

**OJSC "BSW – management company of  
"BMC" holding"**

**Consolidated financial statements  
for the year ended  
31 December 2017  
and Independent Auditors' report**

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## Independent auditors' report

To the shareholders of Open Joint Stock Company "Byelorussian Steel Works – management company of "Byelorussian Metallurgical Company" holding"

### Qualified Opinion

We have audited the consolidated financial statements of the Open Joint Stock Company "Byelorussian Steel Works – Management Company of "Byelorussian Metallurgical Company" Holding" ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except the influence of the circumstances set out in the section *Basis for Qualified Opinion*, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Qualified Opinion

As of 31 December 2017, the Group recognized deferred tax assets in the amount of BYN 252,587 thousand for specific deductible temporary differences. International Financial Reporting Standard IAS 12 *Income Taxes* requires that a deferred tax asset should be recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilized. However considering history of recent losses there is no convincing evidence in respect of future taxable profit. The effects of this departure from International Financial Reporting Standards on the consolidated financial statements have not been determined.

Details of the audited entity  
Name: Open Joint Stock Company "Byelorussian Steel Works" – Management Company of "Byelorussian Metallurgical Company" Holding"

Registration details: registered by the Zhlobin District Executive Committee of the Gomel region on 2 January 2012, registration number in the Unified State Register of entities and individual entrepreneurs No. 400074854

Legal address: 37 Promyshlennaya str, 247210 Zhlobin, Republic of Belarus

Details of the audit company  
Name: Limited Liability Company "KPMG"

Registration details: registered by the Minsk City Executive Committee on 10 February 2011, registration number in the Unified State Register of entities and individual entrepreneurs № 191434140

Legal address: 57 Dzerzhinsky Avenue, office 53-2, 220089 Minsk, Republic of Belarus



As at 31 December 2017 the Group did not recognized the results of property, plant and equipment impairment tests with respect to specific cash-generating units as it required by International Accounting Standard IAS 36 *Impairment of Assets*. If the result of the impairment test were recognized, the property, plant and equipment and total equity as of 31 December 2017 would have been decreased by BYN 57,491 thousand. Additionally, the impairment loss on property, plant and equipment, loss before tax and loss for the year would have been increased by BYN 57,491 thousand for the year then ended.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statement**

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



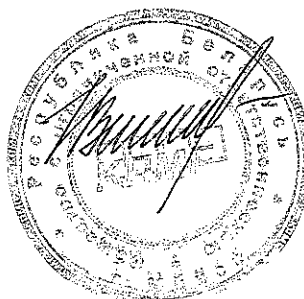
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Vereschagina  
Partner, LLC KPMG  
Minsk, Belarus  
29 June 2018



**Consolidated Statement of Financial Position as at 31 December 2017**

'000 BYN	Notes	31 December 2017	31 December 2016 (restated)
<b>Assets</b>			
Property, plant and equipment	9	2,641,730	2,778,768
Investments in associates	10	3,500	2,648
Available-for-sale investments		7,551	6,625
Long-term loans granted		462	596
Trade and other receivables	11	75	372
Prepayments and other assets	12	10,778	5,481
Bank deposit		3	5,112
Deferred tax assets	26	252,587	142,387
<b>Non-current assets</b>		<b>2,916,686</b>	<b>2,941,989</b>
 Inventories	 13	 624,058	 376,496
Short-term loans granted		3,721	1,500
Trade and other receivables	11	151,672	147,698
Prepayments and other assets	12	59,836	52,789
Tax receivables		78,873	34,199
Current tax assets		5,400	597
Bank deposits		13,995	7,643
Cash and cash equivalents	14	61,096	59,935
<b>Current assets</b>		<b>998,651</b>	<b>680,857</b>
<b>Total assets</b>		<b>3,915,337</b>	<b>3,622,846</b>
<b>Liabilities</b>			
Trade and other payables		75,327	5,125
Advances received and other liabilities	15	5,662	3,790
Loans and borrowings	16	847,137	1,017,972
Government grants		84,529	61,993
Deferred tax liabilities	26	3,343	2,729
<b>Non-current liabilities</b>		<b>1,015,998</b>	<b>1,091,609</b>
 Trade payables		 360,913	 520,907
Advances received and other liabilities	15	413,930	249,938
Loans and borrowings	16	2,045,846	1,582,236
Current tax liabilities		8,749	2,997
Other taxes payable		29,367	37,886
Government grants		3,815	1,397
<b>Current liabilities</b>		<b>2,862,620</b>	<b>2,395,361</b>
<b>Total liabilities</b>		<b>3,878,618</b>	<b>3,486,970</b>
<b>Net assets</b>		<b>36,719</b>	<b>135,876</b>

*The accompanying notes on pages 13 to 71 form an integral part of these consolidated financial statements.*

**Consolidated Statement of Financial Position as at 31 December 2017**

'000 BYN	Notes	31 December 2017	31 December 2016 (restated)
<b>Equity</b>			
Share capital	18	969,994	939,996
Reserve capital	18	9,552	6,969
Additional paid-in capital	18	19,871	-
Property, plant and equipment revaluation reserve	18	843,837	847,633
Accumulated loss		(1,875,799)	(1,689,045)
Foreign currency translation reserve	18	18,687	2,044
<b>Equity attributable to equity holders of the parent company</b>		<b>(13,858)</b>	<b>107,597</b>
Non-controlling interests	18	50,577	28,279
<b>Total equity</b>		<b>36,719</b>	<b>135,876</b>



First Deputy General Director  
Volkov A.V.

Chief Accountant  
Kosteeva O.B.

**Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017**

'000 BYN	Notes	2017	2016 (restated)
Revenue	19	2,751,830	2,217,078
Cost of sales	20	(2,295,848)	(1,931,476)
<b>Gross profit</b>		<b>455,982</b>	<b>285,602</b>
Administrative expenses	21	(166,577)	(132,575)
Selling expenses	22	(134,696)	(122,806)
Other operating expenses	23	(64,537)	(53,188)
Other operating income	24	8,378	27,650
Government grants	17	3,327	1,921
Impairment of trade and other receivables	11,12	(4,126)	(2,270)
<b>Operating profit</b>		<b>97,751</b>	<b>4,334</b>
Reversal of (loss from) impairment of property, plant and equipment	9	27,143	(61,401)
Finance income	25	1,511	739
Finance costs	25	(379,470)	(339,740)
<b>Net finance costs</b>		<b>(377,959)</b>	<b>(339,001)</b>
Share of profit of equity-accounted investees		2,532	635
<b>Loss before tax</b>		<b>(250,533)</b>	<b>(395,433)</b>
Income tax benefit	26	84,537	93,424
<b>Loss</b>		<b>(165,996)</b>	<b>(302,009)</b>
<b>Other comprehensive income (loss)</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property, plant and equipment	9	-	446,660
Tax effect of revaluation of property, plant and equipment		-	(80,387)
		-	366,273
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency		23,822	12,049
		23,822	12,049
<b>Other comprehensive income</b>		<b>23,822</b>	<b>378,322</b>
<b>Total comprehensive (loss) income</b>		<b>(142,174)</b>	<b>76,313</b>
<i>Profit (Loss) attributable to:</i>			
Equity holders of the Company		(187,967)	(301,619)
Non-controlling interests		21,971	(390)
		<b>(165,996)</b>	<b>(302,009)</b>
<i>Total comprehensive (loss) income attributable to</i>			
Equity holders of the Company		(171,324)	77,339
Non-controlling interests		29,150	(1,026)
		<b>(142,174)</b>	<b>76,313</b>



First Deputy General Director

Chief Accountant  
Kosteeva O.B.



**Consolidated statement of changes in equity for the year ended 31 December 2017**

**Attributable to equity holders of the Company**

'000 BYN	Notes	Share capital	Reserve capital	Additional paid-in capital	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	Accumulated loss	Total	Non-controlling interest	Total equity and reserves
Balance as at 1 January 2016		939,996	6,085	-	506,689	(10,641)	(1,402,019)	40,110	36,705	76,815
Impact of comparative data adjustment	7	-	-	-	(23,164)	-	13,360	(9,804)	-	(9,804)
Balance as at 1 January 2016 (restated)		939,996	6,085	-	483,525	(10,641)	(1,388,659)	30,306	36,705	67,011
Comprehensive income (loss) (restated)										
Loss		-	-	-	-	-	(301,619)	(301,619)	(390)	(302,009)
Revaluation of property, plant and equipment	9	-	-	-	446,660	-	-	446,660	-	446,660
Tax effect of revaluation of property, plant and equipment	26	-	-	-	(80,387)	-	-	(80,387)	-	(80,387)
Transfer to reserve capital		-	884	-	-	-	(884)	-	-	-
Transfer to retained earnings		-	-	-	(2,165)	-	2,165	-	-	-
Effect of translation to presentation currency		-	-	-	-	12,685	-	12,685	(636)	12,049
Total comprehensive income (loss) (restated)		-	884	-	364,108	12,685	(300,338)	77,339	(1,026)	76,313
Transactions with owners of the Company										
Dividends	18	-	-	-	-	-	-	-	(7,400)	(7,400)
Gratuitous transfer of shares in an associate		-	-	-	-	-	(48)	(48)	-	(48)
Total transactions with owners of the Company		-	-	-	-	-	(48)	(48)	(7,400)	(7,448)
Balance as at 31 December 2016 (restated)		939,996	6,969	-	847,633	2,044	(1,689,045)	107,597	28,279	135,876

Consolidated statement of changes in equity for the year ended 31 December 2017

Attributable to equity holders of the Company

'000 BYN	Notes	Share capital	Reserve capital	Additional paid-in capital	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	Accumulated loss	Total	Non-controlling interest	Total equity and reserves
Comprehensive income(loss)										
Loss		-	-	-	-	-	(187,967)	(187,967)	21,971	(165,996)
Transfer to reserve capital		-	2,583	-	-	-	(2,583)	-	-	-
Transfer to retained earnings		-	-	-	(3,796)	-	3,796	-	-	-
Effect of translation to presentation currency		-	-	-	-	16,643	-	16,643	7,179	23,822
Total comprehensive income (loss)		-	2,583	-	(3,796)	16,643	(186,754)	(171,324)	29,150	(142,174)
Transactions with owners of the Company										
Dividends	18	-	-	-	-	-	-	-	(6,852)	(6,852)
Issue of ordinary shares	18	29,998	-	-	-	-	-	29,998	-	29,998
Additional paid-in capital	18	-	-	19,871	-	-	-	19,871	-	19,871
Total transactions with owners of the Company		29,998	-	19,871	-	-	-	49,869	(6,852)	43,017
Balance as at 31 December 2017		969,994	9,552	19,871	843,837	18,687	(1,875,799)	(13,858)	50,577	36,719



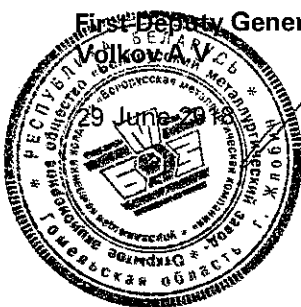
Chief Accountant  
Kosteeva O.B.

