

**OJSC BSW - Management Company
of BMC Holding
Consolidated financial statements**

*As at 31 December 2013 and for the year then ended
With independent auditors' report*



**Совершенствуя бизнес,
улучшаем мир**

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**Independent auditors' report on the consolidated financial statements of Open Joint Stock Company
Belarusian Steel Works - Management
Company of Belarusian Metallurgical Company Holding
for the period from 1 January to 31 December 2013**

**To Mr. Anatoli Nikolaevich Savenok
General Director of Open Joint Stock Company
Belarusian Steel Works - Management
Company of Belarusian Metallurgical Company Holding**

**To the shareholders of Open Joint Stock Company
Belarusian Steel Works - Management
Company of Belarusian Metallurgical Company Holding**

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Belarusian Steel Works - Management Company of Belarusian Metallurgical Company Holding and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Law of the Republic of Belarus "On Auditing Activity", Rules for Auditing activities effective in the Republic of Belarus and with International Standards on Auditing. Those rules and standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for qualified opinion

As we were engaged as auditors of the Company on 1 April 2014, we did not observe the counting of the physical inventories as at 31 December 2012. We were unable to satisfy ourselves as to inventory quantities as at 31 December 2012 by other audit procedures. Since the opening inventory balances enter into consideration of the results of operations and cash flows, we were unable to determine whether adjustments to the results of operations recognized in the statement of comprehensive income for the year and net cash flows from operating activities recognized in the statement of cash flows were necessary.

Qualified opinion

In our opinion, except for the effect of the matter described in the "Basis for qualified opinion" paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The Group's consolidated financial statements for the year ended 31 December 2012 were audited by another auditor which expressed its modified opinion on them on 15 November 2013, as it did not observe the counting of the physical inventories as at 31 December 2012. The opinion also included the "Emphasis of matter" paragraph, noting that there is material uncertainty about the Group's ability to continue as a going concern in the foreseeable future.



P. A. Kaschenko
Partner, FCCA
Director, Ernst & Young FLLC

30 June 2014

Details of the audited entity

Name: Open Joint Stock Company Belarusian Steel Works - Management Company of Belarusian Metallurgical Company Holding
Open Joint Stock Company Belarusian Steel Works - Management Company of Belarusian Metallurgical Company Holding is registered in the Unified State Register of Legal Entities and Individual Entrepreneurs by the Zhlobin District Executive Committee of the Gomel region on 2 January 2012, registration No. 400074854.
Address: Republic of Belarus, 247210, Zhlobin, Promyshlennaya str, 37.

Details of the auditor

Name: Ernst & Young Foreign Limited Liability Company
Certificate of State Registration No. 577 issued by the Minsk City Executive Committee on 7 April 2005.
Address: Republic of Belarus, 220004, Minsk, Korol Street, 51, 2nd floor, Office 30

OJSC BSW -
Management Company of BMC Holding

Consolidated financial statements for 2013

Consolidated statement of financial position
as at 31 December 2013
(thousands of euros)

	Notes	2013	2012 (restated)	2011 (restated)
Assets				
Non-current assets				
Property, plant and equipment	6	1,266,088	1,040,201	712,712
Investments in associates	7	20,998	23,471	2,655
Available-for-sale investments		1,327	1,446	119
Non-current loans issued		556	587	1,211
Trade and other receivables	9	21	32	-
Prepayments and other assets	10	8,416	18,317	18,103
Government grants	14	35,734	-	-
Bank deposit		599	910	-
Deferred tax assets	13	13,202	52,111	38,519
		1,346,941	1,137,075	773,319
Current assets				
Inventories	8	335,305	337,401	313,017
Current loans issued		57	595	619
Trade and other receivables	9	65,580	52,131	27,884
Prepayments and other assets	10	65,422	77,883	38,144
Tax receivables		25,469	23,346	2,206
Income tax receivable		11,038	23,525	22,800
Government grants	14	10,352	-	-
Bank deposit		6,314	8,014	52
Cash and cash equivalents	11	46,957	42,914	28,357
		566,494	565,809	433,079
		1,913,435	1,702,884	1,206,398
Total assets				
Liabilities				
Non-current liabilities				
Trade and other payables		7,140	4,226	-
Advances received and other liabilities	15	1,262	3,351	629
Loans and borrowings	12	200,412	193,725	124,013
Government grants	14	15,564	12,977	11,131
Deferred tax liabilities	13	7,112	827	97
		231,490	215,106	135,870
Current liabilities				
Trade payables		147,208	117,543	176,463
Advances received and other liabilities	15	73,244	101,086	90,661
Loans and borrowings	12	649,916	449,223	347,560
Income tax payable		767	1,940	271
Other taxes payable		32,180	42,440	29,354
Government grants	14	707	518	179
		904,022	712,750	644,488
		1,135,512	927,856	780,358
Total liabilities				
		777,923	775,028	426,040
Net assets				
Equity				
Share capital	16	575,659	568,924	5,632
Additional paid-in capital		-	-	5,215
Reserve capital	16	3,439	3,064	6,488
Property, plant and equipment revaluation reserve		168,775	168,624	92,199
Retained earnings		7,571	18,910	305,227
Foreign currency translation reserve		204	380	(200)
		755,648	759,902	414,561
Equity attributable to equity holders of the parent				
		755,648	759,902	414,561
Non-controlling interests				
		22,275	15,126	11,479
		777,923	775,028	426,040
Total equity				

Signed and authorized for release on behalf of the Group's management

A. N. Savenok
General Director
30 June 2014T. V. Makeeva
Chief Accountant

**Consolidated statement of comprehensive income
for the year ended 31 December 2013***(thousands of euros)*

	Notes	2013	2012 (restated)
Revenue	17	1,381,970	1,696,457
Cost of sales	18, 22	(1,179,345)	(1,465,633)
Gross profit		202,625	230,824
Administrative expenses	19, 22	(76,750)	(64,737)
Selling expenses	20, 22	(78,101)	(85,524)
Other operating expenses	21	(31,396)	(60,155)
Other operating income		17,569	2,336
Government grants		52,278	1,846
(Charge)/Reversal of provision for doubtful debts		(2,059)	396
Operating profit		84,166	24,986
Loss from disposal of investments		-	(1,102)
Loss from impairment of property, plant and equipment		-	(19,379)
Finance income	23	5,903	4,262
Finance costs	23	(52,840)	(48,975)
Net gains/(losses) from foreign currencies:			
- dealing		(1,447)	(521)
- translation differences		(105,991)	(23,186)
Share of profit/(loss) of investees accounted for under the equity method		1,958	(2,331)
Gain on net monetary position		120,222	-97,360
Profit before tax		51,971	31,114
Income tax expense	13	(46,453)	(14,634)
Profit for the year		5,518	16,480
Other comprehensive income			
Effect of revaluation of property, plant and equipment		-	37,274
Tax effect of revaluation of property, plant and equipment		-	(6,710)
Effect of translation to presentation currency		(176)	580
Total other comprehensive income/(loss)		(176)	31,144
Total comprehensive income for the year		5,342	47,624
Profit/(loss) attributable to:			
Equity holder of the Company		(1,429)	17,835
Non-controlling interest		6,947	(1,355)
		5,518	16,480
Total comprehensive income/(loss) attributable to:			
Equity holder of the Company		(1,605)	48,979
Non-controlling interest		6,947	(1,355)
		5,342	47,624

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity
for the year ended 31 December 2013**
(thousands of euros)

	Notes	Share capital	Additional paid-in capital	Reserve capital	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity and reserves
At 1 January 2012 (as previously reported)		5,632	5,215	6,488	92,199	(200)	307,214	416,548	11,479	428,027
Effect of prior period adjustments		-	-	-	-	-	(1,987)	(1,987)	-	(1,987)
At 1 January 2012 (restated)		5,632	5,215	6,488	92,199	(200)	305,227	414,561	11,479	426,040
Comprehensive income										
Profit/(loss) for the year							17,835	17,835	(1,355)	16,480
Effect of revaluation of property, plant and equipment					37,274			37,274	-	37,274
Tax effect of revaluation of property, plant and equipment					(6,710)			(6,710)	-	(6,710)
Effect of translation to presentation currency						580		580	-	580
Total comprehensive income					30,564	580	17,835	48,979	(1,355)	47,624
Transactions with the equity holder accounted for in equity										
Dividends							(4,257)	(4,257)	-	(4,257)
Allocations to reserves				927			(927)	-	-	-
Increase due to transformation into joint stock company	16	249,522	(5,131)				(244,391)	-	-	-
Effect of combining companies due to formation of the holding (restated)	5, 16	119,326			36,278		75,793	231,397	5,635	237,032
Increase in share capital	16	193,544					(193,544)	-	-	-
Effect of change in ownership interest in subsidiaries (without loss of control by the Group)							633	633	(633)	-
Total transactions with equity holders accounted for in equity		562,392	-	(4,204)	36,278	-	(366,693)	227,773	5,002	232,776

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity
for the year ended 31 December 2013 (continued)**
(thousands of euros)

Notes	Share capital	Additional paid-in capital	Reserve capital	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interest	Total equity and reserves
Other transactions affecting equity									
Transfer of additional paid-in capital		(6,049)		6,284		6,049	-	-	-
Transfer of revaluation reserve						(6,284)	-	-	-
Effect of translation to presentation currency	900	834	780	3,299	-	62,776	68,589	-	68,589
Total other transactions affecting equity	900	(5,215)	780	9,583	-	62,541	68,589	-	68,589
At 31 December 2012 (restated)	568,924	-	3,064	168,624	380	18,910	759,902	15,126	775,028
Comprehensive income									
Profit/(loss) for the year						(1,429)	(1,429)	6,947	5,518
Effect of translation to presentation currency	-	-	-	-	(176)	-	(176)	-	(176)
Total comprehensive income	-	-	-	-	(176)	(1,429)	(1,605)	6,947	5,342
Transactions with the equity holder accounted for in equity									
Dividends								(1,489)	(1,489)
Increase in share capital	1,202	-	-	-	-	-	1,202	-	1,202
Effect of change in ownership interest in subsidiaries (without loss of control by the Group)						1,108	1,108	(1,108)	-
Total transactions with equity holders	1,202	-	-	-	-	1,108	2,310	(2,597)	(287)
Other transactions affecting equity									
Transfer of revaluation reserve				(1,490)		1,490	-	-	-
Effect of translation to presentation currency	5,533	-	375	1,641	-	(12,508)	(4,959)	2,799	(2,160)
Total other transactions affecting equity	5,533	-	375	151	-	(11,018)	(4,959)	2,799	(2,160)
At 31 December 2013	575,659	-	3,439	168,775	204	7,571	755,548	22,275	777,923

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

**Consolidated statement of cash flows
for the year ended 31 December 2013***(thousands of euros)*

	<i>Notes</i>	2013	2012 (restated)
Operating activities			
Profit for the year		51,971	31,114
Adjustments for:			
Depreciation of property, plant and equipment	18,19,20	46,901	76,156
Provision for impairment of trade and other receivables	9,10	2,059	(396)
Loss from impairment of property, plant and equipment		-	19,379
Inventory write-off		142	347
Loss from disposal of property, plant and equipment	21	14,885	22,239
Provision for pension payments		463	806
Gain from grants taken to the statement of comprehensive income	14	(46,086)	(262)
Translation differences		105,991	23,186
Finance costs	23	52,840	48,975
Finance income	23	(5,903)	(4,262)
Share of profit of investees accounted for under the equity method		(1,958)	2,331
Gain on net monetary position attributable to non-operating activities		(109,138)	(84,390)
Other non-monetary adjustments		(461)	(50)
		111,706	135,173
Decrease in inventories		5,248	106,288
Decrease/(increase) in trade and other receivables		(22,436)	16,105
Decrease/(increase) in advances issued and other current assets		20,534	(11,420)
Decrease in tax liabilities		(4,597)	(25,826)
(Decrease)/increase in trade and other payables		29,739	(98,495)
Increase in tax receivables		(5,229)	(20,787)
Increase in other liabilities and accruals		(11,551)	(16,359)
Cash flows from operating activities		123,414	84,679
Income tax paid		1,322	(20,472)
Net cash flows from operating activities		124,736	64,207
Investing activities			
Disposal of investments		-	1,102
Bank deposit		718	(7,955)
Purchase of property, plant and equipment		(275,674)	(181,898)
Proceeds from disposal of property, plant and equipment		1,056	50,872
Repayment of non-current loans issued		412	15
Interest and dividends received		5,903	4,262
Cash at the date of combining companies of the holding		-	6,294
Net cash flows from investing activities		(267,585)	(127,308)

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2013 (continued)
(thousands of euros)

	<i>Notes</i>	2013	2012
Financing activities			
Loans and borrowings received		451,116	806,345
Interest paid on loans and borrowings		(52,840)	(49,798)
Repayment of loans and borrowings		(243,736)	(677,241)
Dividends paid		(1,489)	(149)
Net cash flows from financing activities		153,051	79,157
Net increase in cash and cash equivalents		10,202	16,056
Cash and cash equivalents at the beginning of the year		42,914	28,357
Effect of exchange rate changes		(32)	(1,480)
Effect on inflation on cash and cash equivalents		(6,127)	(19)
Cash and cash equivalents at the end of the year		46,957	42,914

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

(thousands of euros)

1. General information

Open Joint Stock Company Belarusian Steel Works - Management Company of Belarusian Metallurgical Company Holding (formerly Republican Unitary Enterprise Belarusian Steel Works) was formed in 1985.

