter plants, blast furnaces, basic oxygen furnaces and re-rolling mills.

EFFECTIVE OVERSIGHT

Metinvest's environmental impact management approach is outlined in its Policy and Principles in the Field of Health, Safety and the Environment. As part of a proactive commitment to high environmental standards and incident prevention, all projects are assessed for their potential impact. While the Group understands that environmental protection is every employee's responsibility, it also recognises that managers must play the leading role.

At the highest level of Metinvest's corporate governance, the Supervisory Board's Health, Safety and Environmental Committee provides strategic oversight of the Group's environmental investments, as well as its regulatory compliance and risk management involving ecological factors. The Strategy and Investments Committee also considers the potential impact of the future investments under its CAPEX programme.

Metinvest's senior management and general directors of its assets regularly meet with community leaders and voluntary organisations to discuss environmental concerns. The Group also participates in the World Steel Association's Environment Committee, to contribute its experience and learn and share global best practices for the industry.

UNDERSTANDING OUR IMPACT

For all primary sources of emissions, maximum permitted levels of pollutants have been set and recorded in the air emission permits. Metinvest employs automated environmental monitoring systems and specialist laboratories to ensure compliance with these levels and identify any problems at the earliest possible stage. Equally, the Group closely monitors electricity and natural gas consumption and implements energy efficiency initiatives.

Metinvest's assets use water to enrich ore, as well as to cool equipment and finished products, and its policies require the conservation and optimal use of water resources. In order to use water as rationally as possible, the Group has a pipeline of new projects to modernise wastewater treatment facilities at its assets, recycle water used in technological processes and re-use mining and wastewater.

Metallurgical and mining operations inherently create industrial wastes. These wastes are deposited in specially designated areas that are regularly monitored. To minimise the space occupied for storing waste and maintain the rational use of mining allotments, Metinvest thickens waste, converts overburden rock into crushed stone and uses slag in road construction, among other initiatives.

MEASURING OUR PERFORMANCE

The Group's key assets regularly verify the adherence to ISO 14001 through certification and audits. As at the end of the reporting period, 15 of Metinvest's enterprises had certified their environmental management systems as compliant with the latest requirements of the ISO 14001:2015 international standard. In addition, seven of the Group's assets have certified their energy efficiency management systems as compliant with the ISO 50001:2011 international standard.

In 2019, Metinvest reduced its direct greenhouse gas (GHG) emissions by 10% year-on-year to 8.8 million metric tonnes of CO_2 equivalent, calculated for each asset in line with methodologies imposed by local authorities. This was primarily due to alterations in blast furnace utilisation at Azovstal, as well as the shutdown of blast furnace no. 3 at Ilyich Steel and coke chambers at coke producers for major overhaul.

The Group recycled and reused 80% of the total volume of water withdrawn from all sources during the reporting period, including previously recycled water, up from 78% in 2018. Metinvest's energy efficiency initiatives also led to total energy savings of 4.6 petajoules, up 22% year-on-year.

INVESTING IN EFFICIENCY

In 2019, the Group increased total environmental spending to US$384 million, up 46% year-on-year. Of this amount, US$155 million was allocated for capital expenditures and US$229 million for current and other expenditures. In 2019, it completed or reached significant milestones on several major, multi-year environmental projects.

Following the closure of the sinter plant at Azovstal in 2012, Metinvest began to reconstruct the one at Ilyich Steel to further lower emissions. With total investments slated at around US$150 million, this is the largest environmental project in the history of independent Ukraine. The upgraded system for cleaning sinter gases will help to reduce emissions of dust by as much as 90% and of sulphur oxides by up to 42%. The Group made steady progress in 2019 and aims to complete it by the end of 2020.

In 2019, Metinvest completed the modernisation of several dedusting and gas cleaning systems, as well as the overhaul of the sewage system at Ilyich Steel. At Azovstal, the Group rebuilt blast furnace no. 3, along with the reconstruction of the hot metal desulphurisation unit and a major overhaul of coke oven battery no. 1. Extensive maintenance was conducted at oven chambers of Avdiivka Coke and Zaporizhia Coke.

The Group is carrying out two significant projects designed to reduce its consumption of energy resources and improve energy efficiency.

Ilyich Steel is building a new unit to utilise blast furnace gas, which is currently flared, to generate electricity supplies, thus reducing the need to buy power on the market. Meanwhile, Azovstal is carrying out a comprehensive analysis of the plant's by-products to identify opportunities to recover and utilise energy sources.

Northern GOK advanced its project to replace the gas cleaning facilities of the Lurgi 552-A roasting machine. Central GOK proceeded with maintenance of the tailing storage facilities and carried out related work on the water supply and slurry pipelines.

OUTLOOK FOR 2020

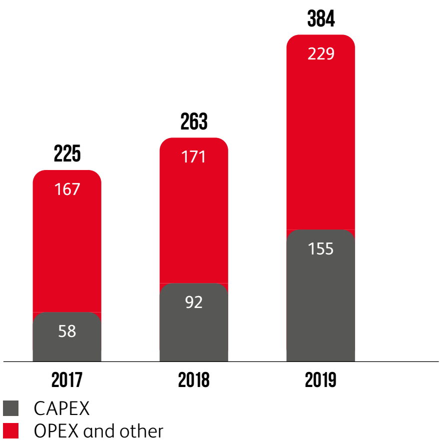
Metinvest is working to reduce its greenhouse gas emissions, improve water resource management and minimise the volume of wastes generated.

The Group remains firm in its commitment to the environmental agenda and has ring-fenced the green projects being implemented at its assets in 2020. This includes energy efficiency programmes aimed at reducing consumption of electricity, natural gas and water resources, which decrease emissions while also lowering costs.

Among the key initiatives for the year, Ilyich Steel will work to finish the sinter plant reconstruction and upgrade its blast furnace gas cleaning facilities. Azovstal will focus on the ongoing reconstruction of the basic oxygen furnace shop's gas cleaning system. Northern GOK will continue to replace the gas cleaning equipment on the Lurgi 552-A roasting machine.

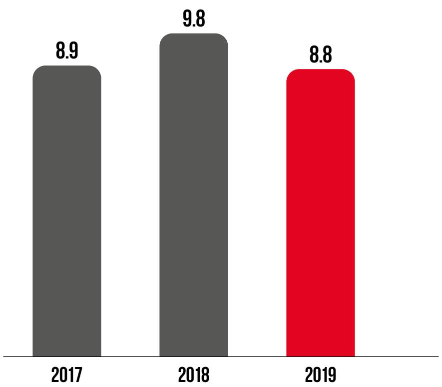
Spending on environment

US$384M
+46%



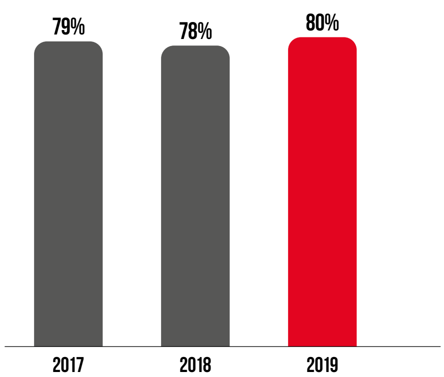
GHG emissions in CO_2 equivalent

8.8MT
-10%



Share of recycled and reused water

80%
+2PP



OUR HOME, OUR NEIGHBOURS

Metinvest's home is in the local communities around the world where it operates and the people who live in them are its neighbours. The Group's social partnership programmes focus on the development of these cities and towns and form a core component of its sustainability efforts.

A RESPONSIBLE APPROACH

Large companies such as Metinvest exist in close intertwinement with society and play a vital role in the broader dialogue about sustainable development, which the Group views as more than just a sophisticated phrase. The Group strives to devote as much attention, effort and energy to people as it does to business development because it understands that they are the foundation for prosperity. These include the people who work at the Group's facilities, their families, neighbours and others connected to these assets. They are its contractors and customers, as well as representatives of its partners, including international organisations.

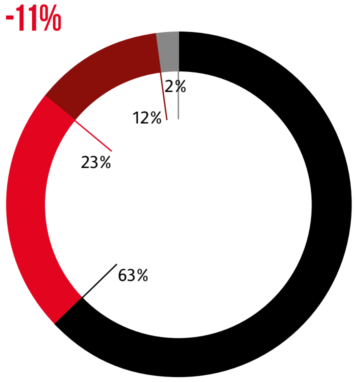
Metinvest recognises that an important aspect of this responsible approach is practicing good corporate citizenship wherever it operates, regardless of the circumstances. The social partnerships that it has formed are a core part of its efforts in local communities. The Group is proud to come together with local authorities, business and society to implement joint projects and programmes aimed at improving the quality of life of local residents and enhancing the overall appeal of the areas where they live and work.

In many of these towns, cities and regions, Metinvest acts as an economic anchor and is often the largest employer, which underscores the importance of strategic, long-term investments to improve the liveability of these communities. This includes aiding educational, recreation, sporting and cultural initiatives as vital elements of society. The central role that the Group plays in many of these areas also highlights the importance of being there

Spending on communities

US$11M

-11%



2019

- City development funds
- Social partnership programme
- Green Centre
- Benevolence

to support its neighbours in their times of greatest need, including providing humanitarian assistance during emergencies.

In 2019, Metinvest invested a total of US$11 million in its communities. These funds were targeted based on a dialogue with stakeholders to reach the maximum possible number of beneficiaries, including more than 1.8 million people in Ukraine, 300,000 people in the UK, 250,000 people in Italy, 200,000 people in Bulgaria and 65,000 people in the US.

STRENGTHENING TIES

In 2019, Metinvest enhanced social partnership programmes with local city development funds that implement community improvement projects. First piloted in Mariupol in 2016, this approach has proven to be a successful role model for community relations and has been rolled out to Kryvyi Rih and Zaporizhia. The Group works with local, non-governmental urban development agencies, which in turn engage with municipal authorities and reputable, reliable international donors to jointly implement larger, more complex, longer-term projects.

During the year, Metinvest worked with the Mariupol Development Fund, which improved public spaces, built and refurbished academic facilities, and upgraded medical centres. Metinvest collaborated with Foundation of the Future in Kryvyi Rih, which repaired and refurbished local universities and training centres, upgraded medical centres, modernised city libraries and improved sport facilities. In Zaporizhia, Zaporizhstal, the Group's Metallurgical JV, worked with the Joint Action Platform, which opened a local hub for implementing urban improvement projects, organised events dedicated to sport, youth, music and literature, as well as performed design work for the reconstruction of infrastructure facilities. In 2019, Metinvest and Zaporizhstal contributed around US$7 million and US$2 million, respectively, to these development funds and, through them, the community projects that they implement.

Metinvest also continued to implement social partnership projects in the towns of Avdiivka and Novhorodsk, where it is improving social infrastructure, upgrading healthcare and educational facilities and bringing local residents together to contribute to the development of these communities.

In addition, the Group's financial input helped to ensure the implementation of 16 projects for Mariupol's 'We Improve the City' competition, 17 projects for Kryvyi Rih's 'FestMetinvest' competition, 100 projects for Zaporizhia's 'We Are the City' competition and 24 projects for Avdiivka's 'Transforming Avdiivka Together' competition.

Metinvest also continued its "Green Centre" development initiatives, which help local residents to improve urban landscaping and clean up public spaces. In 2019, the number of requests fulfilled under this programme totalled 663 in Mariupol, 566 in Kryvyi Rih and 21 in Zaporizhia. This programme also included green educational initiatives in these cities.

Furthermore, Metinvest supported sport and cultural events in Italy, where its re-rolling facilities are located. This included sponsoring local football teams and the Genoa Half Marathon, as well as supporting the Rolli days in Genoa and Arena Opera Festival in Verona.

RE:THINK MARIUPOL

In October 2019, Mariupol hosted the RE:THINK investment forum, which was attended by the Ukrainian president. Metinvest worked with the local authorities to organise and sponsor the event. The choice of Mariupol to highlight Ukraine's economic opportunities underlines the importance of the city as a vibrant investment destination in Southeastern Ukraine. The event was a vital platform for interaction with the international community, including investment funds, banks and multi-lateral organisations.

The conference served as an occasion for the Group to champion a city where it is a major employer and proud citizen. It also served as a forum for the signing of an important memorandum that will act as a roadmap for the sustainable development of Mariupol, Zaporizhia and Kryvyi Rih, setting a clear agenda for the greener future.

IMPROVING ACCOUNTABILITY

Metinvest recognises the growing importance of sustainability information for all stakeholders, including employees, communities, customers, suppliers, contractors, lenders and investors. To improve accountability, the Group is now preparing its Sustainability Report annually starting with the report covering the year 2019, which will be published in 2020.

The most recent Sustainability Report, covering the years 2017-18, was published in 2019 and was prepared in accordance with the international Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI 4.0) and the principles of the UN Global Compact.

OUTLOOK FOR 2020

In 2020, Metinvest will continue to strengthen the ties that it has forged with local residents, authorities and non-governmental organisations in its communities. This includes contributing to social partnership programmes to open new opportunities for the long-term development of these cities and towns.

As part of its unwavering commitment to employees and communities during this time of tremendous need, Metinvest began taking unprecedented measures in early 2020 to mitigate the risks and hazards associated with the COVID-19 pandemic. The Group understands that clear and deliberate actions on the part of major businesses are more important than ever before. The Group's swift and comprehensive action across its global business played an important role in contributing to local and national prevention and relief efforts. More information about measures taken by the Group can be found in Metinvest's 2019 Sustainability Report.

In 2019, Metinvest published an augmented-reality book titled The Steelmaker's Kitchen as part of an effort to generate interest in the industry among the younger generation. The book describes how metallurgy and mining are organised in layman's terms. Readers can download a special app on their smartphone or tablet and watch a video about the different stages of steelmaking.

The book is a charitable publication that was released in Ukrainian, Russian and English. In addition, the Ukrainian Ministry of Education and Science has approved it for use as a textbook in secondary schools. It will be provided free of charge to libraries, schools and specialised higher and secondary educational institutions of Mariupol, Kryvyi Rih, Zaporizhia and Avdiivka.

The Steelmaker's Kitchen was recognised by the 2019 Partnership for Sustainability Award, held under the auspices of the UN Global Compact in Ukraine.

GOVERNANCE REPORT

In this section:

CREATING STRONGER TIES

REWARDING SAFE WORK

Metinvest prioritises occupational safety organisation-wide, from the Supervisory Board to the shop floor, to build a safety-focused culture that contributes to the goal of zero accidents. This requires continuous education and the active involvement of every employee, not simply the imposition of rules and regulations from above. The Group salutes and rewards employees for safe work practices, to which it has linked incentives across the board.

In 2019, to strengthen the management's health and safety focus, Metinvest introduced a Health and Safety Trigger that calibrates bonus awards for Executive Team members and general directors of production assets based on the Group's performance in this area. Since 2020, this trigger has been extended to senior management, while the KPIs of all line managers have been linked to health and safety performance. As a result, the 2020 KPIs of almost 4,000 senior and line managers are now linked to health and safety performance.

Workers who spend each day at a mine, quarry or steel mill are true experts in identifying hazards and developing solutions. They form the first line of defence should a natural event or human action create an unsafe working condition. Understanding this, the Group developed in 2019 and launched in 2020 a new Safe Work Award programme, which provides for a daily assessment of each worker's safety practices. Bonuses are tied to hazard elimination, sharing health and safety knowledge and preventing accidents. The goal is to provide immediate incentives to promote safe practices rather than just comply with the rules.

MANAGERS WITH HEALTH AND SAFETY KPIS OR TRIGGERS IN 2020

3,952

GOVERNANCE REPORT

STRIVING TO MEET THE HIGHEST STANDARDS

Metinvest has worked since its founding to build lasting corporate governance institutions to provide for effective governance of the Group, ensure the interests of all stakeholders are represented and provide transparency when working in international financial markets. This approach makes the Group more open and efficient to manage and provides all current and potential partners with confidence in Metinvest's integrity and sustainability as a business.

CORPORATE GOVERNANCE SYSTEM

Metinvest has established a corporate governance system designed to ensure effective stewardship and works continuously to improve its institutions in line with best international practices. By focusing on oversight, disclosure and engagement, the Group aims to serve the interests of all of its stakeholders and further strengthen its reputation in the global investor community.

While being a privately held business today, Metinvest recognises the importance of adhering to the highest standards of corporate governance. As such, it strives to work towards implementing global lessons learned in the area.

SHAREHOLDERS

As at 31 December 2019, Metinvest B.V. was owned 71.24% by SCM (Class A shares) and 23.76% by SMART (Class B shares). The remaining 5% interest in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after the receipt of respective governmental approvals, if such will be necessary), and in such a manner that the ultimate interest of SCM in Metinvest B.V. shall be 75% minus 1 share, and the ultimate interest of SMART in Metinvest B.V. shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

PRINCIPLES OF MANAGEMENT

Metinvest's vertically integrated structure and business model lends itself to clear lines of governance and accountability that cascade down through various levels of the organisation. The Group conducts oversight based on a clearly established set of core principles that are aligned with its strategic approach. They are:

Specialisation. The Group focuses on the strategic management of mining and steel businesses and strives to excel in doing so. This increases efficiency while enhancing shareholder value and investment attractiveness.

Vertical integration. Metinvest controls all links of the metals and mining supply chain, from extracting coal and iron ore to selling steel products worldwide. This reduces its exposure to market volatility and thus provides greater stability.

Unified strategic management. The Group applies consistent strategic planning and management across all enterprises. This helps to maximise synergies among its businesses and enhances shareholder value.

Centralisation. Metinvest continues to streamline its centralised organisational structure and reduce layers of management. This helps to optimise management costs, unifies business processes and technology, and enhances overall efficiency.

Growth and investments. The Group is constantly looking for opportunities that will reinforce the business and its position worldwide.

Global best practices. Metinvest studies best practices in international business, carefully selecting the most effective management, operational and IT approaches for its operations. This helps to maximise returns on investment and compete in the global marketplace.

Tradition and innovation. The Group maintains the best traditions in steelmaking and mining, while seeking to complement them with cutting-edge knowledge and technologies. This helps to improve product quality as much as possible.

Commitment to leadership. Metinvest aims for excellence and fosters leadership among its people. This stimulates long-term growth and maintains a pool of talented leaders.

Personal commitment. The Group promotes a corporate culture based on personal commitment to work. This makes employees responsible for their actions and care for others.

CORPORATE GOVERNANCE STRUCTURE

Metinvest B.V.'s corporate governance structure is built in accordance with and in compliance with Dutch laws.

It comprises the General Meeting of Shareholders, Supervisory Board and Management Board. On the Group level, the Executive Team supports operations.

GENERAL MEETING OF SHAREHOLDERS

Under Dutch law and the Articles of Association of Metinvest B.V., the General Meeting of Shareholders is authorised to resolve the following matters, among others: to issue shares; to exclude or limit pre-emptive rights; to acquire shares and to transfer shares in the capital of Metinvest B.V. held by Metinvest B.V.; to reduce the share capital; to determine the remuneration of the Management Board; to adopt the annual accounts; to allocate profits; to amend the Articles of Association; and to dissolve, merge or demerge Metinvest B.V.

In 2019, the General Meeting of Shareholders discussed and took decisions on a wide range of matters, including but not limited to: approval of financial statements and related resolutions; attracting external financing; acquisitions, disposal and liquidation of companies; and appointment of securities account managers.

SUPERVISORY BOARD

The Supervisory Board has 10 members, including:

7 A-Members appointed by the Class A and Class C shareholders

3 B-Members appointed by the Class B shareholder

A member of the Supervisory Board is appointed for an indefinite period of time, unless otherwise specified in the decision concerning their appointment.

Each member of the Supervisory Board may be suspended or dismissed at any time by the same body that has the right to appoint them.

Suspension may be extended one or more times, but in general it cannot last more than three months. If, at the end of the period, a decision has not been made to terminate the suspension or to dismiss them, the suspension shall end.

The Supervisory Board includes four independent members, who are deemed independent within the meaning of the Dutch Corporate Governance Code 2016.

The Supervisory Board's duty is to supervise the activity of the Management Board and the general course of affairs in Metinvest B.V., the Group and the business connected therewith. The Supervisory Board assists the Management Board by giving advice. Four committees assist the Supervisory Board in its work.

Decisions relating to the following matters, among others, must be approved or ratified by a resolution of the Supervisory Board: the Group's strategic goals; the Group's investment programme for each calendar year; the Group's annual business plan; appointments at the level of top management, approval of their compensation system and key performance indicators (KPIs), and decisions on annual bonuses; the appointment of an independent external auditor; approval of the annual consolidated financial statements of Metinvest B.V. and recommendation to the shareholders on approval of the stand-alone financial statements of Metinvest B.V. and all mergers and acquisitions to be undertaken by the Group; approval of investment projects with budgets over US$20 million (up to US$500 million), material transactions of over US$100 million (up to US$500 million), external financing of over US$30 million, if included in the annual financing programme approved by the Supervisory Board, and any financing transaction regardless of the amount if they are not included; approval of the annual plan for the Supervisory Board's activities; and approval of the regulations of the committees of the Supervisory Board.

In 2019, the Supervisory Board convened a total of 22 times and discussed and took decisions on a wide range of matters, including: annual business planning; investment projects; the financial statements for the 12 months ended 31 December 2018 and the six months ended 30 June 2019; the annual report for 2018; the appointment of an independent external auditor for the 2019 financial year; the compliance programme; external financing; material transactions; mergers and acquisitions; health, safety and the environment; performance appraisals; remuneration; and other material corporate events.

CORPORATE GOVERNANCE OVERVIEW CONTINUED

COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

	Status	Class membership	Independent	Strategy and Investments Committee	Audit and Finance Committee	Appointments and Compensations Committee	Health, Safety and Environmental Committee
Oleg Popov	Chairman	A		M		M	
Alexey Pertin	Deputy Chairman	B		C		M	
Stewart Pettifor	Member	A	✓	M			C
Christiaan Norval	Member	A	✓	M	C		
Johan Bastin	Member	A	✓	M	M		
Natalia Izosimova	Member	A	✓			C	M
Damir Akhmetov	Member	A		M			
Gregory Mason	Member	B		M			M
Mikhail Novinskii	Member	B		M	M		
Yaroslav Simonov	Member	A			M		

M Member C Chair

STRATEGY AND INVESTMENTS COMMITTEE

The Committee's main responsibility is to conduct reviews and provide recommendations to the Supervisory Board regarding the Group's strategic objectives, including existing and new businesses, investments, mergers and acquisitions. It is assisted by the Technology Sub-committee, which advises and assists the management in developing and implementing the Technological Strategy 2030.

In 2019, the Strategy and Investments Committee convened a total of six times and discussed the following matters, among others: macroeconomic and industry trends; anti-dumping risks; operations and development programmes; energy efficiency projects; the capital investment programme and its projects; the quality management system; business planning; and mergers and acquisitions.

During the reporting period, the Technology Sub-committee convened a total of eight times and discussed the following matters, among others: the overall capital investment programme and individual projects; the management of strategic projects; environmental obligations; tailings facilities; and external benchmarking results.

AUDIT AND FINANCE COMMITTEE

The Committee is tasked to ensure the ongoing supervision of all aspects of the Group's financial and audit activities in the interests of the shareholders and on behalf of the Supervisory Board. Its main responsibilities include overseeing the budget, financial reporting, risk management, internal controls, the internal audit function and assessment of the external auditor. It is assisted by the Internal Audit Directorate.

In 2019, the Audit and Finance Committee convened a total of seven times and discussed the following matters, among others: management reporting; internal audit reporting; external auditor selection for the 2019 financial year; audit strategy; the financial statements for the 12 months ended 31 December 2018 and the six months ended 30 June 2019; the annual report for 2018; the compliance programme; bond issuance; material transactions; working capital management; tax issues; and the effects of GDPR on Metinvest.

APPOINTMENTS AND COMPENSATIONS COMMITTEE

The Committee is responsible for making recommendations to the Supervisory Board on dismissals and new appointments for senior positions within the Group; and on KPIs and annual bonuses for senior management, as well as on the Group's motivation, assessment, reward systems and succession planning.

In 2019, the Appointments and Compensations Committee convened a total of six times and discussed the following matters, among others: performance evaluations; compensation packages; approaches to motivation systems; the staff engagement survey; procurement staff rotation principles; personnel training system approaches; approaches to sharing best practices in HSE, project management and knowledge management; internal communications strategy; PR and external communications strategy; employer brand development strategy; HR functional development approaches; payroll and administrative expenses; and the regional development programme.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Committee's remit is to support the Executive Team in implementing and maintaining the highest standards of health, labour and environmental safety culture throughout the Group.

In 2019, the Health, Safety and Environmental Committee convened a total of four times at plant facilities. The Committee discussed the following matters, among others: site visits to the Group's facilities; incidents investigations; revising the health and safety management system, including the Group's new roadmap covering this area; environmental management strategy and projects; and tailings storage.

MANAGEMENT BOARD

The Management Board consists of two Directors: Director A is appointed by the joint meeting of holders of Class A shares and holders of Class C shares. Director B is appointed by a meeting of holders of Class B shares. Under Dutch law, the Management Board is responsible for the management of Metinvest B.V. Under its Articles of Association, Metinvest B.V. may only be represented by the entire Management Board (i.e. Director A and Director B, acting jointly). In performing their duties, the Directors must act in the best interests of Metinvest B.V. and its business. The Articles of Association of Metinvest B.V. do not determine a specific term of office for members of the Management Board.

Director A and the CEO is Yuriy Ryzhenkov. Director B is ITPS (Netherlands) B.V., a legal entity registered in the Netherlands.

