

**OJSC “BSW – management company of “BMC”
holding”**

**Consolidated financial statements
for the year ended
31 December 2018
and Independent Auditors’ report**

Contents

Independent Auditors' Report	3
Consolidated Statement of Financial Position	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	13



Independent auditors' report

To the Shareholders, the Supervisory Board 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 2018, 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 for the effects of the matters described in the *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 2018, 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

The Group recognized deferred tax assets in the amount of BYN 264,503 thousand and BYN 252,587 thousand as at 31 December 2018 and 31 December 2017, respectively. 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 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, 37

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: Platonova Street 49, 7th floor, office 26-7, 220012 Minsk, Republic of Belarus



As at 31 December 2018, the Group did not recognize the results of property, plant and equipment impairment tests with respect to specific cash-generating units as it is required by International Accounting Standard IAS 36 *Impairment of Assets*. If the results of the impairment test had been recognized, the property, plant and equipment and total equity as of 31 December 2017 would have been decreased by BYN 57,491 thousand. Also, 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. Our opinion on the audited consolidated financial statements as at and for the year ended 31 December 2017 as at 29 June 2018 has been modified accordingly. Our opinion on the current year’s financial statements is also modified because of the possible effects of this matter on the comparability of the current year’s figures and the comparative figures.

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 Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’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
16 July 2019



Consolidated Statement of Financial Position as at 31 December 2018

‘000 BYN	Notes	31 December 2018	31 December 2017
Assets			
Property, plant and equipment	9	2,984,830	2,641,730
Investments in associates	10	4,050	3,500
Other investments		9,425	7,551
Long-term loans granted		700	462
Trade and other receivables	11	399	75
Prepayments and other assets	12	9,803	10,778
Bank deposit		33	3
Deferred tax assets	26	264,503	252,587
Non-current assets		3,273,743	2,916,686
Inventories	13	792,765	624,058
Short-term loans granted		3,909	3,721
Trade and other receivables	11	173,034	151,672
Prepayments and other assets	12	124,019	59,836
Tax receivables		57,914	78,873
Current income tax assets		4,770	5,400
Bank deposits		11,977	13,995
Cash and cash equivalents	14	45,319	61,096
Current assets		1,213,707	998,651
Total assets		4,487,450	3,915,337
Liabilities			
Trade payables		80,516	75,327
Advances received and other liabilities	15	5,065	5,662
Loans and borrowings	16	960,930	847,137
Government grants		94,630	84,529
Deferred tax liabilities	26	2,028	3,343
Non-current liabilities		1,143,169	1,015,998
Trade payables		401,600	360,913
Advances received and other liabilities	15	431,410	413,930
Loans and borrowings	16	2,225,017	2,045,846
Current income tax liabilities		6,262	8,749
Other taxes payable		26,537	29,367
Government grants		5,050	3,815
Current liabilities		3,095,876	2,862,620
Total liabilities		4,239,045	3,878,618
Net assets		248,405	36,719

The accompanying notes on pages 13 to 67 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2018

‘000 BYN	Notes	31 December 2018	31 December 2017
Equity			
Share capital	18	969,994	969,994
Reserve capital	18	11,854	9,552
Additional paid-in capital	18	19,871	19,871
Property, plant and equipment revaluation reserve	18	1,217,268	843,837
Accumulated loss		(2,051,689)	(1,875,799)
Foreign currency translation reserve	18	17,174	18,687
Equity attributable to equity holders of the parent company		184,472	(13,858)
Non-controlling interests	18	63,933	50,577
Total equity		248,405	36,719

These consolidated financial statements were approved by management on 16 July 2019 and were signed on its behalf by:

Acting Director General
Volkov A.



Acting Chief Accountant
Kavalchuk M.M.

Handwritten signature of Kavalchuk M.M.

**Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended
31 December 2018**

‘000 BYN	Notes	2018	2017
Revenue	19	3,717,601	2,751,830
Cost of sales	20	(3,074,166)	(2,295,848)
Gross profit		643,435	455,982
Administrative expenses	21	(177,846)	(166,577)
Selling expenses	22	(195,322)	(134,696)
Other operating expenses	23	(63,611)	(64,794)
Other operating income	24	8,982	8,378
Government grants	17	4,643	3,327
Impairment of trade receivables and contract assets	30	(10,263)	(3,869)
Operating profit		210,018	97,751
Reversal of impairment of property, plant and equipment	9	16,337	27,143
Finance income	25	1,786	1,511
Finance costs	25	(431,618)	(379,470)
Net finance costs		(429,832)	(377,959)
Share of profit of equity-accounted investees		474	2,532
Loss before tax		(203,003)	(250,533)
Income tax benefit	26	55,553	84,537
Loss for the reporting year		(147,450)	(165,996)
Other comprehensive income (loss)			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation of property, plant and equipment	9	461,090	-
Tax effect of revaluation of property, plant and equipment		(82,980)	-
		378,110	-
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Effect of translation to presentation currency		(6,516)	23,822
		(6,516)	23,822
Other comprehensive income for the year		371,594	23,822
Total comprehensive (loss) income for the year		224,144	(142,174)
<i>Profit (Loss) attributable to:</i>			
Equity holders of the Company		(173,431)	(187,967)
Non-controlling interests		25,981	21,971
		(147,450)	(165,996)
<i>Total comprehensive (loss) income attributable to</i>			
Equity holders of the Company		203,166	(171,324)
Non-controlling interests		20,978	29,150
		224,144	(142,174)

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

‘000 BYN	Notes	Attributable to equity holders of the Company							Non-controlling interest	Total equity and reserves
		Share capital	Reserve capital	Additional paid-in capital	Property, plant and equipment revaluation reserve	Foreign currency translation reserve	Accumulated loss	Total		
Balance as at 1 January 2017		939,996	6,969	-	847,633	2,044	(1,689,045)	107,597	28,279	135,876
Comprehensive income (loss)										
Loss for the year		-	-	-	-	-	(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 recognized in equity										
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 recognized in equity		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

The accompanying notes on pages 13 to 67 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

		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
Adjustment on initial application of IFRS 9, net of tax	7	-	-	-	-	-	(1,649)	(1,649)	-	(1,649)
Balance at 1 January 2018		969,994	9,552	19,871	843,837	18,687	(1,877,448)	(15,507)	50,577	35,070
Comprehensive income (loss)										
Loss for the year		-	-	-	-	-	(173,431)	(173,431)	25,981	(147,450)
Revaluation of property, plant and equipment	9	-	-	-	461,090	-	-	461,090	-	461,090
Tax effect of the revaluation of fixed assets	26	-	-	-	(82,980)	-	-	(82,980)	-	(82,980)
Transfer to reserve capital		-	2,302	-	-	-	(2,302)	-	-	-
Transfer to retained earnings		-	-	-	(4,679)	-	4,679	-	-	-
Effect of translation to presentation currency		-	-	-	-	(1,513)	-	(1,513)	(5,003)	(6,516)
Total comprehensive income (loss)		-	2,302	-	373,431	(1,513)	(171,054)	203,166	20,978	224,144
Transactions with owners of the Company recognized in equity		,	,		,	,	,	,	,	,
Dividends	18	-	-	-	-	-	-	-	(7,622)	(7,622)
Other distributions (part of the profit)	18	-	-	-	-	-	(3,187)	(3,187)	-	(3,187)
Total transactions with owners of the Company recognized in equity		-	-	-	-	-	(3,187)	(3,187)	(7,622)	(10,809)
Balance as at 31 December 2018		969,994	11,854	19,871	1,217,268	17,174	(2,051,689)	184,472	63,933	248,405

The accompanying notes on pages 13 to 67 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2018