On 30 December 2011, Republican Unitary Enterprise Belarusian Steel Works was reorganized into Open Joint Stock Company Belarusian Steel Works (the "Company" or "OJSC BSW"). The Company is the legal successor in respect of the rights and duties of Republican Unitary Enterprise Belarusian Steel Works. As at 31 December 2013, 100% of the Company's shares are owned by the Republic of Belarus. The state controls the Company through a representative of the Ministry of Industry of the Republic of Belarus (authorized body).

The Company is registered in the Unified State Register of Legal Entities and Individual Entrepreneurs (No. 400074854) by the Zhiobin District Executive Committee of the Gomel region on 2 January 2012. The Company is located at Republic of Belarus, 247210, Zhlobin, Promyshlennaya str, 37.

In July 2012, in accordance with Decree No. 113 of the President of the Republic of Belarus "On Some Issues Relating to the Establishment and Activities of Holdings and State Associations of the Ministry of Industry of the Republic of Belarus" and Resolution No. 598 of the Council of Ministers of the Republic of Belarus "On Non-Monetary Contributions" dated 28 June 2012, OJSC BSW received shares of open joint stock companies to establish Belarusian Metallurgical Company Holding.

The Company is part of Belarusian Metallurgical Company Holding and is the management company of the holding.

The Company is principally engaged in the manufacture and sale of steel products: cast billets, structural and round sections, and high-tech products, such as steel cord, seamless pipes, hose and bead wire, and other various types of wire made of carbon steel.

The Company's operating assets comprise primarily production facilities, namely: two electric steel melting shops, section rolling shop, three steel cord and wire shops and seamless pipes production shop. Service facilities comprise 20 auxiliary shops.

The Company's average headcount in the years ended 31 December 2013 and 2012 was 11,896 employees and 11,674 employees, respectively.

The Company is the parent of the Group (the "Group") comprising the following subsidiaries and associates consolidated in these financial statements:

Company	Country of incorporation	Effective ownership interest, %		Nature of activities
		2013	2012	
PTPUE Metallurgtorg	Republic of Belarus	100.00	100.00	Sale of consumer goods
PTPUE Metallurgtrans	Republic of Belarus	100.00	100.00	Transportation services
OJSC Belvtorchernet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PPUE Brestvtorchernet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PPUE Vitebskvtorchernet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PPUE Gomelvtorchernet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PPUE Grodnovtorchernet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PPUE Mogilevvtorchernet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
OJSC Beltsvetmet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous waste and scrap
PPUE Tsvetmet	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous waste and scrap

(thousands of euros)

1. General information (continued)

Company	Country of incorporation	Effective ownership interest, %		Nature of activities
		2013	2012	
OJSC Sitomo	Republic of Belarus	100.00	100.00	Production of metal- and woodworking tools, other tools and tooling
OJSC Rechitsa Metizny Plant	Republic of Belarus	100.00	100.00	Production of steel wire, nails of all types and sizes, fasteners (screws, nuts, wood screws, bolts, etc.)
UE Trading House RMP	Republic of Belarus	100.00	100.00	Supply of goods as per orders of trade and other organizations for the products of OJSC Rechitsa Metizny Plant
UE Zhlobinmetallurgstroy	Republic of Belarus	100.00	100.00	Construction and installation works, production of construction materials
PPTUE BSW Service Center	Republic of Belarus	100.00	100.00	Wholesale of cast iron, steel, iron and steel castings, rolled products, and pipes, metal machining using principal machine building processes, transportation by truck
PAUE Paporotnoe	Republic of Belarus	100.00	100.00	Growing of grain, pulse, forage and technical crops, production of milk and meat
OJSC Belniilit	Republic of Belarus	99.67	99.36	Research and development in foundry production
OJSC Emalposuda	Republic of Belarus	99.57	99.57	Production and sale of sanitary ware, cast-iron and enameled cookware
OJSC Zhlobinsky Open-Cast Mine of Moulding Materials	Republic of Belarus	97.28	97.28	Development of gravel and sand pits
OJSC Polesyeelectromash	Republic of Belarus	95.72	95.72	Development, production and sale of electrical goods, consumer goods, and special technological equipment and tools
OJSC NII Podshipnik	Republic of Belarus	90.83	90.83	Production and sale of bearings, tools and tooling, research and development
CJSC Hockey Club Metallurg-Zlobin	Republic of Belarus	85.00	85.00	Sporting activities and other leisure and entertainment activities
BSW Trading House, Moscow	Russian Federation	82.50	82.50	Wholesale of OJSC BSW's steel products
OJSC Legmash	Republic of Belarus	79.58	79.58	Steel, iron, light metals and other non-ferrous metals casting, metalworking, production of construction metal structures, equipment and spare parts
BELASTAHL Außenhandel GmbH	Germany	75.00	75.00	Wholesale of OJSC BSW's steel products
BSW Trading House, Saint Petersburg	Russian Federation	60.00	60.00	Delivery of scrap metal to OJSC BSW, collection of scrap metal from individuals at the scrap collecting sites in Russia
JLLC BSW-GKS	Republic of Belarus	57.38	57.38	Production of gaseous oxygen
Trading House BSW-Baltiia	Lithuania	55.00	55.00	Wholesale of OJSC BSW's steel products
OJSC Mogilev Metallurgical Works	Republic of Belarus	54.67	54.67	Production of steel tubes, cast iron, steel and ferroalloys, iron and steel casting, production of construction metal structures and hardware, radiators and central heating boilers

(thousands of euros)

1. General information (continued)

Company	Country of incorporation	Effective ownership interest, %		Nature of activities
		2013	2012	
JLLC BMZ-Tubulars	Republic of Belarus	51.00	51.00	Production of hot-rolled seamless pipes for the oil and gas industry
Belmet (Shanghai) Trading Co., Ltd.	China	50.50	50.50	Wholesale of OJSC BSW's steel products
Belmet Handelsgesellschaft m.b.H.	Austria	50.00	50.00	Wholesale of OJSC BSW's steel products
BMZ Polska Sp. z o.o.	Republic of Poland	50.00	50.00	Wholesale of OJSC BSW's steel products
BEL-KAP-STEEL, LLC	USA	50.00	50.00	Wholesale of OJSC BSW's steel products
LLC Bel-Kap-Steel Scandinavia	Lithuania	50.00	50.00	Wholesale of OJSC BSW's steel products
TH BSW-Snab	Russian Federation	50.00	-	Wholesale of metals and metallic ores
JLLC Manuli Hydraulics Manufacturing Bel	Republic of Belarus	47.16	47.16	Production of high-pressure hoses for hydraulic devices
CJSIC Promtransinvest	Republic of Belarus	34.93	34.93	Insurance services
OJSC Minsk Bearing Plant	Republic of Belarus	26.16	24.82	Production of bearings
RMZ Vertriebs GmbH	Austria	25.00	25.00	Wholesale of OJSC Rechitsa Metizny Plant's products
RMZ Polska Sp. z o.o.	Republic of Poland	25.00	25.00	Wholesale of OJSC Rechitsa Metizny Plant's products
Transconsult Poland Sp. z o.o.	Poland	25.00	25.00	Transportation and forwarding services
VLB s.r.l.	Italy	22.50	22.50	Wholesale of OJSC BSW's steel products
LLC Mogilev Volleyball Club Tekhnopribor	Republic of Belarus	21.60	21.60	Sporting activities
CJSC DOR-MPZ	Republic of Belarus	21.50	21.50	Production of component parts for rail fastenings, and equipment
OJSC Belvtortekhmets	Russian Federation	21.29	21.29	Wholesale of OJSC BSW's steel products
Dismas Trading s.r.l.	Italy	21.25	21.25	Wholesale of OJSC BSW's steel products

On 24 April 2013, a decision was made to form a new company LLC TH BSW-Snab, with BSW Trading House, Moscow, holding a 50% interest. Its principal activity is the wholesale of metals and metallic ores. The main goal of the company is to increase competition on the wholesale market for commodities in the metals industry to reduce the final price of purchases for the parent.

The Group ultimately controls the following companies, in which its effective ownership interest does not exceed 50%, through its subsidiaries whose interests in such companies exceed 50%: BMZ Polska Sp. z o.o. and LLC Bel-Kap-Steel Scandinavia through BEL-KAP-STEEL, LLC; TH BSW-Snab through BSW Trading House, Moscow; RMZ Vertrieb GmbH, RMZ Polska Sp. z o.o., Transconsult Poland Sp. z o.o. and VLB s.r.l. through Belmet Handelsgesellschaft m.b.H.

These consolidated financial statements were approved for issue by management of the Group on 30 June 2014.

(thousands of euros)

2. Basis of preparation

General

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The Company maintains accounting records in accordance with legislation of the Republic of Belarus, and its subsidiaries maintain their accounting records in accordance with legislation applicable in their countries of registration.

The Company prepares separate financial statements in accordance with legislation of the Republic of Belarus but does not prepare consolidated financial statements, as this is not required by law.

For the purposes of consolidation, the respective financial statements of the Company and its subsidiaries were adjusted to conform to IFRS. Such adjustments reflect the economic substance of major transactions, including reclassifications and eliminations of certain assets and liabilities, and profit and losses within the respective items of the financial statements.

These consolidated financial statements have been prepared on a historical cost basis except as disclosed in the summary of accounting policies below. For example, buildings and infrastructure facilities, and production machines and available-for-sale investments have been measured at fair value.

These consolidated financial statements are presented in thousands of euros ("EUR thousand"), unless otherwise indicated.

Inflation accounting

With effect from 1 January 2011, the Belarusian economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies*. Accordingly, for Belarusian trade companies of the Group whose functional currency is the Belarusian ruble, adjustments and reclassifications for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian ruble. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

In applying IAS 29 for companies whose functional currency is the Belarusian ruble, the Group used conversion factors derived from the Belarusian consumer price index ("CPI") published by the National Statistical Committee of the Republic of Belarus. The CPIs for the seven-year period and respective conversion factors after the Republic of Belarus previously ceased to be considered hyperinflationary on 1 January 2006 were as follows:

Year	Index, %	Conversion factor
2006	106.5	454.1
2007	112.0	405.5
2008	113.4	357.4
2009	109.9	325.7
2010	110.0	296.0
2011	208.7	141.8
2012	121.7	116.5
2013	116.5	100.0

Monetary assets and liabilities of companies whose functional currency is the Belarusian ruble are not restated because they are already expressed in terms of the monetary unit current as at 31 December 2013. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as at 31 December 2013) are restated by applying the relevant index. The effect of inflation on the Group's net monetary position is included in the consolidated statement of comprehensive income as gains on net monetary position.

*(thousands of euros)***2. Basis of preparation (continued)****Inflation accounting (continued)**

The application of IAS 29 for companies whose functional currency is the Belarusian ruble results in an adjustment for the loss of purchasing power of the Belarusian ruble recorded in the statement of comprehensive income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in losses on net monetary position. Gains/losses on net monetary position are derived as the difference resulting from the restatement of non-monetary assets and liabilities, equity and items in the statement of comprehensive income.