EXECUTIVE TEAM

The Executive Team is responsible for overseeing, coordinating and executing the day-to-day activities of Metinvest, as well as for implementing the strategic decisions of the Supervisory Board and its committees.

EXECUTIVE PERFORMANCE EVALUATION AND REMUNERATION

The Supervisory Board annually sets team goals for the senior management, as well as personal goals for the CEO, who cascades them down to each individual on his team in accordance with their job functions, subject to approval of the Supervisory Board.

These goals are incorporated into a KPI scorecard, where each target is weighted based on the ability of the manager to influence its achievement. In addition, a Health and Safety Trigger was introduced as a supplemental incentive tool for members of the Executive Team in 2019.

After the year-end, the Supervisory Board conducts the annual performance appraisal for members of the senior management based on their self-assessment.

The aggregate amount of current salaries and related bonuses paid by Metinvest to the Executive Team totalled US$15.0 million in 2019, compared with US$15.3 million in 2018.

Contracts with members of senior management do not provide for any pension or other benefits upon termination of service.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Metinvest maintains worldwide directors and officers (D&O) liability insurance for Group entities, which is renewed on an annual basis. This type of insurance covers the liability of everyone who is appointed as a director and/or officer of a Group entity, including, but not limited to, members of the Supervisory Board, Management Board and the Executive Team. D&O liability insurance provides cover for financial losses and legal expenses resulting from claims made against directors and/or officers arising from an actual or alleged wrongful act committed in their capacity as directors and/or officers. The D&O liability insurance outlines key areas of coverage: management liability cover, pre-claim insurance cover, special excess protection for directors cover, company securities liability cover and additional extensions.

Metinvest relies on well-known global insurance brokers to arrange D&O liability cover, which is provided by reputable, international insurers. The total limit of insured liability under the D&O policy programme amounts to US$100 million on each claim and in the aggregate.

SUPERVISORY BOARD

Metinvest's Supervisory Board combines decades of experience in the steel, mining and finance industries to provide strategic leadership of the Group in the interests of all stakeholders.

Oleg Popov

Chairman
and Class A Member of the Supervisory Board

Oleg Popov was appointed as a Class A Member of the Supervisory Board on 14 July 2014 and became Chairman on 11 August 2018. He is a member of the Strategy and Investments Committee and the Appointments and Compensation Committee. He has been the CEO of System Capital Management since 2006 and is also the Chairman of the supervisory boards of DTEK Energy, DTEK Oil and Gas, DTEK Renewables and FUIB. He served as Chief Operating Officer of System Capital Management from 2001 to 2006. Before that, he worked at various state establishments and enterprises for eight years.

Oleg graduated from Donetsk Polytechnic Institute in 1990 and from Donetsk State University (Ukraine) in 1996.

Alexey Pertin

Deputy Chairman
and Class B Member of the Supervisory Board

Alexey Pertin was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He is responsible for the following areas: strategic development, production efficiency, sales and management of investment projects. He is also Chairman of the Strategy and Investments Committee and a member of the Appointments and Compensation Committee. Since October 2015, he has been CEO of Smart Holding. Before that, he was the Chairman of the Supervisory Board of Smart Holding from 2014 to 2015 and served as its CEO from 2008 to 2014. His career started in 1995 at Cherepovets Iron and Steel Works. He later continued working at Severstal Group in different positions, including CEO of Izhora Pipe Plant and Deputy CEO for Business Development at Severstal Group.

Alexey graduated from the faculty of General Technology at Cherepovets State University in 1994 and from St Petersburg State Technical University with a major in financial management in 2001. He received a degree in financial management from the Institute of Professional Managers (ACCA) in 2005 and later studied for an MBA at the Newcastle Business School of Northumbria University (UK).

Christiaan Norval

Class A Member of the Supervisory Board

Christiaan Norval was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees issues connected with his industrial expertise, the implementation of best practices in management and production, and international affairs. He is Chairman of the Audit and Finance Committee and a member of the Strategy and Investments Committee. Christiaan spent a significant part of his career building what is today known as BHP Billiton as head of corporate finance. He oversaw most of the transactions to create BHP Billiton, including the IPO of Billiton Plc in 1997. He also served as CEO and President of Sual International Group, the world's largest producer of aluminium and alumina.

Christiaan holds a BCom (Hons) from the Rand Afrikaans University, Johannesburg (South Africa), and is a Chartered Accountant. He is a member of the South African Institute of Chartered Accountants, as well as the Institute of Chartered Accountants in England and Wales.

Yaroslav Simonov

Class A Member of the Supervisory Board

Yaroslav Simonov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees legal matters, compliance and corporate governance. He is also a member of the Audit and Finance Committee. He previously worked at The Silecky Firm (affiliated with Squire Sanders and Dempsey) and Renaissance Capital Ukraine. From 2008 to 2017, he was Deputy Director of Voropaev and Partners Law Firm. In August 2017, he was appointed Director, Legal Affairs at System Capital Management (SCM).

Yaroslav graduated from the Law department of Kyiv National Taras Shevchenko University (Ukraine) and holds an LLM in International Business Law from the Central European University in Budapest (Hungary).

Stewart Pettifor

Class A Member of the Supervisory Board

Stewart Pettifor was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He is also Chairman of the Health, Safety and Environmental Committee and a member of the Strategy and Investments Committee. He began his career in the UK steel industry in 1963 and progressed through a variety of operational management positions. In 1997, he was appointed as CEO and President of Avesta Sheffield, a Swedish stainless steel company based in Stockholm. In 2000, following its merger with Outokumpu, he became Deputy CEO of Avesta Polarit. In 2001, he returned to the UK to run the flat products business of Corus and also joined the board. He became the Chief Operating Officer in 2003 until his retirement in 2005.

Stewart has a first-class BSc honours degree in Metallurgy from Nottingham University (UK). He is a Fellow of the Institute of Mining, Metallurgy and Minerals and a Companion of the Institute of Management.

Natalia Izosimova

Class A Member of the Supervisory Board

Natalia Izosimova was appointed as a Class A Member of the Supervisory Board on 1 August 2018. She is also the Chairman of the Appointments and Compensation Committee and a member of the Health, Safety and Environmental Committee. She currently sits on the boards of several major companies and acts as a consultant to top business executives. From 2007 to 2013, she headed the Foundation for Effective Governance, a charity founded by Rinat Akhmetov and was a member of the supervisory boards of numerous SCM group companies. After beginning her career at McKinsey in 1994, she moved to SCM in 2005, working as a Director of Human Resources and then Corporate Transformation.

Natalia holds a master's degree from Moscow Pedagogical University, where she specialised in English and German.

Damir Akhmetov

Class A Member of the Supervisory Board

Damir Akhmetov was appointed as a Class A Member of the Supervisory Board on 14 July 2014. He oversees the following areas: strategy, corporate development, governance and production efficiency. He is also a member of the Strategy and Investments Committee. He is also Chairman at SCM Advisors (UK) Limited and has been a member of the supervisory boards of DTEK Energy, DTEK Oil and Gas and DTEK Renewables since 2011.

Damir graduated from Cass Business School (City, University of London, UK) with an MSc in Finance.

Johan Bastin

Class A Member of the Supervisory Board

Johan Bastin was appointed as a Class A Member of the Supervisory Board on 1 August 2018. He oversees investor relations and investment strategy and is a member of the Audit and Finance Committee and the Strategy and Investments Committee. He is also Managing Partner at Iveaghouse Capital Investment Advisors and a supervisory board member at several DTEK entities, as well as at Private Infrastructure Development Group. Previous positions include CEO of CapAsia, Managing Director at Darby Private Equity (a Franklin Templeton Investments subsidiary) and several senior roles with the European Bank for Reconstruction and Development (EBRD) in London (UK).

Johan holds a master's in Urban Planning from Eindhoven University of Technology (the Netherlands) and a PhD in Regional Planning from Université de Montréal (Canada), and attended McGill University's MBA programme in Montreal (Canada).

Gregory Mason

Class B Member of the Supervisory Board

Gregory Mason was appointed as a Class B Member of the Supervisory Board on 14 July 2014. He contributes his expertise in strategic and operations management and is responsible for technological innovation and the implementation of continuous improvement practices. He is also a member of the Strategy and Investments Committee and the Health, Safety and Environmental Committee. He was a member of the Supervisory Board of Smart Holding from 2014 to 2015. He previously served as CEO of Severstal International, managing North American and European operations. Prior to Severstal, he held various positions in steel companies and consulting firms, from engineering and operations management to senior executive roles.

Gregory is a registered professional engineer in the US. He received his master's degree in Electrical Engineering from the Naval University of St Petersburg (Russia) in 1975.

Mikhail Novinskii

Class B Member of the Supervisory Board

Mikhail Novinskii was appointed as a Class B Member of the Supervisory Board on 29 September 2017. He is also a member of the Strategy and Investments Committee and the Audit and Finance Committee. He is responsible for defining the strategy and devising business development programmes, assessing their production and innovation potential, and coordinating the development and implementation of promising new business projects. He has been the Chief Development Officer of Smart Holding since November 2018. Mikhail began his career in 2013 as a manager of tangible and intangible production projects and programmes at the business controlling and information department of Smart Holding. Further on, he continued to work in the company occupying various managerial positions, including head of the project management department, member of the Supervisory Board and adviser to the CEO.

Mikhail graduated from St Petersburg State University (Russia) with a degree in Business Management in 2008. He also holds an MSc in Finance and Management from the University of St Andrews (UK).

EXECUTIVE TEAM

Metinvest's Executive Team comprises professionals of the highest calibre with the right combination of skills and expertise to guide the business on a prudent course.

Yuriy Ryzhenkov

Chief Executive Officer, Director A of the Management Board

Yuriy Ryzhenkov was appointed Chief Executive Officer of Metinvest Holding in December 2013. Before that, he held senior positions at DTEK (also part of SCM): namely, Chief Operating Officer and Director from 2010 and Chief Financial Officer from 2007. Prior to DTEK, he worked as Chief Financial Officer of International Steel and Tube Industries Limited (ISTIL, Donetsk and London), in the finance business units of Mini Steel Mill ISTIL (Ukraine) and at Donetsk Iron and Steel Works.

Yuriy has degrees in International Economics from Donetsk State Technical University and in Business Management from King's College (UK). He also holds an MBA from London Business School (UK).

Aleksandr Pogozhev

Chief Operations Officer

Aleksandr Pogozhev has been Chief Operations Officer since September 2016, when a new, single directorate was established to streamline the Group's production activities. Prior to that, he had been Director of the Metallurgical division since October 2011 and interim Director of the Mining division since March 2016. Previously, he was the Director of the Steel and Rolled Products division from October 2010. He has extensive professional experience at large enterprises in the metals industry. He served as Chief Operations Director of Severstal International (US) from 2008 to 2010 and worked at Severstal from 1991 to 2008, where he held several executive positions, including Chief Operating Officer.

Aleksandr holds a degree in Financial Management from the Moscow State Academy of Management (Russia) and an MBA from the Business School of Northumbria University (UK).

Alexey Gromakov

Logistics and Procurement Director

Alexey Gromakov has been Logistics and Procurement Director since April 2018. Prior to that, he served as Director for Corporate Strategy and Regional Development at Beeline from 2015 to 2018. From 2009 to 2015, he was Director of Purchasing and Logistics at Aeroflot. Before that, from 1998 to 2009, he held management positions at several large telecom companies, as well as the petrochemicals holding Sibur.

Alexey is a graduate of the State University of Management (Russia) and holds a degree in Project Management from George Washington University (US). He also has an MBA from Kingston University (UK) and a diploma in Strategy and Innovation from Oxford University's Saïd Business School (UK).

Andriy Yemchenko

Chief Technology Officer

Andriy Yemchenko has been Chief Technology Officer since March 2018. Before joining the Group, he worked at Donetsksteel, including as Deputy CEO for Strategic Development from 2007 to 2018 and as Director for Corporate Planning from 2004 to 2007. He worked at Consortium Energo in the role of Deputy CEO from 1993 to 2004.

Andriy holds both a diploma and a PhD in Metal Treatment Under Pressure from Donetsk Polytechnic University (Ukraine).

Svitlana Romanova

Chief Legal Officer

Svitlana Romanova joined Metinvest in 2012. Before that, she was a Partner in the Kyiv office of Baker and McKenzie CIS Limited, the global law firm's regional business, from 2008 to 2012, having previously served as a lawyer there from 2000. Svitlana also covered CIS issues at Cargill in the US from 1998 to 2000.

Svitlana has a master's degree in International Law and Translation (English) from the Kyiv Taras Shevchenko National University (Ukraine), as well as an LLM in International and Comparative Law from the University of Iowa's College of Law (US). She has also completed coursework in International Management at the University of St Thomas Graduate School of Business (St Paul, Minnesota, US).

Olga Ovchinnikova

Economics and Business System Development Director

Olga Ovchinnikova has been Economics and Business System Development Director since April 2018. Prior to that, she served as Logistics and Procurement Director from 2014 and Logistics Director since February 2013, having been Logistics Director of the Supply Chain Management directorate from 2012 to 2013. Before joining the Group, from 2006 to 2012, she headed the logistics department of Severstal Resource, the raw materials division of the Russian steelmaker. From 2002 to 2006, she headed the operations department at Alyanstransoil, part of Alliance Oil.

Olga has master's degrees in Economics and Transportation Management from Moscow State University of Railway Engineering (Russia) and in Logistics and Supply Chain Management from the Higher School of Economics in Moscow (Russia).

Dmytro Nikolayenko

Sales Director

Dmytro Nikolayenko became Sales Director in August 2011, having previously headed the same function in the Steel and Rolled Products division since 2010. Before that, he was a Director at Metinvest-SMC, a sales unit, from 2007 to 2010; SM Leman, its predecessor, from 2003 to 2007; and Energostal from 1996 to 2003.

Dmytro holds a degree in Economics from the Kyiv-Mohyla Academy and an MBA from the International Management Institute (Kyiv, Ukraine).

Iuliia Dankova

Chief Financial Officer

Iuliia Dankova became Chief Financial Officer in July 2016, having been the interim Chief Financial Officer since March of that year. Before that, she was the Director of the Controlling department in the Finance directorate from 2015, and the Financial Control Director of the Mining division from 2010. From 2006 to 2010, Iuliia headed the Finance department at the Group's iron ore mining and enrichment assets in Kryvyi Rih. From 2001 to 2003, she worked in the Bank Card department in the Kyiv branch of UkrSibbank; and from 2000 to 2001, she was an Economist in the Sales and External Economic Relations department at Southern GOK.

Iuliia holds an MBA from the LINK International Institute of Management (Russia) and a diploma with honours in Foreign Trade Management from Kryvyi Rih Technical University (Ukraine).

Aleksei Komlyk

Chief Sustainability Officer

Aleksei Komlyk became Metinvest's Chief Sustainability Officer in October 2019. In this new role, he oversees the Sustainable Development and People Management Directorate, which was created to streamline several interrelated functions, including, health and safety, environment, human resources and social policy, public relations (PR) and regional development. Prior to that, he was PR and Regional Development Director from November 2013. Before that, from 2011 to 2013, he served as Managing PR Director at AFK Sistema (Russia). From 2008 to 2011, he was Managing Partner at Mosso Communication Agency (Austria). He previously worked at Uralkali (Russia), serving as Vice President of PR from 2006 to 2008 and as Head of the Media Relations Office from 2003 to 2006.

Aleksei holds an executive MBA from the Institute for Management Development (Lausanne, Switzerland) and a degree in English and German from Irkutsk State Pedagogical University (Russia).

Sergiy Detyuk

Chief Information Officer

Sergiy Detyuk was appointed as Chief Information Officer in March 2016. He has also been Chief Executive Officer at Metinvest Digital LLC, the IT spinoff company of Metinvest Holding, since September 2018. Before that, he worked at DTEK as Chief Information Officer from 2009 to 2016 and Deputy Finance Director for IT from 2007 to 2009. Prior to DTEK, he headed the Information Technology department at Dniprospetsstal from 2006 to 2007 and at ISTIL from 2004 to 2006. From 2000 to 2004, he was Deputy Manager of a project to create a corporate information system at Ukrpidshypnyk.

Sergiy has completed a corporate MBA programme at the London School of Business (UK, Ukraine) and has an MBA from Kyiv-Mohyla Business School (Ukraine). He also holds a master's in Computer Programming and a diploma in Financial Economics, both from Donetsk State Technical University (Ukraine).

Oleg Shudra

Internal Audit Director

Oleg Shudra was appointed as Internal Audit Director in April 2015, having been Director of the Controlling department since 2010. He joined Metinvest from PwC (Ukraine), where he served as Director from 2008 to 2010 and Senior Manager from 2005 to 2008.

Oleg has a master's degree in Production Management from Kyiv National Economic University (Ukraine). He is a CFA® charterholder and a fellow of the Association of Chartered Certified Accountants (FCCA).

GOVERNANCE CODES AND POLICIES

Despite being privately held, Metinvest believes that it is important to have a strong corporate governance structure in place, underpinned by codes and policies appropriate for groups of its size with operations and sales offices around the world.

For this purpose, the Group employs internal transparency, accountability and anti-corruption safeguards, among which are the Code of Ethics, Compliance Programme, Procedure for Declaring Conflicts of Interest, Policy on Supplier Selection and Procedure on Anti-Money Laundering and Countering the Financing of Terrorism.

CODE OF ETHICS

Metinvest's Code of Ethics establishes core ethical and business standards, including in anti-corruption, to which all employees and management must adhere. The Code of Ethics is built around the following core values in dealing with colleagues, business partners, debt and equity providers, communities and government authorities: health and the environment, customer focus, professionalism, leadership, teamwork, non-discrimination and lawfulness. These principles are communicated through the personal example of leadership, as well as ongoing training and communication campaigns that aim to promote the Code of Ethics.

Metinvest's Code of Ethics is available for stakeholders to read at: https://metinvestholding.com/en/about/ethic.

Metinvest has conducted training on its Code of Ethics since 2014 and uses tests to evaluate how well its employees understand it. While the scope of testing was initially limited to senior executives at the Group's enterprise, since September 2019, these tests have been a mandatory element of the online Code of Ethics training for all staff. Over September-December 2019, a total of 31,856 employees passed an online Code of Ethics test, with around 62% correctly answering 21-24 questions out of 24 and the remaining 38% correctly answering 11-20 questions out of 24. This indicates a high average level of understanding of the principles underlying the Code of Ethics.

TRUST LINE

Since 2013, Metinvest has used the Trust Line maintained by SCM, one of the Group's shareholders, to serve as an important element of transparency and responsibility, allowing stakeholders to anonymously report violations of the law, breaches of business conduct and corporate ethics, as well as non-compliance with standards and the principles of the Group's Code of Ethics.

In 2019, a total of 746 reports were submitted via the Trust Line, 359 of which were confirmed in relation to such areas as violations of internal procedures, HR cases and others. For comparison, in 2018, a total of 722 reports were submitted via the Trust Line, 363 of which were confirmed. Such statistics suggest that Metinvest's stakeholders feel empowered to speak up and report their concerns.

In 2019, the Code of Ethics was amended to update the contact information for the Trust Line and reflect the Group's current organisational structure. The Trust Line is available through the following channels:

Toll free number within the borders of Ukraine:
0800 60 07 77
International number: +38 044 224 72 32
Email: trustline@scm.com.ua
Web: www.scm.com.cy/trust-line

COMPLIANCE PROGRAMME

Metinvest introduced the Compliance Programme in order to ensure that all employees follow all ethical and legal standards when conducting business, to prevent any legal violations both in Ukraine and internationally, as well as to promote compliance as a core aspect of the Group's corporate culture. The Compliance Programme encompasses all the Group's enterprises and provides for the issuance of compliance policies, training, reporting, control, support, using disciplinary sanctions and other activities aimed at improving the programme and evaluating its implementation and efficiency.

CONFLICTS OF INTEREST

Metinvest recognises that each of its employees has their own individual interests and encourages their development, especially where they are beneficial to the community at large. However, it also understands the necessity for its employees to avoid activities where a conflict exists between their interests and those of the Group.

Metinvest's Procedure for Declaring Conflicts of Interest requires employees to inform their direct supervisor and the legal team in a timely manner about a real or potential conflict of interest, which it defines as any situation wherein the personal interests of an employee performing their regular job duties contradict or might contradict the Group's interests, including, but not limited to, situations when such personal interests affect or might affect the objectivity of business decision making and/or reduce or might reduce the efficiency of the employee in relation to the Group.

All employees holding management positions are required to submit declarations confirming that they do not have any conflicts of interest or declaring any issues. Such declaration is required further to employment in management positions (initial declaration), in case any real or potential conflict appears during the year (current declaration) and once a year regardless of whether there is a conflict (annual declarations). In 2019, 99% of all declarants submitted their annual declarations. During the year, 30 such forms were filed disclosing a conflict of interest.

ETHICS COMMITTEE

To ensure that the tone is set from the top, an Ethics Committee was established. The Committee, which is chaired by Metinvest's CEO and includes the senior management, meets once a quarter to discuss the implementation of the Compliance Programme throughout the Group, take decisions concerning conflicts of interest and review reports received via the Trust Line. Additionally, the progress of tasks on the Compliance Programme agenda is reported on a quarterly basis at meetings of the Supervisory Board's Audit and Finance Committee and annually at a meeting of the Supervisory Board.

SUPPLIER SELECTION

Metinvest's success relies on building strong relationships of mutual respect and trust with its suppliers. The Policy on Supplier Selection codifies these principles to ensure that the Group always seeks to work with partners and contractors who share its ethical and business principles, including those regarding health, safety and the environment, by conducting supplier assessments via pre-qualification and pre-contract procedures.

Metinvest employs a competitive and transparent tender procedure that evaluates offers for compliance with the specified procurement parameters. The Tender Committee, which consists of a minimum of three members from different departments, considers certain approved criteria, including price, quality, delivery and payment terms, guarantees, etc.

Information about major future tenders is published on the Group's website a minimum of three days in advance. In addition, Metinvest uses the SAP Ariba digital commerce solution for competitive supplier choice, which ensures rapid and high-quality online information exchange with bidders.

New suppliers, and existing suppliers requiring requalification, are required to undergo a pre-qualification procedure in the corresponding purchasing area (category or group of materials, works or services). Each supplier seeking pre-qualification must confirm their familiarisation with the Code of Ethics and agree to comply with it. The Group notifies pre-qualified suppliers of new purchases and invites them to participate in the competitive procurement process.

Metinvest is committed to creating supply chain capable of tracking the origin of goods in order to assess and control the associated risks. In mid-2018, the Group introduced a mandatory pre-contractual supplier assessment. In 2019, around 11,000 pre-contract assessment procedures were conducted, during which Metinvest assessed suppliers' technical, financial and organisational capacities, supply chain, staffing and equipment safety via field visits and documentary review.

The Group reserves the right to disqualify suppliers for a specified period or indefinitely in the event of unfair business with its companies. In 2019, around 60 suppliers were disqualified. Disqualification criteria are published on Metinvest's website. The Group notifies counterparties of the reasons and terms of their disqualification so as to provide feedback and give them the opportunity to improve their corporate governance culture to comply with high ethical standards and eliminate any deficiencies.

GOVERNANCE CODES AND POLICIES CONTINUED

ANTI-MONOPOLY COMPLIANCE

Metinvest complies with all competition laws in the countries where it operates. The need to comply with requirements for fair competition is spelled out in the Group's Code of Ethics. The Group has approved anti-trust compliance policies that are in place at its largest enterprises. Metinvest's legal team has set up an anti-monopoly compliance unit and introduced procedures that allow for monitoring compliance with anti-monopoly laws. This reduces the likelihood of such risks and their materiality. No fines and/or sanctions for anticompetitive behaviour were imposed on the Group during the reporting period.

Metinvest follows the requests and requirements of relevant anti-monopoly authorities. Its lawyers are responsible for collecting and systematising information, as well as monitoring the timing and completeness of information provided in response to such requests and requirements. In addition, the Group's lawyers analyse the need for preliminary approval of the anti-monopoly authorities when it participates in M&A transactions and works with the relevant authorities on such projects as needed.

Further, management training is held on an annual basis to provide instruction on the identification and prevention of actions that may be indicative of competitive violations.

AML/CFT

Metinvest's Procedure on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) requires obligatory compliance due diligence checks of all counterparties, including for watchlists covering sanctions, terrorism, money laundering, dual/military-use products, corruption and other areas of interest. Additionally, automatic sanctions checks are in place for all counterparties registered in SAP MDG (Metinvest's counterparties pool).

In 2019, Metinvest also checked 566 transactions for risk of violation of economic sanctions and AML/CFT regulations, of which 22 resulted in a ban on cooperation.

ANTI-CORRUPTION AND ANTI-BRIBERY

Many of the countries where Metinvest operates have adopted anti-corruption laws that seek to prevent companies and individuals from gaining undeserved benefits. The Group strictly follows these laws in its daily operations. Metinvest does not offer or take bribes, nor does it promote corruption. The Group is committed to working with counterparties and business partners whose reputation is not associated with corruption and bribery. For this purpose, Metinvest's Code of Ethics specifies the rules that all employees must follow in terms of anti-corruption and anti-bribery.

In 2019, an audit of procurement and sales processes was conducted, and potential areas of fraud and corruption risks were identified. The level of effectiveness of existing preventive measures was tested and corrective measures were proposed to minimise risks. The audit included an overall assessment of the organisation, as well as the internal control environment and risk management in the above-mentioned processes throughout the Group.

