LLC “Ferrexpo Belanovo Mining”

Financial Statements and
Independent Auditor’s Report
for the Year Ended 31 December 2019

LLC "FERREXPO BELANOVO MINING"

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LLC "FERREXPO BELANOVO MINING"

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management is responsible for the preparation of financial statements that present fairly the financial position of LLC "Ferrexo Belanovo Mining" (the "Company") as at 31 December 2019 and its the results of its operations, cash flows and changes in net assets attributable to participants for the year then ended in accordance with International Financial Reporting Standards.

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that achieves appropriateness, reliability, comparability and understandability;
- Providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment as to the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- Maintaining adequate accounting records that reflect and explain the Company's operations and disclose, with reasonable accuracy at any time, its financial position, and which allow management to ensure that the Company's financial statements comply with IFRS;
- Maintaining accounting records in compliance with the Ukrainian legislation and IFRS;
- Taking such steps as are reasonably available to safeguard the Company's assets; and
- Preventing and detecting fraud and other irregularities.

The Company's financial statements for the year ended 31 December 2019 were authorised for issue by management on 1 April 2020.

On behalf of management:

«БІЛАНІВСЬКИЙ ГІРНИЧО-ЗБАГАЧУВАЛЬНИЙ КОМБІНАТ» Ідент. код 36601298

Yuriy Khymych	General Director
Vladyslav Palekha	Finance Director
Olena Yefremova	Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Participants of Limited Liability Company "Ferrexpo Belanovo Mining"

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Limited Liability Company "Ferrexpo Belanovo Mining" (the Company), which comprise:

- the statement of financial position as at 31 December 2019;
- the statement of comprehensive income, the statement of changes in net assets and statement of cash flows for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and are consistent with financial reporting requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine".

Basis for Opinion

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

Material Uncertainty Related to Going Concern

The Company is currently in the development stage. As discussed in Note 3 to the financial statements, successful completion of the Company's development program is dependent on obtaining land permission, development of Belanovo mine and completion of the infrastructure facilities construction while securing sufficient financing for these purposes. These events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Concentration of transactions with related parties

We also draw attention to Note 4 "Related party disclosure" to the financial statements, which discloses a significant concentration of the Company's transactions with its related parties. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended 31 December 31 2018, were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 April 2019.

Other information

Management is responsible for the other information. Other information consists of information from the Management Report in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" and other applicable laws and regulations but contains no financial statements or our auditor's report thereon. It is expected that the Management Report for 2019 will be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not provide any form of assurance conclusion in respect of this other information.

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company's to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Partner

"BAKER TILLY UKRAINE" LLP — Sergiy Kesarev

Auditor registration number in the Register of Auditors and Auditing Entities: № 100804

1 April 2020

Kyiv, Ukraine

Main information about the audit firm

Full name: LIMITED LIABILITY COMPANY "BAKER TILLY UKRAINE"
Location: office 9, 3, Hrekova St., 04112 Kyiv
Actual address: 03150 Kyiv, 28, Fizkultury St.
Registration number in the Register of Auditors and Auditing Entities: No. 2091.

LLC "FERREXPO BELANOVO MINING"

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
in thousands of UAH

	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	5	1,377,551	637,527
Intangible assets	6	26,407	27,201
Prepayments for property, plant and equipment		14,710	14,475
Right-of-use assets	8	3,971	-
Prepaid income tax		1,273	1,273
Value added tax	7	6,155	2,808
Total non-current assets		**1,430,067**	**683,284**
Current assets			
Inventories		5,732	4,721
Accounts receivable	9	57,440	8,808
Prepayments and other current assets		2,465	1,302
Taxes receivable other than income tax	7	85,038	563
Cash and cash equivalents	10	37,867	8,677
Total current assets		**188,542**	**24,071**
Total assets		**1,618, 609**	**707,355**
Net deficit attributable to participants		700,456	(424,688)
Current liabilities			
Interest-bearing loans and borrowings	11	902,807	1,092, 532
Lease liabilities	8	3,799	28,683
Trade and other accounts payable	12	11,093	10,434
Taxes payable, other than income tax		454	394
Total current liabilities		**918,153**	**1,132,043**
Total net deficit attributable to participants and liabilities		**1,618,609**	**707,355**

Signed and authorised for issue on behalf of LLC "Ferrexpo Belanovo Mining" on 1 April 2020:

Yuriy Khymych	General Director
Vladyslav Palekha	Finance Director
Olena Yefremova	Chief Accountant

Notes on pages 11-47 constitute an integral part of these financial statements

LLC "FERREXPO BELANOVO MINING"

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
in thousands of UAH

	Notes	2019	2018
Revenue		11,961	8,333
Cost of sales		(9,147)	(8,220)
Gross profit/(loss)		**2,814**	**113**
Other income	14	73,511	38,664
General and administrative expenses	15	(36,746)	(29,957)
Other expenses	16	(83,315)	(50,176)
Finance costs	17	(39,371)	(57,729)
Foreign exchange gain/(loss), net	18	161,149	19,741
Profit/(loss) before tax		**78,042**	**(79,344)**
Income tax	13	-	-
Profit/(loss) for the year		**78,042**	**(79,344)**
TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		**78,042**	**(79,344)**

Notes on pages 11-47 constitute an integral part of these financial statements

LLC "FERREXPO BELANOVO MINING"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
in thousands of UAH

	Notes	2019	2018
Operating activities			
Profit/(Loss) before tax		78,042	(79,344)
Adjustments:			
Depreciation and amortisation	15, 16	68,255	41,492
Finance costs	17	39,371	57,729
Gains/(losses) on disposal of property, plant and equipment	14, 16	(11,661)	753
Allowance for doubtful debts	16	3,612	-
Allowance for VAT receivable	7, 16	(3,337)	388
Foreign exchange (gain)/loss, net	18	(153,163)	(20,370)
Working capital adjustments:			
Change in trade and other accounts receivables		(52,244)	8,394
Change in prepayments and other current assets		(1,163)	8
Change in taxes recoverable, other than income tax		(84,485)	2,621
Change in inventories		(1,011)	(1,434)
Change in trade and other payables including taxes, other than income tax		157	1,886
Cash received from/(used in) operating activities		(117,628)	12,123
Interests paid		(37,575)	(53,668)
Net cash flows used in operating activities		(155,203)	(41,545)
Investing activities			
Acquisition of property, plant and equipment		(819,443)	(97,305)
Capitalised interest paid		(19,959)	(16,652)
Acquisition of intangible assets		-	(27,734)
Proceeds from sale of property, plant and equipment		47,915	2,367
Net cash flows used in investing activities		(791,487)	(139,324)
Financing activities			
Capital contributions from participants		1,047, 102	302,150
Repayment of borrowings		(36,249)	(74,179)
Repayment of lease liabilities		(32,578)	(45,614)
Net cash flows from financing activities		978,275	182,357
Net increase in cash and cash equivalents		31,585	1,488
Net foreign exchange difference on cash and cash equivalents		(2,395)	(41)
Cash and cash equivalents at 1 January	**10**	**8,677**	**7,230**
Cash and cash equivalents at 31 December	**10**	**37,867**	**8,677**

Notes on pages 11-47 constitute an integral part of these financial statements

LLC "FERREXPO BELANOVO MINING"

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2019
in thousands of UAH

	Issued capital	Unpaid capital	Additional paid-in capital	Accumulated losses	Net deficit attributable to participants
As at 1 January 2018	**1,079,262**	**(157,508)**	**12,564**	**(1,581,812)**	**(647,494)**
Loss attributable to participants	-	-	-	(79,344)	**(79,344)**
Total comprehensive loss	**-**	**-**	**-**	**(79,344)**	**(79,344)**
Capital contribution from participants (Note 4)	397,139	(101,956)	6,967	-	**302,150**
As at 31 December 2018	**1,476,401**	**(259,464)**	**19,531**	**(1,661,156)**	**(424,688)**
Loss attributable to participants	-	-	-	78,042	**78,042**
Total comprehensive loss	**-**	**-**	**-**	**78,042**	**78,042**
Capital contribution from participants (Note 4)	785,839	259,464	1,799	-	**1,047, 102**
As at 31 December 2019	**2,262,240**	**-**	**21,330**	**(1,583,114)**	**700,456**

Notes on pages 11-47 constitute an integral part of these financial statements

In thousands of UAH, unless stated otherwise

1. CORPORATE INFORMATION

Limited Liability Company "Ferrexpo Belanovo Mining" (hereinafter – "the Company") is a limited liability company incorporated under the laws of Ukraine on 7 December 2009. The registered office address of the Company is 16, Budivelnykiv St., Horishni Plavni (former Komsomolsk), Poltava region, Ukraine. As at 31 December 2019, the Company employed 57 employees (2018: 57 employees).