For entities operating in hyperinflationary economies, balances in accounts, and income and expenses are translated at year-end exchange rates. Comparatives are not multiplied by the hyperinflation index; instead, their EUR equivalents at the previous reporting date are applied.

Functional and presentation currency

The functional currency of each consolidated entity of the Group is the currency of the country where the entity operates ("primary economic environment"). The functional currency of OJSC BSW is the Belarusian ruble (BYR). The functional currencies of subsidiaries are the currencies of their respective countries of registration.

The presentation currency of these consolidated financial statements is the euro (EUR). The translation of assets and liabilities expressed in Belarusian rubles into euros for the purposes of presentation of the consolidated financial statements does not imply that the Group can or intends to sell its assets or settle its liabilities in the future in the amounts in the euro shown in the financial statements.

It is assumed that these consolidated financial statements will be mainly used by financial and credit institutions operating in the European Union. The Group's management has therefore selected this presentation currency for the convenience of users of the financial statements.

All amounts in the consolidated financial statements are presented in thousands of euros and are rounded to the nearest thousand, unless otherwise indicated.

When the consolidated financial statements are prepared, the financial statements of the Company and its subsidiaries are translated directly into euros (without being translated into Belarusian rubles) and are consolidated in the euro. The financial statements of the Company and Belarusian companies of the Group (whose functional currency is the currency of a hyperinflationary economy) were restated in accordance with IAS 29 before their translation into euros.

The financial statements of the Company and Belarusian companies of the Group adjusted for the effect of inflation were translated into euros as follows:

- assets, liabilities and equity as at 31 December 2013, movements in equity items and income and expense items for the year ended 31 December 2013 are translated at the exchange rate as at 31 December 2013;
- the translation difference arising from the translation of opening net assets at the exchange rate as at 31 December 2013 is recorded directly in equity as an adjustment of the respective equity items.

The financial statements of subsidiaries (whose functional currency is not the currency of a hyperinflationary economy) was translated into euros as follows:

- assets and liabilities are translated at the exchange rate as at 31 December 2013;
- income and expenses are translated at exchange rates at the dates of the respective transactions;
- equity items are translated at the historical exchange rate at the date of recognition;
- all resulting translation differences are recognized within other comprehensive income.

(thousands of euros)

2. Basis of preparation (continued)**Functional and presentation currency (continued)**

The comparative data are presented in the amounts which were stated in the consolidated financial statements for the year ended 31 December 2012 (i.e. without adjustment for the subsequent changes in prices or exchange rates).

Foreign currency transactions

When preparing the financial statements of each company of the Group, transactions in currencies other than the functional currency ("foreign currencies") are recorded at the exchange rate at the date of transaction. Monetary items denominated in foreign currencies are translated at the appropriate exchange rate prevailing at the reporting date.

Non-monetary items accounted for at fair value in a foreign currency are to be translated using the exchange rates at the date when the fair value is determined. Non-monetary items recorded at historical cost in a foreign currency are not translated.

Translation differences on monetary items resulting from changes in foreign exchange rates are recorded in profit or loss in the period when they arise, except for translation differences on loans in foreign currency relating to assets under construction to be used for production purposes, which are included in the cost of such assets as an adjustment of interest expenses on loans in foreign currency.

The official exchange rates for major currencies as at 31 December 2013 and 31 December 2012 were as follows:

	<u>31 December 2013</u>	<u>31 December 2012</u>
USD/EUR	1.38	1.32
RUB/EUR	44.97	40.23
BYR/EUR	13,080	11,340

In 2013 and 2012, the average official exchange rates of foreign currencies against the euro were as follows:

	<u>2013</u>	<u>2012</u>
USD/EUR	1.33	1.29
RUB/EUR	42.31	39.91
BYR/EUR	11,799.12	10,713.07

Basis of consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

(thousands of euros)

2. Basis of preparation (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Investments in associates

Associates are entities, in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognized in profit or loss, and its share of movements in reserves is recognized in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combination of entities under common control

In case of business combination of entities under common control, acquired assets and assumed liabilities are recognized at the carrying amount of an acquiree as at the acquisition date. No restatement of comparative data and adjustment of current year indices to the acquisition date, as if the combination took place before the earliest period presented in the financial statements, are performed. All income and expenses of an acquiree are included in the consolidated financial statements from the acquisition date.

(thousands of euros)

3. Summary of significant accounting policies**Property, plant and equipment**

Property, plant and equipment, excluding buildings, infrastructure and production machinery, is stated at acquisition or construction cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment 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 Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of comprehensive income as incurred.

Buildings, infrastructure and production machinery are measured at fair value, net of depreciation and impairment loss recognized after the revaluation date. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the asset revaluation reserve included in equity within the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of comprehensive income. In this case the increase is recognized in the consolidated statement of comprehensive income. A revaluation deficit is recognized in the consolidated statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation reserve of property, plant and equipment. Subsequently, upon sale or disposal of revalued buildings, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The Group's property, plant and equipment are depreciated using the straight-line and production methods over their subsequent estimated useful lives which are based on management's business plans and operational estimates:

	<u>Years</u>
Buildings and infrastructure	5-110
Production machinery	3-50
Other equipment	3-35
Other property, plant and equipment	2-5

During the year ended 31 December 2013, the Group's management analyzed the useful lives of property, plant and equipment by comparing them with average useful lives in the industry and change the methodology of valuation of the estimated useful life of production machinery, buildings and infrastructure. Based on the analysis, starting 1 January 2013, the estimated useful life of production machinery was changed from 9 years to 17 years, buildings and infrastructure – from 40 years to 80 years.

Had these changes never occurred, depreciation charges on buildings and production machinery for the year ended 31 December 2013 would have increased by approximately EUR 27.03 mln and EUR 2.18 mln, respectively. Comparative information was not restated.

The factors that could affect the estimation of the useful life of a non-current asset and its residual value include the following:

- changes in asset utilization rates;
- changes in technologies of maintaining equipment in good working order;
- changes in regulations and legislation;
- unforeseen operational issues.

*(thousands of euros)***3. Summary of significant accounting policies (continued)****Property, plant and equipment (continued)**

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying amount and residual value.

Estimated useful lives of items of property, plant and equipment are reviewed at each financial year end. The review of the appropriateness of assets' useful lives is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in estimated useful life or residual value is recorded on a prospective basis from the date of the change.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use 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 asset) is included in the consolidated statement of comprehensive income for the reporting year when the asset is derecognized.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalized, and the assets replaced are retired. Gains and losses arising on the disposal of property, plant and equipment are included in the consolidated statement of comprehensive income as incurred.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic lives varying from 5 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted 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. These calculations are corroborated by valuation multiples and other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was recorded. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

*(thousands of euros)***3. Summary of significant accounting policies (continued)****Impairment of non-financial assets (continued)**

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives, and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level inputs that are significant to the fair value measurement are unobservable.

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

(thousands of euros)

3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

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

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not recorded at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets comprise cash and cash equivalents, trade and other receivables, long-term and short-term loans issued.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

For amounts due from loans and receivables, the Group assesses whether objective evidence of impairment exists individually. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the estimated amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive income.

If the Group determines that no evidence exists that a financial asset is individually impaired, the Group assesses whether such asset is collectively impaired. For the purpose of a collective evaluation of impairment, financial assets are broken down to groups, depending on number of days overdue.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Historical losses are adjusted on the basis of current information from the observable market in order to ensure proper recognition of influence of existing circumstances.

Current and deferred income 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 tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Deferred tax

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

*(thousands of euros)***3. Summary of significant accounting policies (continued)****Current and deferred income taxes (continued)**

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except:

- when 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized directly in net assets attributable to participants is recorded directly in net assets attributable to participants rather than in the consolidated statement of comprehensive income.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to each legal entity and in conformity with rates that will be applied for the tax base in the period when the deferred tax asset is realized or the deferred tax liability is settled. Major part of the Group's taxable profit is generated and taxed in Belarus, the Group therefore decided to apply the Belarusian tax rate of 18% in 2013 (18% in 2012) to justify the relationship between the income (profits) tax and accounting profit.

Inventories

Inventory consists of finished goods, work-in-progress and raw materials which are stated at lower of cost or net realizable value. In assessing the net realizable value of its inventory, management estimates the net realizable value of finished goods and work-in-progress based on various assumptions including current market prices. At each reporting date, the Group evaluates its inventory balance for excess quantities and obsolescence and, if necessary, adjusts their carrying amount for obsolete and slow-moving raw materials and spare parts. This adjustment requires assumptions related to future inventory use. These assumptions are based on inventory ageing, forecasted consumer demands, and technological obsolescence. Any changes in the estimates can affect the adjustment created in respect of such inventories.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at the bank and term deposits with maturity less than three months. Bank deposits comprise deposits in banks with original maturity of three months or less.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as available-for-sale investment securities. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of comprehensive income. However, interest calculated using the effective interest method is recognized in profit or loss.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value at the date of reclassification. Any gain or loss already recognized in the consolidated statement of comprehensive income is not reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings carried at amortized cost, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification.

Trade payables and other accrued liabilities

Payables and other accrued liabilities are initially recognized at fair value. After initial recognition, all payables with fixed maturity are measured at amortized cost using the effective interest rate method. Those that do not have fixed maturity are stated at cost.

Loans and borrowings

Loans and borrowings are initially recognized at the fair value of the amounts received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in interest expense in the consolidated statement of comprehensive income.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Financial liabilities (continued)

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 capitalized as part of the cost of the asset less compensation of inflation expectations. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with borrowing of funds.

Derecognition

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

Offsetting of financial instruments

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

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

Retirement and other employee benefit obligations

The Group makes contributions to the State pension system of the Republic of Belarus, the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from rendering give-or-take services is recognized in the period the services are provided based on the total contract value and by reference to the stage of completion.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

Revenue from construction services rendered is recognized in the accounting period in which the services are rendered, in accordance with the stage of completion of this transaction. The stage of completion of the transaction is determined by identifying percentage of actual services rendered to the total scope of services to be rendered.

Rental income

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

Interest and similar income and expense

For all financial instruments measured at amortized cost and interest-bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the value of a financial asset or a group of similar financial assets recorded in the consolidated financial statements has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Dividend income

Revenue is recognized when the right of the Group entities to receive the payment is established.

Leases

Finance – Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

Finance – Group as lessor

The Group recognizes lease receivables at value equal to the net investments in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Contingent assets and liabilities

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

A contingent asset is not recognized in the consolidated statement of financial position but disclosed in the consolidated financial statements when an inflow of related economic benefits is probable.

Government grants

Government grants represent governmental aid in the form of providing assets to the entity in exchange for fulfillment of certain conditions related to operating activities of such entity. Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Government grants are recorded in profit or loss on a systematic basis in the period where the relevant costs that the government grants are designated to compensate are recognized as losses by the Group. In particular, government grants provided on condition that the Group accepts obligations for purchase, construction or other acquisition of non-current liabilities are recorded in the consolidated statement of financial position as deferred income and subsequently recognized in profit or loss on a systematic and rational basis during the useful economic lives of the respective assets.

Government grants provided to compensate for expenses or costs incurred or grants provided in the form of financial aid not subject to future costs are reported in profit in the period they become vested. While recording government grants the Group uses income approach and recognizes the grant in profit or loss in one or more reporting periods where the Group recognizes relevant costs that the grants are intended to compensate for as losses.

Government grants related to amortized assets are initially recognized as deferred income. Subsequently they are recognized as profit in the period where these assets are amortized and in proportion to them. A portion of deferred income that is planned to be recognized during one year from the reporting date is recorded as current deferred income in current liabilities. The other portion of deferred income is recorded as non-current deferred income in non-current liabilities.

The Group does not classify amounts of the centralized fund of Belarusian Metallurgical Company Holding as government grants because these amounts are in fact reallocated within the Group.

Share capital

Share capital is measured at cost value adjusted for inflation. Non-cash contributions are included into the share capital at the fair value of the contributed assets as of the contribution date. Treasury shares are measured at cost value adjusted for inflation. Non-redeemable preference shares are classified as share capital.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 *Events After the Reporting Date* and disclosed accordingly.