The audit confirmed that the procurement management was performed according to the principles of categorisation, the procurement process had the required level of automation, the principle of segregation of duties proved to be implemented, the goal-setting process was organised at a high level and no conflicts of interest were identified for key procurement personnel. Out of four possible levels of importance (critical, high, medium and low), the audit recommendations were predominantly in the low category. Based on the audit results, the management approved the recommendations, which were implemented to improve the efficiency of the procurement processes. The internal audit department regularly monitors the implementation of these recommendations.

In addition, the list of job positions with high-risk of potential fraud and corruption violations was updated and expanded, and additional risk management measures were introduced during the reporting period.

Metinvest performs mandatory anti-corruption verification of suppliers and customers, while operations with representatives of the public sector and programmes for financing social projects receive special scrutiny.

All internal and external candidates for senior and high-risk positions are subject to mandatory internal security screening. Former government officials and politicians are subject to more detailed verification.

In 2019, there were no reported and confirmed cases of corruption violations.

INTERNAL AND EXTERNAL AUDIT

Metinvest maintains an internal audit function as an independent body within the Group to assist management in achieving the Group's strategic objectives through the systematic monitoring and evaluation of risk management, internal controls and governance areas. In addition, Metinvest engages an independent auditor to audit its financial statements to ensure they give a true and fair view of the Group's financial performance.

INTERNAL AUDIT

Metinvest's Internal Audit Directorate is an independent appraisal function established within the Group to examine and evaluate its activities.

Key Internal Audit roles include:

– Helping management to achieve strategic objectives by using a systematic and consistent approach to risk assessment, improving the effectiveness of the risk management process, control systems and corporate governance in accordance with best practices
– Assisting management in evaluation and development of appropriate/efficient internal controls within existing/newly introduced key processes by providing quality assurance to other functions
– Ensuring that all key risks are identified and continuously updated and covered by existing processes or initiatives launched by management
– Ensuring that operational risks are monitored by management in a structured and efficient manner and any significant gaps in operational controls are addressed by management in real time
– Applying an aligned assurance approach throughout the organisation where all audit activities of all functions are coordinated, minimum audit quality standards are set with the appropriate process of prioritisation of recommendations and monitoring of their implementation.

The independence of the Internal Audit function is ensured by its direct line of reporting to the Chairman of the Supervisory Board's Audit and Finance Committee.

The function consists of the following streams:

– Supply Chain Management and Sales
– Mining and Metallurgical Operations
– CAPEX and Technology
– Finance, Strategy and HR
– Proactive IT Assurance
– Strategic and Operational Risks
– Extended Operational Audit.

This structure ensures expertise and knowledge in the Group's various business processes and technologies. The function has highly qualified personnel with a wide range of professional experience, as well as such certifications and qualifications as certified internal auditor, certified information security manager, chartered financial analyst, project management professional and chartered certified accountant.

During 2019, Internal Audit accomplished 45 engagements according to the approved audit plan. Key areas of attention included production, supply of raw materials and services management, internal logistics, risk management, IT integrity and effectiveness of operations as well as the efficiency of maintenance and repair.

Management is responsible for ensuring that the issues raised by Internal Audit in its work process are addressed in a timely manner. During 2019, as part of a project to increase the efficiency of the Internal Audit process, the function initiated a self-disclosure process among Group companies to identify key areas for performance improvement. Around 200 areas for performance improvement were disclosed by management, the most important of which are included in Metinvest's objectives for 2020.

The Internal Audit Director periodically assesses whether the purpose, authority and responsibility of the Internal Audit function continue to enable it to accomplish its objectives. As a result of the assessment and the evolving nature of its responsibilities, a review of the Internal Audit function's organisational structure has been initiated, which has prompted a change from specialisation by expertise to a functional approach that brings clarity to the type of services provided to the organisation and allows for more efficient management.

Beginning in 2019, and continuing in 2020, the Internal Audit function is working to implement an aligned assurance concept to provide better risk coverage by coordinating the efforts of all assurance functions within the organisation. The current focus is placed on the alignment of monitoring controls.

EXTERNAL AUDITOR

Since 2007, the Group has prepared its consolidated financial statements in accordance with IFRS as adopted by the EU and has engaged an independent external auditor to audit them each year. For the 12 months ended 31 December 2019, Metinvest has engaged PwC to perform this external audit and provide an opinion on the IFRS consolidated financial statements. The measures in place to safeguard the independence of the external auditor and ensure a high quality of services include mandatory rules requiring rotating the signing partner and obtaining pre-approval for all non-audit services.

READY FOR A CHANGING WORLD

Metinvest operates in a complex and changing world, and its continued success requires the management to identify and mitigate the risks inherent in the business to ensure the Group's long-term sustainability.

CONTROL ENVIRONMENT

Metinvest maintains a rigorous risk-management system. This ensures that the Group's management is provided with the right tools to identify, assess and mitigate risks that may arise in day-to-day business activity as well as in project planning and strategic decision making. The goal of the risk management system is to ensure the safety of people, safeguard and enhance the value of assets, protect the reputation of the Group and help Metinvest to achieve operational and financial performance goals in line with its plans.

Metinvest assesses the impact of global processes on its business, including economic downturns, diminishing demand for metallurgical products and worsening trade relations. The Group recognises that its sustainable development requires the effective adaptation of its business model to the changing expectations of society, customers, employees, suppliers, creditors and shareholders.

The risk management structure assigns responsibilities, roles and authorities for all management levels.

RISK MONITORING

The Group's Executive Team reviews the results of monitoring of strategic risks and their dynamics on a quarterly basis. Key priorities are defined and additional corrective measures are decided upon. Metinvest conducts annual reviews of the effectiveness of operational risk management through a customised internal control assessment system – at all of the Group's enterprises, on all key business processes. The results of the assessments and the key issues identified are communicated to relevant senior management for analysis and further decisions; and to members of the Audit and Finance Committee.

The operating risk monitoring system is built into management and internal audit practices, the results of the assessments are used to prepare audit plans and plans for internal consulting projects, and the assessments are updated based on the results of the audit projects.

RISK MANAGEMENT PRACTICE

The Group has implemented a risk management structure that includes responsibilities, roles and authorities assigned for each key management position.

The Risk Management and Internal Control Policy of Metinvest supports risk-based decision making. The conceptual basis of the policy is the Organisation Risk Management Methodology developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). In 2020, it is planned to update this Group policy to align it with international best practices and most recent development in the area of risk management. A dedicated unit that is part of the Internal Audit Directorate performs a coordinating role in building and maintaining the risk management system on the Group level, while first-hand risk management is the responsibility of the relevant operational management. In the development of corporate risk management requirements, Metinvest uses local risk management subsystems in the areas of business planning, tax management, PR, health and safety, CAPEX, credit management, outsourcing, security and anti-fraud management, information security and management of emergency situations. This allows the management to take decisions based on the results of the analysis of specific risks.

Annual business planning is accompanied by the preparation of Metinvest's risk map for the year, which includes key risks that may affect the achievement of business goals. Together with business risks such as market, operational, financial, liquidity and other risks, the Group analyses and assesses non-commercial risks, including the following, among others:

- Environmental impact of production;
- Health and safety of employees and contractors;
- Social risks of employees and local communities;
- Compliance with ethical requirements;
- Information security of personal data.

The risk assessment is performed based on a unified corporate scale. When assessing the probability of a risk materialising and its potential impact on the Group, Metinvest also regularly analyses its existing risk management measures and includes additional ones if required.

COVID-19 PANDEMIC

The novel coronavirus that causes the disease known as COVID-19 had a global impact beginning in February 2020, after the reporting period, including on the Group's operations.

Risk management measures related to the pandemic are being carried out by the Metinvest anti-crisis headquarters, which is headed by the Group's CEO. The headquarters has been operating at the Group level since 2017 to rapidly respond to crisis situations of strategic importance. To implement its decisions, anti-crisis centres were created at each of Metinvest's production assets, which coordinate their efforts to prevent, contain and treat COVID-19.

The following actions have been undertaken to ensure the continuity of business processes:

- preventive measures to reduce the risk of the COVID-19 virus spread among employees
- specific response measures in the event of illnesses among employees of the Group's enterprises
- daily monitoring over a number of COVID-19 cases in the local communities where Metinvest is present
- arrangement of transportation for Group employees to their workplace where local authorities have suspended public transport services.

The anti-crisis centres apply international experience in battling this virus spread and study the experience of other companies in managing this risk.

SCALE OF RISK ASSESSMENT FOR 2020

PROBABILITY

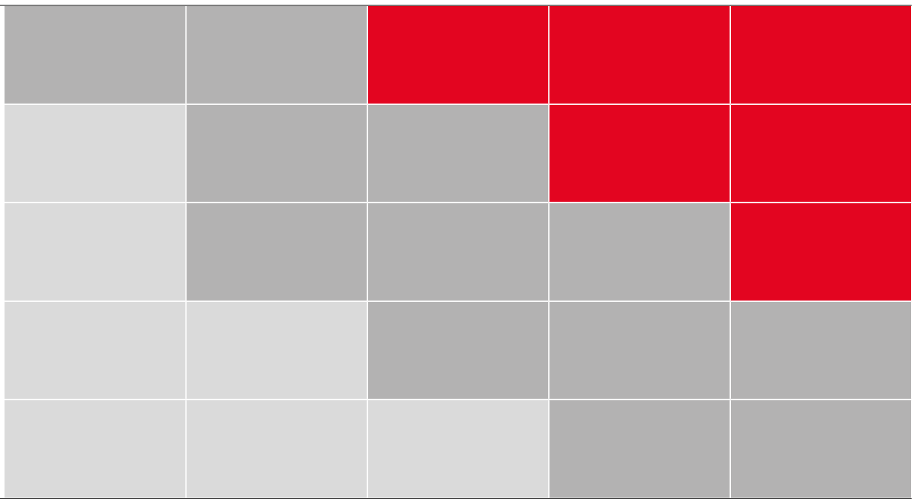
5 — >60% Risk will definitely be realised

4 — 41%-60% Risk is likely to be realised

3 — 21%-40% Probability of risk occurrence is rather high

2 — 5%-20% Risk is unlikely to be realised

1 — <5% Risk will not be realised



IMPACT
Effect on various aspects of Metinvest's activity

	1	2	3	4	5
Financial losses (effect on EBITDA and cash flows)	<0.1%	0.1%-1.5%	1.5%-3.5%	3.5%-5%	>5%
Effect on Metinvest's value	Minor	Small	Medium	High	Critical
Labour safety	Light injuries to one or several employees.	Severe injuries to one employee resulting in partial or total disability.	Severe injuries to several workers resulting in partial or total disability.	Single fatal incident.	Two or more fatal incidents.
Reputation	Minor impact on reputation. Negative mention in the local press.	Short-term, easily recoverable damage to reputation. Article in local media with negative coverage of the Company's activity.	Significant damage to reputation. Recovery of reputation will take several months. Negative article in local and national media.	Damage to reputation that is hard to recover from. Incurrence of financial and other losses. Negative coverage at the national level or short-term coverage at an international level.	Irretrievable damage to reputation that leads to significant financial and other losses. Prolonged and negative media coverage on the national and international levels.
Quality of goods sold	100% of products meet order specifications. Product characteristics allow Group to meet customers' requirements for the next 10 years without capital investments.	> 99.5% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 8 years without capital investments.	> 99.0% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 6 years without capital investments.	> 98.5% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 4 years without capital investments.	< 98% of products meet order specifications. Product characteristics allow for meeting customers' requirements for the next 2 years without capital investments.
Information security	Slowdown in execution of business processes. A stop in the work of an employee or a small group of workers.	Stoppage in fulfilment of production tasks by certain employees with minor impact on business. Loss of non-critical information resources with an acceptable recovery time of 8-48 hours. Information leak that can stop the work of a business unit.	A stop in delivering certain business processes with a medium financial and other losses for business. Loss of information resources with an acceptable recovery time of 4-8 hours. Information leak that may lead to a partial or complete stoppage of asset operations.	Shutdown of operations at an asset and significant financial and other losses for business. Loss of critical information resources with an acceptable recovery time up to 4 hours. Leak of personal data and/or confidential information.	Shutdown of operations across the Group. Complete and irrecoverable loss of critical information resources. Leak of strictly confidential information and critical personal data.

CREATING STRONGER TIES

WORKING WITH ECAs TO FUND TECHNOLOGICAL INVESTMENT

Over the last three years, Metinvest has invested around US$2.5 billion in CAPEX to advance the implementation of its Technological Strategy 2030. To fund it, the Group has focused on attracting lower interest rates and longer-term financing and, since 2018, has arranged four facilities backed by European export credit agencies (ECAs) totalling more than EUR110 million. These credit lines have facilitated projects designed to produce higher value-added products and upgrade steelmaking-related equipment at Ilyich Steel, as well as reduce the environmental footprint in Mariupol.

In 2018, an eight-year loan for EUR43.2 million was secured for the construction of continuous casting machine no. 4 (pictured opposite). This loan, for equipment from Primetals Technologies Austria (Primetals), was granted by Raiffeisen Bank International AG (RBI) and underwritten by OeKB, an Austrian ECA. In 2019, another nine-year facility of EUR34.4 million was secured from ODDO BHF and backed by OeKB to finance the revamp of the hot strip mill (HSM) 1700 using solutions provided by Primetals.

Another two buyer's credit facilities, signed in 2019, became effective in 2020. A EUR24.4 million loan was attracted from RBI for the construction of the oxygen complex using technology supplied by Air Liquide. It was covered by Bpifrance Assurance Export, a French ECA, and has an almost 11-year tenure, the longest maturity received by Metinvest. Another ten-year EUR9.8 million facility was secured from RBI and backed by OeKB to finance the purchase of a hydraulic down coiler from Primetals for the HSM 1700.

ECA-COVERED FINANCING SECURED SINCE 2018

>EUR110M

FINANCIAL STATEMENTS

In this section:

FINANCIAL STATEMENTS

METINVEST B.V.
SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2019

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INDEPENDENT AUDITOR'S REPORT

To: the board of directors of Metinvest B.V.

REPORT ON THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS 2019

OUR OPINION

In our opinion, the accompanying summary IFRS consolidated financial statements 2019 of Metinvest B.V. ('the Company'), are consistent, in all material respects, with the audited statutory financial statements, on the basis described in Note 1.

THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

The Company's summary IFRS consolidated financial statements derived from the audited statutory financial statements for the year ended 31 December 2019 comprise:

– the summary consolidated balance sheet as at 31 December 2019;
– the summary consolidated income statement for the year then ended;
– the summary consolidated statement of comprehensive income for the year then ended;
– the summary consolidated statement of changes in equity for the year then ended;
– the summary consolidated statement of cash flows for the year then ended; and
– the related notes to the summary IFRS consolidated financial statements.

The summary IFRS consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards as adopted by the European Union and Part 9 of Book 2 of the Dutch Civil Code. Reading the summary IFRS consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited statutory financial statements and the auditor's report thereon.

The audited statutory financial statements and the summary IFRS consolidated financial statements do not reflect the events that occurred subsequent to the date of our report on the audited statutory financial statements.

THE AUDITED STATUTORY FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

We expressed an unmodified audit opinion on the audited statutory financial statements in our report dated 26 February 2020. That report also includes:

– The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the statutory financial statements of the current period.

RESPONSIBILITIES OF MANAGEMENT FOR THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the summary IFRS consolidated financial statements in accordance with the basis described in Note 1.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the summary IFRS consolidated financial statements are consistent, in all material respects, with the audited statutory financial statements based on our procedures, which were conducted in accordance with Dutch Law, including the Dutch Standard on Auditing 810 'Engagements to report on summary financial statements'.

Amsterdam, 26 February 2020
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.G.J. Gerritsen RA

Metinvest B.V. – CJCDMUWRQJDN-1924338701-43

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SUMMARY CONSOLIDATED BALANCE SHEET
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Goodwill	8	601	594
Other intangible assets	9	140	119
Property, plant and equipment	10	6,354	4,490
Investments in associates and joint ventures	11	1,301	1,066
Deferred tax asset	26	85	80
Trade and other receivables	13	842	405
Total non-current assets		**9,323**	**6,754**
Current assets			
Inventories	12	1,185	1,347
Income tax prepaid		27	7
Trade and other receivables	13	3,028	2,790
Cash and cash equivalents	14	274	280
Total current assets		**4,514**	**4,424**
TOTAL ASSETS		**13,837**	**11,178**
EQUITY			
Share capital	15	0	0
Share premium	15	6,225	6,225
Other reserves	16	(7,804)	(9,144)
Retained earnings		8,411	8,264
Equity attributable to the owners of the Company		6,832	5,345
Non-controlling interest	17	98	58
TOTAL EQUITY		**6,930**	**5,403**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	18	2,442	2,194
Retirement benefit obligations	20	597	411
Deferred tax liability	26	273	240
Other non-current liabilities	21	195	196
Total non-current liabilities		**3,507**	**3,041**
Current liabilities			
Loans and borrowings	18	590	489
Deferred consideration and seller's notes	19	–	60
Income tax payable		31	59
Trade and other payables	22	2,779	2,126
Total current liabilities		**3,400**	**2,734**
TOTAL LIABILITIES		**6,907**	**5,775**
TOTAL LIABILITIES AND EQUITY		**13,837**	**11,178**

Signed and authorised for release on behalf of Metinvest B.V. on 26 February 2020:

Originally signed by Managing Director A, Yuriy Ryzhenkov

Originally signed by Managing Director B, ITPS (Netherlands) B.V.

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

SUMMARY CONSOLIDATED INCOME STATEMENT
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	7	10,757	11,880
Net operating costs (excluding items shown separately)	23	(10,270)	(10,246)
Impairment of property, plant and equipment	10	(84)	(5)
Impairment of financial assets	13	(78)	(73)
Operating profit		**325**	**1,556**
Finance income	24	253	68
Finance costs	25	(276)	(334)
Share of result of associates and joint ventures		86	173
Profit before income tax		**388**	**1,463**
Income tax expense	26	(47)	(275)
Profit for the year		341	1,188
Profit is attributable to:			
Owners of the Company		331	1,145
Non-controlling interests		10	43
Profit for the year		**341**	**1,188**

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

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year		**341**	**1,188**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss:			
Revaluation of property plant and equipment	10	1,164	–
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment		(310)	(5)
Remeasurement of retirement benefit obligation	20	(80)	(11)
Share in other comprehensive income/(loss) of joint ventures and associates	11	44	25
Income tax related to items that will not be reclassified subsequently to profit or loss		(131)	1
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		859	30
Total other comprehensive income		**1,546**	**40**
Total comprehensive income for the period		**1,887**	**1,228**
Total comprehensive income attributable to:			
Owners of the Company		1,847	1,185
Non-controlling interests		40	43
Total comprehensive income for the period		**1,887**	**1,228**

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

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Cash flows from operating activities			
Profit before income tax		388	1,463
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	23	704	550
Impairment of property, plant and equipment and intangible assets	10	84	5
Gain on disposal of property, plant and equipment and intangible assets	23	(5)	(10)
Finance income	24	(253)	(68)
Finance costs	25	276	334
Foreign exchange losses less gains/(gains less losses), net	23	(57)	70
Net change in retirement benefit obligations, except for interest costs, remeasurements and currency translation	20	(19)	(17)
Impairment of trade and other accounts receivable	13	78	73
Share of result of associates and joint ventures	11	(86)	(173)
Write-down/(reversal of write-down) of inventories, net	12	27	9
Write-off of trade and other payables	23	(23)	(33)
Other non-cash operating income, net		(13)	3
Operating cash flows before working capital changes		**1,101**	**2,206**
Decrease/(increase) in inventories		340	(130)
Increase in trade and other accounts receivable		(328)	(547)
Increase in trade and other accounts payable		151	177
Cash generated from operations		**1,264**	**1,706**
Income taxes paid		(240)	(315)
Interest paid		(210)	(288)
Net cash from operating activities		**814**	**1,103**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(895)	(770)
Proceeds from sale of property, plant and equipment		3	–
Acquisition of associates		(1)	(30)
Loans issued		(146)	(46)
Interest received		17	18
Dividends received		124	418
Other payments		(45)	(20)
Net cash used in investing activities		**(943)**	**(430)**
Cash flows from financing activities			
Repayment of seller's notes and deferred consideration	18	(55)	(137)
Payments for loans commission		(33)	(79)
Proceeds from loans and borrowings	18	871	1,460
Repayment of loans and borrowings	18	(586)	(1,838)
Net trade financing proceeds	18	37	79
Acquisition of non-controlling interest		(6)	(50)
Dividends paid		(100)	(58)
Other finance costs		(5)	(20)
Net cash used in financing activities		**123**	**(643)**
Effect of exchange rate changes on cash and cash equivalents		–	(9)
Net increase in cash and cash equivalents		**(6)**	**21**
Cash and cash equivalents at the beginning of the year		**280**	**259**
Cash and cash equivalents at the end of the year		**274**	**280**

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

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
ALL AMOUNTS IN MILLIONS OF US DOLLARS

	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2018	**0**	**6,225**	**(8,934)**	**6,819**	**4,110**	**123**	**4,233**
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	–	–	(5)	–	**(5)**	–	**(5)**
Share in other comprehensive income of joint venture and associates (Note 11)	–	–	25	–	**25**	–	**25**
Remeasurement of retirement benefit obligation (Note 20)	–	–	–	(11)	**(11)**	–	**(11)**
Income tax relating to components of other comprehensive income (Note 26)	–	–	1	–	**1**	–	**1**
Currency translation differences	–	–	30	–	**30**	–	**30**
Other comprehensive loss for the period	**–**	**–**	**51**	**(11)**	**40**	**–**	**40**
Profit for the period	–	–	–	1,145	**1,145**	43	**1,188**
Total comprehensive income/(loss) for the period	**–**	**–**	**51**	**1,134**	**1,185**	**43**	**1,228**
Acquisition of non-controlling interest in subsidiaries	–	–	–	50	**50**	(106)	**(56)**
Realised revaluation reserve, net of tax	–	–	(261)	261	**–**	–	**–**
Dividends declared by non-wholly-owned subsidiaries	–	–	–	–	**–**	(2)	**(2)**
Balance at 31 December 2018	**0**	**6,225**	**(9,144)**	**8,264**	**5,345**	**58**	**5,403**
Revaluation of property, plant and equipment (Note 10)	–	–	830	–	**830**	24	**854**
Share in other comprehensive income of joint venture and associates (Note 11)	–	–	60	(16)	**44**	–	**44**
Remeasurement of retirement benefit obligation (Note 20)	–	–	–	(78)	**(78)**	(2)	**(80)**
Income tax relating to components of other comprehensive income (Note 26)	–	–	(142)	15	**(127)**	(4)	**(131)**
Currency translation differences	–	–	847	–	**847**	12	**859**
Other comprehensive income/(loss) for the period	**–**	**–**	**1,595**	**(79)**	**1,516**	**30**	**1,546**
Profit for the period	–	–	–	331	**331**	10	**341**
Total comprehensive income/(loss) for the period	**–**	**–**	**1,595**	**252**	**1,847**	**40**	**1,887**
Realised revaluation reserve, net of tax	–	–	(255)	255	**–**	–	**–**
Dividends declared	–	–	–	(360)	**(360)**	–	**(360)**
Balance at 31 December 2019	**0**	**6,225**	**(7,804)**	**8,411**	**6,832**	**98**	**6,930**

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

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019

1 METINVEST B.V. AND ITS OPERATIONS

Metinvest B.V. (the "Company" or "Metinvest"), is a private limited liability company registered in the Netherlands, The Company is beneficially owned by Mr Rinat Akhmetov, through various entities commonly referred to as System Capital Management (SCM), and Mr Vadim Novinsky, through various entities commonly referred to as "SMART" or "SMART GROUP".

The Company and its subsidiaries (together referred to as the "Group" or "Metinvest Group") are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production. The steel products, iron ore and coke and coal are sold on both the Ukrainian and export markets.

As of 31 December 2019 and throughout the periods presented in these consolidated financial statements, Metinvest B.V. is owned 71.24% by SCM Limited (Cyprus) and 23.76% by companies of the Smart Group. The remaining 5% interest in the Company in the form of Class C shares has been acquired from the previous owners of Ilyich Group for the benefit of SCM and SMART. It is the intention of SCM and SMART to dispose of the said 5% interest in due course (after receipt of respective governmental approvals, if such will be necessary), and in such manner that the ultimate interest of SCM in the Company shall be 75% minus 1 share, and the ultimate interest of SMART in the Company shall be 25% plus 1 share, thus SCM remaining as the controlling shareholder.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective % interest as at 31 December 2019	2018	Segment	Country of incorporation
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
Metinvest Management B.V.	100.0%	100.0%	Corporate	Netherlands
PrJSC Azovstal Iron and Steel Works	100.0%	100.0%	Metallurgical	Ukraine
PrJSC Yenakiieve Iron and Steel Works	92.2%	92.2%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PrJSC Khartsyzsk Pipe Plant	98.5%	98.5%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	100.0%	100.0%	Metallurgical	Italy
Metinvest Trametal S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	100.0%	100.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	100.0%	100.0%	Metallurgical	Bulgaria
PrJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PrJSC Ilyich Iron and Steel Works	100.0%	100.0%	Metallurgical	Ukraine
PrJSC Avdiivka Coke Plant	100.0%	100.0%	Metallurgical	Ukraine
PrJSC Zaporizhcoke	56.9%	56.9%	Metallurgical	Ukraine
PrJSC Donetskcoke	93.8%	93.8%	Metallurgical	Ukraine
PrJSC Northern Iron Ore Enrichment Works	96.8%	96.8%	Mining	Ukraine
PrJSC Central Iron Ore Enrichment Works	100.0%	100.0%	Mining	Ukraine
PrJSC Ingulets Iron Ore Enrichment Works	100.0%	100.0%	Mining	Ukraine
PrJSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC (UCC)	100.0%	100.0%	Mining	USA
PrJSC Krasnodon Coal Company	99.9%	99.9%	Mining	Ukraine

As at 31 December 2019, the Group employed approximately 66 thousand people (31 December 2018: 66 thousand).