As at 31 December, the Company's participants and their respective interests were as follows:

	Contribution 2019	%	Contribution 2018	%
Ferrexpo AG (Switzerland)	2,262, 238	99.999%	1,476,399	99.999%
Ferrexpo Service LLC (Ukraine)	2	0.001%	2	0.001%
Total	**2,262, 240**	**100.000%**	**1,079,262**	**100.000%**

Ferrexpo Service LLC and Ferrexpo AG are controlled by Ferrexpo plc ("the Ultimate Parent") (hereinafter referred to collectively with its subsidiaries as "Ferrexpo Group"). The majority stake in Ferrexpo plc is ultimately held by Minco Trust, which was set up to manage the controlling interest in Ferrexpo Group held by Kostyantyn Zhevago and his immediate family.

The Company was set up for the purpose of developing Belanovo and Galeshchina iron ore deposits; exploration and operation of ore mineral resources; extraction and dressing of iron ore and further production of concentrate and pellets. According to the development plan, extraction of ore from Belanovo deposit is expected to commence not earlier than 2023. The ability of the Company to continue its operations will be dependent on obtaining land permission, development of Belanovo mine and completion of infrastructure facilities while securing sufficient financing for these purposes. The current stage of the project includes the following types of works: feasibility study, development of mine dewatering system and land acquisition. Currently all works are financed by Ferrexpo Group. Ferrexpo Group intends to attract external financing to complete construction of Belanovo and Galeshchina mines and production facilities.

2. OPERATING ENVIRONMENT, RISKS AND ECONOMIC CONDITIONS

General economic conditions

The Bank conducts its operations in Ukraine. The Ukrainian economy, while deemed to be market-driven, continues to display certain characteristics intrinsic to a developing economy. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and significant imbalances in the public finance and foreign trade.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. In 2019, the Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country.

Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.
The National Bank of Ukraine continues to adhere to a floating hryvnia exchange rate policy. During 2019, official UAH/USD exchange rate established by the National Bank of Ukraine has decreased by 13% from UAH/USD 27.6883 as at 1 January 2019 to UAH/USD 23.6862 as at 31 December 2019. In 2019, the National Bank of Ukraine reduced the policy rate from 18.0% to 13.5%.

In terms of currency regulation, the National Bank of Ukraine continued its policy of reducing currency restrictions and, from March 2019, decreased the surrender requirement from 50% to 30%, and completely abolished this restriction from 20 June 2019.

In 2019, the consumer inflation slowed down to 4.1% (from 9.8% in 2018) and real GDP grew by 3.3%. The inflation slowdown was driven by moderate dynamics of food prices, as well as the strengthening of the hryvnia exchange rate due to the surplus of foreign currency in the market, which remained stable for most of 2019.

Fitch and Standard & Poor's have upgraded Ukraine's sovereign rating to B. Agencies noted a significant improvement in the macroeconomic situation, responsible fiscal and budgetary policies and the emergence of a "window of opportunity" for economic reforms. At the end of 2019, the international rating agency Moody's Investors Service reaffirmed Ukraine's sovereign credit rating in national and foreign currencies at Caa1 and changed its stable outlook to positive.

Known and estimated results of the above factors on the financial position and performance of the Company during the reporting period were taken into account while preparing these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

The financial statements are presented in UAH and all values are rounded to the nearest thousand (UAH '000), except where otherwise indicated.

Going concern

In 2019, while continuing the development of its production and revenue generating facilities, net profit for 2019 was UAH 78,042 thousand (2018: net loss – UAH 79,344 thousand). As at 31 December 2019, its current liabilities exceeded current assets by UAH 729,611 thousand (2018: UAH 1,107,972 thousand). The excess is primarily attributable to the interest-bearing borrowings of UAH 900,076 thousand (2018: UAH 1,052,154 thousand) due to one of Ferrexpo Group entities.

As at 31 December 2019, the Company had positive net assets of UAH 700,456 thousand (2018: negative net assets of UAH 424,688 thousand respectively).

The current stage of the project is financed by Ferrexpo Group through a combination of debt and equity contributions. The continued availability of such financing in foreseeable future has been confirmed by Ferrexpo plc by declaring a commitment that Ferrexpo Group entities would not require settlement of the outstanding facilities in case such settlement would have a negative impact on the Company's financial position or performance. In addition, in March 2020 the Company prolonged maturity of the loans due to Ferrexpo Group entities. Under amended repayment schedule, these loans are due by the end of March 2021 (Note 22).

Accordingly, the financial statements are prepared on a going concern basis. This basis of preparation presumes that the Company will be able to realise its assets and discharge its liabilities in the ordinary course of business.

In thousands of UAH, unless stated otherwise

Changes in accounting policies and disclosures

Adoption of new and revised International Financial Reporting Standards

Effect of initial application of IFRS 16 Leases

In the current year, the Company adopted IFRS 16 that applies to annual reporting periods beginning on or after 1 January 2019.

IFRS 16 introduces new or revised lease accounting requirements. It has substantially changed the lessee's accounting by eliminating the difference between operating and finance leases, requiring to recognise right-of-use assets and lease liabilities at the inception of all leases, other than short-term leases and leases of low-value assets. Unlike lessee's accounting, the lessor's accounting requirements have generally remained unchanged.

As noted in Note 3 Significant Accounting Policies, under the Lease section, the Company first adopted IFRS 16 from 1 January 2019, but did not restate comparatives for the 2018 reporting period as permitted by the transition provisions.

Reclassifications and adjustments arising from the new lease rules are recognised in the opening balance sheet as at 1 January 2019. Their nature and effects of these changes are detailed below. The new accounting policy is disclosed in Note 3 Significant Accounting Policies, under section the Lease section.

IFRS 16 changes the way the Company accounts for a lease previously classified as an operating lease under IAS 17, which was off-balance sheet, and requires lessees to account for all types of leases under a single balance sheet model. The lessor's accounting under IFRS 16 does not change significantly compared to IAS 17 accounting. Lessors will continue to classify leases as operating or finance leases using the same principles as in IAS 17. Therefore, IFRS 16 does not affect the lease if the Company is the lessor.

The Company has leases of land, buildings, vehicles and plant and equipment. Prior to the adoption of IFRS 16, the Company classified each lease (as a lessee) at the commencement date as a finance lease or an operating lease. Operating lease assets were not capitalised, and lease payments were recognised as expenses in profit or loss on a straight-line basis over the lease term. Any prepaid rents were recognised under the Prepayment item and accrued rents were recognised under the Trade and Other Payables item. The accounting policies used before 1 January 2019 are disclosed in Note 3 Significant Accounting Policies, under the Lease section.

The Company has been applying IFRS 16 under a modified retrospective approach, effective from 1 January 2019. Under this approach, the standard is applied retrospectively and the cumulative effect of initially applying IFRS 16 is recognised at the date of initial application.

The Company applies a practical expedient allowing it to apply the standard, at the date of initial application, only to contracts that were previously designated as leases under IAS 17 and IFRIC 4.

The effect of initial application of IFRS 16 as at 1 January 2019 is as follows:

Effect on assets, liabilities and equity as at 1 January 2019	**If IAS 17 was still adopted**	**IFRS 16 adjustment**	**As presented**
Right-of-use assets, net	-	4,148	4,148
Net effect on assets	-	**4,148**	**4,148**
Lease liabilities	28,683	4,148	32,831
Net effect on liabilities	**28,683**	**4,148**	**32,831**
Accumulated losses	**1,661,156**	**-**	**1,661,156**

Following the adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, other than short-term leases and low-value asset leases. The standard details specific transition requirements and practical expedients that have been applied by the Company.

In thousands of UAH, unless stated otherwise

Leases previously classified as finance leases

At the date of initial application, the Company did not change the initial carrying amount of recognised leases and liabilities previously classified as finance leases (i.e., right-of-use assets and lease liabilities correspond to lease assets and liabilities recognised in accordance with IAS 17). The requirements of IFRS 16 apply to leases beginning from 1 January 2019.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases that were previously classified as operating leases, except for short-term leases, leases of low-value assets and leases of land used for the extraction of iron ore, as they are not within the scope of IFRS 16. Right-of-use assets are recognised at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Lease liabilities are carried at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Company applied the following practical expedients:

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the expedient to short-term leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

In view of the above as at 1 January 2019:

- Right-of-use assets in the amount of UAH 4,148 thousand were recognised and presented separately in the statement of financial position. At the date of initial application, the Company had no assets, that would otherwise include assets recognised under a finance lease, reclassified from property, plant and equipment.
- Lease liabilities were recognised in the amount of UAH 4,148 thousand.