**Consolidated statement of cash flows for the year ended 31 December 2017**

'000 BYN	Notes	2017	2016 (restated)
<b>Cash flows from operating activities</b>			
<b>Loss</b>		<b>(165,996)</b>	<b>(302,009)</b>
Adjustments:			
Income tax benefit	26	(84,537)	(93,424)
Depreciation of property, plant and equipment	9	188,268	145,970
Recognition of income related to government grants	17	(3,327)	(1,921)
Inventory write-off	13	(588)	6,193
(Reversal of) / loss from impairment of property, plant and equipment		(27,143)	61,401
Impairment of trade and other receivables	11, 12	4,126	2,270
Provisions for pension payments		1,618	1,935
Loss from disposal of property, plant and equipment	23	2,916	19,836
Net finance costs	25	377,959	339,001
Share of profit of equity-accounted investees		(2,532)	(635)
		<b>290,764</b>	<b>178,617</b>
<b>Changes in:</b>			
Inventories		(229,176)	15,152
Trade and other receivables		(16,610)	(33,441)
Tax receivables		(44,674)	8,029
Tax liabilities		(8,519)	16,562
Prepayments granted and other current assets		(12,393)	(2,884)
Trade and other payables		(94,764)	20,120
Prepayments received		160,047	78,318
<b>Cash flows from operations before income taxes and interest paid</b>		<b>44,675</b>	<b>280,473</b>
Interest paid		(221,413)	(209,456)
Income tax paid		(29,300)	(21,501)
<b>Cash flows (used in) from operating activities</b>		<b>(206,038)</b>	<b>49,516</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(34,980)	(86,730)
Proceeds from sale of property, plant and equipment		906	551
Loans granted		(2,087)	618
Bank deposit		250	2,601
Purchases of investments in associates and investments available-for-sale		(445)	(1,355)
<b>Cash flows used in investing activities</b>		<b>(36,356)</b>	<b>(84,315)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	18	29,998	-
Proceeds from government subsidy	17	42,790	21,976
Loans and borrowings paid	16	(2,044,922)	(1,936,777)
Loans and borrowings received	16	2,182,492	2,010,963
Dividends paid	18	(6,852)	(7,400)
<b>Net cash flow from financing activities</b>		<b>203,506</b>	<b>88,762</b>

**Consolidated statement of cash flows for the year ended 31 December 2017**

'000 BYN	Notes	2017	2016 (restated)
Net (decrease) increase in cash and cash equivalents		(38,888)	53,963
Effect of foreign currency translation and effect of exchange rate changes on cash and cash equivalents		40,049	(26,841)
Cash and cash equivalents at 1 January	14	59,935	32,813
Cash and cash equivalents at 31 December	14	61,096	59,935



First Deputy General Director

Chief Accountant  
Kosteeva O.B.

A handwritten signature in black ink, likely belonging to the Chief Accountant Kosteeva O.B.

## **1. GENERAL INFORMATION**

Open Joint Stock Company "Byelorussian Steel Works - management company of "Byelorussian Metallurgical Company" holding" (formerly Republican Unitary Enterprise "Byelorussian Steel Works") was formed in 1985.

On 30 December 2011, Republican Unitary Enterprise "Byelorussian Steel Works" was reorganised into Open Joint Stock Company "Byelorussian Steel Works" (the "Company" or "OJSC BSW"). The Company is the legal successor in respect of the rights and duties of Republican Unitary Enterprise "Byelorussian Steel Works". As at 31 December 2017, 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 (authorised body).

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

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 "Byelorussian Metallurgical Company" holding.

The Company is part of "Byelorussian Metallurgical Company" holding and is the managing 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, two section rolling shops, three steel cord and wire shops and seamless pipes production shop. Service facilities comprise 17 auxiliary shops (2016: 17 auxiliary shops).

The Company's average number of employees for the years ended 31 December 2017 and 2016 was 10,701 employees and 10,823 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, %		Type of activities
		2017	2016	
Subsidiaries				
TUE "BVTM-Market"	Republic of Belarus	100.00	100.00	Retail and public catering
SAUE "Selhoz-Povitie"	Republic of Belarus	100.00	100.00	Crop production combined with cattle breeding
PUE "Brestvtorchermet"	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PUE "Vitebskvtorchermet"	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PUE "Gomelvtorchermet"	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PUE "Grodnovtorchermet"	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
PUE "Mogilevvtorchermet"	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous and ferrous waste and scrap
UE "Trading House RMP"	Republic of Belarus	100.00	100.00	Supply of goods as per orders of trade and other organisations for the products of OJSC "Rechitsa Metizny Plant"
AUE "Rechitsky-Agro"	Republic of Belarus	100.00	100.00	Crop production combined with cattle breeding
OJSC "Belvtorchermet"	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
OJSC "Kobrin tools plant "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.)
PUE "Tsvetmet"	Republic of Belarus	100.00	100.00	Procurement and processing of non-ferrous waste and scrap
TPUE "Metallurgtorg"	Republic of Belarus	100.00	100.00	Sale of consumer goods

*OJSC "BSW – management company of "BMC" holding"*  
*Notes to the consolidated financial statements for the year ended 31 December 2017*

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2017	2016	
TPUE "Metallurgtrans"	Republic of Belarus	100.00	100.00	Transportation services
UE "Zhlobinmetallurgstroy"	Republic of Belarus	100.00	100.00	Construction and installation works, production of construction materials
PTUE "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
PUE "BMZ-Ekoservice", Zhlobin	Republic of Belarus	100.00	100.00	Processing of ferrous waste and scrap
UE "Metallurgcotservice"	Republic of Belarus	100.00	100.00	Rendering of services
OJSC "Polesyelectromash"	Republic of Belarus	100.00	100.00	Development, production and sale of electrical goods, consumer goods, and special technological equipment and tools
OJSC "BELNIILIT"	Republic of Belarus	99.67	99.67	Research and development in foundry production
OJSC "Minsk Bearing Plant"	Republic of Belarus	99.47	99.47	Production of bearings
OJSC "Zhlobinsky Open-Cast Mine of Moulding Materials"	Republic of Belarus	98.15	97.28	Development of gravel and sand pits
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
CJSC "DOR-MPZ"	Republic of Belarus	81.77	81.77	Production of component parts for rail fastenings, and equipment
OJSC "Plant "Legmash"	Republic of Belarus	81.71	81.71	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

*OJSC "BSW – management company of "BMC" holding"*  
*Notes to the consolidated financial statements for the year ended 31 December 2017*

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2017	2016	
Belaruski lageri AD	Bulgaria	59.68	59.68	individuals at the scrap collecting sites in Russia
JLLC "BSW-GKS"	Republic of Belarus	57.38	57.38	Wholesale of OJSC "MPZ"'s products
JLLC "Manuli Hydraulics Manufacturing Bel"	Republic of Belarus	55.42	55.42	Production of gaseous oxygen
				Production of high-pressure hoses for hydraulic devices
				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
OJSC "Mogilev Metallurgical Works"	Republic of Belarus	54.67	54.67	Wholesale of OJSC BSW's steel products
Trading House "BSW-Baltiia"	Lithuania	55.00	55.00	Wholesale of OJSC
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
Belmet	Austria	50.00	50.00	Wholesale of OJSC "BSW"'s steel products
Handelsgesellschaft m.b.H.	Republic of Poland	50.00	50.00	Wholesale of OJSC "BSW"'s steel products
BMZ Polska Sp. z o.o.	Poland	50.00	50.00	Wholesale of OJSC "BSW"'s steel products
LLC Belmet Steel DMSS, Dubai	UAE	50.00	50.00	Wholesale of OJSC "BSW"'s steel products
LLC "Belmet D.O.O. Belgrad"	Republic of Serbia	25.50	-	Wholesale of metal products of OJSC "BMZ"
				Wholesale of OJSC
RMZ Vertriebs GmbH	Austria	25.00	25.00	"Rechitsa Metizny Plant"'s products
Belmet (Shanghai) Trading Co., Ltd.	China	-	50.00	Wholesale of OJSC "BSW"'s steel products

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 Bel-Kap-Steel Scandinavia through BEL-KAP-STEEL, LLC; RMZ Vertrieb GmbH, LLC Belmet Steel DMSS, Dubai and LLC "Belmet D.O.O. Belgrad" through Belmet Handelsgesellschaft m.b.H.

*Associates*

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2017	2016	
LLC "Cylinders Bel"	Republic of Belarus	30.00	-	Production of balloons for technical gases
RMZ Polska Sp. z o.o.	Republic of Poland	25.00	25.00	Wholesale of OJSC "Rechitsa Metizny Plant"'s products



Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2017	2016	
Transconsult Poland Sp. z o.o.	Republic of Poland	25.00	25.00	Transportation and forwarding services
LLC "TH BSW-Snab"	Russian Federation	20.63	41.25	Wholesale of metals and metallic ores
Dismas Trading s.r.l.	Italy	16.50	16.50	Wholesale of OJSC "BSW"'s steel products

There were some changes in the effective ownership and structure within the Group in 2017 which resulted in immaterial effect on consolidated financial statements.

These consolidated financial statements were approved for issue by the Group's Management on 29 June 2018.

### **Belarusian business environment**

The Group's operations are primarily located in Belarus. Consequently, the Group is exposed to the economic and financial markets of Belarus, which display emerging market characteristics. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes, which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Belarus. The monetary policy regulations, adopted by the National Bank of the Republic of Belarus and effective over the past two years, have resulted in reduced inflation and a less-volatile Belarusian Rouble. However, the fairly recent devaluation of the Belarusian Rouble, and the subsequent period of high inflation, still leads to a certain level of uncertainty in the business environment.

The consolidated financial statements reflect management's assessment of how the Belarusian business environment has impacted the operations and financial position of the Group. The business environment in the future may differ from management's assessment.

## **2. BASIS OF PRESENTATION**

### **Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

### **Matters of liquidity support**

These consolidated financial statements have been prepared on a going concern basis which contemplates that the Group will continue its operations in the foreseeable future.

The Group reported a net loss in the amount of BYN 165,996 thousand for the year ended 31 December 2017 (for the year ended 31 December 2016 – BYN 302,009 thousand). In addition as at the mentioned dates Group's current liabilities exceeded its current assets by BYN 1,863,969 thousand and BYN 1,714,504 thousand, respectively. In addition, the Group has presented a negative equity attributable to owners of the parent company as of 31 December 2017 in the amount of BYN 13,858 thousand.

The Group's management believes that the current market situation in 2017 and the ongoing development trend in the metallurgical sector in 2018 are consistent with the Group's previously designed development plans. At the reporting date, the management forecasts the recovery of the main sales markets, which will increase both sales volumes and sales prices.

Historical analysis of mutual relationship with creditors demonstrates successful actions of the Group on refinancing of liabilities. Credit institutions also have never used measures, particularly accelerating the maturity of repayment of the liabilities by the Group due to violation of financial covenants. Management of the Group believes that the Group has sufficient means for refinancing all current liabilities and is able to obtain waivers under loan agreements on non-application of measures, if necessary.

From 31 December 2017 and up to the date of issue of these financial statements, the Group refinanced its liabilities for a total amount of BYN 582 million, in addition the Group received BYN 192 million of loans from new banks.

In addition, the Group continues to receive periodical support from the Government of Belarus

In particular, as part of the financial and economic sustainability of the parent company, in accordance with Presidential Decree No. 100 of 3 April 2017, there was an increase in share capital amounting to BYN 29,998 thousand financed by the state centralized innovation fund.

In addition, the Group received the confirmation from the Government of Belarus on the continuation of the implementation of the government subsidy to compensate for the interest payments of the Group (Resolution of the Council of Ministers of the Republic of Belarus of 6 June 2017, No. 428 "On reimbursement in 2017 to legal entities implementing investment projects, interest for using banking Credits "). The amount to be refunded is EUR 4,671 thousand. In 2016, the amount of compensated interest received from the republican budget was EUR 17,904 thousand.

The Presidential Order stipulates provision of financial support during 2018 by granting payment by installment with a delay till 31 January 2022 for payables for consumed electricity and payment by installments for the loan payable before 31 December 2021.

In May 2018 the Group's parent company received confirmation of the intention to support its activities from the Ministry for Industry of Belarus.

The parent company of the Group is also included in the list of legal entities that support the functioning of strategically important sectors of the economy, as a result the decision to cease their activities is only in the powers of the owner.

Based on the above mentioned facts the management believes that the Group will be able to continue as a going concern in the foreseeable future and there is no significant uncertainty about the ability of the Group to continue as a going concern in the foreseeable future.

### **3. FUNCTIONAL AND PRESENTATION CURRENCY**

The national currency of the Republic of Belarus is the Belarusian Rouble ("BYN"), which is the Company's functional currency and the currency in which these consolidated

financial statements are presented. The functional currencies of subsidiaries are the national currencies where they operate.

Functional currencies of subsidiaries are the currencies of the respective countries of registration.

Financial result and financial position of the subsidiary with the functional currency different from the presentation currency as follows:

- assets and liabilities in each of the reported statements of financial position are translated at the closing rate as of the date of these statements of financial position;
- income and expenses in each statement of comprehensive income are translated at the exchange rates as for the dates of the respective transactions; and
- equity components are translated at the exchange rates as for the dates of the respective transactions; and
- all exchange differences resulting from translation are recognised in other comprehensive income as "Effect of translation to presentation currency".