‘000 BYN	Notes	2018	2017
Cash flows from operating activities			
Loss for the year		(147,450)	(165,996)
Adjustments:			
Income tax benefit	26	(55,553)	(84,537)
Depreciation	9	197,753	188,268
Reversal of property, plant and equipment impairment	9	(16,337)	(27,143)
Impairment of trade and other receivables	11	10,263	3,869
Provisions for pension payments		279	1,618
Loss from disposal of property, plant and equipment	23	6,586	2,916
Net finance costs	25	429,832	377,959
Share of profit of equity-accounted investees		(474)	(2,532)
		424,899	294,422
Changes in:			
Inventories		(166,266)	(229,764)
Trade and other receivables		(43,594)	(16,610)
Tax receivables		20,959	(44,674)
Tax liabilities		(2,830)	(8,519)
Prepayments granted and other current assets		(61,936)	(12,136)
Government grants		19,882	39,463
Trade and other payables		32,844	(94,764)
Prepayments received and other liabilities		15,575	160,047
Cash flows from operations before income taxes and interest paid		239,533	87,465
Interest paid		(234,247)	(221,413)
Income tax paid		(42,298)	(29,300)
Net cash flows used in operating activities		(37,012)	(163,248)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(61,188)	(34,980)
Proceeds from sale of property, plant and equipment		2,108	906
Loans granted		(426)	(2,087)
Interest received on deposits		1,695	1,493
Placement of deposits		1,988	-
Withdrawal of deposits		-	(1,243)
Purchases of investments in associates and other investments		(2,452)	(445)
Net cash flows used in investing activities		(58,275)	(36,356)
Cash flows from financing activities			
Proceeds from issue of shares	18	-	29,998
Loans and borrowings paid	16	(2,913,244)	(2,043,374)
Payment of finance lease liabilities	16	(3,726)	(1,548)

Consolidated Statement of Cash Flows for the year ended 31 December 2018

‘000 BYN	Notes	2018	2017
Loans and borrowings received	16	3,005,705	2,182,492
Accounts payable related to financial activities	16	(7,310)	-
Dividends paid	18	(10,809)	(6,852)
Net cash flow from financing activities		70,616	160,716
Net decrease in cash and cash equivalents		(24,671)	(38,888)
Effect of foreign currency translation and effect of exchange rate changes on cash and cash equivalents		8,894	40,049
Cash and cash equivalents at 1 January	14	61,096	59,935
Cash and cash equivalents at 31 December	14	45,319	61,096

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 2018, 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 (2017: 17 auxiliary shops).

The Company's average number of employees for the years ended 31 December 2018 and 2017 was 10,944 employees and 10,701 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
		2018	2017	
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

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2018	2017	
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
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 “Metallurgsotsservice”	Republic of Belarus	100.00	100.00	Rendering of services

OJSC “BSW – management company of “BMC” holding”
Notes to the consolidated financial statements for the year ended 31 December 2018

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2018	2017	
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	98.15	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 individuals at the scrap collecting sites in Russia
Belaruski lageri AD	Bulgaria	59.68	59.68	Wholesale of OJSC “MPZ”'s products
JLLC “BSW-GKS”	Republic of Belarus	57.38	57.38	Production of gaseous oxygen
JLLC “Manuli Hydraulics Manufacturing Bel”	Republic of Belarus	56.56	55.42	Production of high-pressure hoses for hydraulic devices
Trading House “BSW-Baltiya”	Lithuania	55.00	55.00	Wholesale of OJSC BSW's steel products
OJSC “Mogilev Metallurgical Works”	Republic of Belarus	54.67	54.67	Production of steel tubes, cast iron, steel and ferroalloys, iron and steel casting, production of construction metal structures and hardware, radiators and central heating boilers
Trade and production unitary enterprise “MMP-Service”	Republic of Belarus	54.67	-	Retail, public catering, rendering of services
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

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2018	2017	
Belmet Handelsgesellschaft m.b.H.	Austria	50.00	50.00	Wholesale of OJSC “BSW”’s steel products
BMZ Polska Sp. z o.o.	Republic of Poland	50.00	50.00	Wholesale of OJSC “BSW”’s steel products
LLC Belmet Steel DMSS, Dubai	UAE	50.00	50.00	Wholesale of OJSC “BSW”’s steel products
LLC “Belmet D.0.0. Belgrad”	Republic of Serbia	25.50	25.50	Wholesale of metal products of OJSC “BMZ”
RMZ Vertriebs GmbH	Austria	25.50	25.00	Wholesale of OJSC “Rechitsa Metizny Plant” 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.0.0. Belgrad” through Belmet Handelsgesellschaft m.b.H.

Associates

Company	Country of incorporation	Effective ownership interest, %		Type of activities
		2018	2017	
LLC “BSW-Novomet”	Republic of Belarus	40.00	-	Recycling of waste and scrap of ferrous metals
LLC “Cylinders Bel”	Republic of Belarus	30.00	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
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	20.63	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 2018 which resulted in immaterial effect on consolidated financial statements.

These consolidated financial statements were approved for issue by the Group's Management on 16 July 2019.

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 147,450 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017 – BYN 165,996 thousand). In addition as at the mentioned dates Group's current liabilities exceeded its current assets by BYN 1,882,169 thousand and BYN 1,863,969 thousand, respectively.

Based on the marketing forecast for 2019 the Group's management planned diversification of sales selecting markets with highest sales margins as a priority markets. At the reporting date, the management forecasts the growth of the main sales markets, which will increase both sales volumes and sales prices.

The Group presents an increase in operating results, for example, EBITDA calculated on the basis of the IFRS consolidated statements increased to BYN 416 million in 2018 compared to BYN 292 million in 2017.

Historical analysis of mutual relationship with creditors demonstrates successful actions of the Group on refinancing of liabilities. Credit institutions also do not use 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 2018 and up to the date of issue of these financial statements, the Group refinanced its liabilities for a total amount of BYN 739 million, in addition the Group received BYN 286 million of loans from new banks.

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

In particular, as a part of government program of the development of industrial sector of the Belarus for 2017 – 2020 based on the decision of Council of Ministry of Belarus #588 dated 7 August 2017 the parent company received financial support in the amount of BYN 15,047 thousand.

In addition, based on the decision of Council of Ministry of Belarus #249-DSP dated 17 April 2019 during 2019 the Group received governmental grant for the compensation of interest expenses paid by the Group for the total amount of EUR 1,894 thousand. As at the date of the financial statements the Group has received EUR 632 thousand. The total amount of the interest expenses compensated during 2018 was BYN 11,068 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 2017, as part of ensuring the financial and economic sustainability of the parent company in accordance with the Decree of the President of the Republic of Belarus No. 100 dated 3 April 2017, the share capital was increased by BYN 29,998 thousand provided from the republican centralized innovation fund.

In April 2019 the Group's parent company received confirmation of the intention to support its activities from the Ministry for Industry of Belarus.

A significant part of the Company's loans is represented by loans from state banks (Note 16).

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. All figures in roubles are rounded to (the nearest) thousand, unless otherwise indicated.

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

Financial result and financial position of a subsidiary with the functional currency different from the presentation currency are translated to 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 2018 and 31 December 2017 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 on their relevant activities, 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.

Allowances for trade accounts receivable

Loss allowances for trade accounts receivables are measured at an amount equal to lifetime expected credit losses based on the probability of a receivable progressing through successive stages of delinquency to write-off. The Management's estimated used in calculation of allowance are disclosed in Note 30.

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 are 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 (initial) cost basis except for 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.

(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 2018, 31 December 2017 and 1 January 2017 were as follows:

	31 December 2018	31 December 2017	1 January 2017
USD/BYN	2.1598	1.9727	1.9585
RUB/BYN	0.0311	0.0343	0.0324
EUR/BYN	2.4734	2.3553	2.0450
Average exchange rates for the period			
	2018	2017	
USD/BYN	2.0366	1.9318	
RUB/BYN	0.0326	0.0331	
EUR/BYN	2.4054	2.1783	

(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 their carrying amounts at the date of acquisition. Income and expenses of the acquired entity are included in the consolidated financial statements from the date of acquisition. 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 former 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 joint ventures.

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:

	<i>Years</i>
Buildings and infrastructure	1-142
Production machinery	1-66
Other equipment	1-20
Other property, plant and equipment	1-88

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(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:

	<i>Years</i>
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

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Based on the business model assessment the Group classifies financial assets, excluding equity-accounted investments, into the following categories:

Financial assets at amortised cost: These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI: These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale.