Lease liabilities as at 1 January 2019 are consistent with the contract liabilities under operating leases as at 31 December 2018 and are represented as follows:

Contract lease liabilities as at 31 December 2018	**103,268**
Discounted using the incremental borrowing rate at the date of initial application	4,148
Add: finance lease liabilities as at 31 December 2018	28,683
Lease liabilities as at 1 January 2019	**32,831**
Of which: Short-term lease liabilities	32,661
Long-term lease liabilities	170

Weighted average incremental borrowing rate applied to contract lease liabilities as at 1 January 2019 was at 17.7%.

In the current year, the Company applied a number of amendments to IFRSs and interpretations issued by IASB effective for annual periods beginning on or after 1 January 2019. Their application had no material effect on disclosures or amounts recognised in these financial statements:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs;
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement;

- IFRIC 23 – Uncertainty over Income Tax Treatments.

IFRIC Interpretation 23 Uncertainty over income tax treatments

The interpretation was issued in June 2017 and clarifies the accounting treatment for uncertainties in income taxes. IFRIC 23 clarifies the application of recognition and measurement requirements under IAS 12 Income Taxes, when there is uncertainty over income tax treatments. The interpretation requires determining an allowance as the most likely amount in a range of possible outcomes, or as the sum of probability-weighted amounts in a range of possible outcomes, if it is not probable that a taxation authority will accept the tax treatment. The Group first adopted IFRIC 23 on 1 January 2019 and the first adoption had no material effect on the Group's taxable profit (tax loss), tax bases, unused tax losses and tax rates.

Other than the effect of IFRS 16, there were no material changes to the Company's accounting policies.

New standards and interpretations in issue but not yet effective

At the date of these financial statements, the Company did not apply any of the following new or revised standards in issue but not yet effective:

- IFRS 17 Insurance Contracts – effective for annual periods beginning on or after 1 January 2021;
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) – effective for annual periods beginning on or after the date to be determined by IASB;
- Definition of a Business (Amendments to IFRS 3) – effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020);
- Definition of Material (Amendments to IAS 1 and IAS 8) – effective for annual periods beginning on or after 1 January 2020[1];
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) – effective for annual periods beginning on or after 1 January 2020[1];
- Amendments to the Conceptual Framework for Financial Reporting – updated amendments effective for annual periods beginning on or after 1 January 2020)[1].

[1] Standards have already been endorsed for use in the European Union.

Management does not expect that the adoption of the Standards listed above will have a material effect on the Company's financial statements in the future.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements.

Restricted cash and deposits

On 17 September 2015, the National Bank of Ukraine ("the NBU") announced that it had adopted a decision to declare the Group's transactional bank and a related party Bank Finance & Credit insolvent and the bank was put into temporary administration by the Deposit Guarantee Fund. The banking licence was revoked by the NBU on 17 December 2015 and the bank's liquidation procedure was initiated by the Deposit Guarantee Fund. The total balance of cash and deposits held at Bank Finance & Credit became is no longer available to the Company and, therefore, has been reclassified from cash and cash equivalents to restricted cash and deposits.

It is expected that the liquidation of the bank will take several years and the level of potential recoverability of UAH 52,603 thousand in restricted cash and deposits is still uncertain as at 31 December 2019 and 31 December 2018. A full allowance for the balance was recorded accordingly. Please see Note 10 and Note 19 for further information.

Operating lease liabilities – Company as a lessor

The Company leases out its equipment to third parties. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of this equipment and accounts for the contracts as operating leases.

Capitalised stripping costs

Overburden and other mine waste materials have to be removed prior to the production of the mine in order to gain access to the iron ore body. These activities are referred to as pre-production stripping costs and are capitalised as part of cost of assets under construction. The distinction whether the costs are related to pre-production or production stripping costs has to be made based on the approved mine plan. In case of any significant subsequent changes of the mine plan, the accounting treatment should be reassessed and the capitalised costs adjusted accordingly.

Production stripping costs are capitalised when the stripping activities in the production phase of a mine result in improved access to components of the ore body.

An important area of judgment is the distinction between the pre-production and production phase of ore body components and the allocation of production stripping costs to ore body components or the inventory produced. The identification of components of a mine's ore body is made by reference to the respective life of mine plan, which depends on a range of factors, including the price of iron ore, the cost of extraction and operational features specific to the mine. As at 31 December 2019, the carrying amount of capitalised pre-production stripping costs included in assets under construction amounted to UAH 111,758 thousand (2018: UAH 44,558 thousand).

Deferred tax asset recoverability

The Company's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, including those arising from tax losses carried forward and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the expected generation of sufficient future taxable profits. A deviation between expected and actual future taxable profits may have an adverse effect on the recognised deferred tax balances in the financial statements of the Company.

Assumptions about the generation of expected future taxable profits depend on management's estimates of future cash flows. Judgments are also required in the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may affect the amount of recognised deferred tax balances in the financial statements of the Company and the amounts of other tax losses and temporary differences not yet recognised. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income. As at 31 December 2019 and 2018, the Company recognized an allowance in full amount of deferred tax asset. See also Note 13 for further information.

Classification of value added tax

VAT receivable results from domestic purchases of services and goods. At each reporting date, the Company assesses the option to offset VAT amounts on domestic sales. In addition, the Company relies on tax refunds to be made by the Ukrainian government tax authority. The gross recoverable balance comprised UAH 89,992 thousand as at 31 December 2019 (2018: UAH 2,808 thousand).

Management expects the amount of VAT receivable of UAH 83,837 thousand, outstanding as at 31 December 2019, to be fully recovered in 2020. Accordingly, the Company classified VAT receivable of 83,837 thousand as a current asset as at 31 December 2019. Management estimates that the Company will be able to recover VAT receivable of UAH 6,155 thousand in more than one year through domestic sales. Accordingly, the Company classified VAT receivable as a non-current asset as at 31 December 2019. In case of significant uncertainty about VAT refund at the reporting date, the Company creates an impairment allowance for such VAT (Note 7).

Determining the lease term under leases with renewable and termination options – Company as lessee

The Company determines the lease term as the non-cancellable period of a lease including any periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise that option, or any periods covered by an option to terminate the lease, if the lessee is reasonably certain not to exercise that option.
The Company has entered into several leases containing termination or extension options. The Company applies judgments in assessing whether the termination or extension options are a reasonably certain. That is, the Company considers all relevant factors that create an economic incentive for the lessee to exercise the option to extend or terminate the lease. After the commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within its control and affects whether the Company is reasonably certain to exercise (or not to exercise) an option to extend the lease term (e.g. significant improvements or significant modifications of the underlying asset, changes in the business strategy).

In addition, periods covered by the termination option are included in the determination of the lease term only if the lessee is reasonable certain not to exercise the options.

Land leases in Ukraine are concluded with the Ukrainian government, typically with a lease term of up to 49 years. Lease payments take the form of land rent in accordance with rates set by the government. Therefore, right-of-use assets and lease liabilities are recognised for 12 months at the end of each reporting period by reflecting the period, over which in-substance fixed lease payments can be expected. At the end of this period, the lease payments are subject to non-market changes or normative value of land and/or the rate of land rent. These expected lease payments are disclosed in Note 19 as contract liabilities, since they cannot be considered in-substance fixed lease payments or variable lease payments that depend on an index or a rate.

Lease – estimate of incremental borrowing rate

If the Company cannot readily determine an interest rate implicit in the lease, it will use its own incremental borrowing rate to determine lease liabilities. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental rate reflects what the Company 'would have paid' and, thus requires estimates in the absence of observable rates or where such rates need to be adjusted to factor in the terms and conditions of a lease.

The Company measures the incremental borrowing rate, using observable inputs (e.g. market interest rates), if any, and applies certain estimates specific to the entity.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Ore reserve and resource estimate

Ore reserves are estimates of the amount that can be economically and legally extracted from the Company's mining properties. The Company's estimates of its ore reserves and mineral resources are based on information compiled by appropriately qualified experts relating to the geological data on size, depth and shape of the ore body which require complex geological judgments to interpret the data.

The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may affect the carrying value of property, plant and equipment, provision for site restoration, recognition of deferred tax assets. The last estimate of reserves and resources was made in 2007 by independent specialists. Additionally, a certified internal geologist annually performs estimation of resources based on changes in economic assumptions.

Commitments and contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events. For details refer to Note 19.