#### **4. USE OF JUDGMENTS AND ESTIMATES**

The preparation of consolidated financial statements in conformity with IFRSs requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

##### ***The consolidation of companies where ownership interest does not exceed 50%***

As at 31 December 2017 and 31 December 2016 the ownership interest in Belmet Handelsgesellschaft m.b.H. and BEL-KAP-STEEL, LLC was 50%, but as the representatives of OJSC "BSW – management company of "BMC" holding" are members of their executive boards and control the process of making all important decisions, as well as the Group receives significant part of the returns related to their operations and has the current ability to direct these entities' activities that most significantly affect these returns, these companies are consolidated as part of the Group.

##### ***Useful lives of property and equipment***

Management estimates and reassesses useful lives of property, plant and equipment annually based on planned residual periods of use, information on technology changes, physical state of property and equipment. Applicable depreciation policy is outlined further in Note 6 (c) (iv) to these consolidated financial statements.

#### ***Allowance on trade accounts receivable***

Trade accounts receivable are mainly short-term and are measured at their amortised cost less allowance for impairment (Note 11). Allowance is based upon Management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial position and the net realisable value of any underlying collateral. Impairment of receivables that are collectively assessed for impairment and for which no specific provision is not recognised, is based on the available historical information on the collectability of doubtful receivables.

#### ***Deferred tax assets***

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The estimate of probability is based on the Group's management forecasts in relation to the future taxable profit and includes a significant degree of judgment of the Group's management.

#### ***Measurement of fair values***

A number of the Group's accounting policies and disclosures require the measurement of fair values both for financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

#### ***Fair value of buildings, infrastructure and production machinery***

Fair value of buildings, infrastructure and production machinery is determined based on market information as well as the valuation technique of depreciated replacement cost based on assessment of qualified appraisers. Management's assumptions in respect of current period disclosed in Note 9.

*Fair value of loans granted, loans and borrowings and other financial instruments*

Loans granted, loans and borrowings and other financial instruments are measured at the amortised cost. The amortised cost of loans received at floating interest rates represents their fair value as these rates usually approximate the market rates. The fair value of loans at fixed interest rates is based on the calculation of discounted cash flows by applying interest rates at the money market rate for financial instruments with similar credit risk and maturities.

## **5. BASIS OF MEASUREMENT**

These consolidated financial statements have been prepared on the historical cost basis, excluding such groups of fixed assets as buildings, infrastructure and production machinery which are measured at fair value.

## **6. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies described below are applied consistently to all periods presented in these consolidated financial statements.

Certain comparative amounts have been adjusted as a result of clarifying the classification and presentation, changing the accounting policy and correction of errors (see Note 7).

### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss for the period.

The official exchange rates of the key currencies as at 31 December 2017, 31 December 2016 and 1 January 2016 were as follows:

	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>1 January 2016</b>
USD/BYN	1.9727	1.9585	1.8569
RUB/BYN	0.0343	0.0324	0.0255
EUR/BYN	2.3553	2.0450	2.0300

Average exchange rates for the period

	<b>2017</b>	<b>2016</b>
USD/BYN	1.9318	1.9885
RUB/BYN	0.0331	0.0297
EUR/BYN	2.1783	2.2005

**(b) Basis of consolidation**

**(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

**(ii) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**(iii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**(iv) Acquisitions from entities under common control**

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for from the date of settlement of transaction and control acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised at their carrying amounts at the date of accession. Income and expenses of acquired entity are included in the consolidated financial statements from the date of accession. Any cash paid for the acquisition is recognised directly in equity.

**(v) Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

**(vi) Interests in equity-accounted investees**

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**(vii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(c) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, except for buildings, infrastructure and production machinery are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings.

**(ii) Subsequent expenditure**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(iii) Revaluation of buildings, infrastructure and production machinery**

Buildings, infrastructure and production machinery are measured at fair value, based on periodic valuation by external independent appraisers. A revaluation increase on these assets is recognised directly under the heading of effect of revaluation of property, plant



and equipment in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease on buildings, infrastructure and production machinery is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

The revaluation reserve is transferred to retained earnings on ultimate disposal of the relevant item of property, plant and equipment.

**(iv) Depreciation**

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

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:

	<b><i>Years</i></b>
Buildings and infrastructure	1-143
Production machinery	1-67
Other equipment	1-16
Other property, plant and equipment	2-89

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Estimates in respect of certain items of plant and equipment were revised in 2017 (see Note 9).

**(d) Intangible assets**

**(i) Goodwill**

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

**(ii) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**(iii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

**(iv) Amortisation**

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

	<u>Years</u>
Property rights on the items of industrial property	5-15
Software	1-10
Property rights on computer software and databases	5-7

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(e) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

**(f) Financial instruments**

The Group classifies non-derivative financial assets into the following categories: held-to-maturity investments, loans and receivables and available-for-sale financial assets.

**(i) Non-derivative financial assets and financial liabilities – recognition and derecognition**

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently

has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

**(ii) Non-derivative financial assets and financial liabilities – measurement**

***Held-to-maturity investments***

If the Group has the intent and ability to hold to maturity non-derivative financial assets, then such non-derivative financial assets with fixed or estimated payments and fixed maturity date are classified as held-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 amortised cost. Income and expenses are recognised in profit or loss when the investments are impaired as well as through the amortisation process.

The Group is not permitted to classify any financial assets as held to maturity during the following two financial years and reclassifies the assets of this category as available-for-sale if the Group during the current financial year has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- are close to maturity or the financial asset's call date;
- occur after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonable anticipated by the Group.

***Loans and receivables***

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 11 and cash and cash equivalents as presented in Note 14.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

***Available-for-sale financial assets***

Unquoted equity investments, if their fair value cannot be measured reliably, are recognised at acquisition cost less any impairment losses, if any.

**(iii) Non-derivative financial liabilities – measurement**

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

**(g) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. 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.

**(h) Impairment**

**(i) Financial assets**

The Group assess a financial asset, including equity-accounted investees, at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include:

- default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy,
- adverse changes in the payment status of borrowers in the group,
- economic conditions that correlate with defaults,
- the disappearance of an active market for a security, or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together items with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's

judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in loans and receivables impairment allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Equity-accounted investees*

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than property, plant and equipment measured at fair value, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Cash generating unit was defined as separate entity (legal entity) of the Group.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not

exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Share capital**

Share capital is recognised at cost. Non-monetary contributions are included into the share capital at the fair value of the contributed assets.

Dividends on ordinary shares are recognised in equity as a reduction in the period, in which they are declared.

**(j) Revenue**

**(i) Goods sold**

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

**(ii) Services**

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

**(iii) Rental income**

Rental income from operating leases of investment property is recorded on a straight-line basis over the lease terms.

**(iv) Government grants**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

**(k) Financial income and costs**

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

**(l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**(m) Employee benefits**

**(i) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

**(n) Contingent assets and liabilities**

Contingent liabilities are not recognised in the consolidated financial statements except for the cases when for settling the liability an outflow of resources is required with a high probability, and which can be estimated reliably. Contingent liabilities are disclosed in the consolidated financial statements unless the possibility of any outflow in settlement is remote. Contingent asset is not recognised in the consolidated statement of financial position but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

**(o) Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

**(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Republic of Belarus, the Russian Federation and other tax jurisdictions, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for



all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

**(p) Related parties transactions**

The Group applies the exemption related to the requirements to disclosure of transactions and balances with related parties in accordance with paragraph 25 of IAS 24 "Related parties disclosures" that allows to present simplified disclosures on transactions with entities related to the Government.

**7. ADJUSTMENTS OF COMPARATIVE DATA**

During preparation of the consolidated financial statements for 2017, the Management made the below adjustments of comparative data. The aim of these adjustments is to clarify the data represented in the prior year financial statements due to correction of certain insignificant errors identified in 2017, improvement of representation of results for users and the result of changes of several accounting policies.

The Management made the following adjustments of comparative data:

Adjustment 1: Correction of errors related to assets recognition not meeting the criteria for assets recognition.

Adjustment 2: Clarification of the approach to the presentation of effects of revaluation of property, plant and equipment items measured at fair value for initial cost and accumulated depreciation. Also, there were improvements performed in presentation of effects of revaluation within the profits/losses or other comprehensive income. In addition, some errors related to recognition of revaluation results were corrected.

Adjustment 3: Result of changes recognition in the accounting policy in the part of revaluation reserve transfer to retained earnings. Previous policy assuming that revaluation reserve will not be transferred to retained earnings in case of property, plant and equipment disposal was replaced with the policy of transfer of revaluation reserve to retained earnings on ultimate disposal of the relevant item of property, plant and equipment.

Adjustment 4: Also, the Management clarified classification of property, plant and equipment items by groups for more reliable recognition of functions of respective items.

Other adjustments: Management has also made some other adjustments that had no material effect on these consolidated financial statements.

Effect of the above mentioned adjustments on disclosure of property, plant and equipment is represented below:

'000 BYN	In the prior year financial statements disclosure	Adjustment 1	Adjustment 2	Amounts after adjustments
<b>Initial cost as at 1 January 2016</b>	<b>3,121,688</b>	<b>(18,557)</b>	<b>5,383</b>	<b>3,108,514</b>
Acquisitions	95,399	(6,110)	-	89,289
Disposals	(27,329)	(446)	-	(27,775)
Revaluation	560,949	-	(560,949)	-
Result of revaluation recognised in profit/loss of the reporting period	-	-	(72,077)	(72,077)
Result of revaluation recognised in other comprehensive income	-	-	807,523	807,523
Translation reserve	11,345	(94)	1,120	12,371
<b>Initial cost 31 December 2016</b>	<b>3,762,052</b>	<b>(25,207)</b>	<b>181,000</b>	<b>3,917,845</b>
<b>Depreciation and impairment losses as at 1 January 2016</b>	<b>644,198</b>	<b>(6,100)</b>	<b>5,383</b>	<b>643,481</b>
Depreciation	151,049	(1,232)	-	149,817
Disposals	(7,603)	215	-	(7,388)
Revaluation	158,700	-	(158,700)	-
Result of revaluation recognised in profit/loss of the reporting period	-	-	(17,800)	(17,800)
Result of revaluation recognised in other comprehensive income	-	-	360,863	360,863
Impairment loss	-	-	7,124	7,124
Translation reserve	3,073	(93)	-	2,980
<b>Accumulated depreciation as at 31 December 2016</b>	<b>949,417</b>	<b>(7,210)</b>	<b>196,870</b>	<b>1,139,077</b>
<b>Carrying amount as at 1 January 2016</b>	<b>2,477,490</b>	<b>(12,457)</b>	<b>-</b>	<b>2,465,033</b>
<b>Carrying amount as at 31 December 2016</b>	<b>2,812,635</b>	<b>(17,997)</b>	<b>(15,870)</b>	<b>2,778,768</b>

*OJSC "BSW – management company of "BMC" holding"*  
*Notes to the consolidated financial statements for the year ended 31 December 2017*

'000 BYN	Buildings and infrastructure	Production machines	Other equipment	Other property, plant and equipment	Construction in progress	Total
Initial cost as at 1 January 2016 as represented in the prior year financial statements	905,400	1,678,812	64,610	187,607	285,259	3,121,688
Adjustment 1	(11,616)	(5,608)	-	(1,333)	-	(18,557)
Adjustment 2	524	4,828	-	31	-	5,383
Adjustment 4	157,062	(57,016)	101	(96,691)	(3,456)	-
Amounts after reclassification and adjustments	<u>1,051,370</u>	<u>1,621,016</u>	<u>64,711</u>	<u>89,614</u>	<u>281,803</u>	<u>3,108,514</u>
Depreciation as at 1 January 2016 as represented in the prior year financial statements	86,309	480,302	23,627	53,960	-	644,198
Adjustment 1	(346)	(5,754)	-	-	-	(6,100)
Adjustment 2	524	4,828	-	31	-	5,383
Adjustment 4	21,277	(11,607)	(22)	(9,648)	-	-
Amounts after reclassification and adjustments	<u>107,764</u>	<u>467,769</u>	<u>23,605</u>	<u>44,343</u>	<u>-</u>	<u>643,481</u>

Effect of adjustments on the consolidated Statement of Financial Position is represented below:

Item of the consolidated Statement of Financial Position	Represented in the prior year financial statements as at 31 December 2016	Adjustment 1	Adjustment 2	Adjustment 3	Other adjustments	Restated
Property, plant and equipment	2,812,635	(17,997)	(15,870)	-	-	2,778,768
Deferred tax assets	139,061	2,734	592	-	-	142,387
Inventories	382,202	-	-	-	(5,706)	376,496
Prepayments and other assets	51,497	1,292	-	-	-	52,789
Advances received and other liabilities (long-term)	12,187	-	-	-	(8,397)	3,790
Loans and borrowings (long-term)	1,011,131	-	-	-	6,841	1,017,972
Deferred tax liabilities	2,919	-	-	-	(190)	2,729
Advances received and other liabilities (short-term)	250,526	-	-	-	(588)	249,938
Loans and borrowings (short-term)	1,580,092	-	-	-	2,144	1,582,236
Reserve capital	6,967	-	-	-	2	6,969
Property, plant and equipment revaluation reserve	883,640	-	-	(36,007)	-	847,633
Accumulated loss	(1,691,487)	(13,971)	(15,278)	36,007	(4,316)	(1,689,045)
Foreign currency translation reserve	1,677	-	-	-	367	2,044
Non-controlling interests	29,848	-	-	-	(1,569)	28,279

Effect of adjustments on the consolidated Statement of Profit or Loss and Other Comprehensive Income is represented below:

Item of the consolidated Statement of Profit or Loss and Other Comprehensive Income	Represented in the prior year financial statements as at 31 December 2016	Adjustment 1	Adjustment 2	Other adjustments	Restated
Revenue	2,217,077	-	-	1	2,217,078
Cost of sales	(1,929,535)	1,232	-	(3,173)	(1,931,476)
Administrative expenses	(132,639)	-	-	64	(132,575)
Distribution expenses	(122,809)	-	-	3	(122,806)
Other operating expenses	(50,151)	(1,606)	-	(1,431)	(53,188)
Other operating income	28,163	-	-	(513)	27,650
Finance costs	(335,865)	(3,874)	-	(1)	(339,740)
Loss from impairment of property, plant and equipment	(57,430)	-	(4,600)	629	(61,401)
Income tax profit	94,400	-	-	(976)	93,424
<b>Loss for the year</b>	<b>(287,764)</b>	<b>(4,248)</b>	<b>(4,600)</b>	<b>(5,397)</b>	<b>(302,009)</b>
Effect of revaluation of property, plant and equipment	459,679	-	(13,019)	-	446,660
Tax effect of revaluation of property, plant and equipment	(82,728)	-	2,341	-	(80,387)
Effect of translation to presentation currency	12,087	-	-	(38)	12,049
<b>Total comprehensive income (loss) for the reporting year</b>	<b>101,274</b>	<b>(4,248)</b>	<b>(15,278)</b>	<b>(5,435)</b>	<b>76,313</b>

The adjustments made do not have a material impact on the consolidated statement of cash flows for the year 2016, as well as on the statement of financial position as of 31 December 2015.

## **8. NEW STANDARDS AND INTERPRETATIONS**

A number of new standards, amendments to standards and explanations enter into force for annual periods beginning after 1 January 2017, early application is permitted; when preparing these consolidated financial statements, the Group has not yet applied the following new standards or amendments to standards:

### **(a) IFRS 9 *Financial Instruments***

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

At present, the Group plans to apply IFRS 9 from 1 January 2018. The actual impact of the adoption of IFRS 9 on the Group's financial statements in 2018 is not known and cannot be reliably estimated, as it will depend on the financial instruments owned by the Group at that time, and on future economic conditions, as well as on selected options for accounting and judgments that will be made by the Company in the future. The new Standard will require the Group to review the accounting processes and elements of internal control related to the reflection of financial instruments in the accounting, and these changes have not yet been completed. The Group does not expect significant effect on financial indicators of the consolidated financial statements during first-time adoption of IFRS 9, however the Group has not finished analysing the effect of adoption of this standard yet.

#### **(i) *Classification – financial assets***

IFRS 9 introduces a new approach to the classification and measurement of financial assets, reflecting the business model used to manage these assets and the characteristics of the cash flows associated with them.

IFRS 9 specifies three main categories of financial assets: measured at amortised cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. The standard thus replaces the category of financial assets currently established in IAS 39: held to maturity, loans and receivables and available-for-sale.

In accordance with IFRS 9, derivatives that are embedded in contracts where the host contract is a financial asset within the scope of IFRS 9 shall never be separated from the host contract. Instead, the requirements of the standard for classification apply to the entire hybrid financial instrument.

According to the Group's preliminary assessment, the application of the new requirements for the classification of financial assets as at 31 December 2017 would not have a significant impact on the accounting of trade receivables and investments in debt securities.

#### **(ii) *Impairment – financial assets and contractual assets***

With respect to impairment, IFRS 9 introduces a new, forward-looking model of "expected credit losses" that replaces the "incurred credit loss" model established by IAS 39. Applying the new impairment model will require significant professional judgments from the Company as to how changes in economic factors affect the expected credit losses, determined by weighting by probability of occurrence.

The new impairment model will be applied to financial assets measured at amortised cost or at fair value through other comprehensive income.

In accordance with IFRS 9, estimated reserves for expected credit losses will be assessed in one of the following ways:

- based on 12-month expected credit losses. These are the expected credit losses that will arise as a result of defaults possible within 12 months after the reporting date.
- on the basis of expected credit losses for the entire period. These are the expected credit losses arising from all possible cases of default throughout the expected life of the financial instrument.

An estimate of the expected credit losses for the entire period is applied if the credit risk on the financial asset at the reporting date has increased significantly since the initial recognition. Otherwise, the estimated credit loss is evaluated for 12 months after the reporting date. In this case, the Group is entitled to use the assumption that the credit risk on the financial instrument has not increased significantly since the initial recognition if it was determined that the financial instrument has a low credit risk as at the reporting date. However, in respect of trade receivables that do not contain significant components of financing, an estimate of the expected credit losses for the entire period should always be applied. The Group can choose as its accounting policy the same approach for trade receivables that contain significant components of financing.

The Group believes that applying the new impairment model in accordance with IFRS 9 is likely to lead to an increase in impairment losses, as well as to greater volatility. According to the Group's preliminary assessment, the application of IFRS 9 with respect to impairment as at 31 December 2017 would have resulted in an insignificant increase in estimated provisions for expected credit losses as compared to provisions recognised in accordance with IAS 39. However, the Group has not yet completed the process of establishing an impairment methodology that will be applied in accordance with IFRS 9.

**(iii) Classification – financial liabilities**

IFRS 9 generally preserves the existing requirements of IAS 39 regarding the classification of financial liabilities.

However, in accordance with IAS 39, all changes in fair value of financial liabilities classified at fair value through profit or loss are recognised in profit or loss, whereas in accordance with IFRS 9, in the general case, they are recognised in the following order:

- the amount reflecting the change in fair value of the financial liability due to changes in credit risk for such a liability is recognised in other comprehensive income;
- the remaining amount of the change in fair value of the liability is recognised in profit or loss.

The Group does not classify at its sole discretion any financial liabilities as measured at fair value through profit or loss, and it does not currently have any intention to do so. According to the Group's preliminary assessment, the application of the requirements of IFRS 9 regarding the classification of financial liabilities as at 31 December 2017 would not have a significant impact on the consolidated financial statements.

**(iv) Disclosures**

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses accounting. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

**(v) Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

**(b) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Based on the analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and based on the facts and circumstances existing at the specified date, the Group does not expect significant effect of new requirements on financial indicators of the consolidated financial statements during first-time adoption of IFRS 15, however the Group has not finished analysing the effect of adoption of this standard yet.

**(c) IFRS 16 Lease**

IFRS 16 replaces the existing lease guidance, including IAS 17 Leases, Clarification of IFRIC 4, Determination of Lease Characteristics in the Agreement, Clarification of SIC 15 Operating Leases - Incentives and Clarification of SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. An early adoption of the standard is permitted for enterprises that apply IFRS 15 Revenue Under Contracts with Customers on or before the date of initial application of IFRS 16.

IFRS 16 introduces a single model for recording lease agreements by lessees, which implies their reflection on the lessee's balance sheet. According to this model, the lessee must recognise the asset in the form of the right to use, which is the right to use the underlying asset, and the lease obligation, which is the obligation to make lease payments. There are optional simplifications for short-term leases and rentals of low-cost properties. For the lessors, the accounting rules are generally preserved - they will continue to classify the lease as financial and operating.

The Group completed the initial assessment of the possible impact of the adoption of IFRS 16, but has not yet completed a detailed assessment. The actual impact of the



adoption of IFRS 16 on the financial statements during the initial period will depend on future economic conditions, including the Group's borrowing rate effective 1 January 2019, from the composition of the Group's lease portfolio at that date, whether it intends to exercise its rights to extend the lease and which of the standard simplifications of practical nature and exemption from recognition the Group decides to apply. The Group does not expect that the adoption of IFRS 16 will have a material impact on the consolidated financial statements

**(d) Other changes**

Other new standards or amendments to standards will not affect Group consolidated financial statements significantly:

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
- *Transfers of Investment Property (Amendments to IAS 40).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

## 9. PROPERTY, PLANT AND EQUIPMENT

'000 BYN

Cost	Buildings and infrastructure	Production machinery	Other equipment	Other property, plant and equipment	Construction in progress and equipment for installation	Total
<b>1 January 2016 (restated)</b>	<b>1,051,370</b>	<b>1,621,016</b>	<b>64,711</b>	<b>89,614</b>	<b>281,803</b>	<b>3,108,514</b>
Additions	9,427	17,152	89	2,745	59,876	89,289
Transfers	26,226	63,615	1,719	592	(92,152)	-
Disposals	(4,239)	(15,930)	(603)	(2,442)	(4,561)	(27,775)
Revaluation recognised in profit/loss of the reporting period	(17,165)	(54,912)	-	-	-	(72,077)
Revaluation recognised in other comprehensive income	125,559	681,964	-	-	-	807,523
Change in exchange rates of presentation currency	1,909	-	10,435	24	3	12,371
<b>31 December 2016 (restated)</b>	<b>1,193,087</b>	<b>2,312,905</b>	<b>76,351</b>	<b>90,533</b>	<b>244,969</b>	<b>3,917,845</b>
Additions	10,825	16,503	446	3,181	5,352	36,307
Transfers	9,906	36,690	3,189	714	(50,499)	-
Disposals	(2,617)	(4,340)	(433)	(2,868)	(493)	(10,751)
Revaluation recognised in profit/loss of the reporting period	9,426	27,517	-	-	-	36,943
Change in exchange rates of presentation currency	575	1	2,954	343	13	3,886
<b>31 December 2017</b>	<b>1,221,202</b>	<b>2,389,276</b>	<b>82,507</b>	<b>91,903</b>	<b>199,342</b>	<b>3,984,230</b>

'000 BYN

**Depreciation**

**1 January 2016 (restated)**

Depreciation for the year

Disposals

Revaluation recognised in profit/loss of the reporting period

Revaluation recognised in other comprehensive income

Impairment loss

Change in exchange rates of presentation currency

**31 December 2016 (restated)**

Depreciation for the year

Disposals

Revaluation recognised in profit/loss of the reporting period

Impairment loss

Change in exchange rates of presentation currency

**31 December 2017**

**Carrying amount**

**1 January 2016**

**31 December 2016**

**31 December 2017**

	Buildings and infrastructure	Production machinery	Other equipment	Other property, plant and equipment	Construction in progress and equipment for installation	Total
	107,764	467,769	23,605	44,343	-	643,481
	18,425	117,890	5,454	8,048	-	149,817
	(188)	(4,696)	(407)	(2,097)	-	(7,388)
	(2,653)	(15,147)	-	-	-	(17,800)
	15,620	345,243	-	-	-	360,863
	-	-	-	7,124	-	7,124
	11	-	2,968	1	-	2,980
	<b>138,979</b>	<b>911,059</b>	<b>31,620</b>	<b>57,419</b>	-	<b>1,139,077</b>
	32,516	154,986	6,054	5,521	-	199,077
	(935)	(3,596)	(302)	(2,096)	-	(6,929)
	204	9,938	-	-	-	10,142
	-	-	-	(342)	-	(342)
	126	1	1,087	261	-	1,475
	<b>170,890</b>	<b>1,072,388</b>	<b>38,459</b>	<b>60,763</b>	-	<b>1,342,500</b>
	943,606	1,153,247	41,106	45,271	281,803	2,465,033
	1,054,108	1,401,846	44,731	33,114	244,969	2,778,768
	1,050,312	1,316,888	44,048	31,140	199,342	2,641,730

As at 31 December 2017 and 2016, property, plant and equipment in the amount of BYN 1,831,864 thousand and BYN 2,032,233 thousand, respectively, were pledged as collateral under received loans.