Held-to-maturity financial assets: Measured at amortised cost using the effective interest method.

Loans and receivables: Measured at amortised cost using the effective interest method.

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.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the National Bank of Belarus (NBB). The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have

expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the NBB key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change in the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(v) Offsetting

Financial assets and financial 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 amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(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*

Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or delinquency of more than 90 days;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 360 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery of the amounts written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets were assessed at each reporting date to determine whether there was objective evidence of impairment.

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

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

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was 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 were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was 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

The Group has initially applied IFRS 15 from 1 January 2018. Information about the Group's accounting policies relating to contracts with customers is provided in Note 19. The effect of initially applying IFRS 15 is described in Note 7.

(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.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is

calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(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) 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.

(n) 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.

(o) 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.

(p) 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 taxable 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.

(q) 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. CHANGES IN ACCOUNTING POLICIES

The Group has initially applied IFRS 15 (see Note A) and IFRS 9 (see Note B) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group’s financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards for the Group is mainly attributed to the following:

- allocation of revenue related to additional transportation services performance obligation and classification of transportation costs (see Note 7 (A); and
- an increase in impairment losses recognised on financial assets (see Note 7 (B) below).

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the consolidated financial statements. The main changes from the adoption of IFRS 15 is additional performance obligations identified for transportation services.

Starting from 1 January 2018 the Group recognizes revenue from sale of goods and services when a performance obligation under contract with customer is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer, at the transaction price. The Group has reviewed a representative sample of sales contracts to identify changes in timing of revenue recognition. The Group’s contracts with customers consist of two performance obligations: a) sale of its products and, in some cases, b) obligation to transport goods to specified location after control is transferred to customer. Under IFRS 15, revenue from sale of products is recognised at a point of time, when control over the goods is transferred to the customer. In most cases the control over goods is transferred to the customers at their premises. But in some cases a control over product is transferred to the customer after dispatch from the specific Group’s subsidiaries warehouses. In second case, a transportation component is required to be accounted for as a separate performance obligation with revenue recognized over time as the service is rendered and consequently transportation component required to be disclosed as separate revenue stream based on different timing of revenue recognition. Transportation costs relevant to allocated performance obligation in accordance with the new standard were classified in the cost of sales in the consolidated statement of profit and loss and other comprehensive income starting from 1 January 2018 and reclassified in 2017 for comparativeness purposes. Transportation costs incurred before the transfer of the control to the customer were classified as part of Selling expenses.

The adoption of IFRS 15 did not have a material impact on the financial position or financial performance of the Group as at 1 January 2018 - the date of initial application of the standard.

B. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income, had no impact on the Group’s consolidated financial statements as this item had been presented separately in the Group’s consolidated financial statements for the previous years.

The Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings.

‘000 BYN	<i>Note</i>	Impact of adopting IFRS 9 on opening balance
Retained earnings		(1,875,799)
Recognition of expected credit losses under IFRS 9	(ii)	(2,011)
Related tax		362
Impact at 1 January 2018		(1,649)

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities.

For an explanation of how the Group classifies and measures financial instruments, treats modifications and accounts for related gains and losses under IFRS 9, see Note 6(f)(ii).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group’s financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

‘000 BYN	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Available-for-sale investments	Available-for-sale	FVOCI – equity instrument	7,551	7,551
Financial trade and other receivables	Loans and receivables	Amortised cost	133,830	131,819
Loans granted	Loans and receivables	Amortised cost	4,183	4,183
Bank deposit	Loans and receivables	Amortised cost	13,998	13,998
Cash and cash equivalents	Loans and receivables	Amortised cost	61,096	61,096
Total financial assets			<u>220,658</u>	<u>218,647</u>

‘000 BYN	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial liabilities				
Bond issues	Other financial liabilities	Other financial liabilities	474,434	474,434
Bank loans	Other financial liabilities	Other financial liabilities	2,199,911	2,199,911
Other loans	Other financial liabilities	Other financial liabilities	209,878	209,878
Finance lease liabilities	Other financial liabilities	Other financial liabilities	8,760	8,760
Trade and other payables	Other financial liabilities	Other financial liabilities	436,240	436,240
Total financial liabilities			<u>3,329,223</u>	<u>3,329,223</u>

(ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 see Note 6 (h)(i).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows.

‘000 BYN

Loss allowance at 31 December 2017 under IAS 39	17,275
Additional impairment recognised at 1 January 2018 on:	2,011
Loss allowance at 1 January 2018 under IFRS 9	19,286

There were no material impact on other financial instruments.

i. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

8. NEW STANDARDS AND INTERPRETATIONS

Two new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

(a) IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed that the estimated impact of the initial application of IFRS 16 on its consolidated financial statements will not be significant. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of warehouse and office facilities. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. In respect of finance lease agreements, the Group does not expect a significant impact on the consolidated financial statements. Based on the information currently available, the Group estimates that the additional lease obligations that it recognizes as of January 1, 2019 will not be significant.

(ii) Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor.

No significant impact is expected for other leases in which the Group is a lessor.

(iii) Transition to the new standard

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(b) Other standards

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2019 and have not been applied in preparing these consolidated financial statements. The following amended standards and interpretations will not have a significant impact on the Group's consolidated financial statements:

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*;
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*;
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards;
- *Amendments to References to Conceptual Framework in IFRS Standards*;
- *IFRS 17 Insurance Contracts*.

9. PROPERTY, PLANT AND EQUIPMENT

‘000 BYN	Buildings and infrastructure	Production machinery	Other equipment	Other property, plant and equipment	Construction in progress and equipment for installation	Total
Cost						
1 January 2017	1,193,087	2,312,905	76,351	90,533	244,969	3,917,845
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
31 December 2017	1,221,202	2,389,276	82,507	91,903	199,342	3,984,230
Additions	16,830	40,663	274	4,454	13,445	75,666
Transfers	9,057	11,744	4,485	470	(25,756)	-
Disposals	(5,365)	(9,041)	(990)	(3,464)	(81)	(18,941)
Revaluation recognised in profit/loss of the reporting period	13,469	3,520	-	-	-	16,989
Revaluation recognised in comprehensive income	253,290	1,384,548	-	-	-	1,637,838
Change in exchange rates of presentation currency	(576)	-	(5,253)	194	4	(5,631)
31 December 2018	1,507,907	3,820,710	81,023	93,557	186,954	5,690,151

‘000 BYN	Buildings and infrastructure	Production machinery	Other equipment	Other property, plant and equipment	Construction in progress and equipment for installation	Total
Depreciation and impairment losses						
1 January 2017	138,979	911,059	31,620	57,419	-	1,139,077
Depreciation for the year	32,516	154,986	6,054	5,521	-	199,077
Disposals	(935)	(3,596)	(302)	(2,096)	-	(6,929)
Revaluation recognised in profit/loss of the reporting period	204	9,938	-	-	-	10,142
Recovery of impairment	-	-	-	(342)	-	(342)
Change in exchange rates of presentation currency	126	1	1,087	261	-	1,475
31 December 2017	170,890	1,072,388	38,459	60,763	-	1,342,500
Depreciation for the year	32,071	154,387	5,994	5,479	-	197,931
Disposals	(1,357)	(5,950)	(959)	(1,981)	-	(10,247)
Revaluation recognised in profit/loss of the reporting period	927	4,540	-	-	-	5,467
Revaluation recognised in comprehensive income	31,193	1,145,555	-	-	-	1,176,748
Recovery of impairment	-	-	-	(4,815)	-	(4,815)
Change in exchange rates of presentation currency	29	(1)	(2,400)	109	-	(2,263)
31 December 2018	233,753	2,370,919	41,094	59,555	-	2,705,321
Carrying amount						
1 January 2017	1,054,108	1,401,846	44,731	33,114	244,969	2,778,768
31 December 2017	1,050,312	1,316,888	44,048	31,140	199,342	2,641,730
31 December 2018	1,274,154	1,449,791	39,929	34,002	186,954	2,984,830

As at 31 December 2018 and 2017, property, plant and equipment in the amount of BYN 2,083,816 thousand and BYN 1,831,864 thousand, respectively, were pledged as collateral under received loans.