Functional currency

Based on the economic substance of the underlying events and circumstances relevant to the Company, the functional currency of the Company has been determined to be the Ukrainian hryvnia, which is also the Company's presentation currency. This means that transactions in currencies other than the hryvnia are treated as transactions in foreign currencies.

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency official exchange rate of National Bank of Ukraine ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities of the Company are represented by cash and cash equivalents, accounts receivable, interest-bearing loans and borrowings, finance lease liability, trade and other payables.

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost (this category is the most relevant to the Company):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in the credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, a 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Low credit risk financial instruments

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(1) The financial instrument has a low risk of default;
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Definition of default

The Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit impaired financial assets

A financial asset is credit impaired when one or more events that have a detrimental effect on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate.

Financial liabilities

Initial recognition and measurement

The Company's financial liabilities include trade and other payables, interest-bearing loans and borrowings, and finance lease liability.

All financial liabilities are recognised initially at fair value and are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities – derecognition

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that 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 rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss.

Leases

Identification of a lease

At the time of the contract, the Company determines whether the contract as a whole or its individual components is a lease. The contract as a whole, or its individual components, is a lease if the contract conveys the right to control the use of an identified asset (the underlying asset) for a period of time in exchange for consideration.

For the contract to contain a lease, the following three conditions must be satisfied simultaneously:

- the contract contains an identified asset;
- the contract transfers to the Company the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use;
- the contract transfers the right to direct the use of the identified asset to the Company.

The state title certificate for the permanent use of land is recognised as a lease, since all three necessary conditions are satisfied:

- the land is specifically identified (there is an identified asset);
- The Company is has the right to obtain substantially all of the benefits from using the land;

- The Company determines how the land is used. Purpose restriction is a protective right and does not preclude the Company from having the right to manage the use of the asset.

For leases in the form of a state title certificate for the permanent use of land, the Company defines the lease term as indefinite (same as for the freehold land). The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

Company as a lessee

The Company acts as a lessee in a lease of, but not limited to, the following:

a) land plots, including land under buildings and structures;
b) production and office buildings;
c) vehicles;
d) plant and equipment.

Leases of intangible assets are accounted for in accordance with IFRS 16 Leases. The Company has applied a single accounting model whereby lessees shall recognise assets and liabilities for all leases, taking into account the exceptions listed in the standard (Note 3 Significant Accounting Policies, under the Changes in Accounting Policies and Disclosures section) as at 1 January 2019. Contracts not classified as a lease under IAS 17 and IFRIC 4 were not reassessed whether they contain a lease. Therefore, leases were determined under IFRS 16 only for contracts concluded or modified as at 1 January 2019 or after this date.

Accounting policy from 1 January 2019

The following is the Company's new accounting policy after the adoption of IFRS 16 from the date of initial application. Based on the accounting policies used, the Company reflects the rights-of-use assets and lease liabilities at the commencement date for all leases that convey the right to control the use of identified assets over a period of time. The commencement date is the date on which the lessor makes an underlying asset available for use by the lessee. At inception of the contract, the Company assesses whether the contract is, or contains, a lease.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date (i.e. the date on which the underlying asset will be available for use). At the commencement date, right-of-use assets are measured at cost. The cost of right-of-use assets includes the amount of recognised lease liabilities, initial direct costs incurred, lease payments made at or before the commencement date, less any lease incentives received, restoration costs.

After the commencement date, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurements of lease liabilities.

Right-of-use assets are typically depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the Company is reasonably certain that it will exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset.

Right-of-use assets are also tested for impairment. The respective accounting policy is presented in Note 3 Significant Accounting Policies under the Impairment of Non-Financial Assets section.

Lease liabilities

At the commencement date, the Company recognises the lease liabilities measured at the present value of the remaining lease payments to be made within the lease term. Lease payments include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be payable by the lessee under residual value guarantees. Lease payments also include the exercise price of a purchase option if the Company is reasonably certain to exercise that option and the payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period upon occurrence of an event or condition triggering the payment.

In computing the present value of lease payments, the Company applies an interest rate implicit in the lease. If such a rate cannot be readily determined, which is typically applicable to the Company's lease, then the Company applies an incremental borrowing rate – the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The lease term determined by the Company includes:

- a non-cancellable period of a lease;
- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

After the commencement date, the amount of lease liabilities is increased to reflect the interest rate on lease liabilities (using the effective interest method) and decreased to reflect the lease payments made. Furthermore, the carrying amount of lease liabilities is reviewed if the lease term, lease payments or a purchase estimate of the underlying asset is modified.

The Company remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of an extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- Lease payments changed as a result of a change in an index or a rate, or a market rate, or a revision of in-substance fixed lease payments, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the change in lease payments resulted from a change in the floating interest rate, in which case the revised discount rate is used);
- The lease term has changed and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The lease liability is presented as a separate line in the statement of financial position. The Company recognises interest on lease liabilities as part of finance costs in the statement of comprehensive income.

In the statement of cash flows, payments of principal and interest portion of the lease liability are presented within financing activities.

Mining land lease liabilities

Such liabilities relate to mining land use agreements that do not fall within the scope of IFRS 16 Leases.

Future liabilities on contingent rents

These liabilities include future cash flows that are contingent upon floating rates on the non-current portion of a lease of land, that is not used directly for ore production, and are accounted for under IFRS 16, whilst the current portion of a lease is recognised as a lease liability in the statement of financial position.

Short-term lease and leases of low-value assets

The Company applies a practical expedient for short-term leases (i.e. leases for which the lease term comprises 12 months or less from the commencement date and that contain no extension options). The Company also applies a practical expedient to lease office equipment, which is considered a low-value asset, worth less than UAH 150,000 thousand.

Short-term lease and low-asset lease payments are recognised on a straight-line basis over the lease term.

Company as a lessor

Leases in which the risks and rewards of ownership are effectively retained by the Company are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease term and added to income in the statement of profit or loss due to their operating nature. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Accounting policy before 1 January 2019

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets, or whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rentals are recognised as revenue in the period in which they are earned.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost at the date of transition to IFRS (hereinafter – "the cost") net of accumulated depreciation and accumulated impairment losses, if any.

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Expenditures incurred after the property, plant and equipment items have been put into operation, such as repairs and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

In situations, where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

Each item's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located. Estimates of remaining useful lives are made on a regular basis for all mine buildings, plant and equipment, with annual reassessments for major items. Changes in the estimates, which affect the unit of production calculations, are accounted for prospectively. Depreciation commences on the month following the date of putting the item into operation. Freehold land is not depreciated.

Except for mining assets and tailing storage assets, which are depreciated using the unit of production method, depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset, as follows:

Buildings	10-50 years
Plant and equipment	2-15 years
Vehicles	5-15 years
Fixtures and fittings	4-10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income when the item is derecognised.

Construction in progress and uninstalled equipment

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. Construction in progress and uninstalled equipment includes cost of mine construction and other construction works, cost of engineering works, other direct costs, an appropriate proportion of overheads and borrowing costs for long-term construction projects if the recognition criteria are met. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Construction in progress and uninstalled equipment is not depreciated until such time as the relevant assets are completed and put into operational use.

Stripping costs

Pre-production stripping costs

Stripping costs incurred before production commences are capitalised as part of the cost of constructing the mine. At the commencement of production of the mine, these pre-production stripping costs are transferred to mining assets and their depreciation commences.

Production stripping costs

Production stripping costs are for the removal of overburden in the course of production. Such stripping costs are generally not capitalised and considered to be variable production costs and included to cost of production. Production stripping costs can be capitalised as an asset if, and only if, all of the following criteria are met:

- It is probable that there will be an expected future economic benefit that is clearly attributable to the capitalised production stripping costs;
- The future economic benefit will flow to the entity in more than two financial years (not including

the financial year in which the stripping costs first incurred);

- The Company can identify the component of the ore body for which access has been improved;
- The period in which the future economic benefit flows to the entity can be reliably determined.

Exploration and evaluation expenditure

Costs incurred in relation to the exploration and evaluation of potential iron ore deposits including licences necessary to carry out these works are capitalised and recognised within property, plant and equipment or intangible asset depending on the nature of the expenditures. Costs associated with exploratory drilling, researching and analysing of exploration data and costs of pre-feasibility studies are included in tangible assets and those associated with the acquisition of licences are included in intangible assets.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation expenditure comprises costs which are directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory trenching and sampling;
- Determining and examining the volume and grade of the resource;
- Compiling pre-feasibility and feasibility studies.

Capitalised exploration and evaluation expenditures are carried forward as an asset as long as these costs are expected to be recouped in full through successful development and exploration in a future period.

Capitalised exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review.