Property plant and equipment in the amount of BYN 5,481 thousand was acquired under finance lease in 2017 (2016: BYN 6,545 thousand).

As at 31 December 2017 the property, plant and equipment with the cost of BYN 83,891 thousand were fully depreciated but the Group used them in production activities and for administrative purposes (2016: BYN 127,366 thousand).

Depreciation of property and equipment is included in "Cost of sales", "Administrative expenses" and "Selling and distribution expenses" and "Finished goods" depending on the nature of their use

'000 BYN	Notes	2017	2016
Cost of sales	20	170,488	134,940
Administrative expenses	21	17,126	10,224
Selling and distribution expenses	22	654	806
Finished goods		14,480	3,671

The Group's management engaged an independent appraiser to give an independent assessment of property, plant and equipment groups "Buildings and infrastructure" and "Production machines" as at 31 December 2016. The fair level was categorised as Level 3 fair value hierarchy based on the inputs to valuation techniques used.

The property, plant and equipment of the Group are the specialised items that are rarely sold in an open market except for as a part of a current business as well as non-specialised items. The fair value of non-specialised items of property, plant and equipment is determined using market valuation technique. Market for specialised items of property, plant and equipment is not an active market and does not allow to use market approaches to determine their fair value as the number of transactions on the sale of comparable items is not sufficient.

Respectively, the fair value of specialised items of property, plant and equipment is determined using depreciated replacement cost method. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Depreciated replacement cost was estimated based on internal sources and analysis of the domestic and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data etc, and industry experts and suppliers of property, plant and equipment were contacted both in the Republic of Belarus and abroad.

In 2017 the Management with involvement of independent appraisers analysed changes in the market of similar property, plant and equipment items and concluded that there were no significant fluctuations in this market and, therefore, the carrying amount of assets as at 31 December 2017, taking into account the fair value measurement performed in 2016, did not significantly differ from their fair value.

At the same time, taking into account that major part of property, plant and equipment items due to their specialised nature were assessed using the depreciation replacement

cost method, the Management engaged an independent appraiser to perform the impairment testing with analysis of cash flows as at 31 December 2017.

The cash flow testing was analysed on the level of separate cash generating units (CGU) which, considering the Group's specifics, are each of subsidiary.

The following key assumptions were used in performing the testing:

- Forecast of nominal cash flows was prepared based on accumulated data for prior periods, actual operating results, business plans for five-year period approved by each CGU, and forecast of prices using consensus forecast of the analytical agency Consensus-Economics. The currency used in the forecast is US dollar.
- The forecasted EBITDA margin by the parent company for the forecast period varies from 9.0% to 10.1% and is stabilised at the level of 10.1% in the terminal period (from 10.79% to 23.43% by other CGUs).
- Cash flows for 2018-2022 were extrapolated based on the assumption that the production growth will be equal to the growth of real GDP of the respective sales markets and revenue and expenses will increase on a pro rate basis against inflation.
- For discounting the rate of 13.43% for parent company and rates from 13.89% to 16.35% for other CGUs. For the parent company, the discount rate was estimated based on an industry average weighted average cost of capital (WACC), which was based on a possible range of debt leveraging of 60.5% and average industry beta coefficient without debt burden and unlevered beta of 0.93%. Risk-free rate was calculated in the amount of effective yield to maturity on 10-year treasury bonds of the Government of the USA (as at 31 December 2017 – 2.4%). When calculating the discount rate, country risk and other specific risks were also considered.
- Terminal value (i.e. the value in the end of projection period) was determined at the end of five-year projection period using Gordon Constant Growth model. When calculating the terminal value of estimated property, plant and equipment, the terminal rate of 13.43% and growth rate of 2.3% were used for parent company (for other CGUs – 13.89% and growth rate of 2.0%).

As a result of the impairment test, release of previously recognised in profit or loss the fair value changes and impairment loss in the amount of BYN 27,143 thousand was recognised for several CGUs.

Calculated discounted future cash flows for CGU, where no impairment was recognised, exceeds the carrying amount of corresponding property, plant and equipment approximately by BYN 187,868 thousand.

Management has identified two key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the discounted amount of future cash flows. The estimates provided above are particularly sensitive in the following areas:

- Increase in applied discount rate by 1.53% would have caused the discounted amount of future cash flows to equal the carrying amount.
- Decrease in long-term growth rate by 5.73% would have caused the discounted amount of future cash flows to equal the carrying amount.

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

'000 BYN	31 December 2017		31 December 2016	
	Buildings and infrastructure	Production machinery	Buildings and infrastructure	Production machinery
Cost	919,791	1,158,989	901,102	1,110,133
Accumulated depreciation	(395,866)	(650,020)	(354,938)	(481,050)
<b>Carrying amount</b>	<b>523,925</b>	<b>508,969</b>	<b>546,164</b>	<b>629,083</b>

#### Changes in estimates

In 2017, the Group reviewed the expected useful lives of property, plant and equipment at fair value through profit or loss and brought them into compliance to the terms determined by the independent appraiser. As a result, the expected useful lives of these assets have increased. The effect of these changes on the amount of depreciation charges in the current and in future reporting periods, recognized as part of the cost of sales, is reflected in the following table:

'000 BYN	2017	2018	2019	2020	Later
(Decrease)/Increase in depreciation costs	(49,433)	10,002	15,212	34,418	(10,199)

#### 10. INVESTMENTS IN ASSOCIATES

As at 31 December 2017 and 31 December 2016, investments in associates were as follows:

Company	31 December 2017	31 December 2016
LLC "Dismas Trading s.r.l."	2,977	2,280
LLC "Transconsult Poland Sp. z o.o."	469	348
LLC "Cylinders-Bel"	30	-
LLC "RMZ Polska Sp. z o.o."	24	20
LLC "TH BSW-Snab"	-	-
<b>Investments in associates</b>	<b>3,500</b>	<b>2,648</b>

Group's share of profit of investees in 2017 amounted to BYN 2,532 thousand (2016: BYN 635 thousand).

## 11. TRADE AND OTHER RECEIVABLES

Trade and other receivables as at 31 December 2017 and 31 December 2016 comprised the following:

<b>'000 BYN</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Trade receivables	151,105	136,270
Other receivables	17,917	25,206
Provision for impairment of trade and other receivables	(17,275)	(13,406)
<b>Trade and other receivables</b>	<b>151,747</b>	<b>148,070</b>
<b>Non-current</b>	<b>75</b>	<b>372</b>
<b>Current</b>	<b>151,672</b>	<b>147,698</b>
<b>Financial trade and other receivables</b>	<b>133,830</b>	<b>122,864</b>
<b>Non-financial trade and other receivables</b>	<b>17,917</b>	<b>25,206</b>

Change in provision for impairment of trade and other receivables:

<b>'000 BYN</b>	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>13,406</b>	<b>11,136</b>
Charge during the year	3,869	2,270
<b>At the end of the year</b>	<b>17,275</b>	<b>13,406</b>

The provision for impairment of trade receivables is recognised in "Impairment of trade and other receivables" in the statement of profit and loss and other comprehensive income. As at 31 December 2017 and 31 December 2016 past due but not impaired receivables were insignificant.

## 12. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets as at 31 December 2017 and 31 December 2016 comprised the following:

<b>'000 BYN</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
VAT recoverable and paid	25,140	17,965
Prepayments	24,352	24,428
Biological assets	13,005	10,515
Intangible assets	7,395	5,362
Other assets	979	-
Allowance for impairment of prepayments	(257)	-
<b>Prepayments and other assets</b>	<b>70,614</b>	<b>58,270</b>
<b>Non-current</b>	<b>10,778</b>	<b>5,481</b>
<b>Current</b>	<b>59,836</b>	<b>52,789</b>

Change in provision for impairment of prepayments:

<b>'000 BYN</b>	<b>2017</b>	<b>2016</b>
At the beginning of the year	-	-
Charge for the year	257	-
At the end of the year	<b>257</b>	-

### 13. INVENTORIES

As at 31 December 2017 and 31 December 2016 inventories comprised the following:

<b>'000 BYN</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Raw materials, supplies and auxiliary items	261,136	195,981
Finished goods	250,308	119,855
Work in progress	112,614	60,660
<b>Inventories</b>	<b>624,058</b>	<b>376,496</b>

As at 31 December 2017, inventories of BYN 171,872 thousand (31 December 2016: BYN 182,564 thousand) were pledged as collateral.

Raw materials, consumables and movements of finished goods and construction in progress recognized in cost of sales amounted to BYN 1,256,380 thousand in 2017 (in 2016: BYN 1,003,202 thousand). In 2017 the Group wrote down the inventories to the net realizable value in the amount of BYN 67,158 thousand. In 2016 the Group wrote down the inventories to the net realizable value in the amount of BYN 67,746 thousand. The charge of write-downs amounted to BYN 588 thousand in 2017 (2016: BYN 6,193 thousand). The write-down is included in cost of sales.

### 14. CASH AND CASH EQUIVALENTS

As at 31 December 2017 and 31 December 2016 cash and cash equivalents comprised the following:

<b>'000 BYN</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Cash at banks	54,511	57,069
Cash in transit	4,667	2,715
Cash on hand	1,918	151
<b>Cash and cash equivalents</b>	<b>61,096</b>	<b>59,935</b>



Significant amounts of cash, except cash in transit and cash in hand, are placed as at 31 December 2017 with the following banks:

'000 BYN	Moody's Investors Service credit rating	Standard and Poor's credit rating	Balance at 31 December 2017
OJSC "Savings Bank Belarusbank"	Caa2/Caa1	B/B	22,983
OJSC "Belagroprombank"	Caa2/Caa1	B-/B-	5,968
OJSC "BPS-Sberbank"	Caa2/B3	-	2,240
Commerzbank AG	A2/A2	A-/A-	1,764
Credit Suisse AG	-	A/A-1	1,697
Unicredit Bank Austria AG	A2/A2	BBB+/BBB+	1,106
OJSC "Belinvestbank"	Caa2/Caa1	-	978
OJSC "BelVEB Bank"	-	B/B	797
PLC "Sberbank Rossii"	Ba2/Ba1	-	209
PLC "Bank VTB"	Ba2/Ba1	BB+/BB+	24
Other banks	-	-	30,743
<b>Total</b>			<b>68,509</b>

Significant amounts of cash are placed as at 31 December 2016 with the following banks:

'000 BYN	Moody's Investor s Service credit rating	Standard and Poor's credit rating	31 December 2016
OJSC "Savings Bank Belarusbank"	Caa2/Caa1	B/B	8,872
OJSC "Belagroprombank"	Caa2/Caa1	B-/B-	137
OJSC "BPS-Sberbank"	Caa2/B3	-	1,052
Commerzbank AG	A2/A2	A-/A-	4,362
Credit Suisse AG	-	A/A-1	1,473
Unicredit Bank Austria AG	A2/A2	BBB+/BBB+	424
OJSC "Belinvestbank"	Caa2/Caa1	-	243
OJSC "BelVEB Bank"	-	B/B	157
PLC "Bank VTB"	Ba2/Ba1	BB+/BB+	999
Other banks	-	-	52,105
<b>Total</b>			<b>69,824</b>

## 15. ADVANCES RECEIVED AND OTHER LIABILITIES

As at 31 December 2017 and 31 December 2016 advances received and other liabilities comprise the following:

<b>'000 BYN</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Advances received	324,220	187,985
Liabilities for electricity	24,994	22,823
Amounts due to personnel	24,749	17,338
Payroll taxes	8,363	4,713
Pension reserve	6,298	3,364
Letters of credit	-	1,506
Other liabilities	30,968	15,999
<b>Advances received and other liabilities</b>	<b>419,592</b>	<b>253,728</b>
<b>Non-current</b>	<b>5,662</b>	<b>3,790</b>
<b>Current</b>	<b>413,930</b>	<b>249,938</b>
<b>Financial advances received and other liabilities</b>	<b>-</b>	<b>1,506</b>
<b>Non-financial advances received and other liabilities</b>	<b>419,592</b>	<b>252,222</b>

## 16. LOANS AND BORROWINGS

The Group received significant funding from DZ Bank AG, Raiffeisenlandesbank, Eurasian Development Bank and Credit Suisse Bank. As at 31 December 2017, the Group breached financial covenants "Net debt/EBITDA" under the agreements with "Raiffeisenlandesbank" and "Total liquidity ratio", "Financial debt/EBITDA" under the agreements with Eurasian Development Bank. Breaches in meeting these covenants is an "Event of Default" and may permit the creditors, upon their due notification, to immediately call the funds provided. Thus, BYN 191,449 thousand is presented within current liabilities.