(thousands of euros)

3. Summary of significant accounting policies (continued)**Changes in accounting policies**

The Group has adopted the following amended IFRS during the year:

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that contained requirements for consolidated financial statements. The standard also introduces guidance on the issues raised in SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 changes the definition of control so that the investor is considered to have control over an investee when the investor is entitled to variable benefit from the investment or is exposed to the risk of change in the investment, and may affect the benefit as a result of its authority for the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The adoption of IFRS 13 had no material impact on fair value measurement by the Group. IFRS 13 also requires specific disclosures on fair values, that replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures relating to financial instruments in accordance with IAS 34.16A(j) are applied to the interim condensed consolidated financial statements.

Amendment to IAS 19 Employee Benefits

The IASB published amendments to IAS 19 *Employee Benefits*, which become effective for annual periods beginning on or after 1 January 2013. The amendments introduce major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments limit changes in the net pension assets (liabilities) recognized in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. A subsidiary controlled with less than a majority of voting rights can serve as an example. These amendments had no impact on the Group's financial position.

Amendment to IAS 1 Presentation of Items of Other Comprehensive Income

The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) should be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendment to IAS 1 Clarification of the Requirements for Comparative Information

The amendment clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening consolidated statement of financial position, presented as a result of retrospective restatement or reclassification of items in the consolidated financial statements does not have to be accompanied by comparative information in the related notes. The amendment affects presentation only and has no impact on the Group's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments had no impact on the financial position or performance of the Group.

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the impact when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments become effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not expected to have any impact on the Group, since none of the Group's entities qualifies to be an investment entity under IFRS 10.

(thousands of euros)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 becomes effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have any material impact on its consolidated financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current reporting period. However, these amendments would be considered for future novations.

Amendments to IAS 36 - Recoverable Amounts Disclosures for Non-Financial Assets

These amendments eliminate unintended consequences of application of IFRS 13 *Fair Value Measurement* required in accordance with IAS 36 *Impairment of Assets*. Besides, these amendments require recoverable cost disclosure related to assets or cash-generating units for which an impairment loss was recognized or reversed during the period. These amendments had no impact on the financial position or performance of the Group.

Improvements to IFRS

- Amendments to IFRS 1 – Repeated Application of IFRS 1;
- Amendment to IFRS 1 – Borrowing Costs;
- Amendments to IAS 1 – Clarification of Requirements for Comparative Information;
- Amendments to IFRS 16 – Classification of Servicing Equipment;
- Amendment to IAS 32 – Tax Effect of Distributions to Holders of Equity Instruments;
- Amendments to IAS 34 – Interim Financial Reporting and Segment Information for Total Assets and Liabilities

(thousands of euros)

3. Summary of significant accounting policies (continued)

Prior period errors and changes in presentation

In the course of the preparation of the 2013 consolidated financial statements, the Group has identified the following issues concerning the 2012 consolidated financial statements:

Accounting for investments under the equity method

In July 2012, in accordance with Decree No. 113 of the President of the Republic of Belarus "On Some Issues Relating to the Establishment and Activities of Holdings and State Associations of the Ministry of Industry of the Republic of Belarus" and Resolution No. 598 of the Council of Ministers of the Republic of Belarus "On Non-Monetary Contributions" dated 28 June 2012, OJSC BSW received shares of open joint stock companies in order to establish a holding to be managed by OJSC BSW - Management Company of BMC Holding. Particularly, OJSC BSW received 24.82% of shares in OJSC Minsk Bearing Plant and 34.9% of shares in OJSC Promtransinvest. These investments were recognized in the 2012 consolidated financial statements of the Group in the amount of EUR 1,843 thousand and EUR 1,137 thousand, which corresponds to the nominal value of shares in the share capital of OJSC Minsk Bearing Plant and OJSC Promtransinvest, respectively.

In accordance with IFRS 2, the Group should recognize goods and services relating to transactions with its own equity instruments at their fair value. The fair value of shares of OJSC Minsk Bearing Plant and OJSC Promtransinvest was EUR 18,069 thousand and 2,925 thousand, respectively.

Consolidation and elimination of intragroup transactions

The 2012 consolidated financial statements of the Group contained errors related to the consolidation of the Group's subsidiaries. As a result, a part of intragroup assets and liabilities, as well as equity, income, expenses and cash flows, resulting from intragroup transactions, were not eliminated.

Settlements between OJSC BSW Trading House (Moscow) and OJSC Belvtortekhmets

The 2012 IFRS consolidated financial statements of the Group included receivables from OJSC Belvtortekhmets (Russian Federation) in the amount of EUR 1,987 thousand. From 2009, OJSC Belvtortekhmets ceased its business activities. The Group was unable to collect the receivables after the liquidation of OJSC Belvtortekhmets. Therefore, the Group's management believes that these receivables should have been written off at the moment the counterparty ceased its activities.

Effective ownership interest

The Group recognized in the 2012 consolidated financial statements a non-controlling interest in BELASTAHL Außenhandel GmbH, Berlin, Germany, a subsidiary of the Group, amounting to EUR 1,091 thousand as at 31 December 2012, which corresponds to a non-controlling interest of 40%. In accordance with the incorporation documents, the non-controlling interest in BELASTAHL Außenhandel GmbH amounts to 25%, which is EUR 682 thousand as at 31 December 2012.

Incorrect presentation of receivables

The Group incorrectly recognized current receivables in the amount of EUR 7,093 thousand within non-current receivables in the 2012 consolidated financial statements of the Group.

(thousands of euros)

3. Summary of significant accounting policies (continued)**Prior period errors and changes in presentation (continued)**

Corresponding adjustments to the comparative data for 2011 and 2012 were made retrospectively. The final effect on the comparative data in the consolidated financial statements is presented in the table below:

	<i>As previously reported</i>	<i>Adjustment</i>	<i>Reclassification</i>	<i>Total (as adjusted)</i>
Consolidated statement of financial position as at 31 December 2011:				
Current assets: Trade and other receivables	29,871	(1,987)		27,884
Retained earnings	(307,214)	1,987		(305,227)
Consolidated statement of financial position as at 31 December 2012:				
Investments in associates	6,866	16,605		23,471
Non-current assets: Prepayments and other assets	18,266		51	18,317
Non-current assets: Trade and other receivables	7,125	(7,093)		32
Current assets: Trade and other receivables	71,871	2,419	(22,159)	52,131
Current assets: Prepayments and other assets	58,774		19,109	77,883
Current assets: Income tax receivable	20,475		3,050	23,525
Current liabilities: Trade and other payables	(161,960)		44,417	(117,543)
Current liabilities: Advances received and other liabilities	(89,294)	2,362	(14,154)	(101,086)
Other taxes payable	(12,177)		(30,263)	(42,440)
Retained earnings	(3,813)	(15,097)		(18,910)
Non-controlling interest	(15,605)	479		(15,126)

(thousands of euros)

3. Summary of significant accounting policies (continued)**Prior period errors and changes in presentation (continued)**

	<i>As previously reported</i>	<i>Adjustment</i>	<i>Reclassification</i>	<i>Total (as adjusted)</i>
Consolidated statement of comprehensive income for 2012:				
Revenue	1,724,344	(27,887)		1,696,457
Cost of sales	(1,485,972)	20,339		(1,465,633)
Administrative expenses	(60,870)	7,548	(11,415)	(64,737)
Other operating income	-		2,336	2,336
Other operating expenses	(67,513)		7,358	(60,155)
Government grants	-		1,846	1,846
Charge of provision for doubtful debts	-		396	396
Finance costs	(72,161)		23,186	(48,975)
Net gains/(losses) from foreign currencies:				
- dealing	-		(521)	(521)
- translation differences	-		(23,186)	(23,186)

(thousands of euros)

4. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the 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 assets or liabilities affected in future periods.

Key assumptions and estimation uncertainty

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 described below. The Group based its assumptions and estimates on parameters available when the consolidated 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 Group. Such changes will be reflected in the assumptions when they occur.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue its business activity in the foreseeable future.

A decrease in prices for metal products and metal industry crisis had an adverse effect on the activities of the Group in 2013. The Group is also carrying out modernization of production under the governmental program of innovation development of the Republic of Belarus for 2011-2015 using borrowed funds. As a result, as at 31 December 2013, current liabilities of the Group exceeded its current assets by EUR 337,528 thousand (2012: EUR 146,941 thousand). In accordance with some non-current loan agreements, the Group is required to comply with certain covenants, some of which were breached as at 31 December 2013 (Note 12), which resulted in classification of these loan agreements within current liabilities amounting to EUR 79,436 thousand.

During 2014, the Group received the respective waivers according to which it may not meet the financial covenants and this will not entail the early withdrawal of funds. During 2014, the Group has already refinanced the majority of its loans in accordance with repayment schedules in the total amount of EUR 228,707 thousand before 2015, as well as raised additional financing in the amount of EUR 87,864 thousand. The Group expects to refinance the remaining part of current loans in the second half of 2014, as well as raise additional funds in the amount of EUR 59,800 thousand according to the 2014 loan plan in order to continue modernization. The management of the Group is sure that they will get financial support from the government if required in order to settle current liabilities.

According to development plans and current budgets and considering modernization being carried out, the Group expects to reach the positive amount of net current assets by 2016.

Therefore, these consolidated financial statements do not contain any adjustments in relation to replacement cost of recorded assets, which would be needed in case the Group could not operate under the going concern assumption.

Government grants

The Group continuously assesses the probability of receiving government grants recognized in the consolidated statement of financial position. The Group uses its judgment to assess the probability, considering experience of other large industrial enterprises. As at 31 December 2013, the Group expects it will receive recognized government grants in full.

*(thousands of euros)***4. Significant accounting judgments, estimates and assumptions (continued)****Consolidation of companies in which the Group's ownership interest does not exceed 50%**

As at 31 December 2013, ownership interest in Belmet Handelsgesellschaft m.b.H. and BEL-KAP-Steel LLC is 50%, but considering that their Board of Directors includes representatives of OJSC BSW - Management Company of BMC Holding, who take part in making all important decisions, these companies are included and consolidated within the Group. During 2013, shareholders took no action to make any decision not supported by the Group.

Provisions for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the groups of loans and receivables. The Group uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation and recognition of deferred tax assets

Tax, currency and customs legislation is subject to varying interpretations and frequent changes. The interpretation of this legislation by management of the Group as applied to the transactions and activity of the Group entities may not coincide with that of the tax authorities. It is therefore possible that transactions and accounting methods that have not been challenged in the past may be challenged by the tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Under certain circumstances reviews may cover longer periods. As at 31 December 2013, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained. Refer to Note 13 for more details.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the consolidated financial statements, based upon the likely timing and the level of future taxable profits together with tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, performance and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in profit or loss.

*(thousands of euros)***5. Business combinations**

In 2012, Belarusian Metallurgical Company Holding was created in Belarus. In accordance with Resolution No. 598 of the Council of Ministers dated 28 June 2012, by 31 December 2012, shares of open joint stock companies owned by the Republic of Belarus were transferred to OJSC Belarusian Steel Works in the form of non-cash contribution to its share capital in order to create Belarusian Metallurgical Company Holding.

These companies include:

- OJSC Rechitsa Metizny Plant
- OJSC Mogilev Metallurgical Works
- OJSC Minsk Bearing Plant
- OJSC Belvtorchermet (has wholly owned subsidiaries: PPUE Brestvtorchermet, PPUE Vitebskvtorchermet, PPUE Gomelvtorchermet, PPUE Grodnovtorchermet, PPUE Mogilevvtorchermet)
- OJSC Beltsvetmet (has a wholly owned subsidiary: PPUE Tsvetmet)
- OJSC Plant Legmash
- OJSC Polesyeelectromash
- OJSC Belnilit
- OJSC Zhlobinsky Open-Cast Mine of Moulding Materials
- OJSC Kobrin Tool Plant SITOMO
- OJSC NII Podshipnik
- OJSC Slutsk Plant Emalposuda

This business combination is the combination of business of companies under common control. Assets and liabilities of companies that became part of the holding were recorded in the consolidated statements of the Group at their carrying amount, i.e. in the amount carried in the respective consolidated statements of financial position without restatement at fair value.