In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. It is intended that these will be developed and go into production when the current source of ore is exhausted. An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are not demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification to development expenditure.

Development expenditure

Development expenditure is also included to construction in progress and uninstalled equipment. On completion of development, any capitalised exploration and evaluation expenditure, together with the subsequent development expenditure, is classified as mining assets.

Intangible assets

Intangible assets, including mineral licences, which are acquired by the Company and which have finite useful lives, are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of comprehensive income in the period in which the expenditure is incurred.

Amortisation

Intangible assets primarily comprise iron ore extraction and computer software licences, which are amortised on a straight-line basis over the estimated useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs may include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's or cash-generating unit's (CGU) recoverable amount. An asset's recoverable amount is the higher of the asset's or the CGU's fair value less CGU's costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations, including write-down of obsolete inventories, are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

At each reporting date, assets are assessed for any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or its carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is accounted on first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Net assets attributable to participants

Pursuant to Ukrainian legislation currently in force and in compliance with the Company's charter documents, the Company's net assets attributable to participants may be redeemed in cash at the request of the Company's participants. The Company's obligation to redeem participants' interest gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the Company.

As a practical expedient, the Company measures the liability presented within net assets attributable to participants at the carrying value of the Company's net assets. If there is a net deficit, participants have no legally binding obligation to replenish the deficit, as under certain conditions they may opt for liquidation. Therefore, net deficit attributable to participants is classified as equity.

Issued capital

The Company determines the issued capital as the nominal value of participants' interest denominated in the national currency of Ukraine. The increase of the Company's issued capital is allowed only after all participants have made their contributions in full by reference to the amount declared in accordance with the minutes of meetings of participants. More details on the issued capital are presented in Note 4.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of 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. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Environmental liabilities

The enforcement of environmental regulations in Ukraine is evolving, and the enforcement posture of government authorities is continually being reconsidered.

Immediate provision, if any, is made for expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings in order to recognise the liability in the year when the conditions are identified. Measurement of liabilities is based on current legal requirements and obligations and estimated based on existing technical standards. Actual results could vary from estimates made to the date.

Contingent assets and liabilities

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

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. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Revenue recognition

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

Revenue from contracts with customers is recognised when all of the following conditions are satisfied:

- The parties have approved the contract and are committed to perform their respective obligations;
- The Company can identify each party's rights regarding the goods and services to be transferred;
- The Company can identify the payment terms for the goods and services to be transferred;
- The contract has commercial substance (i.e. the risk, timing, or amount of the future cash flows is expected to change as a result of the contract); and
- It is probable the Company will collect the consideration to which it will be entitled in exchange of the goods or services to be transferred to a customer.

The following specific recognition criteria must also be met before revenue is recognised:

Services rendered

Revenue from rendering of services is recognised as a performance obligation satisfied over time. Revenue is recognised based on the stage of completion of the contract.

Sale of goods

Revenue is recognised when the control of the goods has passed to the buyer and the amount of revenue can be reliably measured. The control of goods passes when the ownership of the goods passes to the customer as defined by the terms of the sales agreement. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

Other income recognition

Interest income

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Rental income

Rental income arising from operating leases is accounted for on a straight line basis over the lease terms.

Cost of sales and other expense recognition

Cost of sales that relates to the same transaction is recognised simultaneously with the respective revenue. Expenses including warranties and other costs which are to be incurred after the shipment of goods and can be measured reliably are also recognised.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised for temporary differences at the reporting date between the tax bases of assets and liabilities used in the computation of taxable profit and their carrying amounts for financial reporting purposes.

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- For deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

In thousands of UAH, unless stated otherwise

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax ("VAT") except:

- Where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows relating to investing and financing activities are stated net of VAT, if applicable.

4. RELATED PARTY DISCLOSURES

As at 31 December 2019 and 2018, the Company's outstanding balances with its related parties were as follows:

2019	**Ferrexpo Group entities**	**Other related parties**	**Total**
Accounts receivable	61,031	-	**61,031**
Interest-bearing loans and borrowings	902,807	-	**902,807**
Accounts payable for property, plant and equipment	893	-	**893**
Payables for materials and services	135	-	**135**

2018	**Ferrexpo Group entities**	**Other related parties**	**Total**
Accounts receivable	8,803	-	**8,803**
Interest-bearing loans and borrowings	1,055,179	-	**1,055,179**
Accounts payable for property, plant and equipment	3,402	8	**3,410**

In 2019 and 2018, the Company's transactions with its related parties were as follows:

2019	**Ferrexpo Group entities**	**Other related parties**	**Total**
Capitalised borrowing costs	19,959	-	**19,959**
Revenues	11,960	-	**11,960**
Cost of services within general and administrative expenses	585	559	**1,144**
Purchase of construction services	57,190	-	**57,190**
Finance costs	57,035	-	**57,035**
Income from operating lease	59,408	-	**59,408**
Income from sale of property, plant and equipment	11,773	-	**11,773**
Foreign exchange gain/(loss) relating to loans and borrowings	152,413	-	**152,413**
Other expenses	106	994	**1,100**

In thousands of UAH, unless stated otherwise

2018	**Ferrexpo Group entities**	**Other related parties**	**Total**
Capitalised borrowing costs	16,652	-	**16,652**
Revenues	8,333	-	**8,333**
Cost of services within general and administrative expenses	822	1,159	**1,981**
Cost of services included in other expenses	88	-	**88**
Purchase of construction services	-	8,625	**8,625**
Finance costs	46,716	-	**46,716**
Income from operating lease	37,717	-	**37,717**
Other expenses	1,337	-	**1,337**

Financing and relating costs

Interest-bearing loans and borrowings

On 26 June 2012, the Company concluded loan agreement with Ferrexpo Finance plc for an unsecured credit facility of USD 50 million bearing a fixed interest rate of 7.5% per annum. In 2018, fixed interest rate was changed to 5.75%. As at 31 December 2019, principal of UAH 900,076 thousand (2018: UAH 1,052,154 thousand) remained outstanding. In March 2020, the Company prolonged maturity of the facility due to Ferrexpo Finance plc for one year – till the end of March 2021 (Note 22).

In 2019, the related borrowing costs of UAH 19,959 thousand (2018: UAH 16,652 thousand) were capitalised as a part of qualifying assets (Note 5).

Undrawn borrowing facilities

As at 31 December 2019, available undrawn borrowing facilities of the Company totalled UAH 284,234 thousand (2018: UAH 332,259 thousand) under loan agreements with its related parties (Note 11).

Capital contribution from participants

In 2019, the Company increased issued capital by UAH 785,839 thousand (2018: UAH 397,139 thousand). The participants of the Company made contributions of UAH 1,047,102 thousand (2018: UAH 302,150 thousand). The difference between these amounts represents a decrease in unpaid capital. The change in additional paid-in capital represents the difference in foreign exchange rates between the date when capital was authorised and paid.

Compensation to key management personnel

Key management personnel comprises members of the Board of Directors and top management of the Company, totalling four persons as at 31 December 2019 (2018: five persons). In 2019, total compensation to key management personnel included in administrative expenses amounted to UAH 8,475 thousand (2019: UAH 8,362 thousand). Compensation to key management personnel consists of contractual salary and bonus.

In thousands of UAH, unless stated otherwise

5. PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipment was as follows:

2019	Land	Buildings	Plant and machinery	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
Historical cost							
As at 31 December 2018	**901**	**45,019**	**129,642**	**191,392**	**1,804**	**481,163**	**849,921**
Additions	-	7,341	26,134	495,980	-	318,093	**847,548**
Transfers	-	24,837	73,130	24,483	972	(123,422)	**-**
Disposals	-	(15)	(39,643)	(123,431)	(10)	(391)	**(163,490)**
As at 31 December 2019	**901**	**77,182**	**189,263**	**588,424**	**2,766**	**675,443**	**1,533, 979**
Accumulated depreciation							
As at 31 December 2018	**-**	**7,423**	**96, 395**	**107,204**	**1,372**	**-**	**212,394**
Charge for the year	-	4,537	24,674	41,849	210	-	**71,270**
Disposals	-	(4)	(35,496)	(91,726)	(10)	-	**(127,236)**
As at 31 December 2019	**-**	**11,956**	**85,573**	**57,327**	**1,572**	**-**	**156,428**
Net carrying amount							
31 December 2018	**901**	**37,596**	**33,247**	**84,188**	**432**	**481,163**	**637,527**
31 December 2019	**901**	**65,226**	**103,690**	**531,097**	**1,194**	**675,443**	**1,377,551**