At the date of signing these consolidated financial statements, the Group is engaged in activities with credit institutions on the receipt of notifications under the loan agreements of the non-application to the Group of enforcement actions for the breach of financial covenants. On 28 May 2018, the notification of the non-application of enforcement actions for the breach of financial covenants was received from Eurasian Development Bank (Kazakhstan).

The item "Loans and Borrowings" includes bonds of OJSC "BSW" issued in 2016 for the purpose of repaying (refinancing) the loans that were previously received from Belarusian banks. These bonds were purchased by the following banks: OJSC "Belarusbank", OJSC "Belagroprombank", OJSC "Belinvestbank", OJSC "BelVEB Bank", OJSC "Belgazprombank", OJSC "BPS-Sberbank". As at 31 December 2017, the outstanding balance on the issued bonds of the 5th and 6th issues in USD is BYN 474,434 thousand. In accordance with the issuing documents, the final maturity of the issued bonds is February 2021.

At 31 December 2017 loans and borrowings comprised the following:

'000 BYN	Currency	Maturity date	31 December 2017
Bonds	USD	2021	474,434
Bank loans	EUR	2018 – 2025	1,070,505
Bank loans	USD	2018 – 2022	1,054,412
Bank loans	RUB	2018 – 2019	55,474
Bank loans	BYN	2018 – 2051	18,356
Bank loans	Other	2018	1,164
Other loans	USD	2019 – 2021	154,507
Other loans	EUR	2018 – 2021	55,029
Other loans	BYN	2018 – 2020	292
Other loans	Other	2018	50
Financial lease	BYN	2018 – 2024	7,977
Financial lease	RUB	2018 – 2020	745
Financial lease	USD	2018	22
Financial lease	EUR	2018	16
<b>Total loans and borrowings</b>			<b>2,892,983</b>
<b>Net of short-term part</b>			<b>2,045,846</b>
<b>Total long-term part</b>			<b>847,137</b>

At 31 December 2016, loans and borrowings comprised the following:

'000 BYN	Currency	Maturity date	31 December 2016
Bonds	USD	2021	471,019
Bank loans	EUR	2017 – 2024	1,011,958
Bank loans	USD	2017 – 2021	655,384
Bank loans	RUB	2017 – 2019	50,803
Bank loans	BYN	2017–2051	178,336
Bank loans	Other	2017	1,586
Other loans	USD	2017 – 2020	154,029
Other loans	EUR	2017 – 2021	64,133
Other loans	BYN	2017	3,974
Other loans	Other	2017	1
Financial lease	BYN	2015–2024	8,985
<b>Total loans and borrowings</b>			<b>2,600,208</b>
<b>Net of short-term part</b>			<b>1,582,236</b>
<b>Total long-term part</b>			<b>1,017,972</b>

The amount of loans and borrowings received from state-controlled banks amounted to BYN 1,870,316 thousand and BYN 1,454,700 thousand rubles as of 31 December 2017 and 31 December 2016, respectively.

The Group pledged property, plant and equipment and inventory to secure bank loans (Notes 9, 13).

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	2017			2016		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	2,940	612	2,328	2,922	693	2,229
Between one and five years	8,158	2,247	5,911	7,818	2,788	5,030
More than five years	539	18	521	1,808	82	1,726
<b>Total:</b>	<b>11,637</b>	<b>2,877</b>	<b>8,760</b>	<b>12,548</b>	<b>3,563</b>	<b>8,985</b>

### Reconciliation of movements of liabilities to cash flows arising from financing activities

'000 BYN

	Liabilities			Total
	Loans and borrowings	Finance lease liabilities	Financial payables	
<b>Balance at 1 January 2017</b>	<b>2,591,223</b>	<b>8,985</b>	<b>-</b>	<b>2,600,208</b>
<i>Changes from financing cash flows</i>				
Raising loans and borrowings	2,181,169	-	-	2,181,169
Repayment of loans and borrowings	(2,043,374)	-	-	(2,043,374)
Payment of finance lease liabilities	-	(1,548)	-	(1,548)
<b>Total changes from financing cash flows</b>	<b>137,795</b>	<b>(1,548)</b>	<b>-</b>	<b>136,247</b>
<b>The effect of changes in foreign exchange rates</b>	<b>140,540</b>	<b>-</b>	<b>-</b>	<b>140,540</b>
<i>Liability-related changes</i>				
Translation effect	13,964	-	-	13,964
Recognition of the financial part of payables (Note 18)	-	-	88,355	88,355
New finance leases	-	1,323	-	1,323
Interest expense	220,015	2,099	-	222,114
Interest paid	(219,314)	(2,099)	-	(221,413)
<b>Total liability-related other changes</b>	<b>14,665</b>	<b>1,323</b>	<b>88,355</b>	<b>104,343</b>
<b>Balance at 31 December 2017</b>	<b>2,884,223</b>	<b>8,760</b>	<b>88,355</b>	<b>2,981,338</b>

## 17. 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. The Group does not expect any additional costs or capital expenditures related to performance indicators already achieved. The funding received is initially recorded as deferred income and is taken to income in the consolidated statement of comprehensive income in the amount proportionally to the amount of depreciation of the corresponding property, plant and equipment in the respective periods, as interests which funding is intended to compensate were previously capitalised following borrowing costs accounting policy (Note 6 (g)). The obtained government grant for compensation of interest expenses incurred after putting the underlying assets into operation (in November 2015) is recognized as income within the period of recognition of the underlying expenses in the consolidated statement of comprehensive income. As a result, the Group recognized an income on government grant in the amount of BYN 1,932 thousand and BYN 564 thousand in 2017 and 2016 respectively in the part related to depreciation of the underlying assets. In addition during 2017, the Group recognized a government grant income of BYN 15,864 thousand as a reduction in interest expenses in relation to compensation of non-capitalized interest expense received in the same period (2016: BYN 17,061 thousand).

The Group also received some other government grants representing government financing for acquisition of property, plant and equipment. The Group recognized an income on government grant in the amount of BYN 1,395 thousand and 1,357 thousand in 2017 and 2016 respectively.

The total amount of government grants received by the Group in 2017 amounted to BYN 42,790 thousand (2016: BYN 21,976 thousand rubles).

## 18. EQUITY AND RESERVES

The Group's share capital as of 31 December 2017 was BYN 969,994 thousand, this amount includes the effect of inflation of BYN 271,296 thousand, recognized in the period until 31 December 2014, when the Belarusian economy was hyper-inflationary.

According to Decree No. 100 of the President of the Republic of Belarus dated 3 April 2017, there was an increase in share capital in the amount of BYN 29,998 thousand at the expense of the National centralized innovation fund and additional issue of 16,348 ordinary shares.

*Number of shares*

	Ordinary shares	
	2017	2016
In issue at the beginning of the year	364,414	364,414
Additional issue	16,348	-
In issue at the end of the year, fully paid	380,762	364,414
Shares issued – nominal value, BYN thousand	1.835	1.835

All shares are ordinary and fully paid, they give a right for one vote, receive of dividends and participate in the distribution of residual assets of the Group. All the ordinary shares are equal to residual assets of the Group.

During the year ended 31 December 2017, the Group declared dividends in the amount of BYN 6,852 thousand (2016: BYN 7,400 thousand). Dividends were fully paid.

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

#### **Nature and purpose of other reserves**

##### *Reserve capital*

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

##### *Additional paid-in capital*

Additional paid-in capital was recognised in 2017 and includes total benefits in the amount of BYN 24,233 thousand of the initial recognition at fair value of financial payables occurred due to the Presidential Decree on restructuring payables to the energy supplier under common control which resulted in significant change in this financial instrument. As a result of a significant change in previously recognized debt in the amount of BYN 112,588 thousand it was replaced by a new financial instrument with a fair value at the recognition date of BYN 88,355 thousand. These actions were considered as the provision of favorable conditions by the owner. The benefits were decreased by the recognition of relevant deferred tax liability in the amount of BYN 4,362 thousand.

##### *Property, plant and equipment revaluation reserve*

Property, plant and equipment revaluation reserve is used to present 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 recognised in equity.

##### *Foreign currency translation reserve*

Foreign currency translation reserve is used to present exchange differences arising from the translation of the financial statements from the functional currency to the presentation currency.

**OJSC "BSW" – management company of "BMC" holding**  
*Notes to the consolidated financial statements for the year ended 31 December 2017*

**Non-controlling interest**

31 December 2017 '000 BYN	Belmet Handels- gesellschaft t m.b.H.	OJSC "Mogilev Metallurg Works"	OJSC "Minsk Bearing Plant"	"BSW" Trading House, Saint Petersbur g	Trading House "BSW- Baltiya"	JLLC "Manuli Hydraulic s Manufact uring Bel"	"BSW" Trading House, Moscow	BELASTA HL Außenha ndel GmbH	BEL-KAP- STEEL, LLC	JLLC "BSW- GKS"	OJSC "Plant "Legmas h"	Other individual ly immateri al subsidiari es	Intra- group eliminatio ns	Total
<b>NCI percentage</b>	<b>50.00%</b>	<b>45.33%</b>	<b>0.53%</b>	<b>40.00%</b>	<b>45.00%</b>	<b>44.58%</b>	<b>17.50%</b>	<b>25.00%</b>	<b>50.00%</b>	<b>42.63%</b>	<b>18.29%</b>	-	-	-
Assets	119,105	30,026	133,043	225,094	103,486	30,210	87,661	54,677	180,630	43,060	14,443	-	-	-
Liabilities	83,440	116,574	119,713	166,390	56,408	10,924	69,398	41,948	164,535	25,584	13,807	-	-	-
<b>Net assets</b>	<b>35,665</b>	<b>(86,548)</b>	<b>13,330</b>	<b>58,704</b>	<b>47,078</b>	<b>19,286</b>	<b>18,263</b>	<b>12,729</b>	<b>16,155</b>	<b>17,476</b>	<b>636</b>	-	-	-
Net assets attributable to NCI	17,833	(39,232)	71	23,482	21,185	8,598	3,196	3,182	8,078	7,450	116	(386)	(2,996)	50,577
Revenue	411,233	50,480	49,685	454,210	321,432	17,992	312,908	136,048	280,691	32,484	15,937	-	-	-
Loss (profit)	13,095	(12,767)	(11,705)	19,750	13,181	1,391	3,320	2,018	2,852	8,376	(710)	-	-	-
Other comprehensive income (loss)	-	(19,084)	3,019	12,945	10,380	4,253	4,029	-	3,562	3,854	142	-	-	-
<b>Total comprehensive income</b>	<b>13,095</b>	<b>(31,851)</b>	<b>(8,686)</b>	<b>32,695</b>	<b>23,561</b>	<b>5,644</b>	<b>7,349</b>	<b>2,018</b>	<b>6,414</b>	<b>12,230</b>	<b>(568)</b>	-	-	-
Loss (profit) allocated to non-controlling interests	7,941	(5,787)	(62)	7,900	5,931	620	581	505	1,426	3,571	(130)	(525)	-	21,971
Other comprehensive income (loss) allocated to non-controlling interests	-	(8,651)	16	5,178	4,671	1,896	705	-	1,781	1,643	26	(86)	-	7,179

**OJSC "BSW" – management company of "BMC" holding"**  
*Notes to the consolidated financial statements for the year ended 31 December 2017*