Property plant and equipment in the amount of BYN 9,990 thousand was acquired under finance lease in 2018 (2017: BYN 5,481 thousand).

As at 31 December 2018 the property, plant and equipment with the cost of BYN 223,037 thousand were fully depreciated but the Group used them in production activities and for administrative purposes (2017: BYN 83,891 thousand).

Depreciation of property and equipment is included in “Cost of sales”, “Administrative expenses” and “Selling expenses” and balances of “Finished goods” depending on the nature of their use:

‘000 BYN	Notes	2018	2017
Cost of sales	20	182,697	170,488
Administrative expenses	21	14,182	17,126
Selling expenses	22	874	654
		31.12.2018	31.12.2017
Finished goods		14,658	14,480

The Group’s management engaged an independent appraiser to give an independent assessment of the fair value of property, plant and equipment groups “Buildings and infrastructure” and “Production machines” as at 31 December 2018.

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 addition to determining the depreciated cost of replacement, the cash flow testing was analysed (test for economic impairment) on the level of separate cash generating units (CGU) which, considering the Group’s specifics, are each of the subsidiaries and the Company.

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 10.5% to 11.4% and is stabilised at the level of 11% in the terminal period.
- Cash flows for 2019–2023 were projected based on the assumption that production and sales will grow as the modernized workshops reach their full capacity, and depending on the growth in demand for high-quality steel in the main foreign sales markets and the implementation of the state import

substitution program, as well as presuming that revenue and expenses will increase in proportion to inflation.

- For discounting the nominal after-tax rate of 15.1% was used for the parent company (15.1% to 15.9% 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 64.3% to 73.4% and industry average beta coefficient without debt burden and unlevered beta of 1.0% to 1.1%. 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 2018 – 3.0%). When calculating the discount rate, country risk and size premium 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 WACC rate of 15.1% and growth rate of 2.2% were used for the parent company (for other CGUs).

As a result of the measurement, the total amount of the fair value of the Group's fixed assets was determined in the amount of: buildings and infrastructure – BYN 1,274,154 thousand, production machines – BYN 1,449,791 thousand. This measurement was assigned to Level 3 of the fair value hierarchy based on inputs for the applied valuation methods.

The effect of the revaluation results in the amount of BYN 461,090 thousand (before tax effect) is recognized in other comprehensive income. Also, for some CGUs, the recovery of a change in the fair value and impairment loss previously recognized in profit or loss in the amount of BYN 16,337 thousand was recognized.

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 4.13% would have caused the discounted amount of future cash flows to equal the carrying amount.
- Decrease in long-term growth rate by 7.79% in terminal period would have caused the discounted amount of future cash flows to equal the carrying amount.

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

‘000 BYN	31 December 2018		31 December 2017	
	Buildings and infrastructure	Production machinery	Buildings and infrastructure	Production machinery
Initial cost	939,737	1,202,353	919,791	1,158,987
Accumulated depreciation	(419,218)	(721,761)	(395,867)	(650,020)
Net carrying amount	520,519	480,592	523,924	508,967

10. INVESTMENTS IN ASSOCIATES

As at 31 December 2018 and 31 December 2017, investments in associates were as follows:

‘000 BYN	31 December 2018	31 December 2017
LLC “Dismas Trading s.r.l.”	3,144	2,977
LLC “Transconsult Poland Sp. z o.o.”	489	469
LLC “BSW-Novomet”	361	-
LLC “Cylinders-Bel”	30	30

LLC “RMZ Polska Sp. z o.o.”	26	24
Investments in associates	4,050	3,500

Group’s share of profit of investees in 2018 amounted to BYN 474 thousand (2017: BYN 2,532 thousand).

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables as at 31 December 2018 and 31 December 2017 comprised the following:

‘000 BYN	31 December 2018	31 December 2017
Trade receivables	185,617	151,105
Other receivables	17,497	17,917
Provision for impairment of trade and other receivables	(29,681)	(17,275)
Trade and other receivables	173,433	151,747
Non-current	399	75
Current	173,034	151,672
Financial trade and other receivables	155,936	133,830
Non-financial trade and other receivables	17,497	17,917

12. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets as at 31 December 2018 and 31 December 2017 comprised the following:

‘000 BYN	31 December 2018	31 December 2017
VAT recoverable and paid	50,580	25,140
Prepayments	58,543	24,352
Biological assets	16,648	13,005
Intangible assets	7,975	7,395
Other assets	76	979
Allowance for impairment of prepayments	-	(257)
Prepayments and other assets	133,822	70,614
Non-current	9,803	10,778
Current	124,019	59,836

Change in provision for impairment of prepayments:

‘000 BYN	2018	2017
At the beginning of the year	257	-
Charge for the year	(257)	257
At the end of the year	-	257

13. INVENTORIES

As at 31 December 2018 and 31 December 2017 inventories comprised the following:

‘000 BYN	31 December 2018	31 December 2017
Raw materials, supplies and auxiliary items	372,594	261,136
Finished goods	292,250	250,308
Work in progress	127,921	112,614
Inventories	792,765	624,058

As at 31 December 2018, inventories of BYN 181,648 thousand (31 December 2017: BYN 171,872 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 1,944,769 thousand in 2018 (in 2017: BYN 1,256,380 thousand). In 2018 the Group wrote down the inventories to the net realizable value in the amount of BYN 77,923 thousand. In 2017 the Group wrote down the inventories to the net realizable value in the amount of BYN 67,158 thousand. The charge of write-downs amounted to BYN 10,765 thousand in 2018 (2017: BYN 588 thousand). The write-down is included in cost of sales.

14. CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 31 December 2017 cash and cash equivalents comprised the following:

‘000 BYN	31 December 2018	31 December 2017
Cash at banks	43,504	54,511
Cash in transit	1,408	4,667
Cash on hand	407	1,918
Cash and cash equivalents	45,319	61,096

Significant amounts of cash, except cash in transit and cash in hand, are placed as at 31 December 2018 with the following banks:

‘000 BYN	Moody's Investors Service credit rating	Standard and Poor's credit rating	Balance at 31 December 2018
OJSC “Savings Bank Belarusbank”	Caa2/Caa1	B/B	14,910
Joint-Stock Commercial Bank “Novikombank”	B1/Ba3	-	7,992
Pekalo S.A., Poland	A2/A2	BBB+/BBB+	3,214
OJSC “BPS-Sberbank”	Caa2/Caa1	-	2,732
OJSC “Belagroprombank”	Caa2/Caa1	B-/B	2,230
Bank Austria	Baa1/Baa1	BBB/BBB+	1,681
OJSC “Belinvestbank”	Caa2/Caa1	-	1,676
Commerzbank AG	A2/A1	BBB+/A-	1,652
OJSC “BelVEB Bank”	-	B-/B	820
Unicredit Bank Austria AG	Baa1/Baa1	BBB/BBB+	134
PLC “Bank VTB”	Ba2/Baa3	BB+/BBB-	23
PLC “Sberbank Rossii”	Ba2/Baa3	-	22
Credit Suisse AG	Baa2/Baa2	BBB+/BBB+	-
Other banks	-	-	18,428
Total			55,514

Significant amounts of cash 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
Total			68,509

15. ADVANCES RECEIVED AND OTHER LIABILITIES

As at 31 December 2018 and 31 December 2017 advances received and other liabilities comprise the following:

‘000 BYN	31 December 2018	31 December 2017
Advances received	326,184	324,220
Amounts due to personnel	31,773	24,749
Liabilities for electricity	24,193	24,994
Payroll taxes	9,073	8,363
Pension provision	6,335	6,298
Other liabilities	38,917	30,968
Advances received and other liabilities	436,475	419,592
Non-current	5,065	5,662
Current	431,410	413,930
Financial advances received and other liabilities	-	-
Non-financial advances received and other liabilities	436,475	419,592

16. LOANS AND BORROWINGS

As at 31 December 2018, the Group breached financial covenants "Net debt/EBITDA" under the agreements with “Raiffeisenlandesbank” with maturity in 2019 and “Total liquidity ratio”, “Financial debt/EBITDA” under the agreements with Eurasian Development Bank with maturity in 2023. Breaches of these covenants is an “Event of Default” and may permit the creditors, upon their due notification, to immediately call the funds provided. Thus, the debt of BYN 198,637 thousand under the agreement with the Eurasian Development Bank is presented within current liabilities (31 December 2017: BYN 191,449 thousand).