In thousands of UAH, unless stated otherwise

2018	Land	Buildings	Plant and machinery	Vehicles	Fixture and fittings	Construction in progress and uninstalled equipment	Total
Historical cost							
As at 31 December 2017	**901**	**38,226**	**111,036**	**181,016**	**1,582**	**391,164**	**723,925**
Additions	-	3,782	21,389	19,615	223	93,298	**138,307**
Transfers	-	3,216	2	-	-	(3,218)	**-**
Disposals	-	(205)	(2,785)	(9,239)	(1)	(81)	**(12,311)**
As at 31 December 2018	**901**	**45,019**	**129,642**	**191,392**	**1,804**	**481,163**	**849,921**
Accumulated depreciation							
As at 31 December 2017	**-**	**4,601**	**78,660**	**94,400**	**1,233**	**-**	**178,894**
Charge for the year	-	2,824	20,085	19,642	140	-	**42,691**
Disposals	-	(2)	(2,350)	(6,838)	(1)	-	**(9,191)**
As at 31 December 2018	**-**	**7,423**	**96,395**	**107,204**	**1,372**	**-**	**212,394**
Net carrying amount							
31 December 2017	**901**	**33,625**	**32,376**	**86,616**	**349**	**391,164**	**545,031**
31 December 2018	**901**	**37,596**	**33,247**	**84,188**	**432**	**481,163**	**637,527**

In thousands of UAH, unless stated otherwise

Equipment held under finance leases

As at 31 December 2019, equipment with the total carrying value of UAH 0 thousand (2018: UAH 18,053 thousand) was held under finance leases.

Capitalised borrowing costs

In 2019, borrowing costs of UAH 19,959 thousand relating to qualifying assets were capitalised (2018: UAH 16,652 thousand) using capitalisation rate of 5.76% (2018: 6.12%). These borrowing costs were fully paid and presented within investing activities in the statement of cash flows.

Capitalised depreciation

In 2019, UAH 7,818 thousand (2018: UAH 2,009 thousand) of depreciation charge was capitalised as part of construction in progress and uninstalled equipment.

Assets pledged as security

As at 31 December 2019, property, plant and equipment with a carrying amount of UAH 0 thousand (2018: UAH 80,839 thousand) was pledged as security under the Company’s liabilities to third parties.

Fully depreciated assets

As at 31 December 2019, property and equipment at the cost of UAH 22,964 thousand (2018: UAH 7,403 thousand) were fully depreciated but remained in use.

Impairment of non-current assets

As at 31 December 2019, the Company management analysed non-current assets, in particular, property, plant and equipment, intangible assets and right-of-use assets for any indication of impairment. The analysis revealed no indication of impairment.

6. INTANGIBLE ASSETS

In June 2018 the Company prolonged until December 2036 its licence on iron ore extraction from Galeschynske. The prolongation costed it UAH 27,585 thousand.

7. TAXES RECEIVABLE OTHER THAN INCOME TAX

As at 31 December, taxes receivable other than income tax were as follows:

	2019	2018
Non-current assets		
Value added tax	6,155	2,808
Current assets		
VAT due from budget	83,837	-
Other taxes	1,201	563
	91,193	**3,371**

In thousands of UAH, unless stated otherwise

The table below provides a reconciliation of the balance of current VAT receivable:

	2019
Balance as at 1 January	**-**
Net VAT incurred for the year	136,296
VAT refund received in cash	(52,459)
Balance as at 31 December	**83,837**

VAT receivable results from domestic purchases of capital equipment, services and goods. The Company currently has limited sales since it is in process of developing an open mine pit; the extraction of iron ore has not started yet. As a result, VAT recoverability is reliant on the expected amounts to be refunded by the State Tax Authorities.

Total amount of recognised allowance for VAT receivable as at 31 December 2019 comprised UAH 24,235 thousand (2018: UAH 27,572 thousand). Management expects the remaining amount of gross VAT totalling UAH 89,992 thousand to be fully recovered.

After 31 December 2019, the Company received UAH 64,319 thousand in a refund from the budget (Note 22).

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

In 2012, the Company entered into a finance lease transaction with a leasing company. The finance lease liabilities bear an interest of 8.9% p.a. and are denominated in USD. As at 31 December 2019, the outstanding debt amount under this agreement comprised UAH 0 thousand (2018: UAH 28,683 thousand).

As at 31 December 2019, the Company leases land and property used in its operations. Leases contain no covenants, however, the leased assets cannot be pledged as a loan security.

As a rule, the Company has no assignment right of assignment or sublease of leased assets. Some leases contain extension or termination options and variable lease payments, as detailed below.

The Company has entered into leases of equipment for 12 months or less and leases of low-value office equipment. The Company applies practical expedients allowed by the standard to recognise short-term leases and low-value assets underlying the lease.

RECOGNISED RIGHT-OF-USE ASSETS

The following is the carrying amounts of right-of-use assets and their movement for the period:

	Land	**Property**	**Total**
As at at 1 January 2019	**3,757**	**391**	**4,148**
Additions	3,832	-	**3,832**
Amortisation	(3,757)	(252)	**(4,009)**
As at 31 December 2019	**3,832**	**139**	**3,971**

In thousands of UAH, unless stated otherwise

Recognised lease liabilities

The following are the carrying amounts of lease liabilities and their movement for the period:

	2019
As at 1 January	**32,831**
Additions	3,832
Interest increase	747
Payments	(32,577)
Foreign exchange gain, net	(1,034)
As at 31 December	**3,799**
including:	
current liabilities	**3,799**
non-current liabilities	**-**

Future minimum lease payments and present value of net minimum lease payments as at 31 December 2019 were as follows:

	2019
Minimum lease payments	
Less than 1 year (current portion)	3,810
1 to 5 years	-
More than 5 years	-
Total minimum lease payments	**3,810**
Less future cost of financing	(11)
Total present value of minimum lease payments	**3,799**
Less current portion of lease liability	3,799
Total non-current portion of lease liability	**-**

The following are amounts recognised in profit or loss:

	Notes	2019
included in cost of sales, administrative expenses or selling expenses		
Right-of-use assets depreciation expense	15, 16	4,009
Expenses relating to short-term lease and lease of low-value assets		54
Variable lease payments not included in the measurement of lease liabilities		-
Added to finance costs:		
Interest expense on lease liabilities	17	747
Total recognised in profit or loss		**4,810**

In 2019, total outflow of cash from the Company amounted to UAH 32,577 thousand and was classified as a cash flow from financing activities in the statement of cash flows.

In thousands of UAH, unless stated otherwise

As at 31 December 2018, the Company is committed to the following payments under the finance lease agreement:

2018	Minimum lease payments	Present value of minimum lease payments
Within one year	27,714	27,020
Total minimum lease payments	27,714	27,020
Less: Amounts representing finance costs	(694)	
Add: Value added tax	1,663	1,663
Finance lease liabilities	**28,683**	**28,683**
Current portion	28,683	
Total	**28,683**	

9. ACCOUNTS RECEIVABLE

	2019	2018
Receivables from related parties for services rendered (Note 4)	61,031	8,803
Other receivables	131	115
	61,162	**8,918**
Expected credit losses/allowance for doubtful debts	(3,722)	(110)
Total	**57,440**	**8,808**

The following table details the risk profile of trade accounts receivable based on the Company's provision matrix using individual assessment. Since the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Company's different customer base.

31 December 2019	**Accounts receivable – days overdue**						
	Not past due	**<45 days**	**46-90 days**	**91-180 days**	**181-360 days**	**>360 days**	**Total**
Expected credit loss rate	0%	8%	0%	0%	0%	100%	
Expected total gross carrying amount at default	12,202	47,565	213	1,052	-	130	**61,162**
Lifetime expected credit losses	**-**	**3,592**	**-**	**-**	**-**	**130**	**3,722**

In thousands of UAH, unless stated otherwise

Reconciliation of the allowance for non-collectability of receivables is as follows:

	2019
As at 1 January	**110**
Accrued for the year	3,612
Amounts reversed	-
As at 31 December	**3,722**

10. CASH AND CASH EQUIVALENTS

As at 31 December 2019 and 2018, cash and cash equivalents were represented by cash at banks and on hand totalling UAH 37,867 thousand and UAH 8,677 thousand, respectively.

In the prior periods, banking services to the Company were principally provided by the Bank Finance & Credit which was controlled by Kostyantyn Zhevago. On 17 September 2015, Bank Finance & Credit was put into temporary administration. On 17 December 2015, following an unsuccessful search for investors, the banking licence of Finance & Credit was revoked by the National Bank of Ukraine and the liquidation of the bank was initiated by the Deposit Guarantee Fund.

As at 31 December 2019 and 2018, the Company impaired in full the balance with Finance & Credit totalling UAH 52,603 thousand.