31 December 2016 '000 BYN	Belmet Handelsge sellschaft t m.b.H.	OJSC "Mogilev Metallurg ical Works"	OJSC "Minsk Bearing Plant"	"BSW" Trading House, Saint Petersbur g	Trading House "BSW- Baltiya"	JLLC "Manuli Hydraulic Manufact uring Bel"	"BSW" Trading House, Moscow	BELASTA HL Außenha ndel GmbH	BEL-KAP- STEEL, LLC	JLLC "BSW- GKS"	OJSC "Plant "Legmas h"	Other individual ly immateri al subsidiari es	Intra- group eliminatio ns	Total
<b>NCI percentage</b>	<b>50.00%</b>	<b>45.33%</b>	<b>0.53%</b>	<b>40.00%</b>	<b>45.00%</b>	<b>44.58%</b>	<b>17.50%</b>	<b>25.00%</b>	<b>50.00%</b>	<b>42.63%</b>	<b>18.29%</b>	-	-	-
<b>Assets</b>	71,896	27,437	136,284	192,472	49,043	27,645	67,892	40,514	97,038	44,582	9,475	-	-	-
<b>Liabilities</b>	48,521	101,218	111,377	153,217	17,881	9,750	53,685	30,370	87,732	35,482	8,429	-	-	-
<b>Net assets</b>	<b>23,375</b>	<b>(73,781)</b>	<b>24,907</b>	<b>39,255</b>	<b>31,162</b>	<b>17,895</b>	<b>14,207</b>	<b>10,144</b>	<b>9,306</b>	<b>9,100</b>	<b>1,046</b>	-	-	-
<b>Net assets attributable to non-controlling interests</b>	11,688	(33,445)	132	15,702	14,023	7,978	2,486	2,536	4,653	3,879	191	484	(2,028)	28,279
<b>Revenue</b>	314,984	57,474	38,372	381,575	227,708	13,521	200,878	127,693	326,079	30,178	8,585	-	-	-
<b>Loss (profit)</b>	9,722	(51,070)	(18,195)	14,630	15,221	1,220	1,477	1,769	1,800	5,500	(1,335)	-	-	-
<b>Other comprehensive income (loss)</b>	-	2,919	(943)	(1,553)	(1,233)	(707)	(560)	-	(368)	(359)	(44)	-	-	-
<b>Total comprehensive income</b>	<b>9,722</b>	<b>(48,151)</b>	<b>(19,138)</b>	<b>13,077</b>	<b>13,988</b>	<b>513</b>	<b>917</b>	<b>1,769</b>	<b>1,432</b>	<b>5,141</b>	<b>(1,379)</b>	-	-	-
<b>Loss (profit) allocated to non-controlling interests</b>	5,511	(23,150)	(96)	5,852	6,849	544	258	442	900	2,345	(244)	399	-	(390)
<b>Other comprehensive income (loss) allocated to non-controlling interests</b>	-	1,323	(5)	(621)	(555)	(315)	(98)	-	(184)	(153)	(8)	(20)	-	(636)



## 19. REVENUE

Revenue of the Group by types of products:

'000 BYN	2017	2016
Rolled products	835,093	691,746
Other types of wire	530,669	250,748
Steel pipes	301,407	479,000
Bronze-plated bead wire	257,559	43,939
Metal chord	201,380	304,708
Mold billet	155,922	71,988
Sale of scrap	119,347	106,700
Fasteners	104,053	86,545
Bearing	39,160	37,188
Wire RML	17,890	30,098
Other products	189,350	114,418
<b>Revenue</b>	<b>2,751,830</b>	<b>2,217,078</b>

The geographical concentration of the Group's revenue:

'000 BYN	2017	2016
Non-CIS countries	1,626,815	1,392,743
Russian Federation	603,315	465,444
Domestic market	424,380	341,478
Other CIS countries	97,320	17,413
<b>Revenue</b>	<b>2,751,830</b>	<b>2,217,078</b>

## 20. COST OF SALES

'000 BYN	2017	2016 (restated)
Materials	1,256,380	1,003,202
Electricity and fuel	442,861	471,211
Payroll expenses and related taxes	185,607	140,882
Depreciation	170,488	134,940
Contributions to social security fund	65,593	49,273
Transportation expenses	10,534	15,091
Spoilage and waste	10,294	8,991
Taxes other than income tax	10,196	10,477
Repair and maintenance of property, plant and equipment	8,978	8,023
Travel expenses	6,506	1,966
Other expenses	128,411	87,420
<b>Cost of sales</b>	<b>2,295,848</b>	<b>1,931,476</b>

## 21. ADMINISTRATIVE EXPENSES

'000 BYN	2017	2016
Payroll expenses and related taxes	49,784	38,846
Taxes other than income tax	30,811	29,071
Bank charges	21,760	18,143
Depreciation	17,126	10,224
Contributions to social security fund	16,389	14,286
Excess over maximum permissible concentration	6,847	4,197
Third party's services	3,945	5,221
Private security	2,647	2,926
Electricity, fuel, water	2,285	2,602
Materials	1,883	1,583
Insurance	1,011	212
Repair and maintenance of property, plant and equipment	701	849
Legal and consultancy	529	405
Travel expenses	454	336
Other expenses	10,405	3,674
<b>Administrative expenses</b>	<b>166,577</b>	<b>132,575</b>

## 22. SELLING EXPENSES

'000 BYN	2017	2016
Transportation expenses	104,542	90,476
Materials	7,347	4,901
Payroll expenses and related taxes	4,127	5,919
Contributions to social security fund	2,411	2,224
Travel expenses	2,233	2,112
Electricity, fuel, water	1,320	1,278
Advertising expenses	922	1,277
Depreciation	654	806
Taxes other than income tax	174	52
Rent expenses	137	413
Insurance	31	343
Other expenses	10,798	13,005
<b>Selling expenses</b>	<b>134,696</b>	<b>122,806</b>

### 23. OTHER OPERATING EXPENSES

'000 BYN	2017	2016 (restated)
Other employee benefits	20,109	9,177
Expenses for social sphere	9,577	8,301
Penalties paid	7,755	7,086
Expenses on disposal of materials	4,663	-
Expenditures for sports activities	3,426	2,321
Other fees and charges	3,313	454
Expenses related to operations with packaging and other materials	3,163	1,248
Expenses from disposal of property, plant and equipment	2,916	19,836
Expenses for other sales	1,826	1,896
Provision for pension payments	1,618	1,935
Charity expenses	1,008	412
Other expenses	5,163	522
<b>Other operating expenses</b>	<b>64,537</b>	<b>53,188</b>

### 24. OTHER OPERATING INCOME

'000 BYN	2017	2016
Surplus, identified during inventories	3,056	10,207
Rental income	877	912
Posting the wastage	672	8,037
Penalties, fines, penalties for violation of the terms of contracts, paid or recognized for payment, settlement of claims	511	2,237
Sponsor support	407	1,412
Income from securities	-	1,652
Other income	2,855	3,193
<b>Other operating income</b>	<b>8,378</b>	<b>27,650</b>

## 25. FINANCE INCOME AND COSTS

Finance income and costs comprise the following:

'000 BYN	2017	2016 (restated)
<b>Finance income</b>		
Interest income	1,493	668
Other income	18	71
<b>Total finance income</b>	<b>1,511</b>	<b>739</b>
<b>Finance costs</b>		
Interest expenses	(204,141)	(209,714)
Net foreign exchange loss	(173,211)	(118,866)
Other	(2,118)	(11,160)
<b>Total finance costs</b>	<b>(379,470)</b>	<b>(339,740)</b>
<b>Net finance costs, recognized in profit and loss</b>	<b>(377,959)</b>	<b>(339,001)</b>

## 26. 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. The applicable tax rate for income tax for the Group is 18% and represents income tax rate for Belarusian enterprises.

Particular types of expenses are not recognised 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 2017 and 2016 relate mostly to different methods of income and expense recognition, as well as the carrying amounts of certain assets.

Movements in deferred tax assets and liabilities are attributable to the following items:

	31 December 2017	Recognized in profit or loss	Recognised in other comprehensive income	Effect of translation to presentation currency	31 December 2016 (restated)
Property, plant and equipment	131,521	66,685	-	(372)	65,208
Prepayments and other assets <sup>1)</sup>	122,895	(10,404)	-	58	133,241
Trade and other payables	12,414	47,850	(4,362)	(267)	(30,807)
Trade and other receivables	2,686	274	-	(2)	2,414
Loans granted	(81)	17	-	-	(98)
Government grants	12,248	1,976	-	-	10,272
Inventories	3,065	(6,134)	-	-	9,199
Loans and borrowings	(2,177)	(707)	-	-	(1,470)
Other differences	763	9,705	-	-	(8,942)
<b>Tax assets before offset</b>	<b>283,334</b>	<b>109,262</b>	<b>(4,362)</b>	<b>(583)</b>	<b>179,017</b>
Effect of change in unrecognized deferred tax assets	(34,090)	5,269	-	-	(39,359)
<b>Net deferred tax assets</b>	<b>249,244</b>	<b>114,531</b>	<b>(4,362)</b>	<b>(583)</b>	<b>139,658</b>
	31 December 2016	Recognized in profit or loss	Recognised in other comprehensive income	Effect of translation to presentation currency	1 January 2016 (restated)
Property, plant and equipment	65,208	89,345	(80,387)	(108)	56,358
Prepayments and other assets <sup>1)</sup>	133,241	63,465	-	(76)	69,852
Trade and other payables	(30,807)	(29,466)	-	35	(1,376)
Trade and other receivables	2,414	503	-	-	1,911
Loans granted	(98)	6	-	-	(104)
Government grants	10,272	28	-	-	10,244
Inventories	9,199	(647)	-	-	9,846
Loans and borrowings	(1,470)	(308)	-	-	(1,162)
Other differences	(8,942)	(7,886)	-	-	(1,056)
<b>Tax assets (liability) before offset</b>	<b>179,017</b>	<b>115,040</b>	<b>(80,387)</b>	<b>(149)</b>	<b>144,513</b>
Effect of change in unrecognized deferred tax assets	(39,359)	(994)	-	-	(38,365)
<b>Net deferred tax assets (liability)</b>	<b>139,658</b>	<b>114,046</b>	<b>(80,387)</b>	<b>(149)</b>	<b>106,148</b>

1) includes accumulated exchange differences deferred as an asset in tax balance sheet in accordance with legislation.

Management of the Group believes that following measures disclosed in Note 2, the Group will improve its financial position and will have future taxable profit against which it will be possible to utilize deductible temporary differences.

As at 31 December 2017 and 31 December 2016, deferred tax assets and liabilities comprise the following:

'000 BYN	2017	2016 (restated)
Deferred tax asset	252,587	142,387
Deferred tax liability	(3,343)	(2,729)
<b>Total</b>	<b>249,244</b>	<b>139,658</b>

The reconciliation between theoretical tax expenses (income), current income tax and accounting profit for the year ended 31 December 2017 and 31 December 2016 is as follows:

'000 BYN	2017	2017	2016	2016 (restated)
Loss before tax		(250,533)		(395,433)
Effect of adjustments in consolidation		13,070		16,749
<b>Loss before taxation of consolidated subsidiaries that are subject to income tax</b>		<b>(237,463)</b>		<b>(378,684)</b>
Theoretical income on income tax at an effective tax rate of 18%	(18.0%)	(42,743)	(18.0%)	(68,163)
Permanent differences	(1.8%)	(4,362)	(0.2%)	(753)
The impact of the revaluation write-off on national accounting	(18.0%)	(42,852)	(10.7%)	(40,420)
Current year losses for which no deferred tax asset was recognized	1.7%	4,141	0.4%	1,533
Effect on deferred tax on expenses and incomes not taken for tax purposes	1.1%	2,580	0.0%	(93)
The tax effect of different tax rates in other jurisdictions	1.1%	2,682	0.3%	1,082
Tax effect of unrecognized tax losses	(2.2%)	(5,269)	(0.3%)	(994)
Other adjustments	0.5%	1,286	3.8%	14,384
<b>Income from income tax</b>	<b>(35.6%)</b>	<b>(84,537)</b>	<b>(24.7%)</b>	<b>(93,424)</b>

Benefits on income tax for the years ended 31 December 2017 and 31 December 2016 are as follows:

'000 BYN	2017	2016 (restated)
Current income tax expense for the year	(29,994)	(20,622)
Deferred income taxes for the year	114,531	114,046
<b>Total income tax benefit</b>	<b>84,537</b>	<b>93,424</b>

## **27. RELATED PARTY TRANSACTIONS**

The total amount of payroll, bonuses and other payments to key management personnel of the Group during the years ended 31 December 2017 and 31 December 2016 made up BYN 4,690 thousand and BYN 4,910 thousand accordingly.

Republic of Belarus exercises control over the Group's activities. 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, electricity, and rendering of services, rise of borrowings, receiving government grants. Except for state support and transactions that are disclosed below all transactions are made under market conditions and in the ordinary course of activities.