At the date of signing these consolidated financial statements, the Group is engaged in activities with the 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 the financial covenants. On 11 June 2019, the notification of the non-application of enforcement actions for the breach of the financial covenants was received in the amount of BYN 198,637 thousand 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 2018, the outstanding balance on the issued bonds of the 5th and 6th issues in USD is BYN 519,432 thousand (in 2017: BYN 474,434 thousand). In accordance with the issuing documents, the final maturity of the issued bonds is February 2021.

At 31 December 2018 loans and borrowings comprised the following:

‘000 BYN	Currency	Maturity date	31 December 2018
Bonds	USD	2021	519,432
Bank loans	EUR	2019 - 2025	1,467,933
Bank loans	USD	2019 - 2022	808,419
Bank loans	RUB	2019 - 2021	184,375
Bank loans	BYN	2019 - 2051	21,725
Other loans	USD	2019	168,020
Other loans	EUR	2019	2,974
Other loans	BYN	2019 - 2021	423
Financial lease	BYN	2019 - 2026	11,458
Financial lease	RUB	2019 - 2021	1,188
Total loans and borrowings			3,185,947
Net of short-term part			2,225,017
Total long-term part			960,930

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
Total loans and borrowings			2,892,983
Net of short-term part			2,045,846
Total long-term part			847,137

The applicable contractual interest rates on loans and borrowings of the Group by currencies for the year ended December 31, 2018 and December 31, 2017, were USD – up to 11.00% (2017: up to 13.75%), EUR – up to 13.75% (2017: up to 13.75%), RUB – up to 16% (2017: up to 20%), BYN – up to 20% (2017 – up to 20.46%).

The amount of loans and borrowings received from state-controlled banks amounted to BYN 1,783,120 thousand and BYN 1,632,555 thousand as of 31 December 2018 and 31 December 2017, respectively. The weighted average nominal interest rate on such loans was 7.1% as of 31 December 2018, (31 December of 2017: 7.9%).

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:

	2018			2017		
	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	5,104	1,158	3,946	2,940	612	2,328
Between one and five years	11,112	3,697	7,415	8,158	2,247	5,911
More than five years	1,443	158	1,285	539	18	521
Total:	17,659	5,013	12,646	11,637	2,877	8,760

Reconciliation of movements of liabilities to cash flows arising from financing activities for 2017 and 2018:

‘000 BYN	Liabilities			Total
	Loans and borrowings	Finance lease liabilities	Portion of trade and other payables related to financial activities	
Balance at 1 January 2018	2,884,223	8,760	88,355	2,981,338
<i>Changes from financing cash flows</i>				
Raising loans and borrowings	3,005,705	-	-	3,005,705
Repayment of loans and borrowings	(2,913,244)	-	-	(2,913,244)
Payment of finance lease liabilities	-	(3,726)	-	(3,726)
Debt repayment	-	-	(7,310)	(7,310)
Total changes from financing cash flows	92,461	(3,726)	(7,310)	81,425
The effect of changes in foreign exchange rates	192,631	-	-	192,631

‘000 BYN

	Liabilities			
	Loans and borrowings	Finance lease liabilities	Portion of trade and other payables related to financial activities	Total
<i>Changes from liabilities</i>				
Translation effect	10,698	-	-	10,698
New finance leases	-	7,573	-	7,573
Interest expense	216,113	867	10,594	227,574
Interest paid	(222,825)	(828)	(10,594)	(234,247)
Total liability-related other changes	3,986	7,612	-	11,598
Balance at 31 December 2018	3,173,301	12,646	81,045	3,266,992

‘000 BYN

	Liabilities			
	Loans and borrowings	Finance lease liabilities	Portion of trade and other payables related to financial activities	Total
Balance at 1 January 2017	2,591,223	8,985	-	2,600,208
<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)
Total changes from financing cash flows	137,795	(1,548)	-	136,247
The effect of changes in foreign exchange rates	140,540	-	-	140,540
<i>Changes from liabilities</i>				
Translation effect	13,964	-	-	13,964
Recognition of the restructured 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)
Total liability-related other changes	14,665	1,323	88,355	104,343
Balance at 31 December 2017	2,884,223	8,760	88,355	2,981,338

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 stated in income in the consolidated statement of comprehensive income in the amount proportional to the amount of depreciation of the corresponding property, plant and equipment in the respective periods in relation to compensation received with regard to interest on borrowed funds that were previously capitalized according to the accounting policy on recognition of borrowing costs (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 1,942 thousand and BYN 1,932 thousand in 2018 and 2017 respectively with regard to the depreciation of the underlying assets. In addition during 2018, the Group recognized a government grant income of BYN 10,259 thousand as a reduction in interest expenses in relation to compensation of non-capitalized interest expense received in the same period (2017: BYN 15,864 thousand).

As a part of the State Program for the Development of the Machine-Building Complex of the Republic of Belarus for 2017-2020 of September 20, 2018, No. GPRMK-3-2018-gp, in accordance with the Resolution of the Council of Ministers of the Republic of Belarus No. 588 of August 7, 2017, as a result of the data analysis for conformity with the criteria identified in the State Program on the projected indicators for 2018–2020 on the growth rates of exports and value added per employee, the Group was included in the list of executors of the “Modernization, technical re-equipment of existing production facilities and creation of new production facilities” measures, which will be provided with state financial support at the expense of the state budget in the form of reimbursement of part of expenses for the purchase of technological equipment and spare parts.

The Group doesn’t expect any additional costs or investments related to already achieved performance indicators. Funding received is initially recognized as deferred income and is included in income in the consolidated statement of comprehensive income in the amount proportional to the depreciation of the relevant fixed assets in the corresponding periods in respect of compensation for a share of the costs of acquiring these fixed assets. The amount of state subsidies received is BYN 12,347 thousand. The Group recorded the part of income related to the depreciation of the relevant assets in the amount of BYN 253 thousand in 2018.

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 2,448 thousand and BYN 1,395 thousand in 2018 and 2017, respectively.

The total amount of government grants received by the Group in 2018 amounted to BYN 24,525 thousand (2017: BYN 42,790 thousand).

18. EQUITY AND RESERVES

The Group's share capital as of 31 December 2018 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 hyperinflationary.

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	
	2018	2017
In issue at the beginning of the year	380,762	364,414
Additional issue	-	16,348
In issue at the end of the year, fully paid	380,762	380,762
Shares issued – nominal value, BYN thousand	1.835	1.835

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

During the year ended 31 December 2018, the Group declared dividends in the amount of BYN 7,622 thousand (2017: BYN 6,852 thousand). Dividends were fully paid.

During 2018 the owner withdrew BYN 3,187 thousand from the Company’s profit calculated in accordance with Belarusian legislation, in the form of deductions of the part of the profit of state unitary enterprises in accordance with the Decree of the President of the Republic of Belarus No. 637 of December 28, 2005. In 2017, no withdrawals occurred.

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 the 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 the significant change, the previously recognized debt in the amount of BYN 112,588 thousand 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 benefit was decreased by the amount of recognized 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 of foreign subsidiaries.