As at the date of combination, assets and liabilities of the companies that became part of the holding were presented as follows:

<i>Item</i>	<i>Amount as at the date of combination</i>
Property, plant and equipment	163,080
Inventories	81,002
Receivables	52,036
Cash	6,294
Deferred tax assets	17,371
Other assets	9,348
Loans and borrowings	(42,369)
Payables	(60,021)
Deferred tax liabilities	(5,183)
Tax liabilities	(3,964)
Other liabilities	(3,335)
Total net assets	214,259

(thousands of euros)

6. Property, plant and equipment

Movements in property, plant and equipment in 2013 were as follows:

	<i>Buildings and infrastructure</i>	<i>Production machinery</i>	<i>Other equipment</i>	<i>Other property, plant and equipment</i>	<i>Construction in progress and equipment for installation</i>	<i>Total</i>
Cost						
At 1 January 2013	436,399	533,197	12,826	73,712	103,876	1,160,010
Additions	2,349	19,708	944	500	252,173	275,674
Transfers	2,051	11,876	-	4,221	(18,148)	-
Disposals	(8,673)	(10,666)	(577)	(1,169)	-	(21,085)
Foreign currency translation differences	4,245	5,187	124	747	1,067	11,370
At 31 December 2013	436,371	559,302	13,317	78,011	338,968	1,425,969
Depreciation and impairment						
At 1 January 2013	(21,473)	(72,041)	(3,799)	(22,496)	-	(119,809)
Depreciation charge	(5,175)	(32,563)	(1,057)	(5,345)	-	(44,140)
Disposals	544	3,210	452	938	-	5,144
Foreign currency translation differences	(75)	(700)	(36)	(265)	-	(1,076)
At 31 December 2013	(26,179)	(102,094)	(4,440)	(27,168)	-	(159,881)
Net book value						
At 1 January 2013	414,926	461,156	9,027	51,216	103,876	1,040,201
At 31 December 2013	410,192	457,208	8,877	50,843	338,968	1,266,088

(thousands of euros)

6. Property, plant and equipment (continued)

Movements in property, plant and equipment in 2012 were as follows:

	<i>Buildings and infrastructure</i>	<i>Production machinery</i>	<i>Other equipment</i>	<i>Other property, plant and equipment</i>	<i>Construction in progress and equipment for installation</i>	<i>Total</i>
Cost						
At 1 January 2012	308,966	376,923	18,592	41,475	13,120	759,076
Additions through reorganization	63,744	76,480	-	14,943	14,646	169,813
Additions	-	-	-	-	181,898	181,898
Transfers	33,120	53,356	6,671	21,346	(114,493)	-
Disposals	(39,843)	(30,159)	(16,527)	(6,343)	(118)	(92,990)
Revaluation of property, plant and equipment	6,032	6,253	-	(168)	-	12,117
Foreign currency translation differences	64,380	50,344	4,090	2,459	8,823	130,096
At 31 December 2012	436,399	533,197	12,826	73,712	103,876	1,160,010
Depreciation and impairment						
At 1 January 2012	(204)	(24,861)	(3,900)	(17,399)	-	(46,364)
Additions through reorganization	(1,417)	(5,294)	-	(22)	-	(6,733)
Depreciation charge	(12,437)	(54,765)	(3,215)	(5,739)	-	(76,156)
Disposals	879	12,150	5,624	1,226	-	19,879
Revaluation of property, plant and equipment	2,484	3,264	-	30	-	5,778
Foreign currency translation differences	(10,778)	(2,535)	(2,308)	(592)	-	(16,213)
At 31 December 2012	(21,473)	(72,041)	(3,799)	(22,496)	-	(119,809)
Net book value						
At 1 January 2012	308,762	352,062	14,692	24,076	13,120	712,712
At 31 December 2012	414,926	461,156	9,027	51,216	103,876	1,040,201

As at 31 December 2013 and 2012, property, plant and equipment in the amount of EUR 181,148 thousand and EUR 121,890 thousand, respectively, were pledged as collateral under loans received.

Starting 31 December 2009, the Group has amended its accounting policies and applied the revalued cost method to account for "buildings and infrastructure" and "production machinery". The revaluation was performed by an independent appraiser as at 1 July 2012. The approaches used to determine fair values of buildings and infrastructure and production machinery are the cost approach and the market approach. In accordance with the cost approach, the value of real estate properties was determined as total costs to reproduce an equivalent of such properties. Under the cost approach, value is determined as total costs to purchase a land plot, construct a real estate property, plus indirect expenses and entrepreneur's profit, less any depreciation costs; for equipment – total costs to create or purchase an item, plus expenses related to installation and start-up, less any depreciation costs.

(thousands of euros)

6. Property, plant and equipment (continued)

The main method to determine fair values of specialized assets under the cost approach was the depreciated replacement cost method.

Where sufficient information was available for market transactions with similar items, the market approach was regarded as most appropriate to determine the final value.

As at 31 December 2013, the Group, together with independent appraisers, researched the real estate market to identify differences between the carrying amount of buildings and the value determined using the market approach (using market prices for comparable properties). Having compared the results received, the Group's management did not identify any significant differences between the fair value and carrying amount of property, plant and equipment and decided not to revalue buildings at 31 December 2013.

As at 31 December 2013, a depreciation charge on property, plant and equipment in the amount of EUR 4,133 thousand was included in finished goods and work in progress. As at 31 December 2012, the respective charge amounted to EUR 6,894 thousand.

As at 31 December 2013, property, plant and equipment with a cost of EUR 42,282 thousand were fully amortized but were used by the Group for production and administrative purposes (2012: EUR 45,681 thousand).

If buildings and production machinery were measured using the historical cost model, the carrying amounts would be as follows:

	31 December 2013		31 December 2012	
	Buildings and infrastructure	Production machinery	Buildings and infrastructure	Production machinery
Cost	641,652	764,196	645,867	743,277
Accumulated depreciation	(199,424)	(297,031)	(194,927)	(267,679)
Net book value	442,228	467,165	450,940	475,598

(thousands of euros)

7. Investments in associates

As at 31 December 2013 and 31 December 2012, investments in associates were as follows:

<i>Company</i>	<i>2013</i>	<i>2012 (restated)</i>
OJSC Minsk Bearing Plant	17,369	18,584
CJSIC Promtransinvest	2,203	3,368
Dismas Trading s.r.l.	575	525
JLLC Manuli Hydraulics Manufacturing Bel	434	810
CJSC DOR-MPZ	190	-
Transconsult Poland Sp. z o.o.	133	102
VLB s.r.l.	77	72
RMZ Polska Sp. z o.o.	10	10
LLC Mogilev Volleyball Club Tekhnopribor	7	-
Total	20,998	23,471

Movements in investments in OJSC Minsk Bearing Plant at 31 December 2013 and 31 December 2012 were as follows:

	<i>2013</i>	<i>2012 (restated)</i>
Investment in associate at the beginning of the year	18,584	-
Effect of combining companies due to formation of a holding	-	18,069
Increase in share capital	876	-
Share of profit of investees accounted for under the equity method	828	515
Effect of hyperinflation and exchange rate changes	(2,919)	-
Investment in associate at the end of the year	17,369	18,584

8. Inventories

As at 31 December, inventories comprised the following:

	<i>2013</i>	<i>2012</i>
Raw materials, supplies and auxiliary items	204,101	182,128
Finished goods	86,607	138,372
Work in progress	44,597	16,901
Total	335,305	337,401

As at 31 December 2013, inventories of EUR 87,321 thousand (31 December 2012: EUR 129,080 thousand) were pledged as collateral.

(thousands of euros)

9. Trade and other receivables

Trade and other receivables as at 31 December 2013, 31 December 2012 and 31 December 2011 comprised the following:

	2013	2012 (restated)	2011 (restated)
Trade receivables	66,233	53,579	30,088
Other receivables	4,181	1,494	1,607
Provision for impairment of trade and other receivables	(4,813)	(2,910)	(3,811)
Total	65,601	52,163	27,884

Change in provision for impairment of trade and other receivables:

	2013	2012 (restated)	2011 (restated)
At the beginning of the year	2,910	3,811	5,458
Charge/ (Reversal) during the year	1,417	(1,222)	1,001
Effect of hyperinflation and exchange rate changes	486	321	(2,648)
At the end of the year	4,813	2,910	3,811

As at 31 December 2012 and 31 December 2013, past due but not impaired receivables were insignificant.

10. Prepayments and other assets

Prepayments and other assets as at 31 December 2013, 31 December 2012 and 31 December 2011 comprised the following:

	2013	2012 (restated)	2011 (restated)
Prepayments	46,386	67,078	38,137
VAT recoverable and paid	22,108	22,914	13,927
Biological assets	3,927	1,253	-
Intangible assets	2,959	2,631	2,604
Other assets	124	3,529	1,628
Provision for impairment of prepayments	(1,666)	(1,205)	(49)
Total prepayments and other assets	73,838	96,200	56,247

As at 31 December 2013, property rights to industrial properties in the amount of EUR 1,015 thousand (31 December 2012: EUR 789 thousand), property rights to computer software and databases in the amount of EUR 401 thousand (31 December 2012: EUR 134 thousand), and software in the amount of EUR 318 thousand (31 December 2012: EUR 472 thousand) were included in intangible assets.

Change in provision for impairment of prepayments:

	2013	2012 (restated)	2011 (restated)
At the beginning of the year	1,205	49	1,246
Charge/ (Reversal) during the year	642	826	(404)
Effect of exchange rate changes	(181)	330	(793)
At the end of the year	1,666	1,205	49

(thousands of euros)

11. Cash and cash equivalents

As at 31 December 2013 and 31 December 2012, cash and cash equivalents comprised the following:

	2013	2012
Cash at banks	43,812	39,724
Cash in transit	3,079	3,176
Cash on hand	66	14
Total cash and cash equivalents	46,957	42,914

Significant amounts of cash are placed with the following banks:

	<i>Moody's Investors Service credit rating</i>	<i>Standard and Poor's credit rating</i>	<i>Balance at 31 December 2013</i>
JSC Savings Bank			
Belarusbank	Caa1/Negative; B3/Negative	B-/Stable	21,710
DZ Bank AG	A1	AA-	6,412
Wellsfargo	A1	AA-	4,097
CJSC GLOBEXBANK		BB-/Negative	3,009
JSC BPS-Sberbank	Caa1/Negative; B1/Negative	B-/Stable	2,311
			37,539

	<i>Moody's Investors Service credit rating</i>	<i>Standard and Poor's credit rating</i>	<i>Balance at 31 December 2012</i>
DZ Bank AG	A1	AA-	6,646
JSC Belagroprombank	Caa1/Negative; B3/Negative	B-/Stable	5,418
JSC Savings Bank			
Belarusbank	Caa1/Negative; B3/Negative	B-/Stable	3,933
JSC BPS-Sberbank	Caa1/Negative; B1/Negative	B-/Stable	3,009
Credit Suisse	A1/Stable; A1/Stable	A/Stable	720
			19,726

(thousands of euros)

12. Loans and borrowings

The Group received significant funding from DZ Bank AG, Raiffeisenlandesbank and Eurasian Development Bank. At 31 December 2013, the Group failed to meet financial covenants under the agreements with DZ Bank AG, Raiffeisenlandesbank and Eurasian Development Bank with regard to the following ratios: "Net debt/EBITDA", "Overall liquidity ratio", "Financial debt/EBITDA", "EBITDA/Debt service". Breaches in meeting these covenants are regarded as an "event of default" and may permit the creditors, upon their due notification, to immediately call the funds provided. Thus, EUR 79,436 thousand is presented within current liabilities.

At the date of signing these consolidated financial statements, the Company received the respective waivers according to which it may not meet the financial covenants and this will not entail the early withdrawal of funds by DZ Bank AG and Eurasian Development Bank.