The Company's registered address is Nassaulaan 2A, 2514 JS, The Hague. The company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, UK and the USA.

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Supervisory Board on 20 February 2020.

For better understanding of Metinvest's financial position and the results of operations, these summary financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2019, which include all disclosures required by International Financial Reporting Standards as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code.

2 OPERATING ENVIRONMENT OF THE GROUP

In 2018-2019, the Ukrainian economy has continued to demonstrate decent growth amid overall macroeconomic stabilisation supported by structural reforms, a rise in domestic investment, revival in household consumption due to an increase in real wages and improved consumer confidence, expansion in the agricultural sector, increase in construction activity and improved environment on external markets. GDP continued to grow at estimated 3.3% in 2019 and 2018.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED

2 OPERATING ENVIRONMENT OF THE GROUP CONTINUED

In addition, there was further progress in monetary policy. The National Bank of Ukraine (NBU) conducts interest rate policy consistent with inflation targets and keeps the hryvnia floating. The inflation rate in Ukraine slowed to 4.1% in 2019 (as compared to 9.8% in 2018), which allowed the NBU to start key policy rate cuts after a lengthy period of rate increases – from 18.0% effective 7 September 2018 to 13.5% effective 13 December 2019 and to 11.0% effective 31 January 2020. As of the date of this report the official NBU exchange rate of hryvnia against US dollar was UAH 24.53 per US$1, compared to UAH 23.69 per US$1 as at 31 December 2019 and UAH 27.69 per US$1 as at 31 December 2018.

In 2018-2019, the NBU has continued to further ease the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased from 50% to 30% starting from 1 March 2019 and was cancelled from 20 June 2019. Additionally, the settlement period for export-import transactions in foreign currency was steadily increased from 180 to 365 days starting from 16 May 2019. On 7 May 2019, the NBU increased the amount of the dividends payments allowed to Ukrainian companies to non-residents to EUR12 million per month and subsequently cancelled this limitation starting from 10 July 2019.

Ukraine has remained active on to international debt capital markets to manage external debt maturity profile. In 2018-2019, Ukraine not only issued several USD-denominated Eurobond tranches, but also issued its first EUR-denominated tranche in the last 15 years. Additionally, in May 2019, Clearstream, the international central securities depositary of Deutsche Börse Group, opened an account at the NBU, which eased access for international investors to local government bonds, improved sustainability of the government debt portfolio by increasing the share of hryvnia-denominated debt and led to foreign currency inflow into the country.

The conflict in Eastern Ukraine had impacted the Group's steel, coke and coal operations since 2014. Two of the Group's largest steel plants, PrJSC Ilyich Iron and Steel Works and PrJSC Azovstal Iron and Steel Works, are located near the conflict area in the Donetsk region. Iron ore production assets are located in the central part of Ukraine and have not been affected by the conflict. The conflict started in spring of 2014 and has not been resolved to date.

In March of 2017, the Group determined that it had lost control over the operations of entities located on the temporarily non-controlled territory. Since March 2017, all of the remaining Metinvest Group's assets are operating without physical disruption. The Metinvest Group does not operate any assets on the temporarily non-controlled territory.

Metinvest's financial performance is largely dependent on the global price of and demand for steel and steel products, iron ore and coal. The prices of steel products are influenced by many factors, including global economic conditions, demand, worldwide production capacity, capacity utilisation rates, raw material costs, foreign exchange rates and improvements in steel making processes. In 2018-2019, steel and iron ore prices have experienced significant fluctuations.

The average benchmark price for hot-rolled coil (Metal Expert HRC CIS export FOB Black Sea) amounted to US$468 per tonne in 2019, down 16% comparing to the 2018 average varying from highest level in March 2018 of approximately US$613 per tonne to the lowest level in October 2019 of approximately US$388 per tonne with recovery by the year end to US$463 per tonne. Average coking coal price (HCC LV, FOB Australia) decreased on average by 14%, from US$209 per tonne in 2018 to US$178 per tonne in 2019. Negative trends in steel and coal market were compensated by a significant increase in average benchmark iron ore price (Platts 62% Fe CFR China) from US$69 per dry tonne in 2018 to US$93 per dry tonne in 2019.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by European Union and the statutory provisions of Part 9, Book 2, of the Dutch Civil Code. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. New and revised standards and interpretations adopted by the Group are disclosed in Note 5.

These consolidated financial statements are presented in millions of US dollars and all values are rounded off to the nearest million except where otherwise indicated.

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources.

Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 4.

Principles of consolidation. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date with resulting gains recognised in consolidated income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period in which they incurred and the services are received.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Non-controlling interest (NCI) is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of equity.

Purchases of subsidiaries from parties under common control and merger reserve in equity. Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a merger reserve. No additional goodwill is created by such purchases.

Transactions with non-controlling interests. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Non-controlling interest is measured on proportionate basis of net assets.

Investments in associates and joint ventures. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates and joint ventures includes goodwill identified on acquisition, and is reduced for accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates and joint ventures is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and their associates and joint ventures are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Company reports separately information about an operating segment that meets any of the following quantitative thresholds, unless aggregation criteria are met:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
(b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
(c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Foreign currency translation. The functional currency of each of consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnia (UAH) or US dollar (USD).

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in the consolidated income statement.

The principal rate of exchange used for translating foreign currency balances is as follows:

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

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items.

Translation from functional to presentation currency. The Group has selected the US dollar (USD) as the presentation currency. The USD has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the USD is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The results and financial position of each consolidated entity are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised through comprehensive income and they accumulate as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the historical rate. The balancing figure goes to cumulative currency translation reserve in other reserves in equity. All the elements within equity are presented at the rates prevailing at the dates of such movements (or an average rate for the period when this approximates the transaction date exchange rate).

As follows from policy on transaction from functional to presentation currency, revaluation results and reclassification from revaluation reserve to retained earnings are translated into USD using the exchange rates prevailing at the dates of transaction. Because of lower strength of UAH as compared to USD (and consequent depreciation against USD since the historical revaluations dates), the revaluation reserve in presentation currency is carried at rates lower than the closing UAH/USD rate, thus, differs from the revaluation balances recognised in the Group's property, plant and equipment. Upon disposal, sale or liquidation of assets or liabilities related to these equity components these differences are reclassified to retained earnings.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and at each balance sheet date are translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the currency translation differences deferred in equity are reclassified to the consolidated income statement.

Current exchange restrictions in Ukraine are explained in Note 2. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment are stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Initial acquisitions and subsequent additions to property, plant and equipment are recognised at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and accumulated in the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that have different useful lives.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets is ready for use. The estimated useful lives are as follows:

	Useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are ready for use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents of Ukraine and the US, the Group is responsible for site restoration and soil rehabilitation upon abandoning its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised as an adjustment to the cost of the respective asset through the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates and are specific to a liability.

Leased assets. The Group recognises assets and liabilities for all leases within term of more than 12 months, unless the underlying asset is of low value. A lessee recognises a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset (underlying asset) for a period of time in exchange for consideration. The Group determines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The right-of-use asset is initially recognised at the commencement date and measured at cost. The cost of right-of-use asset includes the amount of initial measurement of the lease liability and any lease payments made at or before the commencement date, less any lease incentive received. The lease liability is initially recognised at the commencement date and measured at present value of the lease payments that are not paid at that date.

The rights-of-use asset is subsequently measured at cost, less any accumulated depreciation and any accumulated impairment losses. The lease liability is subsequently measured using effective interest rate method. The carrying amount is remeasured to reflect any re-assessment or lease modifications, or to reflect revised in-substance fixed lease payments. A re-assessment of the lease liability takes place if the cash flows change based on the original terms and conditions of the lease. A lease modification is a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. Described above changes to the lease liability amount should be adjusted in the right-of-use asset amount. Any changes that are required by original lease agreement terms, including changes impacted by reviewed market lease payment or extension of lease period, should be treated rather as reassessment than modification. Effective date of changes is the date on which both parties agree to lease agreement changes.

The Group depreciates the right-of-use asset on the straight line basis from the lease commencement date to the earlier of the end of useful life of the right-of-use asset or the end of the lease term. Depreciation should be recognised separately from interest on lease liabilities in the income statement.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity or business unit include the carrying amount of goodwill relating to the entity or business unit disposed of.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the synergies of the business combination.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software and licences, mining licences, mining permits and coal reserves. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal. Cost of SAP ERP system is amortised on a straight-line basis over estimated useful life of 10 years. Licences and coal and ore reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortisation rates are updated when revisions to coal reserve estimates are made.

Impairment of non-financial assets. Goodwill is tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Initial recognition of financial instruments. At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transaction costs that are directly attributable to the acquisition of the financial instruments if financial asset or financial liability are not accounted at fair value through profit or loss (FVPL). Transaction costs of financial assets or financial liabilities carried at FVPL are expensed in profit and loss in the consolidated income statement.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the transaction price and the fair value, which can be evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets.

Classification and subsequent measurement of financial assets. The Group classifies its financial assets in the following measurement categories:
– those to be subsequently measured at fair value (either through other comprehensive income (FVOCI), or through profit or loss); and
– those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows") or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) or (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest (SPPI). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Three measurement categories into which the Group classifies its debt financial assets are as follows:

1) Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income/(expenses). Impairment losses are presented in other operating income/(expenses) or as a separate line item in the consolidated income statement, if material.
2) Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Impairment expenses are presented in other operating income/(expenses) or as a separate line item in the consolidated income statement, if material.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other operating income/(expenses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Dividends from such investments continue to be recognised in profit or loss as other operating income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other operating income/(expenses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Financial assets are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Financial assets impairment – expected credit loss allowance. After the initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and at FVOCI, resulting in an immediate accounting loss in the consolidated income statement.

The measurement of expected credit losses reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money, and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Financial instruments measured at amortised cost and contract assets are presented in the consolidated balance sheet net of the allowance for expected credit losses.

Generally, the impairment methodology is a three stage model applied dependent on whether there has been a significant increase in credit risk of a financial instrument since the initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses (Stage 1 of ECL model) considering that the maximum period of credit risk exposure cannot exceed financial instrument term to maturity. At each reporting date, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition (Stage 2 of ECL model). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a lifetime ECL.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised at the time of the initial recognition of the receivables (Stage 2 of ECL model). For loans issued and bank accounts the Group applies general model for impairment based on changes in credit quality since initial recognition is applied. For loans that are repayable on demand, expected credit losses is equal to the effect of discounting the amount due on the loan.

As at reporting date the Group has three types of financial assets that are subject to expected credit loss model:
– cash and cash equivalents;
– trade receivables for sales of goods and services;
– loans issued.

The Group uses different approaches for analysis of expected credit losses arisen on the financial assets from related parties, significant customers and other customers.

For all significant debtors and related parties, the calculation of expected credit losses is carried out on an individual basis taking into account agreement terms, expected repayment period, internally assessed credit risks for significant debtors based on the financial performance and taking into account external credit rating, if available. ECL rate is calculated based on credit spread implicit in the average yield on bonds of similar credit risk companies and adjusted for maturity, risk free rate and liquidity premium.

For individually insignificant debtors the Group calculates expected credit losses using a provision matrix by grouping customers by country of location. This matrix is based on the Group's historical default rates over the expected life of the financial receivables and is adjusted for forward-looking estimates.

The Group does not recognise the expected credit loss allowance on cash and cash equivalents if it was determined that the effect of such loss allowance is not material as at the reporting date.

Reclassification of financial assets. Financial instruments are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The Group did not change its business model during the current and comparative period and did not make any reclassifications.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Modification and derecognition of financial assets. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: change in contractual terms that substantially affects the risk profile of the asset, significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of modification is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether significant increase in credit risk has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired, or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets, or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

The Group enters into transactions in the normal course of business by which it transfers financial assets to third parties. Depending on the circumstances, these transfers may either result in these financial assets being derecognised or continuing to be recognised.

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, foreign currency, prepayment and other price risks.

Derecognition does not occur when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the asset, but either:

– retains substantially all of the risks and rewards of ownership of the transferred asset; or
– neither retains nor transfers substantially all of the risks and rewards of ownership but has retained control of the financial asset. In this situation, the financial assets are recognised on the balance sheet to the extent of Group's continuing involvement.

The write-off of financial asset also represents a derecognition event. Financial assets are written-off, in whole or in part, when the Group has no reasonable expectations of recovering these assets.

Classification and subsequent measurement of financial liabilities. All the financial liabilities are classified as subsequently measured at amortised cost, except for (i) derivatives, financial liabilities held for trading, contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition, which are measured at FVPL, and (ii) financial guarantee contracts and loan commitments at a below-market interest rate.

Modification and derecognition of financial liabilities. Upon modification of financial liabilities the Group adjusts the amortised cost of a financial liability to reflect revised estimated contractual cash flows. For these purposes the Group recalculates the amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate. Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Upon determination of whether modification or an extinguishment have occurred the Group performs analysis in order to determine if there was a substantial modification of the terms quantitative in nature of an existing financial liability or a part of it. The quantitative analysis represents performance of a 10 per cent test. No qualitative factors are considered.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial guarantees. Financial guarantees require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model, and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an expected credit loss allowance is recognised for fees receivable that are recognised in the consolidated balance sheet as an asset.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of most likely amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

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

Deferred income tax is provided on post-acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average principle. 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 but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

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

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

Share capital. Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds twelve months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Loans and borrowings. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Cash flows related to receipt and repayment of trade finance borrowings are presented within the statement of cash flows on a net basis.

Transaction fees paid related to debt restructuring (such as legal and consulting expenses) are presented within the financing activities of the consolidated statement of cash flows.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Trade and other financial payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Prepayments received. Prepayments are carried at amounts originally received, net of VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small if it is probable that some outflow of resources will be needed to settle the class of obligations as a whole.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is not a contingent asset and the Group recognises such assets.

Contingent liabilities are not recognised in the 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. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Employee benefits. Defined benefit plan. Certain Ukrainian entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. Certain Ukrainian entities also provide lump sum benefits upon retirement subject to certain conditions, as well as some other long-term employee benefits. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by professional actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (if there is no deep market for high quality corporate bonds) that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. Past service costs are recognised immediately in profit or loss.

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when (or as) the Group satisfies a performance obligation by transferring a promised good or service to a customer and the customer obtains ability to direct the use of and substantially all of the remaining benefits from the asset. For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time.

For each performance obligation satisfied over time, the Group recognises revenue over time by measuring the progress towards complete satisfaction of that performance obligation proportionally to the services provision period. If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time at which a customer obtains control of a promised asset.

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (acting as a principal) or to arrange for those goods or services to be provided by the other party (acting as an agent). When the Group satisfies a performance obligation as a principal, revenue is recognised in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred, when as an agent – the Group recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

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

(a) Sale of goods, by-products and merchandise

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of control over the goods, normally when the goods are shipped. The Group normally uses standardised Incoterms such as cost and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of control transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group also engages in sale and purchase transactions, the objective of which is to manage cash flows and/or to sell the products of its joint ventures through the Group's sales channels and where the Group acts as an agent. Such sales are not treated as gross revenue generated by the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in revenue. Accounts receivable and payable from such transactions are presented gross.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(c) Sale of services

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

The Group provides freight services to the customers as part of standard products sales contract. Management considers that freight services should be treated as separate performance obligations and should be recognised over the transportation period.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Commission income

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of revenue.

Value added tax. VAT in Ukraine, where the majority of the Group operations are concentrated, is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

Recognition of expenses. Expenses are accounted for on an accrual basis.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, pension obligations, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

Changes in presentation. In 2019, the Group changed presentation of Income Statement starting to present expenses by their nature, not by function. This presentation provides more relevant information about business activity of the Group and diminishes judgement about functional classification of operating expenses. The new presentation is more consistent with how management analyses the performance of the Group.

Cost of sales, distribution costs, general and administrative expenses and other operating income/(expenses) for the year ended 31 December 2018, of US$9,093 million, US$885 million, US$226 million and US$120 million, respectively, were presented as Net operating costs in amount of US$10,246 million excluding impairment of property, plant and equipment of US$5 million and impairment of financial assets of US$73 million which were shown separately. The breakdown of expenses disclosed in Note 23 remains similar to the one presented in 2018 annual financial statements.

Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year.

Management excluded sales of coal produced by the third parties from intersegment mining sales within the Note 7 to allow the users to better understand the segments results and improve comparability between them. This resulted in a decrease of mining segment sales to other segments in comparative information for 2018 financial year by US$628 million.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of property, plant and equipment, goodwill and other intangible assets. The Group and its subsidiaries are required to perform impairment tests for their assets or cash-generating units when there is indication that an asset or a cash-generating unit (CGU) may be impaired.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. Within the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore, judgement is needed in determining a cash-generating unit.

Annually the Group assesses whether goodwill is impaired. This requires estimation of the value in use/fair value less costs of disposal of the cash-generating units or groups of cash-generating units to which goodwill is allocated.

Allocation of goodwill to groups of cash generating units requires significant judgement related to expected synergies. Estimating value in use/fair value less costs of disposal requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Precision of future cash flows is dependent, inter alia, on quality of management's forecasts of benchmark price levels for key commodities, production volumes and production costs, and necessary capital expenditure levels.

The most recent detailed calculations of goodwill impairment for Metallurgical and Mining segments were performed as of 31 December 2019, as disclosed in Note 8.

Revaluation of property, plant and equipment. On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property, plan and equipment differ materially from the carrying amounts, further revaluation is performed involving independent valuers.

As most of the Group's property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2).

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence. The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data, etc, and industry experts and suppliers.

When performing valuation using these methods, the key estimates and judgments applied by the independent valuers, in discussion with the Group's internal valuation team and technicians, are as follows:
- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and handbooks, estimates for cost of construction of various equipment, etc);
- determination of similar items for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment;
- selection of market data when determining market value, where it is available, as well as corresponding adjustments required to take into account differences in technical characteristics and the condition of new and existing equipment;
- determination of applicable cumulative price indices which would most reliably reflect the change in fair value of assets revalued using indexation of carrying amounts;
- use of directories of per-unit replacement cost for buildings and constructions, assuming that all buildings and constructions of similar type and nature within industry have similar replacement costs; and
- liquidation value for items, which are expected to be realised, less cost to sell.

The fair values obtained using depreciated replacement cost and indexation of carrying amounts are validated using discounted cash flow models (income approach, Level 3), and are adjusted if the values obtained using income approach are lower than those obtained using depreciated replacement cost or indexation of carrying amounts (i.e. there is economic obsolescence). Key inputs into discounted cash flow models are consistent with the assumptions used for goodwill impairment testing (Note 8), except for discount rates which are specific to each of the Group's subsidiaries.

Changes in the above estimates and judgments could have a material effect on the fair value of property, plant and equipment, which, however, is impracticable to quantify due to wide variety of assumptions and assets being valued.

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical characteristics, physical conditions, management's expectations on use of the respective assets and other factors. This affects depreciation charge and revaluation results.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Impairment of trade and other accounts receivable. During 2015 and 2016, the Group recognised full impairment of trade receivables from some of its key customers in the total amount of US$534 million. Factors taken into consideration by management when estimating the future cash flow included an ageing analysis of trade and other accounts receivable, and the financial position and performance of and collection history with the customers. In the current environment there is significant judgement in estimating whether the impaired trade and other receivables and any related penalty interest will be collected. During 2017, the Group commenced sales of iron ore, coke and coal products for the use by one of these customers. All the metal produce of this customer is purchased by the Group and resold externally. All the transactions are performed at an arms-lengths basis. These are not linked to the existing old impaired debt due to the Group thus impairment was not reversed.

Additionally, the estimates used to assess the impairment of trade and other accounts receivable from certain Ukrainian customers are impacted by the uncertainty caused by events in Eastern Ukraine.

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions, and also in estimating the timing of settlement of the balances due from related parties, where there is a history of prolongations. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Further, estimation of timing of settlement and recoverability of balances due from related parties requires judgement. Ability of shareholders and parties under their control to repay the amounts due to the Group is dependent to large extent on cash flows from the Group. Such cash flows in the current circumstances may be limited (Note 18). The expected credit loss allowance was recognised in respect of balances due from related parties as disclosed in Note 13 of these consolidated financial statements.

Post-employment and other long-term employee benefits obligations. Management assesses post-employment and other long-term employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State of Ukraine, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions could all have a significant impact on the pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate and future salary and benefits increase rate. Any changes in these assumptions will impact the carrying amount of pension obligations as disclosed in sensitivity analysis in Note 20.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 20.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 28).

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, the United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US Dollars. Management therefore determined the US Dollar as the functional currency of Metinvest B.V.

Loss of control over the assets located on the temporarily non-controlled territory. In March 2017, the Group lost control over the assets located on the temporarily non-controlled territory. The Group accounted for this event as impairment of related property, plant, and equipment and inventories, and, accordingly, recognised the impairment through Other Comprehensive Income to the extent of existing revaluation reserve and recognised further impairment loss through the profit and loss. Also, the Group has determined that the operations located on the temporarily non-controlled territories over which control was lost do not represent a disposal of foreign operations.

Operations of the entities located on the non-controlled territory is not a major line of business and not a separate geographical segment therefore, the management believes that these activities do not represent discontinued operations.

(i) Control over the legal entities whose operations on the temporarily non-controlled territory were lost. The Group retains a legal ownership over the entities whose physical assets and production activities are located on the temporarily non-controlled territories. Management determined that it retains control over these entities as they are registered on the controlled territory of Ukraine and the Group continues to perform transactions in accordance with Ukrainian legislation. Thus, the Group continues to consolidate the remaining assets (largely trade and other receivables) and liabilities of those entities and accounted for the loss of control of tangible assets as their impairment.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED
ALL AMOUNTS IN MILLIONS OF US DOLLARS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES CONTINUED

Would the position be adopted that control over the legal entities is lost as at 15 March 2017, the net assets of the entities in the amount of US$13 million (before the impairment) would be deconsolidated and the fair value of accounts payable due to the entities and accounts receivable due from the entities would be recognised. Additionally, a reclassification of US$601 million of accumulated net negative Currency Translation Reserve (CTR) from other comprehensive Income to profit and loss in the income statement would have been required.

(ii) Currency translation reserve related to entities located on the temporarily non-controlled territory. The lost operations have not been consolidated directly but only together with the remaining operations of each of the legal entity, which continue to exist and be controlled by the Group. Operations and management were structured in such a way that each legal entity in its entirety was considered to be one entity and, therefore, the lost part of an entity does not represent a branch or a business. Thus the management determined that these operations do not represent a disposal of foreign operations and therefore no accumulated CTR on those entities is reclassified to profit and loss (which would be the case if it is determined that operations lost represent a disposal of foreign operations).

If all the net assets of the entities located on the temporarily non-controlled territory were derecognised, the negative charge of CTR in income statement would have been US$601 million, as stated above; the exact amount of the charge would depend on whether only part or all the assets and liabilities of these entities were derecognised.

(iii) Impairment of property, plant and equipment located on the temporarily non-controlled territory. The Group still holds the legal title over assets located on the temporarily non-controlled territory as their seizure is illegal and might be temporary. Moreover, the Group may still be able to claim some compensation for the assets through international courts. Therefore, management has determined that the loss of control over the physical assets does not require the derecognition of these assets.

As such, management of the Group has performed an impairment assessment of the respective property, plant and equipment and determined that the recoverable amount of these assets is zero, thus recognising US$205 million as decrease of previously recognised revaluation in Other Comprehensive Income and US$228 million as impairment charge in profit and loss for the year ended 31 December 2017. Would the judgement be made that the assets are derecognised, the whole amount of US$433 million of decrease of carrying value of property, plant and equipment would need to be charged as loss on disposal in profit and loss. Additionally, the remaining revaluation reserve related to these assets in the amount of US$330 million (remained upon translation to presentation currency) would need to be transferred to retained earnings.

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Adoption of IFRS 16 Leases. The adoption of IFRS 16 Leases from 1 January 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in the annual financial statements. The Group applied the new rules using a modified retrospective approach from 1 January 2019, which means that the cumulative impact of the adoption was recognised in retained earnings as at 1 January 2019 and that comparatives were not restated.

IMPACT ON THE FINANCIAL INFORMATION

As a result of the changes in the Group's accounting policies, the following adjustments were recognised for each individual line item. Line items that were not affected by the changes have not been included.

Balance sheet (extract)	31 December 2018	IFRS 16 effect	1 January 2019
Non-current assets			
Property, plant and equipment	4,490	4	4,494
Non-current liabilities			
Loans and borrowings	2,194	2	2,196
Current liabilities			
Loans and borrowings	489	2	491

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. As at 1 January 2019, carrying amount of finance lease asset transferred to the right-of-use asset is US$26 million. The measurement principles of IFRS 16 are only applied after that date.

The actual impact of the adoption of IFRS 16 is different from the preliminary calculation disclosed in 2018 financial statements as the Group reassessed terms of some of its arrangements and concluded that related payments should not have been capitalised as they do not meet criteria of IFRS 16.

6 NEW ACCOUNTING PRONOUNCEMENTS

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2019:
- ***IFRS 16 Leases.*** Impact of adoption of this standard is disclosed in Note 5;
- ***IFRIC 23 Uncertainty over Income Tax Treatments***;
- ***Prepayment Features with Negative Compensation – Amendments to IFRS 9***;
- ***Annual Improvements to IFRS Standards 2015-2017 Cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23***;
- ***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures***;
- ***Amendments to IAS 19 Plan Amendment, Curtailment or Settlement***.