Non-controlling interest

31 December 2018
'000 BYN

	Belmet Han- delsge- sellschaft m.b.H.	OJSC “Mogilev Metallur- gical Works”	OJSC “Minsk Bearing Plant”	“BSW” Trading House, Saint Pe- tersburg	Trading House “BSW- Baltiya”	JLLC “Manuli Hydraulics Manufac- turing Bel”	“BSW” Trading House, Moscow	BELAS- TAHL Außen- handel GmbH	BEL- KAP- STEEL, LLC	JLLC “BSW- GKS”	OJSC “Plant “Leg- mash”	Other in- dividually immaterial subsidiar- ies	Intra- group elimina- tions	Total
NCI percentage	50.00%	45.33%	0.53%	40.00%	45.00%	43.44%	17.50%	25.00%	50.00%	42.63%	18.29%	-	-	-
Non-current assets	24,519	8,974	93,912	34,213	138	19,931	693	3,137	6,503	39,443	9,302			
Current assets	113,521	30,356	37,239	196,771	150,913	9,696	91,282	49,360	174,005	2,193	9,217			
Non-current liabilities	-	31,813	37,197	14,212	-	1,237	14,110	-	16,834	-	3,420			
Current liabilities	90,539	108,907	96,857	147,395	84,506	6,046	58,196	36,920	149,593	13,876	15,741			
Net assets	47,501	(101,390)	(2,903)	69,377	66,545	22,344	19,669	15,577	14,081	27,760	(642)	5,276	-	-
Net assets attributable to NCI	23,751	(45,960)	(15)	27,751	29,945	9,961	3,442	3,894	7,041	11,834	(117)	27	(7,621)	63,933
Revenue	509,476	75,164	49,414	4,048	570,243	23,552	372,393	145,082	287,885	2,124	10,449			
Profit (loss)	11,292	(14,842)	(16,231)	21,552	19,291	3,303	3,876	3,650	1,735	10,802	(1,233)			
Other comprehensive loss	(2,470)	-	-	(3,608)	(3,460)	-	(1,023)	(812)	(732)	-	-			
Total comprehensive income (loss)	8,822	(14,842)	(16,231)	17,944	15,831	3,303	2,853	2,838	1,003	10,802	(1,233)			
Profit (loss) allocated to non-controlling interests	7,153	(6,728)	(84)	8,621	8,681	1,472	678	913	868	4,605	(225)	26	-	25,981
Other comprehensive loss allocated to non-controlling interests	(1,235)	-	-	(1,443)	(1,557)	-	(179)	(203)	(366)	-	-	(20)	-	(5,003)

OJSC “BSW – management company of “BMC” holding”
Notes to the consolidated financial statements for the year ended 31 December 2018

<i>31 December 2017 '000 BYN</i>	Belmet Han- delsge- sellschaft m.b.H.	OJSC “Mogilev Metallur- gical Works”	OJSC “Minsk Bearing Plant”	“BSW” Trading House, Saint Pe- tersburg	Trading House “BSW- Baltiyya”	JLLC “Manuli Hydraulics Manufac- turing Bel”	“BSW” Trading House, Moscow	BELAS- TAHL Außen- handel GmbH	BEL- KAP- STEEL, LLC	JLLC “BSW- GKS”	OJSC “Plant “Leg- mash”	Other in- dividually immaterial subsidiar- ies	Intra- group elimina- tions	Total
NCI percentage	50.00%	45.33%	0.53%	40.00%	45.00%	44.58%	17.50%	25.00%	50.00%	42.63%	18.29%	-	-	-
Non-current assets	20,894	8,324	100,533	39,478	160	19,876	649	2,897	5,088	41,983	3,862			
Current assets	105,179	21,702	32,493	185,616	103,326	10,334	87,012	51,780	175,602	1,077	10,581			
Non-current liabilities	-	36,666	36,361	14,259	-	2,235	29,409	-	15,679	11,017	672			
Current liabilities	83,440	79,908	83,352	152,131	56,408	8,689	39,989	41,948	148,856	14,567	13,135			
Net assets	42,633	(86,548)	13,313	58,704	47,078	19,286	18,263	12,729	16,155	17,476	636	5,062	-	-
Net assets attributable to NCI	21,317	(39,232)	71	23,482	21,185	8,598	3,196	3,182	8,078	7,450	116	(14)	(6,852)	50,577
Revenue	509,476	75,164	49,414	4,048	570,243	23,552	372,393	145,082	287,885	2,124	10,449	-	-	-
Profit (loss)	13,095	(12,767)	(11,705)	19,750	13,181	1,391	3,320	2,018	2,852	8,376	(710)	-	-	-
Other comprehensive income	3,788	-	-	5,218	4,182	-	1,623	1,132	1,436	-	-	-	-	-
Total comprehensive income (loss)	16,883	(12,767)	(11,705)	24,968	17,363	1,391	4,943	3,150	4,288	8,376	(710)	-	-	-
Profit (loss) allocated to non-controlling interests	7,940	(5,787)	(62)	7,900	5,931	620	581	505	1,426	3,571	(130)	(524)	-	21,971
Other comprehensive income allocated to non-controlling interests	1,894	-	-	2,087	1,882	-	284	283	718	-	-	(31)	-	7,179

19. REVENUE

The effect of initially applying IFRS 15 on the Group’s revenue from contracts with customers is described in Note 7. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

The Group generates revenue primarily from the sale of its finished goods and provision of shipping and handling services to its customers.

Revenue of the Group by types of products:

‘000 BYN	2018	2017
Rolled products	1,307,828	835,093
Other types of wire	464,746	530,669
Steel pipes	363,829	301,407
Metal chord	297,733	201,380
Bronze-plated bead wire	271,371	257,559
Mold billet	253,338	155,922
Fasteners	162,328	104,053
Sale of scrap	147,769	119,347
Bearing	48,889	39,160
Wire RML	45,153	17,890
Transportation services	36,485	-
Other products	318,132	189,350
Revenue	3,717,601	2,751,830

The geographical concentration of the Group's revenue:

‘000 BYN	2018	2017
Non-CIS countries	2,204,133	1,626,815
Russian Federation	741,155	603,315
Domestic market	479,473	424,380
Other CIS countries	292,840	97,320
Revenue	3,717,601	2,751,830

Disaggregation of the Group's revenue by timing of recognition:

‘000 BYN	2018
Products transferred at a point in time	3,681,116
Products and services transferred over time	36,485
Revenue	3,717,601

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/ service	Nature and timing of performance of obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Finished goods	In most cases, customers obtain control over standard paper products when the goods are delivered to and accepted at their premises. Invoices are issued and revenue is recognized at that point in time. Normally the Group exports goods only under prepayment up to 90 days, it can sell goods in the internal market with deferred payment up to 90 days. No discounts are provided for standard products. Some contracts permit the customer to return an item, however the historical percentage of returns is not significant.	Revenue is recognised when the goods are delivered and accepted by customers at their premises, and the control over the products is transferred to customers. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that further it will not be required to reverse this amount and recognize a significant decrease in the total amount of recognized revenue. Based on the analysis of the historical percentage of returns, the Group assessed that the potential adjustment of the amount of expected returns is not significant.	Revenue was recognised when there was strong evidence (usually in the form of an executed sales contract) that the significant risks and rewards of ownership had been transferred to the customer, recovery of the relevant consideration is probable, the incurred costs and potential returns of goods can be measured reliably, involvement in the management of the goods sold has ceased, and the amount of revenue can be measured reliably. Revenue was measured at the fair value of the consideration given or receivable, net of returns.
Transportation services	In certain product supply agreements, control over the products is transferred to the customer upon shipment from the warehouse of the Group's division. In these contracts, the Group allocates a separate obligation to deliver products to a specific location after the transfer of control to the customer.	The revenue component related to the delivery of products after the transfer of control to the customer is recognised over the period, while the service is being provided.	The delivery component was not identified separately and was included in the sales revenue as described above.