At 31 December 2013, loans and borrowings comprised the following:

<i>Counterparty</i>	<i>Currency</i>	<i>Contractual maturity</i>	<i>Amount</i>
JSC Savings Bank Belarusbank	EUR	2022	100,013
JSC Belagroprombank	USD	2014	68,249
JSC Savings Bank Belarusbank	USD	2015	41,442
Deutsche Zentral-Genossenschaftsbank, Germany and Bayerische Landesbank, Germany (DZ Bank AG)	EUR	2017	38,827
Eurasian Development Bank, Kazakhstan	EUR	2023	38,063
Globex Bank, Russia	USD	2014	36,378
OJSC Belgazprombank	USD	2014	34,969
VTB Bank (Austria) AG	EUR	2016	28,175
JSC Belinvestbank	USD	2016	27,784
OJSC Bank BelVEB	USD	2015	26,571
Globex Bank, Russia	EUR	2014	25,146
JSCB NOVIKOMBANK, Moscow	USD	2014	24,781
JSCB NOVIKOMBANK, Moscow	USD	2015	21,827
OJSC Bank BelVEB	USD	2014	19,124
OJSC Sberbank of Russia	USD	2014	18,199
JSC Belagroprombank	EUR	2014	17,558
JSC Savings Bank Belarusbank	EUR	2014	16,786
JSC BPS-Sberbank	USD	2014	16,544
OJSC Promsvyazbank	EUR	2014	15,080
JSC Savings Bank Belarusbank	EUR	2024	14,528
VTB Bank AG	EUR	2014	14,277
RZB Vienna	USD	On demand	13,703
JSC Savings Bank Belarusbank	USD	2016	10,871
Credit Suisse, Switzerland	EUR	2018	10,811
Amsterdam Trade Bank N.V	USD	2014	10,269
JSCB NOVIKOMBANK, Moscow	EUR	2014	10,058
Bank Austria	EUR	2014	9,650
CJSC VTB Bank (Belarus)	USD	2014	8,790
Stemkor	EUR	2014	8,252
Pisec Group	EUR	On demand	7,275
JSC Savings Bank Belarusbank	USD	2014	6,952
Erste Bank	EUR	2014	6,599
Credit Suisse, Switzerland	EUR	2017	6,175
CJSC Alfa-Bank	USD	2014	6,145

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

(thousands of euros)

12. Loans and borrowings (continued)

<i>Counterparty</i>	<i>Currency</i>	<i>Contractual maturity</i>	<i>Amount</i>
JSC Belinvestbank	USD	2014	5,495
UniCredit Bank Austria AG	USD	2014	5,195
JSC Belagroprombank	EUR	2015	4,669
JSCB NOVIKOMBANK, Moscow	USD	2018	4,652
OJSC Priorbank	EUR	2014	4,635
OJSC Bank Saint Petersburg	RUB	2014	4,165
Raiffeisenlandesbank	EUR	On demand	4,009
JSC Savings Bank Belarusbank	RUB	2014	3,720
OJSC Priorbank	USD	2014	3,664
Pisec Group	USD	2015	3,366
OJSC BANK URALSIB	RUB	2015	3,336
JSC Belinvestbank	EUR	2016	2,795
JSC Savings Bank Belarusbank	EUR	2017	2,771
JSC Savings Bank Belarusbank	EUR	2018	2,763
Raiffeisenlandesbank	EUR	2019	2,544
RZB Finance	USD	On demand	2,488
Pisec Group	USD	On demand	2,400
JSCB NOVIKOMBANK, Moscow	RUB	2014	1,971
JSC BPS-Sberbank	EUR	2016	1,779
JSC BPS-Sberbank	EUR	2017	1,748
JSC Bank Moscow-Minsk	EUR	2014	1,499
JSC Savings Bank Belarusbank	EUR	2019	1,415
OJSC Belgazprombank	EUR	2015	1,354
JSC BPS-Sberbank	BYR	2014	1,322
OJSC BANK URALSIB	RUB	2014	1,255
JSC Bank Moscow-Minsk	USD	2014	1,059
BNP Paribas, France	EUR	2014	1,015
CJSC VTB Bank (Belarus)	EUR	2014	1,008
Raiffeisenlandesbank	EUR	2014	967
OJSC Priorbank	BYR	2014	781
OJSC Bank BelVEB	EUR	2014	775
Fis Finance&Investment Services GesmbH Vienna, Austria	EUR	2016	750
OJSC Bank BelVEB	RUB	2014	701
BAWAG	EUR	2014	700
JSC Belagroprombank	EUR	2018	671
JSC Belagroprombank	EUR	2017	665
JSC Savings Bank Belarusbank	BYR	2014	597
JSC Belagroprombank	RUB	2014	596
JSC BPS-Sberbank	USD	2017	574
JSC BPS-Sberbank	EUR	2014	488
JSC Bank Moscow-Minsk	EUR	2015	486
JSC Savings Bank Belarusbank	BYR	2020	470
Bank Austria	EUR	2015	400
JSC Belagroprombank	BYR	2014	377
JSC Savings Bank Belarusbank	BYR	2017	287
JSC Belinvestbank	BYR	2016	251

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

(thousands of euros)

12. Loans and borrowings (continued)

<i>Counterparty</i>	<i>Currency</i>	<i>Contractual maturity</i>	<i>Amount</i>
OJSC BELAZ	BYR	On demand	229
JSC Belagroprombank	BYR	2015	219
JSC Savings Bank Belarusbank	BYR	2016	212
JSC Belagroprombank	BYR	2050	156
JSC Belagroprombank	USD	On demand	115
OJSC Bank BelVEB	BYR	2014	111
JSC Belagroprombank	BYR	2047	106
JSC Belagroprombank	BYR	2020	87
JSC Belagroprombank	BYR	2046	77
JSC Belagroprombank	BYR	2049	72
JSC BPS-Sberbank	BYR	2015	61
OJSC Development Bank of the Republic of Belarus	BYR	2022	56
JSC Belagroprombank	BYR	2016	52
OJSC Development Bank of the Republic of Belarus	BYR	2024	51
JSC Belagroprombank	BYR	2048	42
JSC BPS-Sberbank	RUB	2014	41
Labor and Employment Committee	BYR	2014	34
JSC Belagroprombank	BYR	2039	21
Ministry of Industry of the Republic of Belarus	BYR	2016	17
Innovation Fund of the Ministry of Industry	BYR	On demand	15
JSC Belagroprombank	BYR	2041	12
JSC Savings Bank Belarusbank	BYR	2018	10
JSC Belagroprombank	BYR	2044	10
JSC Belagroprombank	BYR	2018	6
JSC Belagroprombank	BYR	2045	6
JSC Belinvestbank	BYR	On demand	6
OJSC Kobrin Butter and Cheese Producing Factory	BYR	2014	4
JSC Belagroprombank	BYR	2040	1
Total			850,328
Current portion			649,916

At 31 December 2012, loans and borrowings comprised the following:

<i>Counterparty</i>	<i>Currency</i>	<i>Contractual maturity</i>	<i>Amount</i>
Deutsche Zentral-Genossenschaftsbank, Germany and Bayerische Landesbank, Germany	EUR	2017	50,016
JSC Belagroprombank	USD	2013	47,833
JSC Savings Bank Belarusbank	USD	2013	41,565
GlobexBank, Russia	USD	2013	37,812
JSC Belagroprombank	USD	2014	34,265
VTB Bank, Austria	EUR	2016	32,268
OJSC Bank BelVEB	USD	2014	24,994
OJSC Bank BelVEB	USD	2015	23,428
UniCreditBankAustria AG	USD	2014	23,269
GlobexBank, Russia	EUR	2013	22,431

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

(thousands of euros)

12. Loans and borrowings (continued)

<i>Counterparty</i>	<i>Currency</i>	<i>Contractual maturity</i>	<i>Amount</i>
VTB Bank, Austria	EUR	2013	19,849
JSC Belinvestbank	USD	2014	18,781
JSC Savings Bank Belarusbank	EUR	2017	17,658
JSC BPS-Sberbank	USD	2013	16,468
JSC Belinvestbank	USD	2013	15,337
RZB Finance	USD	On demand	15,293
Amsterdam Trade Bank N.V	USD	2014	15,115
Stemkor	EUR	2014	12,264
Srednerussky bank, OJSC Sberbank of Russia	USD	2014	11,344
JSC BPS-Sberbank	USD	2014	10,409
BankAustria	EUR	On demand	9,652
CJSC VTB Bank	USD	2014	9,069
VTB Bank (Austria) AG, Austria	EUR	On demand	8,352
JSC Belagroprombank	EUR	2015	8,337
OJSC JSCB Rosbank, Russia	USD	2013	8,322
Credit Suisse, Switzerland	EUR	2017	7,917
Novikombank, Russia	USD	2013	7,550
OJSC Priobank, Minsk	USD	2013	7,510
CJSC Alfa-Bank	USD	2014	6,257
JSC Savings Bank Belarusbank	EUR	2014	5,800
JSC Savings Bank Belarusbank	EUR	2022	5,639
PisecGroup, Austria	EUR	On demand	4,352
BNP Paribas, France and BNP Paribas, Switzerland	EUR	2014	4,059
JSC Bank Moscow-Minsk	USD	2014	3,909
OJSC BANK URALSIB	USD	On demand	3,723
ErsteBank	EUR	On demand	3,413
Stemkor	EUR	2013	3,336
FosterLoan	USD	On demand	3,015
JSC Bank Moscow-Minsk	EUR	2014	2,922
JSC BPS-Sberbank	EUR	2016	2,771
CJSC VTB Bank	RUB	2013	2,717
CJSC JSCB BELROSBANK	USD	2013	2,474
JSCB NOVIKOMBANK	USD	On demand	2,447
CJSC JSCB BELROSBANK	EUR	2013	2,191
RZB Finance	EUR	On demand	2,127
PisecGroup, Austria	USD	On demand	2,043
JSC BPS-Sberbank	BYR	2013	1,712
OJSC Bank BelVEB	EUR	2014	1,581
CJSC VTB Bank	USD	2013	1,561
Credit Suisse, Switzerland	EUR	2018	1,549
JSC BPS-Sberbank	RUB	2013	1,485
JSC Savings Bank Belarusbank	USD	2014	1,360
JSC Savings Bank Belarusbank	BYR	2014	1,277
JSC Belagroprombank	EUR	2013	1,182
CJSC VTB Bank	EUR	2014	1,000
JSC Belinvestbank	BYR	2013	888
BAWAG	EUR	On demand	788
JSC BPS-Sberbank	EUR	2013	691
JSC BPS-Sberbank	EUR	2017	690
Raiffeisenlandesbank	EUR	On demand	658
JSC Belagroprombank	RUB	2013	627

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

(thousands of euros)

12. Loans and borrowings (continued)

<i>Counterparty</i>	<i>Currency</i>	<i>Contractual maturity</i>	<i>Amount</i>
BankAustria	EUR	2015	560
JSC Belinvestbank	EUR	2016	543
JSC Savings Bank Belarusbank	BYR	2020	436
OJSC Bank BelVEB	RUB	2014	413
JSC Savings Bank Belarusbank	BYR	2017	410
JSC BPS-Sberbank	USD	2017	386
JSC Belagroprombank	USD	On demand	385
OJSC Bank BelVEB	USD	2013	378
OJSC Bank BelVEB	USD	On demand	285
OJSC BELAZ	BYR	2013	265
JSC Savings Bank Belarusbank	BYR	On demand	230
Ikar, LLC	RUB	2014	186
JSC Belagroprombank	BYR	2013	167
JSC BPS-Sberbank	BYR	2014	136
JSC Belagroprombank	BYR	2016	131
JSC Belagroprombank	BYR	2013	124
CJSC VTB Bank	USD	On demand	72
JSC BPS-Sberbank	USD	On demand	69
OJSC Priorbank	RUB	On demand	63
CJSC Alfa-Bank	USD	2013	53
Labor and Employment Committee	BYR	2014	40
JSC BPS-Sberbank	BYR	2015	34
CreditSuisse, Switzerland	EUR	On demand	30
OJSC Bank BelVEB	BYR	2022	29
JSC Savings Bank Belarusbank	BYR	2022	27
Amsterdam Trade Bank N.V	USD	2013	24
JSC Belagroprombank	BYR	2050	23
JSC Belagroprombank	BYR	2015	19
Innovation Fund of the Ministry of Industry	BYR	On demand	17
RaiffeisenLandesbank	EUR	On demand	14
JSC Belagroprombank	BYR	2024	14
JSC Savings Bank Belarusbank	BYR	2013	13
OJSC Brestmash	BYR	2015	11
JSC Belagroprombank	BYR	2046	7
PisecGroupGmbH	EUR	On demand	1
VbV	EUR	On demand	1
Total			642,948
Current portion			449,223

For the years ended 31 December 2013 and 31 December 2012, the Group's loans and borrowings denominated in foreign currencies had interest rates of 2-14% and 5-14%, respectively. The Group received loans and borrowings in the following currencies:

	2013	2012
EUR	407,184	234,642
USD	421,598	396,805
RUB	15,785	5,491
BYR	5,761	6,010
	850,328	642,948

(thousands of euros)

13. Taxation

The Group companies calculate current income taxes based on tax accounts maintained and prepared in accordance with the tax regulations of the countries of their registration which may differ from IFRS. During the year ended 31 December 2013, the income tax rate for Belarusian entities was 18%. During the year ended 31 December 2012, the income tax rate for Belarusian entities was 18%.