## **28. CONTINGENT LIABILITIES**

### ***Lawsuits***

In the normal course of the Group's activities, customers and counterparties are making claims to the Group. Management believes that the Group will not incur significant losses, as a result of the proceedings on them and, accordingly, no provision has been made in the consolidated financial statements

### ***Taxation contingencies in Belarus***

The taxation system in Belarus is characterised by complexity and frequent changes in legislation, official pronouncements and authorities' decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. However, there is no extensive court practice in Belarus on tax issues.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the period not exceeding 5 calendar years.

Transfer pricing legislation enacted in Belarus starting from 1 January 2012 provides the framework for preventing the erosion of the tax base. The specifics of the current transfer pricing legislation in Belarus is that the sources of information for analysing the market prices are significantly limited. There is also no extensive court practice, which creates additional uncertainty in connection with the practical application of tax legislation by tax authorities in certain cases.

In accordance with the draft amendment to the Tax Code of the Republic of Belarus, significant changes in relation to transfer pricing legislation are expected from 2019, which are intended to bring them closer to OECD guidelines.

The transfer pricing rules apply to cross-border and domestic transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Belarussian Tax Code.

Recently, there have been a number of changes in the tax legislation of Belarus aimed at regulating the tax consequences of transactions with related parties, such as limitation on "deductible" expenses on controlled debts (interest, management fees, etc.), restrictions

on deductibility from the tax base of so-called "economically unjustified costs". In addition, new changes to the Belarussian tax legislation have been recently adopted, which aimed at regulating tax consequences of transactions with foreign companies, such as concept of beneficial ownership of income.

These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

All these circumstances may create tax risks in Belarus that could be more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Belarussian tax legislation, official pronouncements and tax authorities' decisions. However, the interpretations of the tax authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

## **29. UNCERTAINTIES**

### ***Russian business environment***

The significant part of Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. The Group has a portion of sales to Russian Federation (Note 19) which is 21.9 % of total sales for 2017 (2016: 21.0%), Trade accounts receivables in RUB is equal to BYN 4,984 thousand as at 31 December 2017 (2016: BYN 41,339 thousand), Trade payables in RUB is equal to BYN 72,740 thousand as at 31 December 2017 (2016: BYN 124,450 thousand), Loans and borrowings in RUB is equal to BYN 2,021 thousand as at 31 December 2017 (2016: BYN 50,803 thousand) and no significant amounts of other assets or liabilities. At the same time, management, against the backdrop of sanctions, observes signs of a recovery in demand in the Russian metal products market.



### 30. 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.

#### 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 carrying amount of financial assets represents the maximum Group's credit risk exposure.

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.

The carrying amount of financial assets represents the maximum credit risk exposure:

'000 BYN	Notes	2017	2016
Available-for-sale investments		7,551	6,625
Cash and cash equivalents	14	61,096	59,935
Deposits		13,998	12,755
Loans granted		4,183	2,096
Financial trade and other receivables	11	133,830	122,864

#### Liquidity risk and funding management

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To limit this risk, the management of the Group has arranged diversified funding sources. It also manages assets with liquidity in mind and monitors future cash flows and liquidity. 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. Management's plans for improving liquidity position disclosed in Note 2.

### *Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the Group's financial liabilities as at 31 December 2017 and 2016, 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.

31 December 2017	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total contractual cashflows
<b>Financial liabilities</b>						
Short-term loans and borrowings	(2,045,846)	(471,540)	(1,647,100)	-	-	(2,118,640)
Long-term loans and borrowings	(847,137)	(35,137)	(58,962)	(1,341,394)	(45,357)	(1,480,850)
Trade payables	(436,240)	(344,774)	(9,741)	(105,958)	-	(460,473)
<b>Total financial liabilities</b>	<b>(3,329,223)</b>	<b>(851,451)</b>	<b>(1,715,803)</b>	<b>(1,447,352)</b>	<b>(45,357)</b>	<b>(4,059,963)</b>
31 December 2016	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total contractual cashflows
<b>Financial liabilities</b>						
Short-term loans and borrowings	(1,582,236)	(405,554)	(1,240,692)	-	-	(1,646,246)
Long-term loans and borrowings	(1,017,972)	(24,336)	(60,356)	(1,159,341)	(52,589)	(1,296,622)
Financial advances received and other liabilities	(1,506)	-	(1,506)	-	-	(1,506)
Trade payables	(526,032)	(368,276)	(147,081)	(4,179)	(6,496)	(526,032)
<b>Total financial liabilities</b>	<b>(3,127,746)</b>	<b>(798,166)</b>	<b>(1,449,635)</b>	<b>(1,163,520)</b>	<b>(59,085)</b>	<b>(3,470,406)</b>

### **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.

### *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, the refinancing rate of the National Bank of the Republic of Belarus) held at 31 December 2017 and 2016.

The structure of Group financial assets and liabilities as at 31 December 2017 is indicated below:

'000 BYN	Interest Free	Fixed interest rate	Floating interest rate	Total
<b>Financial assets</b>				
Available-for-sale investments	7,551	-	-	7,551
Short-term loans granted	357	3,364	-	3,721
Long-term loans granted	-	462	-	462
Financial trade and other receivables	133,830	-	-	133,830
Deposits	3,086	10,228	684	13,998
Cash and cash equivalents	30,358	28,777	1,961	61,096
<b>Financial liabilities</b>				
Trade and other payables	(347,885)	(88,355)	-	(436,240)
Loans and borrowings	(5,434)	(1,473,011)	(1,414,538)	(2,892,983)
<b>Open position of interest rate</b>	<b>(178,137)</b>	<b>(1,518,535)</b>	<b>(1,411,893)</b>	<b>(3,108,565)</b>

The structure of Group financial assets and liabilities as at 31 December 2016 is indicated below:

'000 BYN	Interest Free	Fixed interest rate	Floating interest rate	Total
<b>Financial assets</b>				
Available-for-sale investments	6,625	-	-	6,625
Short-term loans granted	1,500	-	-	1,500
Long-term loans granted	596	-	-	596
Financial trade and other receivables	122,864	-	-	122,864
Deposits	4,401	3,121	5,233	12,755
Cash and cash equivalents	37,419	8,977	13,539	59,935

'000 BYN	Interest Free	Fixed interest rate	Floating interest rate	Total
<b>Financial liabilities</b>				
Financial advances received and other liabilities	(1,506)	-	-	(1,506)
Trade and other payables	(526,032)	-	-	(526,032)
Loans and borrowings	(511)	(1,818,661)	(781,036)	(2,600,208)
<b>Open position of interest rate</b>	<b>(354,644)</b>	<b>(1,806,563)</b>	<b>(762,264)</b>	<b>(2,923,471)</b>

The table below indicates the sensitivity of statement of comprehensive income to possible changes in interest rates and all other variables are held constant.

	31 December 2017		31 December 2016	
	Increase of interest rate 1%	Decrease of interest rate (1%)	Increase of interest rate 1%	Decrease of interest rate (1%)
Effect on profit/(loss) before tax	(14,119)	14,119	(7,623)	7,623
Effect on equity	(11,578)	11,578	(6,251)	6,251

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect on profit.

#### *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 Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017 and 31 December 2016 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 rouble on the consolidated statement of comprehensive income (due to non-trading monetary assets and liabilities whose fair value is sensitive to exchange rate changes).

*OJSC "BSW" – management company of "BMC" holding*  
*Notes to the consolidated financial statements for the year ended 31 December 2017*

'000 BYN	USD	EUR	RUB	Other	Total
<b>Financial assets</b>					
Available-for-sale investments	-	764	-	-	764
Short-term loans granted	609	753	-	48	1,410
Financial trade and other receivables	6,301	4,351	4,984	11,442	27,078
Deposits	80	8,375	384	1,243	10,082
Cash and cash equivalents	3,931	27,516	2,736	148	34,331
<b>Total financial assets</b>	<b>10,921</b>	<b>41,759</b>	<b>8,104</b>	<b>12,881</b>	<b>73,665</b>
<b>Financial liabilities</b>					
Trade and other payables	(121,810)	(64,216)	(72,740)	(421)	(259,187)
Loans and borrowings	(1,697,494)	(937,868)	(2,021)	(1,166)	(2,638,549)
<b>Total financial liabilities</b>	<b>(1,819,304)</b>	<b>(1,002,084)</b>	<b>(74,761)</b>	<b>(1,587)</b>	<b>(2,897,736)</b>
<b>Total net monetary position</b>	<b>(1,808,383)</b>	<b>(960,325)</b>	<b>(66,657)</b>	<b>11,294</b>	<b>(2,824,071)</b>

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2016:

'000 BYN	USD	EUR	RUB	Other	Total
<b>Financial assets</b>					
Short-term loans granted	-	370	-	-	370
Financial trade and other receivables	6,491	3,170	41,339	528	51,528
Deposits	828	6,991	1,180	641	9,640
Cash and cash equivalents	5,216	17,015	16,274	219	38,724
<b>Total financial assets</b>	<b>12,535</b>	<b>27,546</b>	<b>58,793</b>	<b>1,388</b>	<b>100,262</b>
<b>Financial liabilities</b>					
Financial advances received and other liabilities	-	(1,506)	-	-	(1,506)
Trade and other payables	(90,428)	(56,667)	(124,450)	(811)	(272,356)
Loans and borrowings	(1,280,428)	(958,288)	(50,803)	(1,585)	(2,291,104)
<b>Total financial liabilities</b>	<b>(1,370,856)</b>	<b>(1,016,461)</b>	<b>(175,253)</b>	<b>(2,396)</b>	<b>(2,564,966)</b>
<b>Total net monetary position</b>	<b>(1,358,321)</b>	<b>(988,915)</b>	<b>(116,460)</b>	<b>(1,008)</b>	<b>(2,464,704)</b>

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 2017 and 31 December 2016 is presented as follows:

31 December 2017	USD		EUR		RUB	
	Strengthening 10%	Weakening (10%)	Strengthening 15%	Weakening (15%)	Strengthening 10%	Weakening (10%)
Effect on profit/(loss) before tax	(180,838)	180,838	(144,049)	144,049	(6,666)	6,666
Effect on equity	(148,287)	148,287	(118,120)	118,120	(5,466)	5,466
31 December 2016	USD		EUR		RUB	
	Strengthening 10%	Weakening (10%)	Strengthening 10%	Weakening (10%)	Strengthening 10%	Weakening (10%)
Effect on profit/(loss) before tax	(135,832)	135,832	(98,892)	98,892	(11,646)	11,646
Effect on equity	(111,382)	111,382	(81,091)	81,091	(9,550)	9,550

#### 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 has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's operational and strategic needs, and to maintain confidence of market participants. This is achieved with efficient cash management, constant monitoring of Group's revenues and profit, and long-term investment plans mainly financed by the Group's operating cash flows. With these measures the Group aims for steady profits growth.

### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 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.

#### Financial instruments with the fixed interest rate

The following table shows the estimated fair value of financial instruments. Fair value of financial instruments with the fixed rate 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.

Fair value analysis was not carried out on cash and cash equivalents, deposits, trade and other receivables, trade and other payables, as due to the short-term nature of these financial instruments, their carrying values are approximation to fair values. No financial assets and liabilities were measured at fair value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

'000 BYN	Note	Carrying amount	Level 1	Level 2	Level 3	Total
<b>31 December 2017</b>						
<b>Financial liabilities</b>						
Loans and borrowings	16	(2,892,983)	-	-	(2,874,065)	(2,874,065)
<b>Total financial liabilities</b>		<b>(2,892,983)</b>	<b>-</b>	<b>-</b>	<b>(2,874,065)</b>	<b>(2,874,065)</b>
<b>31 December 2016</b>						
<b>Financial liabilities</b>						
Loans and borrowings	16	(2,600,208)	-	-	(2,593,570)	(2,593,570)
<b>Total financial liabilities</b>		<b>(2,600,208)</b>	<b>-</b>	<b>-</b>	<b>(2,593,570)</b>	<b>(2,593,570)</b>

There were no transfers between fair value hierarchy levels in 2017 and 2016.

For the valuation of Level 3 for loans and borrowings and other financial liabilities valuation technique of discounted cash flows is used. Significant unobservable inputs are not available for the Group.

### 32. SUBSEQUENT EVENTS

At the date of issuance of the financial statements in 2018, the Group attracted a significant amount of new borrowed funds as described in Note 2.