The following new standards, which are relevant to the Group's financial statements, have been issued, but have not been endorsed by the European Union:
- ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28*** (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- ***Definition of a business – Amendments to IFRS 3*** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);
- ***Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39 and IFRS 7)*** (issued on 26 September 2019, the amendments will be effective for annual periods beginning on or after January 1, 2020 and must be applied retrospectively. Early application is permitted).
- ***Amendments to the Conceptual Framework for Financial Reporting*** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020);
- ***Definition of materiality – Amendments to IAS 1 and IAS 8*** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

These have no material impact on the Group.

Other new or revised standards or interpretations that will become effective for annual periods starting on or after 1 January 2020 will likely have no material impact to the Group.

7 SEGMENT INFORMATION

The Group's business is organised on the basis of the following main reportable segments:
- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products;
- Mining – comprising the production, enrichment and sale of iron ore and coal by the Group's Ukrainian operations and UCC, the Group's US coal operations. Output of the Group's mining business covers iron ore and coking coal needs of the Group's steelmaking business with surplus of iron ore sold to third parties. While management reviews financial information of UCC separately from other mining operations, UCC operating segment has been aggregated with the Group's Ukrainian mining operations into the Mining reportable segment. The two operating segments were aggregated into one reportable segment as they have similar nature of products (mineral commodities used in metallurgy) and production processes (underground and open-pit mining with further enrichment), and sell products to customers in metallurgical industry and commodity traders. Prices for their products depend on global benchmark prices for hard coking coal and iron ore; as such their margins and growth rates show comparable dynamics over longer term.

As the Group entities are present in various jurisdictions, there are some differences in regulatory environment; however, they have no significant impact on segments' operating and financing activities. Segmentation presented in these consolidated financial statements is consistent with the structure of financial information regularly reviewed by the Group's management, including Chief Operating Decision Maker (CODM).

Operating segments' performance is assessed based on a measure of adjusted EBITDA. This measurement basis excludes dividend income, impairment of goodwill, other intangible assets and property, plant and equipment, the effects of non-recurring expenditures from the operating segments and foreign exchange gains/losses. Revenues and expenses for internal reporting purposes have been accounted for using IFRS principles. Certain adjustments are applied by management to contractual prices for intersegment sales.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED
ALL AMOUNTS IN MILLIONS OF US DOLLARS

7 SEGMENT INFORMATION CONTINUED

Segment information for the year ended 31 December 2019 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2019					
Sales – external	8,688	2,069	–	–	**10,757**
Sales to other segments	83	1,321	–	(1,404)	**–**
Total of the reportable segments' revenue	**8,771**	**3,390**	**–**	**(1,404)**	**10,757**
Timing of revenue recognition					
At a point in time	8,034	1,722	–	–	**9,756**
Over time	654	347	–	–	**1,001**
Total of the reportable segments' external revenue	**8,688**	**2,069**	**–**	**–**	**10,757**
Adjusted EBITDA	**(48)**	**1,117**	**(86)**	**63**	**1,046**
Share in EBITDA of joint ventures	(59)	226	–	–	**167**
Adjusted EBITDA including share in EBITDA of joint ventures	**(107)**	**1,343**	**(86)**	**63**	**1,213**
Reconciling items:					
Depreciation and amortisation	(365)	(327)	(12)	–	**(704)**
Impairment of PPE and other intangible assets	(39)	(45)	–	–	**(84)**
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					**(81)**
Finance income					**253**
Finance costs					**(276)**
Foreign exchange gains less losses, net					**57**
Other					**10**
Profit before income tax					**388**

	Metallurgical	Mining	Corporate	Total
Capital expenditure	519	510	26	**1,055**
Significant non-cash items included into adjusted EBITDA:				
impairment of trade and other receivables	65	12	1	**78**
write-off of trade and other payables	(23)	–	–	**(23)**

Segment information for the year ended 31 December 2018 was as follows:

	Metallurgical	Mining	Corporate	Eliminations	Total
2018					
Sales – external	10,064	1,816	–	–	**11,880**
Sales to other segments	70	1,303	–	(1,373)	**–**
Total of the reportable segments' revenue	**10,134**	**3,119**	**–**	**(1,373)**	**11,880**
Timing of revenue recognition					
At a point in time	9,411	1,623	–	–	**11,034**
Over time	653	193	–	–	**846**
Total of the reportable segments' external revenue	**10,064**	**1,816**	**–**	**–**	**11,880**
Adjusted EBITDA	**1,135**	**1,091**	**(96)**	**50**	**2,180**
Share in EBITDA of joint ventures	156	177	–	–	**333**
Adjusted EBITDA including share in EBITDA of joint ventures	**1,291**	**1,268**	**(96)**	**50**	**2,513**
Reconciling items:					
Depreciation and amortisation	(292)	(250)	(8)	–	**(550)**
Impairment of PPE and other intangible assets	(3)	(2)	–	–	**(5)**
Share of result of associates and depreciation, amortisation, tax and finance income and costs in joint ventures					**(160)**
Finance income					**68**
Finance costs					**(334)**
Foreign exchange gains less losses, net					**(70)**
Other					**1**
Profit before income tax					**1,463**

	Metallurgical	Mining	Corporate	Total
Capital expenditure	513	366	19	**898**
Significant non-cash items included into adjusted EBITDA:				
impairment of trade and other receivables	61	10	2	**73**
write-off of trade and other payables	(33)	–	–	**(33)**

ALL AMOUNTS IN MILLIONS OF US DOLLARS

7 SEGMENT INFORMATION CONTINUED

Analysis of revenue by category:

	Metallurgical	Mining	Total
2019			
Sales of own products	**5,535**	**1,988**	**7,523**
Steel products	4,772	–	4,772
Iron ore products	–	1,831	1,831
Coal and coke	548	145	693
Other	215	12	227
Resale of purchased goods	**3,153**	**81**	**3,234**
Steel products	2,751	–	2,751
Coal and coke	234	67	301
Other	168	14	182
Total	**8,688**	**2,069**	**10,757**

Analysis of revenue by category:

	Metallurgical	Mining	Total
2018			
Sales of own products	**6,222**	**1,601**	**7,823**
Steel products	5,331	–	5,331
Iron ore products	–	1,508	1,508
Coal and coke	653	84	737
Other	238	9	247
Resale of purchased goods	**3,842**	**215**	**4,057**
Steel products	3,475	–	3,475
Coal and coke	174	196	370
Other	193	19	212
Total	**10,064**	**1,816**	**11,880**

The Group's two business segments operate in six main geographical areas. Revenue by location of customers is presented below:

	Metallurgical	Mining	Total
2019			
Ukraine	2,370	786	**3,156**
Rest of Europe	2,846	763	**3,609**
Middle East and Northern Africa	1,645	11	**1,656**
South Eastern Asia	463	478	**941**
Commonwealth of Independent States (CIS)	825	–	**825**
North America	450	14	**464**
Other countries	89	17	**106**
Total	**8,688**	**2,069**	**10,757**

	Metallurgical	Mining	Total
2018			
Ukraine	2,570	770	**3,340**
Rest of Europe	3,200	791	**3,991**
Middle East and Northern Africa	2,195	–	**2,195**
South Eastern Asia	465	236	**701**
Commonwealth of Independent States (CIS)	758	–	**758**
North America	754	3	**757**
Other countries	122	16	**138**
Total	**10,064**	**1,816**	**11,880**

As at 31 December 2019 and 31 December 2018, 95% and 92%, respectively, of the Group's non-current assets, other than financial instruments and deferred tax assets, were located in Ukraine.

As at 31 December 2019 and 31 December 2018, number of employees attributable to Metallurgical segment amounted to 47 thousand, Mining segment – 19 thousand.

Average number of employees in 2019 approximated 63 thousand, in 2018 – 61 thousand. In 2019, 2 employees were hired in the Netherlands (2018: 1 employee).

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED
ALL AMOUNTS IN MILLIONS OF US DOLLARS

8 GOODWILL

The movements of goodwill were as follows:

	2019	2018
As at 1 January		
Original amount	1,284	1,315
Accumulated impairment	(690)	(712)
Net carrying amount	**594**	**603**
Acquisition	–	16
Currency translation differences	7	(25)
As at 31 December		
Original amount	1,278	1,284
Accumulated impairment	(677)	(690)
Net carrying amount	**601**	**594**

Management allocates and monitors goodwill at the following groups of cash generating units (CGUs) which represent operating segments:

	31 December 2019	31 December 2018
Metallurgical	545	546
Mining	56	48
Total	**601**	**594**

During the year ended 31 December 2018 the Group has acquired 100% interest in Unisteel LLC.

After conducting the revaluation of property, plant and equipment and impairment testing of property, plant and equipment and other intangible assets (Notes 9 and 10), management has assessed the recoverable amount of goodwill. The recoverable amount has been determined based on fair value less cost to sell estimations.

As of 31 December 2017 and 31 December 2018, management has concluded that the likelihood of recoverable amount being less than the carrying amount of the unit was remote. As such, the relevant goodwill impairment testing details were carried forward from 2016.

To ensure that the impairment testing model fully reflects the anticipated long-term changes in cash flows, for the impairment test the Group used cash flow projections for 10 years which are consistent with the Group's strategy approved by senior management; the first year of forecast is based on the Group's approved business plan for the year.

The valuation method used for determination of each CGU fair value is mostly based on unobservable market data, which is within Level 3 of the fair value hierarchy.

The following table and further paragraphs summarise key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2019	2016
Metallurgical		
Post-tax discount rate (USD)	12.32%	11.67%
EBITDA margins (based on FCA prices)	2020: 10%, 2021: 14%, further – from 15% to 17%	2018: 20%, 2019: 20%, further – from 14% to 20%
Growth rate in perpetual period	3%	3%
Mining		
Post-tax discount rate (USD)	12.57%	12.07%
EBITDA margins (based on FCA prices)	2020: 38%, 2021: 29%, further – from 32% to 34%	2018: 29%, 2019: 20%, further – from 27% to 35%
Growth rate in perpetual period	3%	3%

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Discount rate reflects the current market assessment of the time value of money and risks specific to the Group. The cost of equity has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third party financial analysts and Group-specific inputs.

8 GOODWILL CONTINUED

Forecasted benchmark iron ore prices for Fe 62% fines (CFR North China) are US$79 per tonne in 2020, US$69 per tonne in 2021 and recover at 2% p.a. to US$82 per tonne in 2029 (31 December 2016: range from US$48 per tonne to US$64 per tonne in 2026). Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, pelletising premiums, applicable transportation costs and historic discounts or premiums usual for those markets.

Forecasted coal prices used in the impairment test for all CGUs for low volatile hard coking coal (FOB Queensland) are US$160 per tonne in 2020, US$157 per tonne in 2021 and grow at 2% p.a. on average thereafter (31 December 2016: start from US$161 per tonne in 2017, US$124 per tonne in 2018 and grow at 2% p.a. on average thereafter). Forecasted prices for other types of coal and prices at other markets were determined based on respective historic discounts for differences in quality of each particular coal type and estimated transportation costs.

Forecasted prices for hot-rolled coils at Ukrainian ports used in the impairment test were estimated based on the benchmark (Metal Expert HRC CIS export FOB Black Sea). Forecasted prices are expected to reach US$500 per tonne in 2020 with gradual increase by 5% till 2023 and further by 2% to US$642 per tonne in 2029 (31 December 2016: US$394 per tonne in 2017 and 2018, US$410 per tonne in 2019, US$430 per tonne in 2020 with gradual increase by 2% to US$476 per tonne in 2026). Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils.

Management assumed that forecasted sales volume of the mines will remain at the current level of 27.6 million tonnes while sales volumes of metallurgical plants at the current level of 8.8 million tonnes.

Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test.

An exchange rate of 26.5 UAH for US$1 in 2020 with gradual increase to 37.7 UAH for US$1 in 2029 was used in the impairment test for all CGUs as of 31 December 2019 (31 December 2016: from 27 UAH for US$1 in 2017 to 31.7 UAH for US$1 in 2026).

Metallurgical segment. As at 31 December 2019, the Metallurgical segment's recoverable amount is US$6,368 million and exceeds its total carrying amount by US$1,059 million (31 December 2016: recoverable amount of US$5,283 million, exceeded carrying amount by US$1,096 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill (and subsequently to property, plant and equipment and intangible assets) related to the Metallurgical segment:

	31 December 2019	31 December 2016
Volumes of production/sales		
Decrease in all the periods by 6.9%	Recoverable amount equals carrying amount	–
Decrease in all the periods by 7.4%	Impairment of US$87 million required	Recoverable amount equals carrying amount
Decrease in all the periods by 9.0%	Impairment of US$327 million required	Impairment of US$229 million required
Steel prices		
Decrease in all the periods by 1.6%	Recoverable amount equals carrying amount	–
Decrease in all the periods by 1.8%	Impairment of US$148 million required	Recoverable amount equals carrying amount
Decrease in all the periods by 2.6%	Impairment of US$657 million required	Impairment of US$462 million required
Decrease in all the periods by 4.0%	Impairment of US$1,582 million required	Impairment of US$1,302 million required
Iron ore prices		
Increase in all the periods by 12.8%	Recoverable amount equals carrying amount	–
Increase in all the periods by 14.6%	Impairment of US$142 million required	Recoverable amount equals carrying amount
Increase in all the periods by 17.0%	Impairment of US$342 million required	Impairment of US$183 million required
Coal prices		
Increase in all the periods by 10.9%	Recoverable amount equals carrying amount	–
Increase in all the periods by 11.1%	Impairment of US$19 million required	Recoverable amount equals carrying amount
Increase in all the periods by 15.0%	Impairment of US$395 million required	Impairment of US$382 million required
UAH/USD exchange rates		
Increase in all the periods by UAH 1	Recoverable amount increases by US$471 million	Recoverable amount increases by US$423 million
Discount rates		
Increase in all the periods by 4.4 pp	Recoverable amount equals carrying amount	–
Increase in all the periods by 5.3 pp	Impairment of US$247 million required	Recoverable amount equals carrying amount
Increase in all the periods by 7.0 pp	Impairment of US$651 million required	Impairment of US$308 million required
Growth rate in perpetual period	No reasonable changes would lead to impairment	No reasonable changes would lead to impairment

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ALL AMOUNTS IN MILLIONS OF US DOLLARS

8 GOODWILL CONTINUED

Mining segment. As at 31 December 2019, the recoverable amount of the Mining segment is US$3,832 million (31 December 2016: US$2,036 million) and exceeds its total carrying amount by US$1,297 million (31 December 2016: US$453 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to this group of CGUs:

	31 December 2019	31 December 2016
Iron ore prices		
Decrease in all the periods by 3.3%	–	Recoverable amount equals carrying amount
Decrease in all the periods by 5.0%	–	Impairment of US$231 million required
Decrease in all the periods by 7.2%	Recoverable amount equals carrying amount	–
Decrease in all the periods by 10.0%	Impairment of US$494 million required	Impairment of US$915 million required
UAH/USD exchange rates		
Increase in all the periods by UAH 1	Recoverable amount increases by US$165 million	Recoverable amount increases by US$129 million
Discount rates		
Increase in all the periods by 2.2 pp	–	Recoverable amount equals carrying amount
Increase in all the periods by 5.0 pp	–	Impairment of US$291 million required
Increase in all the periods by 6.5 pp	Recoverable amount equals carrying amount	–
Increase in all the periods by 7.5 pp	Impairment of US$121 million required	–
Growth rate in perpetual period	No reasonable changes would lead to impairment	No reasonable changes would lead to impairment

UCC. As at 31 December 2019, the recoverable amount of UCC is US$170 million (31 December 2018: US$144 million) and is equal to its carrying amount. The recoverable amount has been determined based on fair value less cost to sell estimations.

No additional net impairment or reversal of previous impairment was recognised in 2019.

The discount rate used for the impairment testing of UCC was 10.44% (31 December 2018: 10.58%).

The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of property, plant and equipment of UCC:

	31 December 2019	31 December 2018
Coal prices		
Decrease in all the periods by 3.0%	Impairment of US$119 million required	Impairment of US$114 million required
Cash costs		
Increase in all the periods by 3.0%	Impairment of US$97 million required	Impairment of US$93 million required
Discount rates		
Increase in all the periods by 1 pp	Impairment of US$7 million required	Impairment of US$6 million required

9 OTHER INTANGIBLE ASSETS

The movements of other intangible assets were as follows:

	Coal reserves	Licenses and mining permits	Other intangible assets	Total
As at 1 January 2018				
Cost	418	220	215	**853**
Accumulated amortisation and impairment	(418)	(132)	(183)	**(733)**
Net carrying amount	**–**	**88**	**32**	**120**
Additions	–	–	13	**13**
Currency translation differences	–	2	–	**2**
Amortisation	–	(5)	(11)	**(16)**
As at 31 December 2018				
Cost	418	223	228	**869**
Accumulated amortisation and impairment	(418)	(138)	(194)	**(750)**
Net carrying amount	**–**	**85**	**34**	**119**
Additions	–	–	17	**17**
Currency translation differences	–	14	5	**19**
Amortisation	–	(3)	(12)	**(15)**
As at 31 December 2019				
Cost	418	260	258	**936**
Accumulated amortisation and impairment	(418)	(164)	(214)	**(796)**
Net carrying amount	**–**	**96**	**44**	**140**

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9 OTHER INTANGIBLE ASSETS CONTINUED

As at 31 December 2019, the iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 29 years. The Group revised useful life comparing to 31 December 2018 as a result of reassessment of iron ore reserves.

The coal reserves were acquired as part of the acquisition of UCC in 2009. As at 31 December 2019 and 31 December 2018, these reserves were fully impaired.

10 PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Cost or valuation						
As at 1 January 2018	**55**	**1,837**	**3,302**	**60**	**648**	**5,902**
Acquisition of subsidiaries	–	2	8	–	–	**10**
Additions	–	–	–	–	885	**885**
Transfers	2	56	446	23	(527)	**–**
Disposals	–	(6)	(41)	(2)	(1)	**(50)**
Reclassification to inventory	–	–	–	–	(21)	**(21)**
Currency translation differences	(1)	15	26	3	2	**45**
As at 31 December 2018	**56**	**1,904**	**3,741**	**84**	**986**	**6,771**
Change in accounting policy (Note 5)	–	2	1	1	–	**4**
As at 1 January 2019	**56**	**1,906**	**3,742**	**85**	**986**	**6,775**
Additions	–	–	–	–	1,038	**1,038**
Transfers	6	215	766	27	(1,014)	**–**
Disposals	–	(12)	(48)	(2)	(2)	**(64)**
Elimination against accumulated depreciation upon revaluation	–	(371)	(1,106)	(23)	(5)	**(1,505)**
Revaluation surplus	3	337	803	1	(41)	**1,103**
Revaluation decreases that offset previous increases	(1)	(135)	(154)	–	(1)	**(291)**
Reclassification to inventory	–	–	–	–	(19)	**(19)**
Currency translation differences	(2)	285	553	11	176	**1,023**
As at 31 December 2019	**62**	**2,225**	**4,556**	**99**	**1,118**	**8,060**
Accumulated depreciation and impairment						
As at 1 January 2018	**–**	**(565)**	**(1,054)**	**(40)**	**(111)**	**(1,770)**
Charge for the year	–	(135)	(395)	(10)	–	**(540)**
Disposals	–	5	40	2	1	**48**
Transfers	–	9	(10)	1	–	**–**
Impairment	–	(1)	(5)	(2)	(2)	**(10)**
Currency translation differences	–	(1)	(2)	(2)	(4)	**(9)**
As at 31 December 2018	**–**	**(688)**	**(1,426)**	**(51)**	**(116)**	**(2,281)**
Charge for the year	–	(173)	(513)	(12)	–	**(698)**
Disposals	–	12	47	2	2	**63**
Transfers	–	1	(1)	–	–	**–**
Elimination against gross carrying amount upon revaluation	–	371	1,106	23	5	**1,505**
Impairment	–	(2)	(30)	(2)	(8)	**(42)**
Currency translation differences	–	(87)	(139)	(7)	(20)	**(253)**
As at 31 December 2019	**–**	**(566)**	**(956)**	**(47)**	**(137)**	**(1,706)**
Net book value as at						
31 December 2018	**56**	**1,216**	**2,315**	**33**	**870**	**4,490**
31 December 2019	**62**	**1,659**	**3,600**	**52**	**981**	**6,354**

As at 31 December 2019 and 2018, construction in progress balance includes prepayments for property, plant and equipment of US$62 million and US$84 million, respectively.

As at 31 December 2019, the Group has recognised right-of-use asset in the amount of US$57 million within Property, plant and equipment, mainly attributable to plant and machinery.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED
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10 PROPERTY, PLANT AND EQUIPMENT CONTINUED

During 2019 and 2018, management performed assessments of whether the carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group determined the fair value of its property, plant and equipment through a combination of independent appraisers and internal assessments. The Group aims to revalue a class of property, plant and equipment simultaneously; in case of revaluing a class on a rolling basis, the Group completes the revaluation within a short period, and keeps revaluations up to date. Substantially all the property, plant and equipment balance was either revalued or tested for impairment (whenever impairment indicators existed) during both 2019 and 2018.

Fair valuation of property, plant and equipment. As of 31 August 2019, due to further fluctuations of UAH and accumulated inflation in Ukraine the Group decided to perform a revaluation of assets where fair value was expected to be significantly higher than their carrying amounts. These revalued assets represent 93% of total value of the Group's property, plant and equipment as of 31 December 2019.

The revaluation and impairment as at and for the year ended 31 December 2019 are recorded as follows:

	Recognised in profit and loss	Recognised in other comprehensive income	Total
Revaluation surplus	–	1,164	**1,164**
Revaluation decreases that offset previous increases in the carrying amount	–	(310)	**(310)**
Net effect of revaluation	**–**	**854**	**854**
Assets written down during the year	(84)	–	**(84)**
Total	**(84)**	**854**	**770**

Considerations in respect of other assets. A revaluation exercise was considered unnecessary for other property, plant and equipment balances, mainly located outside of Ukraine, as management estimated that their fair value as of 31 December 2019 was not materially different from their cumulative carrying amount of US$264 million (4% of total value of the Group's property, plant and equipment as of 31 December 2019). No impairment indicators were noted in respect of these assets.

Also, UCC impairment test has been performed as at 31 December 2019 (Note 8). UCC represented 3% of total value of the Group's property, plant and equipment as of 31 December 2019.

During 2019, US$31 million of borrowing costs were capitalised as part of property, plant and equipment, capitalisation rate was 8% (2018: US$26 million, capitalisation rate was 9%).

As at 31 December 2019, US$75 million of property, plant and equipment were pledged as collateral for loans and borrowings (as at 31 December 2018: US$37 million).

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's investment in joint ventures and associates were as follows as at 31 December 2019 and 2018:

			2019		2018	
Name	Type of relationship	Segment	% of ownership	Carrying value	% of ownership	Carrying value
Zaporizhstal Group	Joint venture	Metallurgical	49.99%	823	49.91%	672
Southern Iron Ore Enrichment Works Group	Joint venture	Mining	45.87%	260	45.87%	199
Pokrovske coal business	Associate	Mining	24.77%	189	25.00%	153
IMU	Associate	Metallurgical	49.91%	5	49.91%	37
PrJSC Zaporizhvohnetryv	Associate	Metallurgical	45.39%	5	45.39%	5
PJSC Dniprovskiy Coke Plant	Associate	Metallurgical	49.37%	5	–	–
PrJSC Yuzkoks	Associate	Metallurgical	23.71%	14	–	–
Total				**1,301**		**1,066**

All Group's associates and joint ventures are accounted for using the equity method.

None of the joint ventures and associates are traded on active markets and there are no reliable market prices available.

SOUTHERN IRON ORE ENRICHMENT WORKS GROUP

Southern Iron Ore Enrichment Works Group is a large Ukrainian iron ore mining plant which produces iron ore concentrate and sinter. Its products are used by the Group's integrated steel plants and are also sold to the third parties (mostly in China, Ukraine and Europe) primarily through the Group's trading companies.

During the year ended 31 December 2019, Southern Iron Ore Enrichment Works Group has declared dividends of US$124 million attributable to the Group (2018: US$413 million).

11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

ZAPORIZHSTAL GROUP

The investment in the Zaporizhstal Group is represented by the number of interests in the steel and mining businesses, the most significant being:

- 49.99% effective interest in JSC Zaporizhstal Integrated Iron & Steel Works ("Zaporizhstal"), a large Ukrainian integrated steel plant which sources majority of its iron ore and coke consumption from the Group and sells majority of its finished products through the Group's trading companies;
- 24.27% effective interest in PrJSC Zaporizhya Iron Ore Plant, large iron ore mining enterprise in Ukraine which sells part of its iron ore output to Zaporizhstal; and
- 42.77% effective interest in PrJSC Zaporizhcoke and a 49.21% effective interest in PrJSC Zaporizhvohnetryv which are Group's subsidiary and associate respectively.

As at 31 December 2019 and 2018, Metinvest's investments in Zaporizhstal Group and Southern Iron Ore Enrichment Works Group were classified as joint ventures due to the fact that decisions on the key relevant activities require participation of and unanimous consents both from Metinvest and from the other shareholders of the Zaporizhstal Group and Southern Iron Ore Enrichment Works Group.