Particular types of expenses are not recognized for taxation purposes, resulting in certain permanent tax differences for the Group.

Deferred taxes reflect net tax effects of temporary differences between carrying amounts of assets and liabilities for the purposes of consolidated financial statements and those used for taxation purposes. Temporary differences at 31 December 2013 and 2012 relate mostly to different methods of income and expense recognition, as well as the carrying amounts of certain assets.

	2013	2012
Deductible temporary differences		
Property, plant and equipment	(48,454)	(103,535)
Prepayments and other assets	(12,552)	(185,671)
Trade and other payables	(10,319)	(50,014)
Trade and other receivables	(2,080)	(14,986)
Other liabilities	-	-
Loans issued	-	(1,524)
Other differences	(2,199)	-
Tax loss carried forward	(7,700)	-
Total deductible temporary differences	(83,304)	(355,730)
Taxable temporary differences		
Government grants	30,069	-
Inventories	17,035	27,471
Investments	-	2,521
Other financial assets	-	-
Loans and borrowings received	255	2,951
Other non-current assets	2,111	605
Total taxable temporary differences recognized in the consolidated statement of comprehensive income	49,470	33,548
Temporary differences on revaluation of property, plant and equipment	-	37,274
Total taxable temporary differences recognized in other comprehensive income	-	37,274
Total temporary differences	(33,834)	(284,908)
Tax rate	18%	18%
Deferred tax asset, net	(6,090)	(51,284)

Deferred tax assets and liabilities at 31 December 2013 and 31 December 2012 comprised the following:

	2013	2012
Deferred tax asset	(13,202)	(52,111)
Deferred tax liability	7,112	827
Total	(6,090)	(51,284)

(thousands of euros)

13. Taxation (continued)

The reconciliation between theoretical tax expense, current income tax and accounting profit for the year ended 31 December 2013 and 31 December 2012 is as follows:

	2013	2012 (restated)
Profit before tax	51,971	31,114
Effect of consolidation adjustments	926	(607)
Profit before tax of consolidated subsidiaries subject to income taxes	52,897	30,507
Theoretical income tax expense at the effective interest rate of 18%	9,522	5,491
Write-down of translation differences in taxation records through currency translation reserve	39,310	-
Tax loss carried forward	(1,386)	-
Effect of non-deductible expenses and non-taxable income on deferred tax	(3,278)	(3,344)
Tax effect of different tax rates in other jurisdictions	502	219
Other adjustments	1,783	12,268
Income tax expense	46,453	14,634

Income tax expense for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012 (restated)
Current income tax expense for the year	(8,081)	(15,335)
Reversal of deferred income taxes	(38,372)	701
Total income tax expense	(46,453)	(14,634)

Movements in deferred taxes are as follows:

	2013	2012 (restated)
At the beginning of the reporting year	(51,284)	(38,422)
Recognized in other comprehensive income	-	6,710
Recognized in profit or loss	38,372	(701)
Effect of translation to presentation currency	6,822	(18,871)
Net asset at the end of the reporting year	(6,090)	(51,284)

(thousands of euros)

14. Government grants

In November 2013, as a result of achievement of target performance indicators as defined in Decree No. 231 of the President of the Republic of Belarus "On Certain Issues Concerning Incentives for Development of High-Technology Production" dated 6 June 2011, the Group was included in the list of legal entities which are to receive compensation of interest on investment loans received to achieve these target indicators. As a result, the Group recognized a government grant in the amount of EUR 46,086 thousand calculated as the present value of future cash flows from the Government aimed at compensation of interest expenses. The Group does not expect any additional costs or capital expenditures related to performance indicators already achieved. Also, due to the unrestricted use of funds received or expected to be received, the Group recorded the effect of recognition of this grant in the consolidated statement of comprehensive income.

The Group also received government grants representing government financing for acquisition of property, plant and equipment. The funding received is recorded as liabilities and is taken to income in the consolidated statement of comprehensive income in the amount equal to the amount of depreciation of the corresponding property, plant and equipment in the respective periods.

15. Advances received and other liabilities

As at 31 December 2013, 2012 and 2011 advances received and other liabilities comprise the following:

	2013	2012 (restated)	2011 (restated)
Advances received	52,062	70,187	75,503
Amounts due to personnel	9,450	19,302	7,954
Payroll taxes	3,279	-	1,879
Dividends accrued	476	1,681	-
Other liabilities	9,239	13,267	5,954
Total advances received and other liabilities	74,506	104,437	91,290

16. Equity and reserves

Share capital of the Group as at 31 December 2013 amounted to EUR 575,659 thousand.

The Company's sole owner is the Republic of Belarus. Under the Charter of the Company, the Republic of Belarus has the right to profit distribution. The amount and the process of dividend payment to budget is established by the legislation.

The additional issues of shares and the change in the nominal value of common (ordinary) shares were registered in 2012 as follows:

On 1 January 2012, as a result of transformation of RUE BSW into joint stock company (the "Company"), share capital of the Company was increased by EUR 249,522 thousand to EUR 255,154 thousand. The total number of issued shares amounted to 238,438 common shares. Such increase was mainly due to the use of retained earnings.

On 30 June 2012, in accordance with Decree of the President of the Republic of Belarus the shares of open joint stock companies in the amount of EUR 312,870 thousand were contributed to the share capital of OJSC BSW in order to establish OJSC BSW - Management Company of BMC Holding (Note 3).

(thousands of euros)

16. Equity and reserves (continued)

Share capital of the Company amounted to EUR 568,924 thousand. The total number of issued shares amounted to 306,228 common shares.

On 10 July 2013, in accordance with Decree of the President of the Republic of Belarus, the shares of OJSC Minsk Bearing Plant and OJSC Belniilit in the amount of EUR 1,202 thousand were transferred to the share capital of OJSC BSW - Management Company of BMC Holding. The total number of transferred shares amounted to 3,393,666,294 common shares.

All common shares are fully paid, and holders of the shares are entitled to one vote per share, dividends and participation in residual assets distribution. All common shares are equal in respect of residual assets of the Group.

Nature and purpose of other reserves

Reserve capital is created by entities as required by the legislation of the Republic of Belarus to cover general risks and unforeseen losses.

Property, plant and equipment revaluation reserve is used to record increases in the fair value of buildings and decreases in such value to the extent that such decrease relates to an increase in the value of the same asset previously recognized in equity.

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

17. Revenue

Revenue of the Group by types of products:

	2013	2012 (restated)
Rolled products	580,662	739,544
Cast billet	117,878	191,968
Steel pipes	147,936	152,449
Other types of wire	134,051	146,300
Steel cord	128,483	106,441
Hose wire	44,438	61,422
Sale of scrap	61,705	56,540
Bronze-plated bead wire	34,254	25,776
Other products	132,563	216,017
Total revenue	1,381,970	1,696,457

The geographical concentration of the Group's revenue:

	2013	2012 (restated)
Non-CIS countries	644,336	889,957
Russian Federation	444,407	423,071
Domestic market	278,647	349,880
Other CIS countries	14,580	33,549
Total revenue	1,381,970	1,696,457

OJSC BSW -
Management Company of BMC Holding

Notes to the consolidated financial statements for 2013

(thousands of euros)

18. Cost of sales

	2013	2012 (restated)
Materials	752,580	977,733
Electricity and fuel	215,273	260,099
Payroll expenses and related taxes	127,069	120,453
Depreciation	42,277	66,525
Transportation expenses	11,652	11,484
Current repair and maintenance of property, plant and equipment	8,851	6,240
Spoilage and waste	3,155	2,662
Taxes other than income tax	1,515	10,262
Travel expenses	573	641
Other expenses	16,400	9,534
Total cost of sales	1,179,345	1,465,633

19. Administrative expenses

	2013	2012 (restated)
Payroll expenses and related taxes	43,167	28,635
Taxes other than income tax	7,544	7,404
Bank charges	5,464	8,334
Depreciation	3,670	7,489
Electricity, fuel, water	2,395	1,587
Security	1,442	1,321
Current repair and maintenance of property, plant and equipment	1,320	1,004
Excess over maximum permissible concentration	1,271	1,258
Travel expenses	1,138	881
Legal and consultancy	874	901
Third party services	735	710
Materials	609	1,901
Insurance	410	599
Other expenses	6,711	2,713
Total	76,750	64,737

20. Selling expenses

	2013	2012 (restated)
Transportation expenses	58,276	65,967
Materials	2,407	4,136
Payroll expenses and related taxes	5,590	4,110
Advertising expenses	1,093	548
Insurance	1,047	629
Depreciation	954	2,327
Taxes other than income tax	950	784
Entertainment expenses	146	115
Travel expenses	72	550
Other expenses	7,566	6,358
Total	78,101	85,524

*(thousands of euros)***21. Other operating expenses**

Other expenses comprise:

	2013	2012 (restated)
Loss from disposal of property, plant and equipment	14,885	22,239
Social expenses	3,459	7,763
Sponsorship	1,669	13,687
Other expenses	11,383	16,466
Total	31,396	60,155

22. Personnel expenses

	2013	2012 (restated)
Wages and salaries	129,750	107,079
Social insurance	43,149	36,601
Vacation allowance	2,094	5,836
Bonuses	314	2,925
Pension benefits	519	757
Total	175,826	153,198

Payments to key management personnel in 2013 totaled EUR 253 thousand (2012: EUR 450 thousand).

23. Finance income and costs

Finance income comprises the following:

	2013	2012 (restated)
Finance income		
Interest income	4,343	2,666
Dividends received	1,111	1,596
Other income	449	-
Total finance income	5,903	4,262

Finance costs comprise the following:

	2013	2012 (restated)
Finance costs		
Interest expense	52,005	47,606
Other	835	1,369
Total finance costs	52,840	48,975

(thousands of euros)

24. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Republic of Belarus exercises control over the Group's activities through the Ministry of Industry. The Republic of Belarus both directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-related entities"). The Group enters into economic transactions with such entities, including sale of goods, purchase of raw and other materials, and rendering of services.

The volumes of related party transactions, outstanding balances at the year end and related expenses and income for the year are as follows:

	2013	2012
Trade receivables	10,583	7,943
Other receivables	345	83
Prepayments for property, plant and equipment	3,599	2,636
Other prepayments	15	16
Trade payables to suppliers for other assets	4,317	3,577
Payables to suppliers for property, plant and equipment	1,630	688
Payables to customers (advances)	174	99
Other payables	53	115
Revenue	67,189	113,452
Cost of sales	5,204	2,498
Other income	21	1,905
Other expenses	31	1

The total amount of payroll, bonuses and other payments to key management personnel of the Group for the years ended 31 December 2013 and 2012 is disclosed in Note 23.

*(thousands of euros)***25. Commitments, contingencies and operating risks****Operating environment of the Group***Russian Federation*

Russia continues economic reforms and development of its legal, tax and regulatory framework as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's financial position, results of operations and business prospects. Management of the Group believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

A significant part of the Group's revenue is generated in the Russian Federation.