20. COST OF SALES

‘000 BYN	2018	2017
Materials	1,944,769	1,256,380
Electricity and fuel	493,287	442,861
Payroll expenses and related taxes	217,273	185,607
Depreciation	182,697	170,488
Contributions to social security fund	77,890	65,593
Transportation expenses	45,684	55,370
Spoilage and waste	14,952	10,294
Current maintenance of property, plant and equipment	14,308	8,978
Taxes other than income tax	6,136	10,196
Travel expenses	1,464	6,506
Other expenses	75,706	83,575
Cost of sales	3,074,166	2,295,848

21. ADMINISTRATIVE EXPENSES

‘000 BYN	2018	2017
Payroll expenses and related taxes	61,006	49,784
Bank charges	23,257	21,760
Contributions to social security fund	21,288	16,389
Depreciation	14,182	17,126
Taxes other than income tax	13,626	30,811
Electricity, fuel, water	10,744	2,285
Excess over maximum permissible concentration	6,747	6,847
Third parties’ services	6,639	3,945
Current repair and use of property, plant and equipment	3,956	701
Private security	3,416	2,647
Materials	2,021	1,883
Travel expenses	1,070	454
Legal and consultancy	658	529
Insurance	161	1,011
Other expenses	9,075	10,405
Administrative expenses	177,846	166,577

22. SELLING EXPENSES

‘000 BYN	2018	2017
Transportation expenses	141,092	104,542
Payroll expenses and related taxes	16,173	7,411
Materials	5,654	4,063
Contributions to social security fund	4,279	2,411
Advertising expenses	2,254	922
Electricity, fuel, water	1,975	1,320
Travel expenses	1,141	174
Insurance	1,113	31
Taxes other than income tax	1,028	2,233
Rent expenses	1,007	137
Depreciation	874	654
Other expenses	18,732	10,798
Selling expenses	195,322	134,696

23. OTHER OPERATING EXPENSES

‘000 BYN	2018	2017
Other employee benefits	16,762	20,109
Expenses for social sphere	9,452	9,577
Expenses from disposal of property, plant and equipment	6,586	2,916
Expenses on disposal of materials	6,565	4,663
Other fees and charges	6,027	3,313
Maintenance costs during downtime	3,950	-
Penalties paid	3,610	7,755
Expenditures for sports activities	3,151	3,426
Charity expenses	2,784	1,008
Expenses related to operations with packaging and other materials	1,198	3,163
Expenses for other sales	1,601	1,826
Provision for pension payments	279	1,618
Other expenses	1,646	5,420
Other operating expenses	63,611	64,794

24. OTHER OPERATING INCOME

‘000 BYN	2018	2017
Posting the wastage	2,060	672
Penalties, fines, penalties for violation of the terms of contracts, paid or recognized as payable	1,089	511
Rental income	957	877
Surplus, identified during inventories	605	3,056
Sponsor support or gratuitous receipt	366	407
Other income	3,905	2,855
Other operating income	8,982	8,378

25. FINANCE INCOME AND COSTS

Finance income and costs comprise the following:

‘000 BYN	2018	2017
Finance income		
Interest income under the effective interest method:		
- Interest income	1,695	1,493
- Other income	91	18
Total finance income	1,786	1,511
Finance costs		
Financial liabilities measured at amortised cost - interest expense	(216,448)	(204,141)
Net foreign exchange loss	(211,558)	(173,211)
Other finance costs	(3,612)	(2,118)
Total finance costs	(431,618)	(379,470)
Net finance costs, recognized in profit and loss	(429,832)	(377,959)

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 2018 and 2017 relate mostly to different methods of income and expense recognition, as well as the carrying amounts of certain assets. Movements in deferred net tax assets and liabilities are represented below:

	31 December 2018	Recognized in profit or loss	Recognised in other comprehensive income	Effect of translation to presentation currency	1 January 2018*
Property, plant and equipment	122,202	64,170	(82,980)	(104)	141,116
Financial investments	2,064	2,050	-	-	14
Prepayments and other assets ¹⁾	149,329	26,518	-	(121)	122,932
Trade and other payables	(2,455)	(15,076)	-	(7)	12,628
Trade and other receivables	4,664	1,441	-	(4)	3,227
Loans granted	35	116	-	-	(81)
Government grants	17,663	5,357	-	(15)	12,321
Inventories	8,362	5,405	-	-	2,957
Loans and borrowings	(2,921)	(744)	-	-	(2,177)
Advanced obtained and other liabilities	8,358	8,362	-	(4)	-

	31 December 2018	Recognized in profit or loss	Recognised in other comprehensive income	Effect of translation to presentation currency	1 January 2018*
Other differences	(783)	(1,546)	-	-	763
Tax assets before offset	306,518	96,053	(82,980)	(255)	293,700
Effect of change in unrecognized deferred tax assets	(44,043)	51	-	-	(44,094)
Net deferred tax assets	262,475	96,104	(82,980)	(255)	249,606

* including effect of adoption of IFRS 9 (see Note 7)

	31 December 2017	Recognized in profit or loss	Recognised in other comprehensive income	Effect of translation to presentation currency	1 January 2017
Property, plant and equipment	141,116	76,280	-	(372)	65,208
Financial investments	14	14	-	-	-
Prepayments and other assets ¹⁾	122,932	(10,367)	-	58	133,241
Trade and other payables	12,628	48,064	(4,362)	(267)	(30,807)
Trade and other receivables	2,865	453	-	(2)	2,414
Loans granted	(81)	17	-	-	(98)
Government grants	12,321	2,049	-	-	10,272
Inventories	2,957	(6,242)	-	-	9,199
Loans and borrowings	(2,177)	(707)	-	-	(1,470)
Other differences	763	9,705	-	-	(8,942)
Tax assets before offset	293,338	119,266	(4,362)	(583)	179,017
Effect of change in unrecognized deferred tax assets	(44,094)	(4,735)	-	-	(39,359)
Net deferred tax assets	249,244	114,531	(4,362)	(583)	139,658

1) include accumulated exchange differences deferred in tax records.

Management of the Group believes that as the measures disclosed in Note 2 are taken, 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 2018 and 31 December 2017, deferred tax assets and liabilities comprise the following:

‘000 BYN	2018	2017
Deferred tax asset	264,503	252,587
Deferred tax liability	(2,028)	(3,343)
Total	262,475	249,244

The reconciliation between theoretical tax expenses (income), current income tax and accounting profit for the year ended 31 December 2018 and 31 December 2017 is as follows:

‘000 BYN	2018	2018	2017	2017
		(203,003)		(250,533)
Loss before tax				
Theoretical income on income tax at an effective tax rate of 18%	(18.0%)	(36,541)	(18.0%)	(45,096)
The impact of the revaluation write-off on national accounting and other permanent differences	(16.0%)	(32,490)	(18.8%)	(47,214)
The tax effect of the current year losses for which no deferred tax asset was recognized	0.9%	1,813	3.5%	8,876
The effect on deferred tax from expenses and income not taken for tax purposes	6.2%	12,664	2.0%	4,933
The tax effect of different tax rates in other jurisdictions	0.9%	1,919	1.1%	2,682
Other adjustments	(1.4%)	(2,918)	(3.5%)	(8,718)
Income tax benefit	(27.4%)	(55,553)	(33.7%)	(84,537)

Benefits on income tax for the years ended 31 December 2018 and 31 December 2017 are as follows:

‘000 BYN	2018	2017
Current income tax expense for the year	(40,551)	(29,994)
Deferred income tax gains for the year	96,104	114,531
Total income tax benefit	55,553	84,537

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 2018 and 31 December 2017 made up BYN 6,585 thousand and BYN 4,690 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 entered into economic transactions with such entities, including sale of goods, purchase of raw and other materials, electricity, and rendering of services, rise of borrowings (Note 16) and receiving government grants. Except for government grants (Note 17) and transactions on non-market terms from the owner (Note 18), 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 not available or 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 have entered into force since the beginning of 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 revenue is generated 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.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to 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. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional 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 actual effect of the future business environment may differ from management’s assessment. The Group has a portion of sales to Russian Federation (Note 19) which is 19.9 % of total sales for 2018 (2017: 21.9 %). Trade accounts receivable related to the Russian Federation are equal to BYN 16,328 thousand as at 31 December 2018 (2017: BYN 24,300 thousand), trade accounts payable are equal to BYN 6,568 thousand as at 31 December 2018 (2017: BYN 9,569 thousand), loans and borrowings are equal to BYN 200,783 thousand as at 31 December 2018 (2017: BYN 188,753 thousand) and there is also a non-significant amount of other assets or liabilities to Russian counterparties. At the same time, the 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 of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and investments in debt securities.