POKROVSKE COAL BUSINESS

In July 2018, the Group has acquired 24.99% of the effective interest in several entities, the most significant of which are PJSC "Colliery Pokrovske" and "Enrichment Factory "Svyato-Varvarinskaya" LLC (the "Pokrovske coal business"). The acquired entities form a business of extraction of raw coal, its further enrichment and sale of coal concentrate. As of the date of acquisition, the investment was classified as an associate.

Purchase price of the stake acquired by Metinvest amounted to US$190 million, payable in instalments over the maximum period of 1.5 years together with relevant interest. The price and share in business were revised in July 2019 to US$185 million for 24.77% of ownership as a result of the finalisation of the purchase price allocation.

Identifiable assets and liabilities acquired are measured at their fair values at the acquisition date. The valuation of property, plant and equipment and identifiable intangible assets (mining license) was performed by an independent professional appraiser.

As most of the Pokrovske coal business property, plant and equipment is of specialised nature, its fair value is determined using depreciated replacement cost (Level 3) or, where it is available, the market value (Level 2). For some assets the fair values as of reporting date were obtained using indexation of their carrying amounts for relevant cumulative price indices impacting the replacement cost used in measurement of depreciated replacement cost (Level 3).

The valuation of mining license acquired was performed based on the discounted cash flow model (Level 3).

The following table summarises key assumptions on which management has based its cash flow projections to undertake the valuation of identifiable assets as at acquisition date.

	2018
Post-tax discount rate (USD)	13.96%
EBITDA margins	64% in 2019, 58%-65% in 2020-2024, 45%-57% starting from 2025
Growth rate in perpetual period	1.90%
Coal prices forecast for 2019-2025	US$191 per tonne in 2019, US$160-169 in 2020-2024, starting from 2025 prices are adjusted for the level of inflation in the USA

The values assigned to the key assumptions represented management's assessment of future trends in the business and are based on both external and internal sources.

The discount rate reflects the current market assessment of the time value of money and risks specific to the Pokrovske coal business. The cost of equity has been determined using the Capital Asset Pricing Model based on observable inputs, inputs from third party financial analysts and Pokrovske coal business-specific inputs.

OPTION

In addition, the Group has obtained an option to purchase the remaining 75.01% (revised in July 2019 to 75.22%) from the other co-investors conditional on obtaining all relevant governmental and other consents. Management believes that this option does not represent a substantial voting right which may indicate the presence of control of Metinvest over the business.

As at acquisition date the Group has assessed the fair value of the option of US$130 million through Black-Scholes-Merton option pricing model (Level 3) and recognised it within other non-current assets at the date of acquisition.

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11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

When performing valuation using this method, the key estimates and judgments applied by the management, were as follows:

	31 December 2019	31 December 2018
Volatility of share prices	33%	40%
Time for execution of the option	1.6 years	2.6 years
Risk free rate	1.59%	2.46%
Fair value of the stake	713	614

The following table summarises key assumptions on which management has based its cash flow projections to undertake the valuation of fair value of the stake.

	31 December 2019	31 December 2018
Post-tax discount rate (USD)	12.41%	13.96%
EBITDA margins	approximately 50%	approximately 60%
Growth rate in perpetual period	3.00%	1.90%
Coal prices forecast for 2019-2025	US$160 per tonne in 2020, US$157-171 in 2021-2025, starting from 2026 prices are adjusted for the level of inflation in the USA	US$191 per tonne in 2019, US$160-169 in 2020-2024, starting from 2025 prices are adjusted for the level of inflation in the USA

The sensitivity of the option fair value to changes in the principal assumptions is presented below:

	31 December 2019	31 December 2018
Volatility increase/decrease by 1 pp	3/(3)	4/(4)
Fair value of the stake increase/decrease by US$10 million	6/(6)	6/(5)
Time to expiration increase/decrease by 1 month	3/(3)	3/(3)
Risk free rate increase/decrease by 1 pp	5/(5)	6/(5)

The above sensitivity analysis is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

A reconciliation of movements in the fair value of the option for the year ended 31 December 2019 and 31 December 2018 is as follows:

	2019	2018
Fair value at 1 January	**130**	**–**
Purchases	–	130
Gains or losses recognised in profit or loss for the year	(8)	–
Fair value at 31 December	**122**	**130**

GUARANTEE

In exchange for the option obtained, Metinvest guaranteed settlement of acquisition related obligations and took responsibility of timely payment to the sellers of US$570 million with an interest of 8% per annum.

The fair value of financial guarantee issued at the origination date was considered to be equal to the fair value of option received in exchange for it. As at 31 December 2019, the management has concluded, that there has been no worsening of financial position of the co-investors.

The amount of guarantee is amortised on a straight line basis over the life of the guarantee.

The guarantee issued was recorded in the Group's balance sheet within the trade and other accounts payable and other non-current liabilities.

PRJSC YUZKOKS

In January 2019, the Group acquired 23.71% effective interest in PrJSC Yuzkoks, the Ukrainian producer of metallurgical coke, for the consideration of US$30 million. PrJSC Yuzkoks generated revenue of US$155 million and net loss of US$60 million in the period from February to December of 2019, as at 31 December 2019 total assets amounted to US$309 million.

PRJSC DNIPROVSKIY COKE PLANT

In August 2019, the Group secured additional long-term supplies of coke by acquiring 49.37% of PrJSC Dniprovskiy Coke Plant for a consideration of US$11 million. PrJSC Dniprovskiy Coke Plant generated revenue of US$49 million and net loss of US$10 million in the period from September to December of 2019, as at 31 December 2019 total assets amounted to US$544 million.

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11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

Movements in the carrying amount of the Group investments in associates and joint ventures are presented below:

	2019		2018	
	Joint ventures	Associates	Joint ventures	Associates
Carrying amount at 1 January	**871**	**195**	**1,072**	**13**
Share of after tax results of joint ventures and associates	92	(6)	198	(25)
Share of other comprehensive income of joint ventures and associates	83	(39)	(1)	26
Acquisition of Pokrovske coal business	–	(5)	–	190
Acquisition of Dniprovskiy Coke Plant and Yuzkoks	–	41	–	–
Dividends declared	(124)	–	(413)	–
Currency translation difference	161	32	15	(9)
Carrying amount at 31 December	**1,083**	**218**	**871**	**195**

During 2019, Zaporizhstal engaged independent appraiser to perform a revaluation of its property, plant and equipment as the assets' fair value was expected to be higher than their carrying amounts. The Group's share in revaluation result of property, plant and equipment of US$79 million was included within the 'Share of other comprehensive income of joint ventures' line above.

The nature of the activities of the Group's associates, the Group's relationships with its associates and their key financial information is as follows:

- PrJSC Zaporizhvohnetryv, Ukrainian producer of refractories, with revenue of US$101 million and net profit of US$2 million in 2019 (2018: revenue of US$88 million and net profit of US$4 million, respectively) and total assets of US$78 million as at 31 December 2019 (31 December 2018: US$60 million);
- Industrial-Metallurgical Union (IMU), entity which owns 4.5% interest in ArcelorMittal Kryvyi Rih, the largest integrated steel plant in Ukraine. Management has elected to present fair value gains and losses on this equity investment in other comprehensive income, as such there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. The Group recognised US$38 million of share of other comprehensive loss of IMU arising from remeasurement of an investment held by this associate.

The summarised financial information of the Group's material joint ventures and associates is presented below.

	Zaporizhstal Group		Southern Iron Ore Enrichment Works Group		Pokrovske coal business	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Balance sheet:						
Non-current assets	**1,323**	**947**	**584**	**419**	**1,974**	**1,712**
Cash and cash equivalents	8	17	4	8	17	22
Other current assets	1,473	1,597	265	228	284	309
Total current assets	**1,481**	**1,614**	**269**	**236**	**301**	**331**
Other non-current liabilities	145	101	110	65	324	301
Other non-current financial liabilities	20	13	–	–	4	4
Total non-current liabilities	**165**	**114**	**110**	**65**	**328**	**305**
Trade and other payables and provisions	1,081	1,160	176	157	111	92
Other current financial liabilities	111	110	–	–	1,515	1,423
Total current liabilities	**1,192**	**1,270**	**176**	**157**	**1,626**	**1,515**
Net assets	**1,447**	**1,177**	**567**	**433**	**321**	**223**

As at 31 December 2019, the temporary differences associated with interests in joint ventures for which deferred tax liabilities have not been recognised amounted to US$19 million (2018: US$18 million).

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11 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

	Zaporizhstal Group		Southern Iron Ore Enrichment Works Group		Pokrovske coal business	
	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2019	For the 5 months ended 31 December 2018
Profit or loss for the year ended (selected items):						
Revenue	1,836	2,200	963	778	506	169
Depreciation and amortisation	(44)	(78)	(48)	(40)	(120)	(73)
Finance income	31	4	1	2	186	4
Finance costs	(24)	(24)	(6)	(5)	(254)	(122)
Income tax expense	21	(37)	(91)	(88)	(1)	3
Profit or loss	(107)	198	316	217	48	(124)
Statement of comprehensive income for the year ended:						
Other comprehensive income	155	(2)	11	–	–	–
Total comprehensive income	48	196	327	217	48	(124)
Dividends received by the Group during the year ended	–	–	124	413	–	–

The information above reflects the amounts presented in the financial statements of the joint ventures and associates and the impact of fair value adjustments made on acquisition of these joint ventures and associates, if any.

As at 31 December 2019 and 31 December 2018, the holding company of Pokrovske Coal business pledged 44.16% of shares of PJSC "Colliery Pokrovske" as a collateral for amounts to be paid for acquisition of Pokrovske coal. PJSC "Colliery Pokrovske" further owns 55% of shares of "Enrichment Factory "Svyato-Varvarinskaya" LLC.

The reconciliation of the net assets of the Group's principal joint ventures and associate presented above to the carrying amounts of the respective investments is presented below:

	Zaporizhstal Group		Southern Iron Ore Enrichment Works Group		Pokrovske coal business	
	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ended 31 December 2018	For the year ended 31 December 2019	For the 5 months ended 31 December 2018
Net assets	1,447	1,177	567	433	321	223
Group's ownership	49.99%	49.91%	45.87%	45.87%	24.77%	24.99%
Group's interest in net assets	723	587	260	199	80	56
Goodwill	100	85	–	–	109	97
Carrying value	**823**	**672**	**260**	**199**	**189**	**153**

12 INVENTORIES

	31 December 2019	31 December 2018
Finished goods and work in progress	548	612
Raw materials	411	465
Ancillary materials, spare parts and consumables	166	177
Goods for resale	60	93
Total inventories	**1,185**	**1,347**

In 2019, write-downs of inventories to net realisable value amounted to US$27 million (2018: US$9 million).

As at 31 December 2019, inventories totalling US$139 million (31 December 2018: US$112 million) have been pledged as collateral for borrowings (Note 18).

ALL AMOUNTS IN MILLIONS OF US DOLLARS

13 TRADE AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Non-current assets		
Trade receivables	367	128
Loans issued to SCM (USD denominated, 9% effective interest rate)	171	42
Loans issued to SMART (USD denominated, 9% effective interest rate)	96	88
Option for acquisition of interest in Pokrovske coal business (Note 11)	122	130
Other non-current financial assets	72	6
Other non-current non-financial assets	14	11
Total non-current assets	**842**	**405**
Current financial assets		
Trade receivables and receivables on commission sales	2,197	2,056
Loans issued to SCM and SMART (UAH denominated)	52	46
Loans issued to joint venture (USD denominated, 11% effective interest rate, mature in 2020, renegotiated in 2019)	97	98
Other receivables	98	70
Total current financial assets	**2,444**	**2,270**
Current non-financial assets		
Recoverable value added tax	307	240
Prepayments made	99	153
Covered letters of credit related to inventory purchases	23	17
Prepaid expenses and other non-financial receivables	155	110
Total current non-financial assets	**584**	**520**
Total current assets	**3,028**	**2,790**
Total trade and other receivables (including non-current assets)	**3,870**	**3,195**

Recoverable VAT mainly relates to Ukrainian subsidiaries of the Group. During 2019, VAT refunds of US$668 million were received by the Group (2018: US$623 million). As at 31 December 2018, VAT assets in the full amount of US$46 million for subsidiaries whose operations were located on the temporarily non-controlled territory were impaired due to uncertainty caused by timing and probability of recoverability.

The Group has legal right to request settlement of the current loans issued to related parties within a twelve month period after the reporting date. The decision on whether to call for repayment or extend the term of the loan is subject to future developments and yet to be done.

In addition, the Group has extended the settlement dates for some of its customers for the period less than one year with no material losses recognised on the renegotiated terms.

During 2019, the creditworthiness of certain Group's customers has deteriorated. As a result, as at 31 December 2019, the Group has reclassified the respective trade and other receivables in the amount of US$239 million from current assets. The net exposure from these counterparties increased by US$252 million from 1 January 2019 following the fluctuation of steel, coke and coal prices in 2019. The Group has assessed the lifetime expected credit losses for these balances in the amount of US$100 million, representing 18% of the net exposure.

The calculation of expected credit losses for these balances is carried out on an individual basis taking into account agreement terms, expected repayment period, internally assessed credit risks for these counterparties, and expected future cash flows as well as the assets which may be used to settle the indebtedness. Management assumes that the underlying assets and cash flows might be collected through various procedures where the Group will make all required efforts to find appropriate solution to recover the carrying amounts of receivables. Management assumes that the fair value of the underlying assets is sufficient to cover the outstanding balances net of expected credit losses and expects that these balances will be settled within 3 years.

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ALL AMOUNTS IN MILLIONS OF US DOLLARS

13 TRADE AND OTHER RECEIVABLES CONTINUED

Analysis by credit quality of financial trade and other receivables and expected credit loss allowance as at 31 December 2019 is as follows:

	Loss rate	Gross carrying amount	Lifetime ECL	Carrying amount	Basis
Loans issue to related parties	2.6%	424	(8)	416	Adjusted yield to maturity on corporate bonds
Total loans issued		**424**	**(8)**	**416**	
Trade and other receivables from key customers including credit impaired		1,360	(652)	708	
Trade and other receivables from related parties including credit impaired		1,564	(101)	1,463	
Total trade and other receivables for which individual approach for ECL is used		**2,924**	**(753)**	**2,171**	
Ukraine – less than 30 days overdue	0.50%	48	–	48	Historical payment discipline
Ukraine – overdue more than 30 days	13%	8	–	8	Historical payment discipline
Ukraine – credit impaired	100%	51	(51)	–	
Other countries – less than 30 days overdue	0.09%	500	–	500	Historical payment discipline
Other countries – overdue more than 30 days	8%	7	–	7	Historical payment discipline
Other countries – credit impaired	100%	11	(11)	–	
Total trade and other receivables for which provision matrix is used		**625**	**(62)**	**563**	
Total		**3,973**	**(823)**	**3,150**	

Loss rate for trade and other receivables from key customers approximated 3.8% and determined based on adjusted yield to maturity on corporate bonds, for credit impaired balances from key customers loss rate is within the range 25%-100%.

Loss rate for trade and other receivables from related parties approximated 3.8% and determined based on adjusted yield to maturity on corporate bonds, for credit impaired balances from key customers loss rate is within the range 10%-100%.

The loss rates presented in the table above for unimpaired receivables are 12-month loss rates which are adjusted to reflect the maturity of individual balances.

Analysis by credit quality of financial trade and other receivables as at 31 December 2018 is as follows:

	Loss rate	Gross carrying amount	Lifetime ECL	Carrying amount	Basis
Loans issue to related parties	5.3%	281	(7)	274	Adjusted yield to maturity on corporate bonds
Total loans issued		**281**	**(7)**	**274**	
Trade and other receivables from key customers including credit impaired		1,158	(557)	601	
Trade and other receivables from related parties including credit impaired		1,101	(31)	1,070	
Total trade and other receivables for which individual approach for ECL is used		**2,259**	**(588)**	**1,671**	
Ukraine – less than 30 days overdue	0.50%	44	–	44	Historical payment discipline
Ukraine – overdue more than 30 days	13%	4	–	4	Historical payment discipline
Ukraine – credit impaired	100%	42	(42)	–	
Other countries – less than 30 days overdue	0.09%	537	–	537	Historical payment discipline
Other countries – overdue more than 30 days	8%	4	–	4	Historical payment discipline
Other countries – credit impaired	100%	11	(11)	–	
Total trade and other receivables for which provision matrix is used		**642**	**(53)**	**589**	
Total		**3,182**	**(648)**	**2,534**	

Loss rate for trade and other receivables from key customers approximated 3.8%-6.8% and determined based on adjusted yield to maturity on corporate bonds, for credit impaired balances from key customers loss rate is 100%.

Loss rate for trade and other receivables from related parties approximated 5.3% and determined based on adjusted yield to maturity on corporate bonds, for credit impaired balances from key customers loss rate is 100%.

ALL AMOUNTS IN MILLIONS OF US DOLLARS

13 TRADE AND OTHER RECEIVABLES CONTINUED

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

	Trade and other receivables	Loans issued	Trade and other receivables – credit impaired	Total
Balance at 31 December 2018	**32**	**7**	**609**	**648**
Net new originated/(derecognised) during the period	4	7	8	**19**
Individual financial assets transferred to credit impaired	(16)	–	16	**–**
Changes in estimates and assumptions	(11)	(6)	76	**59**
Write-offs	–	–	(3)	**(3)**
Forex movements	2	–	98	**100**
Balance at 31 December 2019	**11**	**8**	**804**	**823**

Movements in the impairment provision for trade and other receivables during 2018 were as follows:

	Trade and other receivables	Loans issued	Total
Balance at 1 January 2018 (adjusted)	**615**	**5**	**620**
Net new originated/(derecognised) during the period	19	1	20
Changes in estimates and assumptions	6	1	7
Write-offs	(5)	–	(5)
Forex movements	6	–	6
Balance at 31 December 2018	**641**	**7**	**648**

During 2019, trade accounts receivable in the amount of US$1,454 million have been sold to a third party (2018: US$1,547 million). As at 31 December 2019, amount of such receivables which were still unsettled to a third party was US$270 million (31 December 2018: US$242 million). The carrying amount of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets is US$1 million (31 December 2018: US$3 million). The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised assets approximates the carrying value. The maximum exposure to loss from such receivables relates to customer default only and is pre-agreed with the third party purchasing the receivables as the percentage of their nominal amount sold. Such percentage is determined with reference to the historical loss ratio and the statistical model of the respective markets of the Group.

As at 31 December 2019, trade and other receivables totalling US$228 million (31 December 2018: US$224 million) have been pledged as collateral for borrowings and payables (Note 18).

As at 31 December 2019, the Group's deposit amounting to US$8 million was pledged for obligation of the Group's related party (31 December 2018: US$10 million).

14 CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Current accounts	213	215
Cash in transit	30	46
Bank deposits up to 3 months	31	19
Total cash and cash equivalents	**274**	**280**

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ALL AMOUNTS IN MILLIONS OF US DOLLARS

14 CASH AND CASH EQUIVALENTS

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2019	31 December 2018
As rated by Moody's:		
Aa2	4	7
A1	72	59
A2	–	–
A3	35	35
Baa1	5	14
Baa2	–	–
Baa3	8	3
Ba2	5	–
B2	–	2
Caa1	2	1
Not rated – FUIB	78	85
Not rated – US and European banks	9	11
Not rated – Other Ukrainian banks	26	17
Cash in transit (in various banks)	30	46
Total cash and cash equivalents	**274**	**280**

As at 31 December 2019 and 2018, amounts in category "Not rated – FUIB" relate to First Ukrainian International Bank (a related party which is under common control of SCM).

As at 31 December 2019, included in Ba2 rating are US$2 million (2018: included in B2 rating are US$2 million) related to balance in Switzerland subsidiary of international bank, which does not have own credit rating and for which rating was based on its parents' rating.

As at 31 December 2019, cash and cash equivalents totalling US$15 million (31 December 2018: US$12 million) have been pledged as collateral for borrowings (Note 18).

15 SHARE CAPITAL AND SHARE PREMIUM

	Number of outstanding shares			Total par value of shares	Share premium	Total
	Class A	Class B	Class C			
At 31 December 2019	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**
At 31 December 2018	**6,750**	**2,251**	**474**	**0**	**6,225**	**6,225**

As at 31 December 2019 and 2018, the issued share capital comprised 6,750 ordinary Class A shares, 2,251 ordinary Class B shares and 474 ordinary Class C shares with a par value of EUR10. Each ordinary share carries one vote and is fully paid.

In 2014, the Company changed its Articles of Association and created three classes of shares (A, B and C). Ownership interests of SCM Limited were transferred to new Class A shares. Ownership interests of SMART were transferred to new Class B shares. Ownership interests of the previous Class B shares were transferred to new Class C shares. Additional rights of these new classes of shares were established, the most significant of which were:

– Class C shareholders have the right to a portion of net assets of the Company and are represented at shareholders' meetings;
– the establishment of a Supervisory Board of ten members, where seven are appointed by the majority of Class A and Class C shareholders and three are appointed by the Class B shareholder;
– a number of decisions with respect to acquisitions and financing decisions above a specified amount require effectively consent of Class A and B shareholder; and
– Class C shares are not entitled to receive dividends.

ALL AMOUNTS IN MILLIONS OF US DOLLARS

16 OTHER RESERVES

	Share in other comprehensive income of joint venture and associates	Revaluation of property, plant and equipment and share in revaluation reserve of PPE of JVs and associates	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2018	(9)	4,687	(3,038)	(10,574)	**(8,934)**
Total comprehensive income/(loss) for the period	26	(5)	–	30	**51**
Depreciation transfer, net of tax	–	(261)	–	–	**(261)**
Balance as at 31 December 2018	**17**	**4,421**	**(3,038)**	**(10,544)**	**(9,144)**
Total comprehensive income/(loss) for the period	60	688	–	847	**1,595**
Depreciation transfer, net of tax	–	(255)	–	–	**(255)**
Balance as at 31 December 2019	**77**	**4,854**	**(3,038)**	**(9,697)**	**(7,804)**

Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. The Group's subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP or IFRS as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation.

The ability of the Group to pay dividends has been limited by the terms and conditions of the Group's agreements with its lenders and bondholders related to the debt refinance transaction (Note 18).

17 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES

Subsidiaries that have non-controlling interest that is material to the Group have been determined by management based on combination of the following factors: (i) the percentage of shares held by non-controlling shareholders; (ii) accumulated amount of non-controlling interest (NCI) in the subsidiary; and (iii) total assets, revenues, profit or loss and OCI of the respective subsidiaries.

The following table provides information about subsidiaries that have non-controlling interest that is material to the Group:

	Proportion of NCI (same as voting rights held by NCI)	Profit or loss attributable to NCI	OCI attributable to NCI	Amount of NCI in the subsidiary	Dividends paid to NCI during the year
As at 31 December 2019					
PrJSC Zaporizhcoke	42.8%	–	27	85	–
PrJSC Northern Iron Ore Enrichment Works	3.2%	10	10	55	(4)
Other subsidiaries with NCI	n/a	–	(7)	(42)	–
Total		**10**	**30**	**98**	**(4)**
As at 31 December 2018					
PrJSC Zaporizhcoke	42.8%	17	–	57	–
PrJSC Northern Iron Ore Enrichment Works	3.2%	10	–	35	(11)
Other subsidiaries with NCI	n/a	16	–	(34)	–
Total		**43**	**–**	**58**	**(11)**

The summarised financial information of these subsidiaries (including the impact of consolidation fair value adjustments, but before intercompany eliminations), was as follows at 31 December 2019 and 2018:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net assets
As at 31 December 2019					
PrJSC Zaporizhcoke	157	120	57	21	199
PJSC Northern Iron Ore Enrichment Works	1,891	911	874	201	1,727
As at 31 December 2018					
PrJSC Zaporizhcoke	250	58	165	9	134
PJSC Northern Iron Ore Enrichment Works	1,378	659	858	69	1,110

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17 MATERIAL NON-CONTROLLING INTERESTS IN SUBSIDIARIES CONTINUED

	Revenue	Profit/(loss)	Total comprehensive (loss)/income
Year ended 31 December 2019			
PrJSC Zaporizhcoke	472	3	65
PrJSC Northern Iron Ore Enrichment Works	1,290	307	617
Year ended 31 December 2018			
PrJSC Zaporizhcoke	341	41	40
PrJSC Northern Iron Ore Enrichment Works	1,086	301	308

The Group's centralised treasury monitors the cash flows of the Group's subsidiaries and adjusts the subsidiaries' operating cash flows (e.g. by means of changing intragroup trading balances) to provide sufficient funds for the approved investing activities or payment of taxes, interest and dividends.

According to the terms of Refinancing (Note 18), bonds benefit from suretyship granted by PrJSC Northern Iron Ore Enrichment Works.

PrJSC Northern Iron Ore Enrichment Works is also jointly committed to perform sales of steel products to Metinvest International S.A. The proceeds from such sales are transferred through special accounts pledged in favour of the PXF lenders which had rights to these proceeds only in case when Metinvest does not make a scheduled payment under the credit facilities or otherwise defaults in respect of its obligations under the PXF loans. The amount of funds on such account as at 31 December 2019 is US$8 million (31 December 2018: US$9 million).

18 LOANS AND BORROWINGS

As at 31 December, loans and borrowings were as follows:

	31 December 2019	31 December 2018
Non-current		
Bonds issued	2,074	1,680
Bank borrowings	338	499
Lease liability	30	15
Total non-current loans and borrowings	**2,442**	**2,194**
Current		
Bonds issued	25	29
Bank borrowings	153	93
Trade finance	399	363
Lease liability	13	4
Total current loans and borrowings	**590**	**489**
Total loans and borrowings	**3,032**	**2,683**

As at 31 December 2019, the bank borrowings include PXF in the amount of US$411 million (31 December 2018: US$538 million).