Republic of Belarus

As an emerging market, the Republic of Belarus does not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. The Belarusian economy continues to display characteristics typical of an economy in transition. These characteristics typical of the transition period include low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Belarus. The stability of the Belarusian economy is largely dependent upon the progress of reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2011, there was a significant deterioration in the macroeconomic environment in Belarus. The main drivers of the economic deterioration were the high current account deficit, reduced and limited external financial support and absence of significant foreign currency inflows at the beginning of 2011. This led to significant decrease in international reserves of the National Bank in Q1 2011 followed by foreign currency deficit in the country and a significant decrease in the official exchange rate accompanied by growth of inflation and an increase in the basic refinancing rate up to 45% as at 31 December 2011. The rate of inflation in 2011 was 108.7% (Note 2).

Significant financial support received from Russia, including loans issued in 2011 and 2012 and participation in privatization of state assets at the end of 2011, and a foreign trade surplus resulted in a significant increase in the reserves of the National Bank and stabilization of the macroeconomic situation in the country in 2012. The representatives of the Government and the National Bank believe that reserves as at 31 December 2012 were sufficient to preserve stability, avoid foreign currency deficit and satisfy the country's needs in external funds in the short- and medium term. In 2012, there were no significant changes in the official exchange rate. The inflation rate in 2012 was 21.8%, the basic refinancing rate was reduced to 30% as at 31 December 2012.

The year 2013 demonstrated certain signs of stabilization of the macroeconomic situation as compared to 2012. The inflation rate decreased to 16.5% in 2013. The basic refinancing rate was reduced to 23.5% as at 31 December 2013. The GDP grew by 0.9% in 2013. In the second half of 2013, the banking system faced liquidity crisis, which led to higher rates for Belarusian rubles in the resource market against the beginning of 2013. In the first half of 2013, the official exchange rate of the Belarusian ruble was relatively stable, however, gradual weakening of the Belarusian ruble against major currencies started in June. In December 2013, Russia provided additional credit support amounting to USD 2 billion. The first tranche of USD 440 million was provided on 31 December 2013, which helped to stabilize the exchange rate policy at the end of the year.

(thousands of euros)

25. Commitments, contingencies and operating risks (continued)

Operating environment of the Group (continued)

While management of the Group believes it is taking appropriate measures to support the sustainability of business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Group and its counterparties. The degree of such impact on the Group's consolidated financial statements is not currently determinable.

Taxation

Belarusian and Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Interpretation by the Group's management of such legislation as applied to the Group's transactions and activities may be challenged by the relevant regional or republican authorities. Recent events within the Republic of Belarus suggest that the tax authorities can take a more assertive position in their interpretation of the legislation and assessments. As a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and fines may be assessed. Fiscal periods remain open to review by the authorities for an indefinite period. Fiscal periods remain open to review in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover earlier periods. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations and paid or accrued all applicable taxes and withholding taxes.

It is not practical to determine the amount of unasserted claims that may arise as a result of any unfavorable outcome (if any). As at 31 December 2013, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(thousands of euros)

26. Risk management

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to various controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into interest rate and currency risks. It is also exposed to operating risks.

Excessive risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Identified concentrations of risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur losses because its customers, clients or counterparties failed to discharge their obligations under financial instruments or contractual obligations. The Group is exposed to credit risk inherent to its operating activities (related primarily to trade receivables and loans) and its financing activities, including deposits with banks and foreign currency transactions.

The Group's principal financial instruments comprise bank loans and loans from other parties, cash and cash equivalents. The main purpose of loans is to raise finance for the Group's operations. The Group has various financial assets and liabilities, such as trade receivables and trade payables which arise directly from its operations. During the period presented in these consolidated financial statements the Group did not undertake to sell financial instruments.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and other financial assets. The Group has specific policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of receivables, net of allowance for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group.

Cash is placed with banks, which are considered at the time of deposit to have minimal risk of default.

Impairment assessment

The main considerations for the impairment testing of trade and other receivables are as follows: whether any payments of principal are overdue by more than 90 days or whether there are any known financial difficulties of counterparties or infringement of the original terms of the contract.

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management of the Group has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

(thousands of euros)

26. Risk management (continued)**Liquidity risk and funding management (continued)***Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the Group's financial liabilities as at 31 December 2013 and 2012, by the earliest possible maturity, based on contractual undiscounted repayment obligations. Total nominal cash outflow in the table represents contractual undiscounted repayment obligations on the financial liabilities. The Group's actual expected future cash flows on these financial liabilities can vary from this analysis.

At 31 December 2013	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities						
Current loans and borrowings	(649,916)	(317,768)	(371,780)	-	-	(689,548)
Non-current loans and borrowings	(200,412)	-	-	(198,212)	(40,216)	(238,428)
Trade payables	(154,348)	(142,791)	(4,415)	(6,987)	(155)	(154,348)
Total financial liabilities	(1,004,676)	(460,559)	(376,195)	(205,199)	(40,371)	(1,082,324)

At 31 December 2012	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities						
Current loans and borrowings	(449,223)	(175,773)	(308,222)	-	-	(483,995)
Non-current loans and borrowings	(193,725)	-	-	(261,457)	(2,443)	(263,900)
Trade payables	(121,769)	(117,827)	(1,463)	(2,479)	-	(121,769)
Total financial liabilities	(764,717)	(293,600)	(309,685)	(263,936)	(2,443)	(869,664)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading and non-trading portfolios. Currently, both trading and non-trading portfolio positions are managed and controlled using sensitivity analysis. Except for foreign currency positions and concentrations of currency risk, the Group has no significant concentration of market risk.

Price risk

Price risk is the risk of changes in the market price of financial asset. The management believes that the Group is not exposed to the price risk as there are no long-term fixed price contracts for the delivery of raw and other materials in its trading portfolio.

(thousands of euros)

26. Risk management (continued)**Market risk (continued)***Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of comprehensive income. The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on net interest income for one year, calculated based on the non-trading financial assets and financial liabilities with a floating interest rate (LIBOR, EURIBOR) held at 31 December 2013 and 2012.

	31 December 2013		31 December 2012	
	Interest rate	Interest rate	Interest rate	Interest rate
Effect on profit/(loss)	+18.68%	-18.68%	+20%	-20%
before tax	(55,859)	55,859	(50,807)	50,807

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below indicates the currencies to which the Group had significant exposure at 31 December 2013 and 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rates against the Belarusian ruble on the consolidated statement of comprehensive income (due to non-trading monetary assets and liabilities whose fair value is sensitive to exchange rate changes).

The effect on net assets does not differ from the effect on the statement of comprehensive income. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or net assets attributable to the participants, while a positive amount reflects a potential net increase.

The sensitivity analysis as at 31 December 2013 is presented as follows:

	BYR/USD		BYR/EUR		BYR/RUB	
Effect on profit/(loss)	+32.48%	-32.48%	+33.90%	-33.90%	+48.26%	-48.26%
before tax	(138,173)	138,173	(138,992)	138,992	(8,633)	8,633

The sensitivity analysis as at 31 December 2012 is presented as follows:

	BYR/USD		BYR/EUR		BYR/RUB	
Effect on profit/(loss)	+5%	-30%	+5%	-30%	+5%	-30%
before tax	(20,558)	123,346	(11,370)	68,219	(1,083)	6,500

(thousands of euros)

26. Risk management (continued)**Prepayment risk**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. However, the Group is not sensitive to this risk as it preliminary establishes clear payment deadlines for counterparties which are hardly ever violated.

Operational risk

Operational risk is the risk arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and monitoring and by responding to potential risks the Group is able to manage such risks. Controls include effective segregation of duties, access rights, authorization and reconciliation procedures, staff education and assessment procedures.

Capital management and capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to participants and return capital to participants. No changes were made in the capital management objectives, policies and procedures from the previous years.

The Group monitors capital using a gearing ratio, which is net debt divided by net assets attributable to the Group's participants plus net debt. The Group's policy is to keep the gearing ratio between 35% and 70%. Net debt includes interest-bearing and interest-free loans, trade and other payables, less cash and amounts due from banks. Net assets include net assets attributable to the Group's shareholders owning a majority of shares, and non-controlling interests.

	2013	2012
Current and non-current loans and borrowings	850,328	642,948
Trade payables and other current liabilities	228,854	226,206
Less cash and cash equivalents, and amounts due from banks	(53,870)	(51,838)
Net debt	1,025,312	817,316
Net assets	777,923	775,028
Net assets and net debt	1,803,235	1,592,344
Gearing ratio	57%	51%

*(thousands of euros)***27. Fair value of financial instruments**

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented are not necessarily indicative of the amounts the Group could actually realize from the sale of its full holding of a particular financial instrument.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid, have flexible interest rate or have a short term maturity it is assumed that their fair value approximates their carrying amount. This assumption is also applied to demand deposits and current accounts without a specific maturity.

Fixed rate financial instruments

The fair value of fixed-rate financial instruments carried at amortized cost is estimated by comparing market rates at recognition with current market interest rates for similar financial instruments. The estimated fair value of these financial instruments is determined as a present value of cash flows using prevalent market rates for financial instruments with similar characteristics.

For the purpose of presentation, financial instruments measured at fair value are transferred between the levels of fair value hierarchy based on the input data available.

- Quoted prices in an active market (Level 1) - Valuation based on quoted market prices in active markets for identical assets or liabilities available to the Group. As the valuation is based on the quoted market prices readily and regularly available in active markets, such valuation does not require the exercise of significant judgments.
- Valuation techniques based on observable inputs (Level 2) – Valuation for which all inputs are observable, either directly or indirectly; and valuation techniques based on observable inputs resulting from regular transactions in the markets not considered to be active.
- Valuation techniques based on inputs other than observable market inputs (Level 3) - Valuation is based on unobservable inputs that are not significant to the fair value measurement as a whole.

*(thousands of euros)***27. Fair value of financial instruments (continued)**

The hierarchy of financial assets and liabilities, not measured at fair value, is as follows:

At 31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale investments	1,168	-	159	1,327
Non-current loans issued	-	-	556	556
Current loans issued	-	-	57	57
Trade and other receivables	-	45,928	19,673	65,601
Bank deposit	6,913	-	-	6,913
Cash and cash equivalents	46,957	-	-	46,957
Total financial assets	55,038	45,928	20,445	121,411
Financial liabilities				
Trade payables	-	(98,369)	(55,979)	(154,348)
Loans and borrowings	-	(844,567)	(5,761)	(850,328)
Total financial liabilities	-	(942,936)	(61,740)	(1,004,676)
At 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale investments	1,261	-	185	1,446
Non-current loans issued	-	353	234	587
Current loans issued	-	-	595	595
Trade and other receivables	-	20,320	31,843	52,163
Bank deposit	8,924	-	-	8,924
Cash and cash equivalents	42,914	-	-	42,914
Total financial assets	53,099	20,673	32,857	106,629
Financial liabilities				
Trade payables	-	(82,511)	(39,258)	(121,769)
Loans and borrowings	-	(636,938)	(6,010)	(642,948)
Total financial liabilities	-	(719,449)	(45,268)	(764,717)

(thousands of euros)

28. Subsequent events

In accordance with Order No.55rp of the President of the Republic of Belarus dated 17 March 2014, 12,739,714,248 common shares of OJSC Minsk Bearing Plant held by the Republic of Belarus will be transferred as non-monetary contribution to the share capital of OJSC BSW - Management Company of BMC Holding by 31 December 2014. The interest of OJSC BSW - Management Company of BMC Holding in the share capital of OJSC Minsk Bearing Plant will increase to 99,97% after the transfer.

The total amount of loans raised in the first half of 2014 was EUR 329,956 thousand, including current loans in the amount of EUR 186,550 thousand and non-current loans in the amount of EUR 143,406 thousand.

Major banks that issued loans to OJSC BSW - Management Company of BMC Holding in 2014 included: JSC Savings Bank Belarusbank - non-current loans totaling EUR 38,469 thousand raised to finance the investment project "Production of structural sections and construction of light-section wire mill", non-current loans totaling EUR 2,151 thousand raised to finance construction and installation works for reconstruction of major process units of EMS-1 and EMS-2, and current loans totaling EUR 25,403 thousand raised to post-finance letters of credit; JSC Belagroprombank - current loans totaling EUR 52,101 thousand raised to finance current activities; Eurasian Development Bank - non-current loans totaling EUR 47,583 thousand to finance costs related to implementation of project "Production of structural sections and construction of light-section wire mill".