11. INTEREST-BEARING LOANS AND BORROWINGS

As at 31 December, interest-bearing loans and borrowings comprised the following:

	2019	2018
Short-term		
Ferrexpo Group entity (Note 4)	900,076	1,052,154
Foreign banks and companies	-	37,328
Accrued interest	2,731	3,050
	902,807	**1,092,532**
Long-term		
Foreign banks and companies	-	-
Total	**902,807**	**1,092,532**

Loans from a foreign bank

On 19 March 2014, the Company concluded a loan agreement with Private Export Funding Corporation and Export-Import Bank of the United States for a credit facility of USD 15,881 thousand which matures on 30 June 2019 and bears a fixed interest at 2.904% per annum. As at 31 December 2019, the outstanding debt under this agreement amounted to UAH 0 thousand (2018: UAH 37,328 thousand).

Undrawn borrowing facilities

As at 31 December 2019, the Company's undrawn borrowing facilities totalled UAH 284,234 thousand (2018: UAH 332,259 thousand) available under loan agreements with related parties only.

In thousands of UAH, unless stated otherwise

Reconciliation of liabilities arising from financing activities

The table below details key changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

2019	**Interest-bearing loans and borrowings (Note 10)**	**Interest accrued (Note 10)**	**Finance lease (i)**	**Total**
As at 1 January	**1,089,482**	**3,050**	**28,683**	**1,121,215**
Cash payments	(36,249)	(37,575)	(32,577)	**(106,401)**
Amortisation of arrangement fees	1,007	-	-	**1,007**
Changes from initial application of IFRS 16 Leases	-	-	4,148	**4,148**
Increase of lease liabilities under new agreements			3,832	**3,832**
Interest expense	-	57,576	747	**58,323**
Capitalised interest expense	-	(19,959)	-	**(19,959)**
Foreign exchange gain, net	(154,163)	(361)	(1,034)	**(155,558)**
As at 31 December	**900,077**	**2,731**	**3,799**	**906,607**

2018	**Interest-bearing loans and borrowings (Note 10)**	**Interest accrued (Note 10)**	**Finance lease (i)**	**Total**
As at 1 January	**1,177,540**	**3,803**	**76,015**	**1,257,358**
Cash payments	(74,179)	(49,838)	(49,444)	**(173,461)**
Amortisation of arrangement fees	4,342	-	-	**4,342**
Interest expense	-	66,116	3,923	**70,039**
Capitalised interest expense	-	(16,652)	-	**(16,652)**
Foreign exchange gain, net	(18,221)	(379)	(1,811)	**(20,411)**
As at 31 December	**1,089,482**	**3,050**	**28,683**	**1,121,215**

(i) Cash payments of finance lease liability include repayment of principal amount of liability and interests accrued.

12. TRADE AND OTHER PAYABLES

	2019	**2018**
Payables to employees	6,224	5,565
Accounts payable for property, plant and equipment	3,079	-
Payables for materials and services	898	1,459
Payables for property, plant and equipment due to related parties (Note 4)	893	3,410
	11,093	**10,434**

In thousands of UAH, unless stated otherwise

13. INCOME TAX

The Company's income is subject to taxation in Ukraine only. The Ukrainian corporate income tax was levied at a rate of 18% in 2019 and 2018. The effective income tax rate differs from the corporate income tax rate in Ukraine.

The reconciliation between tax benefits and losses before tax multiplied by the tax rate is as follows:

	2019	2018
Loss before tax	**78,042**	**(79,344)**
Notional tax benefit computed at the statutory tax rate of 18%	14,048	(14,282)
Change in unrecognised deferred tax assets	70,852	(11,617)
Tax effect of differences that are not deductible/(taxable) in determining taxable profit relating to:		
Effect of change in legislation*	(87,337)	-
Net foreign exchange loss	-	1,984
Write-off of VAT receivable balance	-	70
Charity and social sphere expenses	1,822	1,561
Interest expenses	-	9,449
Effect of change in tax base	-	8,946
Other	615	3,889
Income tax expense	**-**	**-**

* As a result of changes in the Law of Ukraine "On Accounting and Financial Reporting", in 2018 the Company transitioned from Ukrainian Accounting Standards to International Financial Reporting Standards for statutory reporting purposes starting from 1 January 2019. As a result, certain previously recognised temporary differences were excluded as at 31 December 2018.

Deferred income tax assets as at 31 December related to the following:

	Statement of financial position		Statement of comprehensive income	
	2019	2018	2019	2018
Deferred tax assets				
Tax losses carried forward	134,441	149,991	(15,550)	(1,446)
Property, plant and equipment	6,594	(80,173)	86,767	(10,171)
Cash and cash equivalents	9,468	9,468	-	-
Prepayments for property, plant and equipment	650	1,015	(365)	-
Unrecognised deferred tax assets	(151,153)	(80,301)	(70,852)	11,617
Deferred tax expense	-	-	-	-
Deferred tax, net	-	-	-	-

The nature of the temporary differences is as follows:

(i) property, plant and equipment – differences in depreciation charges and estimates of the remaining useful lives, differences in capitalisation principles;

(ii) allowance recognised for restricted cash and deposits;

(iii) tax losses carried forward.

As at 31 December 2019 and 2018, the deferred tax asset has not been recognised because realisation of this asset is uncertain. Based on the legislation of Ukraine, tax losses can be carried forward for unlimited period of time.

In thousands of UAH, unless stated otherwise

14. OTHER INCOME

	2019	2018
Income from operating lease	59,440	37,760
Income from sale of property, plant and equipment	11,661	
Other income	2,410	904
	73,511	**38,664**

15. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Personnel	20,143	17,050
Depreciation and amortisation	3,974	2,516
Vehicles maintenance and fuel	3,282	3,109
Consulting and other professional fees	2,538	2,595
Business trips	1,601	1,758
Operating lease	585	549
Bank fees	380	168
Security	90	87
Other expenses	4,153	2,125
	36,746	**29,957**

16. OTHER EXPENSES

	2019	2018
Depreciation and amortisation	62,999	37,671
Charity and social sphere expenses	10,891	8,667
Change in allowance for expected credit losses	3,612	-
Loss on disposal of property, plant and equipment	-	753
Personnel	127	514
Change in allowance for VAT receivable	(3,337)	388
Other expenses	9,023	2,183
	83,315	**50,176**

17. FINANCE COSTS

	2019	2018
Interest expense on loans and borrowings	57,576	66,116
Lease interest expense	747	3,923
Capitalised interest expense	(19,959)	(16,652)
Arrangement fees and other finance costs	1,007	4,342
	39,371	**57,729**

18. FOREIGN EXCHANGE GAIN/(LOSS), NET

	2019	2018
Foreign exchange gain/(loss) relating to loans and borrowings	154,524	18,600
Foreign exchange gain/(loss) relating to finance lease	1,034	1,811
Other foreign exchange (loss)/gain	5,591	(670)
	161,149	**19,741**

In thousands of UAH, unless stated otherwise

19. COMMITMENTS AND CONTINGENCIES

Commitments

As at 31 December 2019, the Company was committed to purchase property, plant and equipment of UAH 42,147 thousand (2018: UAH 11,168 thousand).

Leases

Contract lease liabilities as at 31 December 2019 were as follows:

	2019
Total contract liabilities related to mining land leases (outside the scope of IFRS 16 Leases)	986
Total future lease payments (IFRS 16)	3,810

Contract leases before initial application of IFRS 16 as at 1 January 2019

Information about the initial application of IFRS 16 Leases is presented in Note 3 Significant Accounting Policies.

Contract liabilities related to operating leases for the comparative period ended 31 December 2018 were as follows:

	2018
Less than one year	3,799
From 1 to 5 years	15,196
More than five years	84,273
	103,268

Lease payments are not fixed and calculated as a percentage of normative monetary value of land. Based on the fact that changes in lease payments are made usually every year either due to change in normative monetary value of land or change in annual land lease payment rate, commitments were calculated for the whole period of lease contract assuming fixed minimum lease payments for 2019 remain unchanged until the end of the contracts.