2018 Refinancing

On April 23, 2018, Metinvest completed the refinancing of its US$2,271 million of debt, consisting of the issuance of two tranches of bonds which replaced a significant part of existing 2021 bonds and the amendment and restatement of its PXF facility ("Refinancing").

Key features of the 2018 Refinancing are:

– On 4 April 2018, Metinvest priced a US$1,350 million bond offering across two tranches: a US$825 million 5-year tranche bearing a fixed interest rate of 7.75% per annum due in April 2023; and a US$525 million 8-year tranche bearing a fixed rate of 8.50% per annum due in April 2026. The US$1,350 million bond offering consisted of refinancing of US$1,070 million of the 2021 bond as well as raising of US$280 million of new finances.
– In addition, certain PXF holders agreed to shift their exposure from the PXF facility to new bonds. As a result, the final new issuance of bonds amounted to US$1,592.2 million: consisting of US$944.5 million 5-year and a US$647.7 million 8-year tranches.
– Following the refinancing, US$117 million of the 2021 bonds remain outstanding, their interest rate was decreased to fixed 7.50% per annum, while their terms and conditions were amended and restated in line with the terms and conditions of newly issued bonds.
– The PXF facility was amended and restated to, inter alia, extend its maturity to October 2022. Interest rate for PXF facility was set at USD LIBOR plus margin, paid fully in cash. After a required partial repayment of the PXF facility, a shift of certain lenders to the new bond issue and an attraction of a new tranche of US$65 million, the total amount of the PXF facility amounted to US$765 million.
– Two instruments were structurally untied: cash sweep common for bonds and the PXF facility was removed, while common security was released.

ALL AMOUNTS IN MILLIONS OF US DOLLARS

18 LOANS AND BORROWINGS CONTINUED

- Each instrument received collateral, guarantees typical for such instruments. Bonds benefit from suretyships granted by six entities, including PrJSC Azovstal Iron and Steel Works, PrJSC Ilyich Iron and Steel Works, PrJSC Avdiivka Coke Plant, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Central Iron Ore Enrichment Works and PrJSC Northern Iron Ore Enrichment Works. The PXF facility benefits from suretyships granted by four entities, including PrJSC Ilyich Iron and Steel Works, PrJSC Ingulets Iron Ore Enrichment Works, PrJSC Central Iron Ore Enrichment Works and Metinvest Management B.V., security assignments of rights under certain export, commission and offtake contracts, as well as pledges of certain bank accounts and rights under certain commission contracts.
- Certain restrictive covenants continue to be imposed on the Group, including limitation to pay dividends, make certain restricted payments, engage in certain transactions with related parties, incur new debt, as well as certain financial covenants (interest cover ratio, debt cover ratio, tangible net worth and gearing). These covenants have been eased when compared to the terms of prior debt.

Change in PXF facility (apart from PXF shifted exposure) and US$117 million of the 2021 bonds was treated as a modification of original financial instrument as the difference between the present value of the cash flows under the new terms discounted using the original effective interest rate and discounted present value of the remaining cash flows of the original financial liability is less than 10 per cent. This transaction resulted in recognition of loss on modification amounting to US$23 million and was recognised in income statement as part of loss on refinance.

Refinancing of US$1,070 million of the 2021 bond and US$239 million of PXF shifted exposure was accounted for as extinguishment of the prior financial liability and recognition of the new debt instruments. Gain on extinguishment amounted to US$6 million and was recognised in income statement as part of loss on refinance.

2019 Refinancing

In October 2019, Metinvest priced a dual-currency Eurobond offering issuing a US$500 million 10-year tranche bearing a fixed interest rate of 7.75% per annum due in October 2029; and a EUR300 million 5-year tranche bearing a fixed rate of 5.625% per annum due in June 2025. The US$500 million bond offering consisted of refinancing of US$440 million of the 2023 bond as well as raising of US$60 million of new finances. Both tranches benefit from the same suretyships and are subject to the substantially similar restrictive covenants as the 2021, 2023 and 2026 bonds.

Refinancing of US$440 million of the 2023 bond was accounted for as extinguishment of the prior financial liability and recognition of the new debt instrument. The loss on extinguishment amounted to US$6 million and was recognised in income statement as part of finance costs.

As of 31 December 2019, the Group's bonds were traded on open markets. Fair value of bonds and discount/premium are as follows:

	31 December 2019		31 December 2018	
	Fair value	Premium/ (Discount)	Fair value	Premium/ (Discount)
Bonds due in 2021	116	0.5%	114	(2.7%)
Bonds due in 2023	547	5.6%	884	(8.9%)
Bonds due in 2025	342	1.9%	–	–
Bonds due in 2026	709	7.7%	594	(9.8%)
Bonds due in 2029	520	2.5%	–	–
Total	**2,234**		**1,592**	

Have these market quotations been used to determine the fair values of the PXF as at 31 December 2019, those would be US$419 million (31 December 2018: US$499 million).

The majority of the Group's bank borrowings and trade finance have floating interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

	31 December 2019			31 December 2018		
In % per annum	**US$**	**EUR**	**GBP**	**US$**	**EUR**	**GBP**
Bank borrowings	7%	5%	–	7%	6%	–
Bonds issued	9%	6%	–	9%	–	–
Trade finance	5%	3%	4%	5%	3%	5%
Lease liability	8%	5%	–	8%	–	–
Reported amount	**2,487**	**512**	**33**	**2,481**	**170**	**32**

The Group defines net debt as the sum of bank loans, bonds, trade finance, lease liability, deferred consideration and seller notes, non-bank borrowings less cash and cash equivalents.

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18 LOANS AND BORROWINGS CONTINUED

Movements in the Groups' net debt are presented below:

	Cash in banks	Deposits up to 3 months	Bank borrowings	Bonds issued	Non-bank borrowings from related parties	Trade finance	Deferred consideration and seller's notes	Finance lease	Total
Net debt as at 1 January 2018	**250**	**9**	**(1,097)**	**(1,201)**	**(460)**	**(291)**	**(7)**	**(12)**	**(2,809)**
Interest paid/(received)	–	(1)	49	99	113	12	5	2	**279**
Other cash flows	16	10	273	(264)	369	(79)	137	(1)	**461**
Interest accrued (Note 25, 10)	–	1	(48)	(134)	(22)	(13)	(5)	(2)	**(223)**
Legal and consulting fees capitalised	–	–	–	13	–	–	–	–	**13**
Commissions capitalised	–	–	22	–	–	–	–	–	**22**
Effect of refinancing	–	–	(34)	17	–	–	–	–	**(17)**
Currency translation differences	(5)	–	4	–	–	8	–	–	**7**
Equipment received under finance lease	–	–	–	–	–	–	–	(6)	**(6)**
Transfers	–	–	239	(239)	–	–	–	–	**–**
Acquisition of associate	–	–	–	–	–	–	(190)	–	**(190)**
Net debt as of 31 December 2018	**261**	**19**	**(592)**	**(1,709)**	**–**	**(363)**	**(60)**	**(19)**	**(2,463)**
Change in accounting policy (Note 5)	–	–	–	–	–	–	–	(4)	**(4)**
Adjusted net debt as at 1 January 2019	**261**	**19**	**(592)**	**(1,709)**	**–**	**(363)**	**(60)**	**(23)**	**(2,467)**
Interest paid/(received)	(5)	–	38	145	–	14	2	2	**196**
Other cash flows	(18)	12	89	(384)	–	(37)	55	10	**(273)**
Interest accrued (Note 25, 10)	5	–	(36)	(150)	–	(16)	(2)	(3)	**(202)**
Legal and consulting fees capitalised	–	–	–	5	–	–	–	–	**5**
Commissions capitalised	–	–	7	–	–	–	–	–	**7**
Effect of refinancing	–	–	–	(6)	–	–	–	–	**(6)**
Currency translation differences	–	–	3	(2)	–	3	–	(2)	**2**
Equipment received as lease asset	–	–	–	–	–	–	–	(27)	**(27)**
Other movements	–	–	–	2	–	–	5	–	**7**
Net debt as of 31 December 2019	**243**	**31**	**(491)**	**(2,099)**	**–**	**(399)**	**–**	**(43)**	**(2,758)**

19 DEFERRED CONSIDERATION AND SELLER'S NOTES

	31 December 2019	31 December 2018
Current portion	–	60
Total deferred consideration and seller's notes	**–**	**60**

In July 2018, the Group has acquired stake in the Pokrovske coal business for US$190 million of which US$60 million remained outstanding as at 31 December 2018. The Group settled payables for this acquisition till the end of 2019. For the details on the arrangement refer to Note 11.

As at 31 December 2018, nominal interest rate of deferred consideration and seller's notes approximated effective interest rate, the fair value of deferred consideration and seller's notes approximated their carrying amount.

20 RETIREMENT BENEFIT OBLIGATIONS

The Group's defined benefit obligations relate to:

	31 December 2019	31 December 2018
State-defined early pensions for employees working in hazardous and unhealthy working conditions	565	391
Long-term employee benefits under collective bargaining agreements	32	20
Total defined benefit obligations	**597**	**411**

Nature and the risks and uncertainties associated with the Group's defined benefit obligations are further disclosed in the Note 4.

ALL AMOUNTS IN MILLIONS OF US DOLLARS

20 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Changes in the present value of the defined benefit obligation were as follows:

	2019	2018
Defined benefit obligation as at 1 January	**411**	**369**
Current service cost	15	10
Remeasurements of the defined benefit liability resulting from:		
changes in financial assumptions	20	(30)
changes in demographic assumptions	(8)	1
experience adjustments	68	40
Interest cost	55	44
Benefits paid	(34)	(27)
Currency translation difference	70	4
Defined benefit obligation as at 31 December	**597**	**411**

The amounts recognised in the consolidated income statement were as follows:

	2019	2018
Current service cost	15	10
Interest cost	55	44
Total	**70**	**54**

The principal actuarial assumptions used were as follows:

	31 December 2019	31 December 2018
Nominal discount rate	10.91%	14.03%
Nominal salary increase	5.00% – 5.83%	10.00%
Nominal pension entitlement increase (indexation)	6.42%	7.2%
Long-term inflation	5.83%	6.2%

Assumptions about mortality are based on the publicly available mortality tables for city population of the respective regions of Ukraine (depending on the location of the Group's subsidiaries) for 2019 and are consistent with the prior year.

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2019	2018
Nominal discount rate increase/decrease by 1 pp	(50)/57	(34)/40
Nominal salary increase/decrease by 1 pp	28/(26)	17/(17)
Inflation increase/decrease by 1 pp	4/(5)	4/(7)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change significantly compared to the previous period.

As at 31 December 2019, the weighted average maturity of the Group's defined benefit obligations is 9.0 years and it varies across different Group's subsidiaries from 8.1 to 14 years (31 December 2018: 9.5 years, varying from 8.2 to 14 years). Payments in respect of defined benefit obligations expected to be made during the year ending 31 December 2020 are US$37 million (2019: US$27 million).

21 OTHER NON-CURRENT LIABILITIES

	31 December 2019	31 December 2018
Asset retirement obligations	64	52
Tax liabilities under moratorium (Note 28)	8	7
Other non-current liabilities	30	24
Guarantee issued (Note 11)	93	113
Total other non-current liabilities	**195**	**196**

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED
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22 TRADE AND OTHER PAYABLES

	31 December 2019	31 December 2018
Trade payables and payables on sales made on commission	1,760	1,527
Dividends payable to shareholders of Metinvest B.V.	304	41
Dividends payable to non-controlling shareholders of Company's subsidiaries	6	9
Payables for acquired property, plant and equipment and other intangible assets	227	118
Other financial liabilities	47	27
Total financial liabilities	**2,344**	**1,722**
Prepayments received	142	136
Accruals for employees' unused vacations and other payments to employees	98	74
Other taxes payable, including VAT	124	128
Wages and salaries payable	33	25
Guarantee issued (Note 11)	6	8
Other allowances and provisions	32	33
Total trade and other payables	**2,779**	**2,126**

23 NET OPERATING COSTS (EXCLUDING ITEMS SHOWN SEPARATELY)

	2019	2018
Raw materials including change in finished goods and work in progress	3,059	2,714
Goods and services for resale, excluding related transportation	2,962	3,690
Energy materials including gas, electricity and fuel	1,050	1,117
Wages and salaries	790	606
Transportation services	862	751
Repairs and maintenance expenses	265	224
Pension and social security costs	140	103
Pension costs – defined benefit obligations (Note 20)	15	10
Depreciation and amortisation	704	550
Taxes and duties	119	94
Services and other costs	386	340
Charity and expenses on social activities	13	16
Maintenance of social infrastructure	24	9
VAT on sales below cost and VAT write-off	7	7
Operating foreign exchange (gains)/losses, net	(57)	70
Gain on disposal of property, plant and equipment, net	(5)	(10)
Write-off of trade and other payables	(23)	(33)
Other operating income	(41)	(12)
Total net operating expenses (excluding items shown separately)	**10,270**	**10,246**

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

Auditor's fees. The following fees were expensed in the consolidated income statement in the reporting period:

	2019	2018
Audit of the financial statements (including audit fee of the signing firm of US$0.2 million in 2019 and US$0.2 million in 2018)	2	2
Total	**2**	**2**

During 2019, tax and other non-audit services expensed in the consolidated income statement amounted to US$0.2 million and US$0.3 million, respectively (2018: US$0.3 million and US$0.7 million), including US$0.3 million of other non-audit services fees of signing firm during 2019 (US$0.2 million during 2018).

24 FINANCE INCOME

Finance income for the year ended 31 December was as follows:

	2019	2018
Net foreign exchange gain	197	23
Interest income:		
loans issued	27	21
bank deposits	5	8
imputed interest on other financial instruments	–	7
Other finance income	24	9
Total finance income	**253**	**68**

Net foreign exchange gains arise on intragroup loans and dividends payable between the entities with different functional currencies. During 2019 and 2018, other finance income is represented by amortisation of the guarantee issued (Note 11).

ALL AMOUNTS IN MILLIONS OF US DOLLARS

25 FINANCE COSTS

Finance costs for the year ended 31 December were as follows:

	2019	2018
Interest expense on:		
borrowings	26	57
bonds	145	134
deferred consideration and seller's notes	2	5
Interest cost on retirement benefit obligations	55	44
Refinance fees	26	60
Loss on modification and extinguishment	6	17
Other finance costs	16	17
Total finance costs	**276**	**334**

During 2019 and 2018, other finance costs mainly include factoring fees and discounting of the financial instruments.

26 INCOME TAX

Income tax for the year ended 31 December was as follows:

	2019	2018
Current tax	187	306
Deferred tax	(140)	(31)
Income tax expense	**47**	**275**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2019 and 2018, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 18%. The tax rate for Swiss operations was 10% and for European companies tax rate in 2019 varied from 10% to 28%. The tax rate for the US operations was 21%.

Reconciliation between the expected and the actual taxation charge is provided below.

	2019	2018
IFRS profit before tax	388	1,463
Tax calculated at domestic tax rates applicable to profits in the respective countries	43	202
Tax effect of items not deductible or assessable for taxation purposes:		
impairment of trade and other receivables	–	–
other non-deductible expenses	21	65
non-taxable income	–	–
Tax benefits	(19)	(19)
Under/(over) provision of current tax in prior years	(2)	2
Write-down/(reversal of write-down) of deferred tax assets, net	4	25
Income tax expense	**47**	**275**

Other non-tax deductible expenses include mainly the expenses incurred by Metinvest B.V. and other subholdings where no sufficient taxable profits are expected to utilise them.

The weighted average applicable tax rate was 11% in 2019 (2018: 14%). Variation in weighted average tax rate is mostly due to variation in profitability of the Group's subsidiaries in Ukraine, some of which are profitable and some are loss making.

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

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26 INCOME TAX CONTINUED

	1 January 2019	Credited/ (charged) to income statement	Credited/ (charged) to other comprehensive income	Currency translation difference	31 December 2019
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	2	–	–	–	2
Long-term receivables	3	–	–	–	3
Inventory valuation	16	(15)	–	–	1
Trade and other accounts receivable	39	8	–	7	54
Accrued expenses	1	1	–	–	2
Tax losses carried forward	7	66	–	1	74
Retirement benefit obligations	63	6	14	11	94
Other	52	(11)	–	6	47
Gross deferred tax asset	**183**	**55**	**14**	**25**	**277**
Less offsetting with deferred tax liabilities	(103)	(64)	(2)	(23)	(192)
Recognised deferred tax asset	**80**	**(9)**	**12**	**2**	**85**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(332)	85	(145)	(62)	(454)
Inventory tax differences	(8)	–	–	–	(8)
Other	(4)	1	–	–	(3)
Gross deferred tax liability	**(344)**	**86**	**(145)**	**(62)**	**(465)**
Less offsetting with deferred tax assets	104	63	2	23	192
Recognised deferred tax liability	**(240)**	**149**	**(143)**	**(39)**	**(273)**

Deferred tax asset on unused tax losses not recognised by Ukrainian subsidiaries as at 31 December 2019 comprised US$104 million (31 December 2018: US$81 million) and mainly relates to the entities whose physical assets are located on the non-controlled territory of Ukraine. The Group does not recognise this deferred tax asset as it does not expect profits to be generated by these entities in the foreseeable future. There are no expiry dates on tax losses carried forward in Ukraine and Italy. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable; future taxable profits are estimated using the cash flow forecasts consistent with those used for impairment testing of non-current assets.

	1 January 2018 (adjusted)	Credited/ (charged) to income statement	Credited/ (charged) to other comprehensive income	Currency translation difference	31 December 2018
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	3	(1)	–	–	2
Long-term receivables	3	–	–	–	3
Inventory valuation	25	(9)	–	–	16
Trade and other accounts receivable	34	5	–	–	39
Accrued expenses	20	(19)	–	–	1
Tax losses carried forward	5	2	–	–	7
Retirement benefit obligations	63	(1)	–	1	63
Other	54	(1)	–	(1)	52
Gross deferred tax asset	**207**	**(24)**	**–**	**–**	**183**
Less offsetting with deferred tax liabilities	(94)	(10)	–	1	(103)
Recognised deferred tax asset	**113**	**(34)**	**–**	**1**	**80**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(384)	58	–	(6)	(332)
Inventory tax differences	(4)	(4)	–	–	(8)
Other	(6)	1	–	1	(4)
Gross deferred tax liability	**(394)**	**55**	**–**	**(5)**	**(344)**
Less offsetting with deferred tax assets	94	10	–	–	104
Recognised deferred tax liability	**(300)**	**65**	**–**	**(5)**	**(240)**

ALL AMOUNTS IN MILLIONS OF US DOLLARS

26 INCOME TAX CONTINUED

The tax charge relating to components of other comprehensive income is as follows:

	2019			2018		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation decreases that offset previous increases in the carrying amount of property, plant and equipment	(310)	56	(254)	(5)	–	(5)
Revaluation of property, plant and equipment	1,164	(201)	963	–	–	–
Remeasurement of retirement benefit obligation	(80)	14	(66)	(11)	–	(11)
Other comprehensive income	**774**	**(131)**	**643**	**(16)**	**–**	**(16)**

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

27 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

As at 31 December 2019 and 2018, significant balances outstanding with related parties are detailed below:

	31 December 2019					31 December 2018				
	SCM Limited (Cyprus)	Asso-ciates	Joint ventures	Entities related to SCM	SMART Group	SCM Limited (Cyprus)	Asso-ciates	Joint ventures	Entities related to SCM	SMART Group
ASSETS										
Non-current trade and other receivables, including:	**–**	**367**	**–**	**171**	**96**	**–**	**–**	**–**	**42**	**88**
Long-term loans issued	–	–	–	171	96	–	–	–	42	88
Trade receivables and receivables on commission sales	–	367	–	–	–	–	–	–	–	–
Current trade and other receivables, including:	**–**	**77**	**1,032**	**194**	**24**	**–**	**34**	**1,057**	**225**	**23**
Trade receivables and receivables on commission sales	–	75	903	82	2	–	32	945	121	3
Prepayments made	–	–	–	70	–	–	–	2	65	–
Loans issued	–	–	97	30	22	–	–	98	26	20
Other financial receivables (short-term, non-interest bearing)	–	2	32	12	–	–	2	12	13	–
Cash and cash equivalents	**–**	**–**	**–**	**78**	**–**	**–**	**–**	**–**	**85**	**–**

	31 December 2019					31 December 2018				
	SCM Limited (Cyprus)	Asso-ciates	Joint ventures	Entities related to SCM	SMART Group	SCM Limited (Cyprus)	Asso-ciates	Joint ventures	Entities related to SCM	SMART Group
LIABILITIES										
Trade and other payables, including:	**270**	**121**	**515**	**146**	**35**	**41**	**142**	**653**	**148**	**1**
Dividends payable to shareholders of Metinvest B.V.	269	–	–	–	35	40	–	–	–	1
Dividends payable to non-controlling shareholders of Company's subsidiaries	–	–	–	3	–	–	–	–	6	–
Trade payables and payables on sales made on commission	–	99	503	137	–	–	123	648	135	–
Prepayments received	–	22	–	1	–	–	19	–	1	–
Other financial liabilities	1	–	12	5	–	1	–	5	6	–

In 2018, dividends paid disclosed in the consolidated statement of cash flows include US$47 million of dividends paid by the Company to its Class B shareholder (SMART), US$9 million paid by the Company's subsidiaries to entities related to SCM that are shareholders in such subsidiaries, and US$2 million of payments to other non-related parties.

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ALL AMOUNTS IN MILLIONS OF US DOLLARS

27 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

In 2019, dividends paid disclosed in the consolidated statement of cash flows include US$56 million of dividends paid by the Company to its Class B shareholder (SMART), US$40 million of dividends paid by the Company to its Class A shareholders (SCM Limited (Cyprus), US$3 million paid by the Company's subsidiaries to entities related to SCM that are shareholders in such subsidiaries, and US$1 million of payments to other non-related parties.

Significant transactions (excluding purchases) with related parties during 2019 and 2018 are detailed below:

2019	Associates	Joint ventures	Entities related to SCM	SMART Group	Total
Sales, including:	**147**	**1,169**	**79**	**3**	**1,398**
Steel	17	30	61	3	**111**
Scrap metal	–	21	–	–	**21**
Coke and coking coal	124	665	11	–	**800**
Iron ore	–	405	1	–	**406**
Other	6	48	6	–	**60**
Other operating income/(expenses), net	**1**	**(1)**	**(3)**	**–**	**(3)**
Expected credit losses charge	(62)	8	(2)	2	**(54)**
Finance income/(expenses), including:	**–**	**11**	**12**	**6**	**29**
Interest income – bank deposits	–	–	2	–	**2**
Interest income – loans issued	–	11	10	6	**27**

2018	Associates	Joint ventures	Entities related to SCM	SMART Group	Total
Sales, including:	**9**	**1,236**	**190**	**2**	**1,437**
Steel	6	30	68	2	**106**
Scrap metal	–	52	–	–	**52**
Coke and coking coal	1	719	116	–	**836**
Iron ore	–	391	1	–	**392**
Other	2	44	5	–	**51**
Other operating income/(expenses), net	**–**	**1**	**(2)**	**–**	**(1)**
Expected credit losses charge	–	(2)	(1)	(1)	**(4)**
Finance income/(expenses), including:	**–**	**11**	**(9)**	**1**	**3**
Interest income – bank deposits	–	–	2	–	**2**
Interest income – loans issued	–	11	4	6	**21**
Interest expense – borrowings	–	–	(15)	(5)	**(20)**

The following is a summary of purchases from related parties in 2019 and 2018:

2019	Associates	Joint ventures	Entities related to SCM	SMART Group	Total
Purchases, including:	**525**	**1,766**	**1,391**	**1**	**3,683**
Metal products	–	1,685	11	–	**1,696**
Coke and coking coal	484	4	55	–	**543**
Raw materials and spare parts	33	50	109	1	**193**
Electricity	–	–	496	–	**496**
Gas	–	–	229	–	**229**
Fuel	–	–	91	–	**91**
Services	–	8	370	–	**378**
Other	8	19	30	–	**57**

2018	Associates	Joint ventures	Entities related to SCM	SMART Group	Total
Purchases, including:	**171**	**2,108**	**1,349**	**–**	**3,628**
Metal products	–	2,049	10	–	**2,059**
Coke and coking coal	141	3	83	–	**227**
Raw materials and spare parts	23	45	83	–	**151**
Electricity	–	–	431	–	**431**
Gas	–	6	325	–	**331**
Fuel	–	–	64	–	**64**
Services	3	1	313	–	**317**
Other	4	4	40	–	**48**

During 2018, the Group has acquired the non-controlling interest of Ferriera Valsider S.p.A. from SCM related entity for US$42 million, the outstanding payable for the interest acquired as at 31 December 2018 was US$6 million which was repaid in 2019.

27 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Not included in the tables above are the Group's transactions on purchase and further re-sale of iron ore, coal and steel products from or to joint ventures where the Group is acting as an agent and not as principal. Income and costs related to such transactions are presented net within revenue. The Group's net gain on such transactions was US$7 million in 2019 (2018: US$18 million).

In 2019, the remuneration of key management personnel of the Group comprised current salaries and related bonuses paid totalling US$15.0 million (in 2018: US$15.3 million).

As at 31 December 2019 and 2018, key management held the Group's bonds in the total amount of less than US$1 million. Rights of these bondholders are not different from the rights of other bondholders.