The carrying amounts of financial assets represent the maximum credit exposure of the Group.

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows.

’000 BYN	Notes	2018	2017
Impairment loss on trade receivables	11	10,263	3,869

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

’000 BYN	Notes	2018	2017
Cash and cash equivalents	14	45,319	61,096
Deposits		12,010	13,998
Loans granted		4,609	4,183
Financial trade and other receivables	11	155,936	133,830

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer/client. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Details of concentration of revenue are included in Note 19.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one and three months respectively.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers as at 31 December 2018.

’000 BYN	Weighted- average loss rate	Gross carrying amount	Loss allowance	Credit-impaired
Not past due	1%	139,690	(1,224)	No
1–30 days past due	9%	6,289	(590)	No
31–60 days past due	9%	12,314	(1,084)	No
61–90 days past due	58%	384	(222)	No
More than 90 days past due	99%	26,940	(26,561)	Yes
		185,617	(29,681)	

Exposure to credit risk and ECLs in respect of trade receivables and contract assets from individual customers as at 31 December 2017 (under IAS 39) is represented below:

Category	31 December 2017 ’000 BYN
Not past due	110,474
Less than 3 months past due	22,462
3-6 months past due	1,391
6-9 months past due	548
9-12 months past due	2,248
Gross carrying amount of trade and other receivables	169,022
Allowance for impairment	(17,275)
Carrying amount of trade and other receivables	151,747

The Group uses an allowance matrix to measure the ECLs of trade receivables which comprise a large number balances. Loss rates are calculated using a ‘roll rate’ method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Loss rates are based on actual credit loss experience over the past three years.

Movements in the allowance for impairment in respect of trade receivables and contract assets

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

’000 BYN	2018	2017
Balance at 1 January under IAS 39	17,275	13,406
Adjustment on initial application of IFRS 9	2,011	-
Balance at 1 January under IFRS 9	19,286	-
Net remeasurement of loss allowance	10,263	3,869
Effect of changes in foreign exchange rate	132	-
Balance at 31 December	29,681	17,275

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 in addition to the minimal amount of bank deposits. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. Management’s plans for improving liquidity position are 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 2018 and 2017, respectively, by the earliest possible maturity, based on the analysis of contractual cash flows. The Group's actual expected future cash flows on these financial liabilities can vary from this analysis.

31 December 2018	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total contractual cash flows
Financial liabilities						
Short-term loans and borrowings	(2,225,017)	(690,002)	(1,629,844)	-	-	(2,319,846)
Long-term loans and borrowings	(960,930)	(19,702)	(52,313)	(1,018,482)	(34,111)	(1,124,608)
Trade payables	(482,116)	(407,065)	(16,100)	(72,590)	-	(495,755)
Total financial liabilities	<u>(3,668,063)</u>	<u>(1,116,769)</u>	<u>(1,698,257)</u>	<u>(1,091,072)</u>	<u>(34,111)</u>	<u>(3,940,209)</u>

31 December 2017	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total contractual cash flows
Financial liabilities						
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)	(105,951)	-	(460,473)
Total financial liabilities	<u>(3,329,223)</u>	<u>(851,451)</u>	<u>(1,715,803)</u>	<u>(1,447,352)</u>	<u>(45,357)</u>	<u>(4,059,963)</u>

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 2018 and 2017.

The structure of Group financial assets and liabilities as at 31 December 2018 is indicated below:

‘000 BYN	Interest Free	Fixed interest rate	Floating interest rate	Total
Financial assets				
Other investments	9,425	-	-	9,425
Short-term loans granted	2,613	195	1,101	3,909
Long-term loans granted	536	164	-	700
Financial trade and other receivables	155,936	-	-	155,936
Deposits	508	6,227	5,275	12,010
Cash and cash equivalents	23,865	372	21,082	45,319
Financial liabilities				
Trade and other payables	(401,071)	(81,045)	-	(482,116)
Loans and borrowings	(1,158)	(2,847,300)	(337,489)	(3,185,947)
Open position of interest rate	(209,346)	(2,921,387)	(310,031)	(3,440,764)

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
Financial assets				
Other 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
Financial liabilities				
Trade and other payables	(347,885)	(88,355)	-	(436,240)
Loans and borrowings	(5,434)	(1,473,011)	(1,414,538)	(2,892,983)
Open position of interest rate	(178,137)	(1,518,535)	(1,411,893)	(3,108,565)

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 2018		31 December 2017	
	Increase of interest rate	Decrease of interest rate	Increase of interest rate	Decrease of interest rate
	1%	(1%)	1%	(1%)
Effect on profit/(loss) before tax	(3,100)	3,100	(14,119)	14,119
Effect on equity	(2,542)	2,542	(11,578)	11,578

In particular, fixed-rate financial liabilities include fixed rate bank loans in total amount BYN 1,476,274 thousand as at 31 December 2018, for which the banks have the option to revise the interest rate following the change of rate of attracting their funds. If the Group does not agree with the rate, it has an option to redeem the loan at par value ahead of the schedule without penalty.*./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 2018 and 31 December 2017 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 functional currency of the respective entity of the Group on the consolidated statement of comprehensive income (due to non-trading monetary assets and liabilities whose fair value is sensitive to exchange rate changes).

‘000 BYN	USD	EUR	RUB	Other	Total
Financial assets					
Other investments	-	1,774	-	-	1,774
Short-term loans granted	392	286	-	-	678
Financial trade and other receivables	1,960	34,353	3,179	10,106	49,598
Deposits	439	9,137	2	91	9,669
Cash and cash equivalents	1,248	23,252	922	104	25,526
Total financial assets	4,039	68,802	4,103	10,301	87,245
Financial liabilities					
Trade payables	(157,092)	(73,504)	(74,036)	(138)	(304,770)
Loans and borrowings	(1,468,541)	(1,297,777)	(102,197)	-	(2,868,515)
Total financial liabilities	(1,625,633)	(1,371,281)	(176,233)	(138)	(3,173,285)
Total net monetary position	(1,621,594)	(1,302,479)	(172,130)	10,163	(3,086,040)

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2017:

‘000 BYN	USD	EUR	RUB	Other	Total
Financial assets					
Other 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
Total financial assets	10,921	41,759	8,104	12,881	73,665
Financial liabilities					
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)
Total financial liabilities	(1,819,304)	(1,002,084)	(74,761)	(1,587)	(2,897,736)
Total net monetary position	(1,808,383)	(960,325)	(66,657)	11,294	(2,824,071)

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 2018 and 31 December 2017 is presented as follows:

31 December 2018	USD		EUR		RUB	
	Strengthening 10%	Weakening (10%)	Strengthening 10%	Weakening (10%)	Strengthening 10%	Weakening (10%)
Effect on profit/(loss) before tax	(162,159)	162,159	(130,248)	130,248	(17,213)	17,213
Effect on equity	(132,970)	132,970	(106,803)	106,803	(14,115)	14,115
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

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 loans and borrowings, including their levels in the fair value hierarchy.

‘000 BYN	Note	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
31 December 2018						
Financial liabilities						
Loans and borrowings	16	(3,185,947)	-	-	(3,141,334)	(3,141,334)
Total financial liabilities		(3,185,947)	-	-	(3,141,334)	(3,141,334)

‘000 BYN	Note	Carrying amount	Fair value			
			Level 1	Level 2	Level 3	Total
31 December 2017						
Financial liabilities						
Loans and borrowings	16	(2,892,983)	-	-	(2,874,065)	(2,874,065)
Total financial liabilities		(2,892,983)	-	-	(2,874,065)	(2,874,065)

There were no transfers between fair value hierarchy levels in 2018 and 2017.

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 2019, the Group attracted a significant amount of new borrowed funds. The parent company of the Group has received confirmation of the intention to support its activities from the Ministry of Industry of Belarus as described in Note 2. Also, on 11 June 2019, a notification about the non-application of enforcement actions for violation of financial covenants was received from the Eurasian Development Bank (Kazakhstan) as indicated in Note 11.