Company as a lessor

Future minimum lease payments on non-cancellable operating lease as at 31 December were as follows:

	2019
Within one year	70,945
Later than one year and not later than five years.	114,516
More than five years	-
Total	**185,460**

Tax and legal matters

Deposit Guarantee Fund and Liquidator of Bank Finance & Credit

Following commencement of the liquidation of Bank Finance & Credit and in accordance with the applicable legislation, on 21 January 2016 the Company filed a claim for UAH 52,603 thousand. The amount represents the total of cash held with the bank on the date of establishing the temporary administration after all foreign currency amounts are translated into UAH equivalents in accordance with applicable law. On 18 May 2016, the liquidator issued certificate recognising UAH 12,392 thousand of these claims. These recognised claims were included in the ninth rank on the basis that the Company was considered as a related party to the bank. The Company is currently engaged in court proceedings challenging both the understatement of claims and the ranking of the claims. There were no significant developments for this case in 2019 and as at 31 December 2019 the Company kept 100% allowance in respect of balances with Bank Finance & Credit (Note 10).

In thousands of UAH, unless stated otherwise

Withholding tax and income tax claims

From 28 October 2019 until 15 November 2019, the State Fiscal Service ("SFS") had been conducting a planned documentary inspection of the Company for compliance with tax, currency and other legislation, the correctness of the assessment and computation of the unified social insurance tax (single contribution for mandatory state social insurance) for a period from 1 July 2017 until 30 June 2019.

According to the Inspection Certificate issued by the SFS as of 26 November 2019, the Company received tax assessment notices whereby the amount of income tax cash liability on earnings of non-resident entities was increased by UAH 19,754 thousand, UAH 14,125 thousand were imposed as (financial) penalties, and the negative value of the asset subject to income tax was reduced by UAH 12,579 thousand.

In January 2020, the Company filed an administrative appeal with the SFS of Ukraine for the cancellation of the tax assessment notices above. According to the SFS letter, the deadline for administrative appeal is 27 March 2020.

If the administrative appeal is not be satisfied, the Company will apply to the court to have the tax assessment notices recognised as illegal and cancelled. The Company management believes that the court appeal will result in satisfaction of the Company's claims, since the tax office will lack reasoned arguments in respect of the future claim, and that relevant tax treaties between the United Kingdom and Ukraine could be used. Management's expectations that the potential tax dispute will be ruled in favour of the Company are also based on the fact that an entity within Ferrexpo Group (Ferrexpo Poltava Mining) has successfully defended its position in the court of first and second instance.

As at the date of these financial statements, there is no information about the SFS decision in respect of the administrative appeal filed by the Company.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is the comparison by categories of carrying amounts and fair values of all of the Company's financial instruments recognised in the financial statements:

	Carrying amount		Fair value	
	2019	**2018**	**2019**	**2018**
Financial assets				
Accounts receivable	57,440	8,808	57,440	8,808
Cash and cash equivalents	37,867	8,677	37,867	8,677
Financial liabilities				
Interest-bearing loans and borrowings	902,807	1,092,532	902,807	1,092,532
Finance lease liabilities	3,799	28,683	3,799	28,683
Trade and other accounts payable	4,870	4,869	4,870	4,869

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

In thousands of UAH, unless stated otherwise

The carrying amounts of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of non-current financial liabilities is measured by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments. As at 31 December 2019, all financial assets and liabilities mature in less than one year (Note 21).

During the reporting period, there were no transfers between levels of fair value hierarchy.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The risk management policies and procedures are centralised at the level of Ferrexpo Group. The Board of Directors of Ferrexpo Group has overall responsibility for establishment and oversight of Ferrexpo Group's risk management framework. The risk management policies of Ferrexpo Group are established to identify and analyse the risks faced, to set appropriate limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the activities of Ferrexpo Group.

The Audit Committee of Ferrexpo Group oversees how management monitors compliance with policies and procedures and reviews the adequacy of risk management framework in relation to risks faced.

Ferrexpo Group operates a centralised financial risk management structure under the management of the Executive Committee, accountable to the Board. The Executive Committee delegates certain responsibilities to the CFO. The CFO's responsibilities include authority for approving all new commercial or financial transactions that create a financial risk. Additionally, the CFO controls the management of treasury risks within each of the business units in accordance with the Board approved Treasury Policy.
Risk management program of the Company focuses mainly on the unpredictability and inefficiency of Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Financial instrument risk exposure and management

The Company's principal financial instruments comprise interest-bearing loans and borrowings, financial leasing, cash, accounts receivable, accounts payable. Derivative transactions may be used for risk mitigating purposes only – speculation is not permitted under the approved Treasury Policy. The Company has not entered into any derivative transactions.

The main risks arising from the Company's financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risks as defined by IFRS 7 "Financial Instruments: *Disclosures* arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; translation-related risks are not taken into consideration.

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD"), play a significant role in the underlying economics of the business transactions of the Company. Exchange rates for currencies used in business transactions are presented below.

	USD
As at 31 December 2019	23.69
As at 31 December 2018	27.69

In thousands of UAH, unless stated otherwise

Foreign currency denominated short- and long-term borrowings, trade receivables and payables, finance leases denominated in USD give rise to foreign exchange exposure. The Company has not entered into transactions designed to hedge against these foreign currency risks.

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

2019	Increase/ (decrease) in rate	Effect on loss before tax
UAH/USD	10.00%	(3,774)
UAH/USD	-10.00%	3,774

2018	Increase/ (decrease) in rate	Effect on loss before tax
UAH/USD	10.00%	(111,824)
UAH/USD	-10.00%	111,824

Liquidity risk

The Company's objective is to maintain continuity and flexibility of funding through the use of extended credit terms provided by Ferrexpo Group entities. Ferrexpo Group centrally monitors its cash flow requirements and optimises cash flows between the subsidiaries. In the case of insufficient or excessive liquidity in individual entities, resources and funds are relocated among Ferrexpo Group entities to achieve optimal financing of the business needs of each entity.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

2019	Less than 3 months	3 to 12 months	1 to 5 years	Total
Interest-bearing loans and borrowings	913,158	-	-	**913,158**
Finance lease liabilities	953	2,857	-	**3,810**
Trade and other accounts payable	4,870	-	-	**4,870**
Total	**918,981**	**2,857**	**-**	**921,838**

2018	Less than 3 months	3 to 12 months	1 to 5 years	Total
Interest-bearing loans and borrowings	1,070,097	38,777	-	**1,108,874**
Finance lease liabilities	12,598	16,779	-	**29,377**
Trade and other accounts payable	4,869	-	-	**4,869**
Total	**1,087,564**	**55,556**	**-**	**1,143,120**

In thousands of UAH, unless stated otherwise

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Financial instruments, which potentially subject to the significant concentrations of credit risk consist principally of cash in bank and accounts receivable. The Company's maximum exposure to credit risk at the reporting dates is the carrying value of each class of financial assets. The Company's cash is primarily held with Ukrainian banks.

Capital risk management

The Company considers participants' contributions, trade payables due to and loans from Ferrexpo Group as primary capital sources. In 2019 and 2018, the Company received finance mainly from Ferrexpo Group. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide financing of its operating requirements, capital expenditures and the Company's development strategy.

	2019	**2018**
Interest-bearing loans and borrowings (Note 11)	902,807	1,092,532
Lease liabilities (Note 8)	3,799	28,683
Trade and other payables, excluding taxes and payroll payables (Note 12)	4,870	4,869
Cash and short-term deposits (Note 10)	(37,867)	(8,677)
Net debt	**873,609**	**1,117,407**
Net deficit attributable to participants	**700,456**	**(424,688)**
Net deficit attributable to participants and net debt	**1,574, 065**	**692,719**

22. EVENTS AFTER THE REPORTING PERIOD

(i) In March 2020, the Company prolonged maturity of the loans due to Ferrexpo Group companies in the amount of UAH 900,076 thousand. Under amended repayment schedule, these loans are due by the end of March 2021.

(ii) In January and February 2020, the Company received VAT refund of UAH 64,319 thousand from the budget.

(iii) On 31 December 2019, the World Health Organization reported a limited number of cases of pneumonia of unknown origin detected in Wuhan, Hubei. On 7 January 2020, the Chinese government identified the cause of a new type of coronavirus (COVID-19). On 31 December 2019 and onwards, the development and spread of COVID-19 have led to numerous related events.

Early 2020 was characterised by the spread of the pandemic caused by the COVID-19 coronavirus. In Ukraine, the first case of a coronavirus was detected on March 3.

To prevent the spread of COVID-19 virus in Ukraine, in March 2020 the Ukrainian government introduced temporary restrictions at the state border, cancelled regular transport and imposed other restrictions for the time of the national quarantine. Depending on further developments of the pandemic, the restrictive measure may be lifted or extended.

It cannot be excluded that this may affect the economic slowdown with potential effects, which cannot be quantified yet, as well as on the Company's returns, mainly through its effect on operating income and expenses associated with the risk.

Following the COVID-19 outbreak, the Company continues to monitor the situation carefully and take precautionary measures in accordance with the recommendations of the World Health Organization and local authorities.