28 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's operations are vertically integrated and a significant portion of the Group's iron ore, coke and coal production is used in the subsequent production operations. Because of non-explicit requirements of the applicable tax legislation, intercompany transactions may be assessed by the Ukrainian tax authorities as non-market. Such transactions have not been challenged in the past by the tax authorities. However, it is possible with evolution of the interpretation of tax law in Ukraine and other jurisdictions plus changes in the approach of tax authorities, that such transactions could be challenged in the future.

The tax legislation had been expanded with the new transfer pricing rules effective from 1 September 2013 that are much more detailed than previous legislation and, to a certain extent, better aligned with the international transfer pricing principles. The new legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and is not supported by relevant documentation. Since 1 January 2015, the transfer pricing rules were amended so that transactions between Ukrainian companies (irrespective whether they are related parties or not) ceased to be treated as controlled transactions.

Management believes it is taking appropriate measures to ensure compliance with the new transfer pricing legislation.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary PrJSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group thus are eliminated on consolidation. As at 31 December 2019, the amount of financial and tax liabilities related to the bankruptcy proceedings recorded in these consolidated financial statements is US$12 million (31 December 2018: US$10 million), out of which US$8 million (31 December 2018: US$7 million) are presented as non-current tax liabilities under moratorium (Note 21).

In July 2019, the bankruptcy proceedings were initiated in respect of one of the Group's subsidiaries, PrJSC Yenakiieve Iron and Steel Works. Creditor's claims were assessed by the court-appointed manager and the Group's subsidiaries formed majority in the creditor's committee in January 2020. Management of the Group does not expect that the bankruptcy proceedings will result in liquidation of the entity.

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

On 26 February 2019, a pre-judgment conservation order under Dutch law (the "Order") was issued by the court with respect to Metinvest B.V.'s shareholdings in its two subsidiaries registered and existing under the laws of the Netherlands (the "Dutch Subsidiaries"). The Order was issued on the basis of a claim for damages for the amount of US$47 million allegedly caused by Metinvest B.V. Except that the Group may not dispose of its shareholdings in the Dutch Subsidiaries, the Order does not affect the legal capacity of any Group entities to incur debt, create security or give guarantees, enter into commercial and trade contracts or otherwise affect in any way the ordinary course of business and operational activities of the Group. If Metinvest B.V. were to give sufficient security for the asserted claim, this would be a ground for lifting the Order. The Group continues to challenge the main claim.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2019, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$347 million (31 December 2018: US$295 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover these and any similar commitments.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED

28 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS CONTINUED

Guarantees issued. As at 31 December 2018 and 31 December 2019 the Group has issued a financial guarantee related to the settlement of the obligations for the acquisition of associate as disclosed in Note 11.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default. As at 31 December 2019 and 2018, the Group was in compliance with the covenants.

Insurance. Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities and in respect of cargo and motor vehicles; "All Risk" insurance to cover property damage and provide business interruption coverage including "inter-dependency" coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

29 FINANCIAL RISK MANAGEMENT

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(A) MARKET RISK

(I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other.

At 31 December 2019, if the UAH had strengthened/weakened by 25% against the US dollar with all other variables held constant, post-tax profit for the year would been US$130 million lower/higher (2018: if the UAH strengthened/weakened by 25% against USD, post-tax profit for the year would have been US$128 million lower/higher), mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and foreign exchange gains/losses on translation of US dollar denominated intragroup borrowings and dividends payable.

(II) PRICE RISK

The Group's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that the Group sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that the Group receives from the sale of its steel or mined products.

The Group's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self-sufficient for iron ore and certain portion of coking coal requirements.

No financial instruments are exposed to price risk.

(III) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings attracted at floating rates expose the Group to cash flow interest rate risk. Borrowings attracted at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2019, 75% of the total borrowings were provided to the Group at fixed rates (31 December 2018: 69%). During 2019 and 2018, the Group's borrowings at floating rate were denominated in USD, EUR and GBP.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or floating rates. However, at the time of attracting new debt management uses its judgment to decide whether it believes that a fixed or floating rate would be more favourable to the Group over the expected period until maturity.

Refer to Note 13, 18 and below for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2019, if interest rates on USD, EUR and GBP denominated floating rate borrowings had been by 1 pp higher/lower (2018: 1 pp) with all other variables held constant, post-tax profit for the year would have been US$6 million lower/higher (2018: US$7 million).

ALL AMOUNTS IN MILLIONS OF US DOLLARS

29 FINANCIAL RISK MANAGEMENT CONTINUED

(B) CREDIT RISK

Credit risk is managed centrally by the Group management. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions and financial guarantees issued. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable. Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk as at 31 December 2019 is US$4,076 million (2018: US$3,532 million) being the carrying value of long and short-term loans issued, receivables, cash and the amount of the commitment in respect of the financial guarantees issued as disclosed in Note 29 (c) below. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security. Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

(C) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group treasury analyses the ageing of Group's assets and the maturity of Group's liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Cash flows from borrowings were calculated using spot foreign exchange rates.

At 31 December 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	176	210	139	20
Trade finance	399	–	–	–
Bonds	194	276	914	1,754
Guarantee	116	155	381	–
Lease liability	16	15	20	1
Financial trade and other payables	2,344	30	–	8
Total	**3,246**	**686**	**1,454**	**1,783**

At 31 December 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	130	218	319	12
Trade finance	363	–	–	–
Bonds	176	139	1,410	778
Deferred consideration and seller's notes	65	–	–	–
Guarantee	45	120	484	69
Finance lease	6	6	13	–
Financial trade and other payables	1,722	24	–	7
Total	**2,507**	**507**	**2,226**	**866**

30 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings and deferred considerations and seller's notes less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

NOTES TO THE SUMMARY IFRS CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2019 CONTINUED
ALL AMOUNTS IN MILLIONS OF US DOLLARS

30 CAPITAL RISK MANAGEMENT CONTINUED

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1-5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy.

	31 December 2019	31 December 2018
Total loans and borrowings (Note 18)	3,032	2,683
Deferred consideration and seller's notes (Note 19)	–	60
Less: cash and cash equivalents (Note 14)	(274)	(280)
Net debt	**2,758**	**2,463**
Total equity	6,930	5,403
Total capital	**9,688**	**7,866**
Gearing ratio	28%	31%

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date, which is Level 1 of fair valuation hierarchy. The quoted market price used for financial assets held by the Group is the current bid price. This valuation technique is used for fair value disclosures of bonds issued.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows, are used to determine fair value for seller's notes. Calculation is based on current interest rates for new instruments with similar credit risk, currency and remaining maturity; such estimation represents Level 3 of fair value hierarchy.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

The estimated fair value and related methods and assumptions used for the valuation of the option received are disclosed in Note 11.

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

Financial liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. Except as discussed in the Note 18, the estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Note 18, 19 and 21).

32 RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

All of the Group's financial assets and financial liabilities are carried at amortised cost, except for investments in associates and joint ventures which are accounted for by the equity method of accounting, trade receivables subject to factoring and the option carried at fair value through profit or loss. As at 31 December 2019 the carrying amount of the balances subject to factoring amounted to US$104 million (31 December 2018: US$109 million).

33 EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date other than those already disclosed in these consolidated financial statements.

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GLOSSARY

TECHNICAL METALS AND MINING, BUSINESS AND SUSTAINABILITY TERMS

Bars
Long steel products that are rolled from billets. Merchant bar and reinforcing bar (rebar) are two common categories of bars. Merchant bar includes rounds, flat-bulbs, angles, squares and channels that are used by fabricators to manufacture a wide variety of products, such as furniture, stair railings and farm equipment. Rebar is used to strengthen concrete in highways, bridges and buildings.

Basic oxygen furnace (BOF)
A pear-shaped furnace, lined with refractory bricks, which refines molten iron from the blast furnace and scrap into steel due to the oxidising action of oxygen blown into the melt under a basic slag. The basic oxygen process is the most powerful and effective steel making method. About 67% of the crude steel in the world is made in BOFs.

Blast furnace (BF)
A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the 'blast' of hot air and gases forced up through the iron ore, coke and limestone that load the furnace. Under extreme heat, chemical reactions among the ingredients release liquid iron from the ore.

Coils
Hot, cold or coated flat-rolled products supplied in regularly wound coils.

Coke
Coke is the solid product obtained from the dry distillation of coking coal in the absence of oxygen. Depending on property, coke is known as hard coke, soft coke and metallurgical coke.

Coking coal
Coking coal is those varieties of coal that, on heating in the absence of oxygen (a process known as carbonisation), undergo transformation into a plastic state, swell and then re-solidify to produce a cake. On quenching, the cake results in a strong and porous mass called coke. Coking coal needed to produce blast furnace coke (the right type of fuel/reductant needed for a blast furnace) is characterised by certain specific properties in terms of appropriate composition (low ash (up to 10%), volatile matter (17-26%) and low sulphur and phosphorous content, etc).

Cold rolling
Plastic deformation of a metal at room temperature that might result in substantial increases in strength and hardness. The usual end product is characterised by improved surface, greater uniformity in thickness and improved mechanical properties compared with hot-rolled steels. Cold-rolled products typically include sheets, coils, strips and rebars, among others.

Continuous casting
A method of casting steel into a billet, bloom or slab directly from its molten form. Continuous casting avoids the need for large, expensive mills for rolling ingots into semi-finished products. Continuous cast slabs and billets also solidify in a few minutes, compared with several hours for an ingot. As a result, the chemical composition and mechanical properties are more uniform. Steel from the BOF or electric furnace is poured into a tundish (a shallow vessel that looks like a bathtub) atop the continuous caster. As steel carefully flows from the tundish down into the water-cooled copper mould of the caster, it solidifies into a ribbon of red-hot steel to form slabs or blooms.

Crude steel
Liquid steel used to make steel castings. The term is also internationally used to mean the steel produced in basic oxygen furnaces, electric arc furnaces and open-hearth furnaces.

Crusher and conveyor system
A transportation system used to move bulk materials from mine shafts and open pits to the surface for further processing.

Customer relations management (CRM) system
An information technology system used to manage customer data and support the sales function, delivering analytical insights for improving work with existing and potential clients. An effective CRM system allows companies to improve customer relationships and deliver high-quality service more efficiently.

Downstream
In manufacturing, this term refers to processes that happen later in a production sequence or production line.

Direct reduced iron (DRI)
Solid metallic iron product obtained upon direct reduction of high-grade iron ore in solid state itself without being converted into liquid form like that in a blast furnace. DRI is also known as sponge iron because of its spongy microstructure. Merchant DRI product is delivered mainly in the form of pellets or briquettes.

Enterprise Resource Planning (ERP)
An integrated system of software applications used by companies to monitor all core aspects of their business, such as purchasing to manufacturing to sales, facilitating information sharing and allowing managers to make decisions informed by a global view of what is happening across the supply chain.

Environmental impact identification (ENVID)
A systematic approach designed to identify and reduce the risk of incidents that can damage the surrounding environment, and to limit the environmental impact throughout the production process.

Environmental, social and governance (ESG) reporting
A system of reporting built around three central factors underlying sustainability. ESG reporting covers both mandatory and best-practice voluntary reporting of non-financial, sustainability aspects of companies. Effective ESG reporting is a central component for a company's adoption of Integrated Reporting (IR), an emerging global set of standards for demonstrating in company disclosures how financial and non-financial factors contribute to create value in an organisation.

Fatality frequency rate (FFR)
An internationally recognised safety indicator (also called the Fatal Accident Frequency Rate), the FFR is the ratio of fatalities per million hours worked.

Fe content
The chemical symbol for iron, Fe comes from the Latin word 'ferrum'. Fe content refers to the iron content of an ore.

Ferroalloy
Alloys consisting of certain elements (Mn, Si, Mo, V, Ni, B, Cr and so on) combined with iron and used in steelmaking to reach the necessary chemical composition and properties of steel products. In some cases, the ferroalloys may serve as deoxidisers.

Finished products
Products that emerge at the end of a manufacturing process. In metallurgy, these products are obtained from hot rolling, cold rolling, forging and other processing of semi-finished steel (blooms, billets and slabs). These cover two broad categories of products, namely long and flat.

Flat products
Finished steel flat products are produced from slabs or thin slabs in rolling mills using flat rolls. These are supplied in hot-rolled, cold-rolled or in coated condition, depending on the requirement. Flat products include plates, sheets and wide and narrow strips.

Galvanised steel
Steel coated with a thin layer of zinc to provide corrosion resistance. Flat steel normally must be cold rolled before the galvanising stage.

Greenhouse gas (GHG) reporting
For a steelmaker, GHG emissions are primarily carbon dioxide (CO_2), but also consist of methane (CH4) output, primarily from blast furnaces, but also from mining, transportation and office energy consumption. Local legislation, a company's own emissions monitoring and international best practices prescribe regular GHG reporting in metric tonnes of the relevant GHG.

Hard coking coal (HCC)
Hard coking coal is a type of coking coal with better coking properties, which is traditionally measured by the CSR (coke strength after reaction) of coke made from specific kind of coal. Usually the CSR for HCC is assumed to be about 60%.

Hazard and Operability Study (HAZOP)
A structured and systematic examination of a planned or existing process or operation, aiming to identify and evaluate problems that may represent risks to personnel or equipment or prevent efficient operation.

Hazard Identification (HAZID)
A systematic approach designed to identify and reduce the risk of dangerous incidents, and to ensure safety throughout the production process.

Heavy plate
Thick flat finished product with a width from 500 millimetres to 5 metres and a thickness of at least 3 millimetres. Plates are normally produced and supplied in hot-rolled condition with or without specific heat treatment. Heavy plate is mainly used for construction, machinery, shipbuilding or large-diameter pipe fabrication.

Hot rolling
Rolling of steel at above the re-crystallisation temperature (normally above 1,000°C) to produce hot-rolled long and flat products from semis. Ingots are also hot-rolled to obtain semis.

Human capital management
An approach to employees that perceives people as human capital consisting of knowledge and skills, as well as assets whose value can be measured and enhanced through continued investment.

Human resources (HR)
HR broadly refers to the people who make up the workforce of a company, while also frequently referring to the HR management function that is responsible for ensuring the recruitment and retention of qualified employees, managing goal setting and assessments, overseeing the process of training and further education to meet company requirements and employee potential, and other processes required to maintain an effective workforce.

Ingot
The primary solid product obtained upon solidification of liquid steel in conventional vertical cast iron moulds, which are intended for rolling into intermediate/semi-finished products after re-heating.

Integrated steelmaking plant
A producer that converts iron ore into semi-finished or finished steel products. Traditionally, this process required coke ovens, sintering machines, blast furnaces, steelmaking furnaces and rolling mills.

Iron ore
A naturally occurring mineral from which iron (Fe) is extracted in various forms, mainly for producing hot metal and direct-reduced iron.

Iron ore concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed.

Lock out, tag out, try out (LOTOTO)
A standard that is used to isolate hazardous energy during repair and maintenance work.

Long products
Finished steel products produced normally by hot rolling or forging blooms, billets and pencil ingots into useable shapes and sizes (such as rounds, flat-bulbs, angles, squares, rebars, channels, etc). They are normally supplied in straight or cut length, except wire rods, which are supplied in irregularly wound coils. Long products are used in all industrial sectors, particularly in the construction and engineering industries.

Lost-time injury frequency rate (LTIFR)
An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.

Merchant
Term used to differentiate products sold to third parties from those consumed internally.

Mineral
A natural inorganic substance that is definite in both chemical composition and physical characteristics, or any chemical element or compound occurring naturally as a product of inorganic processes.

Mineral resources
A concentration or occurrence of solid material with geological characteristics known, estimated or interpreted from specific geological evidence and knowledge and having reasonable prospects for economic extraction.

Open-hearth furnace (OHF)
A furnace for melting metal, in which the bath is heated by the combustion of hot gases over the surface of the metal and by radiation from the roof. This furnace is used to derive steel from pig iron and scrap. The open-hearth process has been replaced by the basic oxygen process and electric arc method in most modern facilities.

Operating efficiency
The ability of a business to deliver outputs, for example products and services for customers or returns for debt and equity providers, more efficiently by reducing relative costs, often through such processes as automation, centralisation or improved working practices. Also known as operational improvement or operational excellence.

Ore reserves (proven, probable)
Proven ore reserves are the part of measured resources that can be mined in an economically viable fashion. They include diluting materials and allowances for losses that occur when the material is mined. Proven ore reserves represent the highest confidence category of a reserve estimate.

Probable ore reserves are the part of indicated and, in some circumstances, measured mineral resources that can be mined in an economically viable fashion. They include diluting material and allowances for losses, which may occur when the material is mined. Probable ore reserves have a lower level of confidence than proven ones but are of sufficient quality to serve as the basis for a decision to develop a deposit.

Overburden
Used in mining to describe material that lies above the area of economic interest, e.g. the rock and soil that lies above the iron ore body. Overburden is removed during surface mining, but is typically not contaminated with toxic components and may be used to restore a mining site to a semblance of its appearance before mining began.

GLOSSARY CONTINUED

Pelletising
Pelletising is the process of compressing or moulding a product into the shape of a pellet. When doing so with iron ore concentrate, spheres of typically 8-18 millimetres (0.31-0.71 inches) in diameter are produced. The process combines agglomeration and thermal treatment to convert the raw ore into pellets with characteristics appropriate for use in a blast furnace and DRI processes.

Pelletising machine
Specific equipment designed for production of pellets (see Pelletising).

Pellets
An enriched form of iron ore shaped into small balls or pellets, that are used as raw material in the iron making process (see Pelletising).

Permit-to-work procedure
A process used to control work that is identified as possibly hazardous.

Pickling line
Specialised equipment for the chemical removal of surface oxides (scale) and other contaminants such as dirt from steel product by immersion in an aqueous acid solution. The most common pickling solutions are sulfuric and hydrochloric acids.

Pig iron
High-carbon (above 2.14%) iron alloy made by reducing iron ore in a blast furnace. A product in solid (lumpy) form obtained on solidification of hot metal in pig casting machine. It is called pig iron because of its typical humpy shape.

Pulverised coal injection (PCI)
Technologies whereby pulverised/granulated/dust coal is injected into the blast furnace through the tuyeres along with the blast to replace natural gas and a part of the coke requirement.

Public relations (PR)
Communications between an organisation and external stakeholders, in particular members of the general public, aimed at communicating both a positive impression of the organisation and its activities and identifying and addressing negative perceptions. PR uses mass and targeted media as well as public events and other outreach.

Roasting machine
One of the types of equipment used to purify the metal component(s) at elevated temperatures. Such machines usually have variable temperatures so that they can process different types of ore.

Rolled products
Products obtained from hot rolling semi-finished steel (blooms, billets and slabs) or cold rolling hot-rolled steel.

Scrap
Steel waste that is not usable in its existing form and is re-melted to produce crude steel or sold. Depending on its form and type, it is classified as heavy melting scrap, light melting scrap or turnings/borings, etc.

Sections
Hot-rolled long products obtained by rolling blooms or billets. They include angles, channels, girders, joists, I-beams, H-beams, rails and so on. Sections can also be produced by welding together pieces of flat products. They can be used for a wide variety of purposes in the construction, machinery and transportation industries.

Semi-finished products
Intermediate solid steel products obtained by hot rolling or forging ingots or by continuous casting liquid steel. They are intended for further rolling or forging to produce finished steel products.

Sinter
An aggregate that is normally produced from relatively coarse fine iron ore, mixed with coke breeze, limestone dolomite fines and various metallurgical return wastes used as an input/raw material in blast furnaces. Sinter improves blast furnace operation and productivity and reduces coke consumption.

Slab
A semi-finished rectangular wide steel product used to make finished hot-rolled flat products such as plates, sheets and coils.

Square billet
A semi-finished steel product with a square cross section of up to 200 millimetres x 200 millimetres. This product is used as input material to make finished long steel products such as bars, rods and light sections.

Stakeholder
According to the Global Reporting Initiative, a stakeholder is defined as an entity or individual that can reasonably be expected to be significantly affected by the reporting organisation's activities, products and services, or whose actions can reasonably be expected to affect the organisation's ability to successfully implement its strategies and achieve its objectives. Namely, stakeholders can include those who are invested in the organisation (such as employees and shareholders), as well as those who have other relationships to the organisation (such as other workers who are not employees, suppliers, vulnerable groups, local communities, and non-governmental organisations or other civil society organisations, among others).

Tails and tailings
Tails are a waste stream generated by mine processing plants as part of their normal functioning and consist of ground rock and effluent and stored as tailings in special ponds or dumps secured behind dams. The flow between the plants and tailings is maintained as a closed cycle of clarified water to prevent contamination of nearby ground and river water. Tailings ponds and dams must be regularly monitored to ensure their stability and the safety of surrounding facilities and communities.

Wire
A broad range of products produced by cold-reducing hot-rolled wire rod through a series of dies or through rolls to improve surface finish, dimensional accuracy and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

Wire rod
Hot-rolled coiled plain bar and rods of up to 18.5 millimetres in diameter. Wire rod is normally used to make steel wire, cold-rolled rebar and hardware.

ABBREVIATIONS

COMPANY ABBREVIATIONS

Avdiivka Coke
PJSC 'AVDIIVKA COKE'

Azovstal
PJSC 'AZOVSTAL IRON & STEEL WORKS'

Central GOK
PJSC 'CENTRAL GOK'

Dnipro Coke
PJSC 'DNIPROVSKYI COKE PLANT'

Ferriera Valsider
Ferriera Valsider S.P.A.

Ilyich Steel
PJSC 'ILYICH IRON AND STEEL WORKS OF MARIUPOL'

Ingulets GOK
PJSC 'INGULETS GOK'

Inkor Chemicals
'SMA 'INKOR & Co' LLC

Kryvyi Rih Machining and Repair Plant
'METINVEST – KMRP', LLC

Mariupol Machining and Repair Plant
'METINVEST M&R', LLC

Metinvest
Metinvest Group

Metinvest Digital
'Metinvest Digital', LLC

Metinvest Distribution
'METINVEST DISTRIBUTSIYA', LLC

Metinvest Engineering
'METINVEST ENGINEERING', LLC

Metinvest Eurasia
'METINVEST EURASIA', LLC

Metinvest Holding
'METINVEST HOLDING', LLC

Metinvest International
Metinvest International S.A.

Metinvest-Promservice
'METINVEST-PROMSERVICE', LLC

Metinvest-SMC
'METINVEST-SMC', LLC

Metinvest-Shipping
'METINVEST-SHIPPING', LLC

Metinvest Trametal
METINVEST TRAMETAL S.P.A.

Northern GOK
PJSC 'NORTHERN GOK'

Pokrovske coal business
Coking coal assets in Ukraine, the most significant being PJSC 'CG 'POKROVSKE' and LLC 'CONCENTRATING FACTORY 'SVIATO-VARVARYNSKA'

Promet Steel
PROMET STEEL JSC

SCM
A group of companies beneficially owned by Mr Rinat Akhmetov and commonly referred to as System Capital Management

SMART, Smart Group or Smart Holding
A group of companies beneficially owned by Mr Vadim Novinsky

Southern Coke
PJSC 'YUZKOKS'

Southern GOK
PJSC 'YUZHNIY GOK'

Spartan UK
Spartan UK Limited

Unisteel
'UNISTEEL', LLC

United Coal
United Coal Company LLC

Zaporizhia Coke
PJSC 'ZAPORIZHCOKE'

Zaporizhia Refractories
PrJSC Zaporizhvohnetryv

Zaporizhstal
PJSC 'ZAPORIZHSTAL'

OTHER TERMS

ACCA
Association of Chartered Certified Accountants

BF
Blast furnace

C4C
Cloud for customer

CAPEX
Capital expenditure

CCM
Continuous casting machine

CFA®
Chartered Financial Analyst

CFR
Cost and freight

CIS
Commonwealth of Independent States

COVID-19
Coronavirus disease 2019

CPI
Consumer price index

CPQ
Configure price quote

CRM
Customer relationship management

CSR
Corporate social responsibility

D&A
Depreciation and amortisation

DRI
Direct reduced iron

DSOR
Dam safety operational review

EBITDA
Earnings before interest, taxes, depreciation and amortisation

ECA
Export credit agency

ENVID
Environmental Hazard Identification

ESG
Environmental, social and governance

ABBREVIATIONS CONTINUED

FCA
Free carrier

FCCA
Fellow of the Association of Chartered Certified Accountants

FE_M
Magnetic iron

FE_T
Total iron

FFR
Fatality frequency rate

FOB
Free on board

GDP
Gross domestic product

GRI
Global Reporting Initiative

GW
Gigawatt

HAZID
Hazard Identification

HAZOP
Hazard and Operability Study

HR
Human resources

HRC
Hot-rolled coil

HSE
Health, safety and the environment

HSM
Hot strip mill

HVA
High value-added

HQ
Headquarters

IFRS
International financial reporting standards

IT
Information technology

IMF
International Monetary Fund

ISO
International Organisation for Standardisation

JSC
Joint-stock company

JV
Joint venture

KPI
Key performance indicator

KT
One thousand metric tonnes

LHS
Left-hand side

LLC
Limited liability company

LTIFR
Lost-time injury frequency rate

MCM
Million cubic metres

MENA
Middle East and North Africa

MT
One million metric tonnes

NBU
National Bank of Ukraine

OHSAS
Occupational Health and Safety Advisory Services

PCI
Pulverised coal injection

PJ
Petajoule

PJSC
Public or private joint-stock company

PP
Percentage point

PXF
Pre-export finance

QR code
Quick response code

RHS
Right-hand side

S&OP
Sales and Operations Planning

SM
Sintering machine

UAH
Ukrainian hryvnia

UNESCO
United Nations Educational, Scientific and Cultural Organisation

UNICEF
United Nations Children's Fund

USD
US dollar

WSA
World Steel Association

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