PJSC "ELECTROMETALLURGICAL WORKS "DNEPROSPETSSTAL" NAMED AFTER A.N. KUZMIN"

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016
with Independent Auditors' Report

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CONSOLIDATED FINANCIAL STATEMENTS

Notes to the consolidated financial statements

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Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ua

ТОВ «Ернст енд Янг Аудиторські послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

Independent Auditor's Report (Audit opinion)

To the shareholders of PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"

Qualified Opinion

We have audited the accompanying consolidated financial statements of PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin" " (hereinafter referred to as 'the Company') and its subsidiaries (together referred to as 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

As described in Notes 11, 16, 17, 21 and 22 to the accompanying consolidated financial statements the Group had a significant concentration of revenue from sales of finished goods, purchases of materials and selling expenses for years ended 31 December 2016 and 2015 with several counterparties, and respective trade receivables, advances received and trade payables as at 31 December 2016 and 2015. We were unable to obtain sufficient appropriate audit evidence to verify the appropriateness of the disclosure of the above operations and respective balances to the requirements of IAS 24 Related party disclosure.

We conducted our audit in accordance with International Standards on Auditing (ISAs).
Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 Ukraine, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of matter

We draw attention to Note 1 to the consolidated financial statements, which describes operating environment in Ukraine. The circumstances referred to in Note 1 could continue to adversely affect the Group's financial position and performance in a manner not currently determinable. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matter to be communicated in our report.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment test of property, plant and equipment

As at 31 December 2016 property, plant and equipment amounting to UAH 3,254,461 thousand represents 54.8% of the total assets. This matter was one of most significance in our audit as estimating the recoverable amount of the assets requires management to make assumptions in respect of future sales, gross margins, operating costs, terminal value growth rates, capital expenditures and the discount rate. There were impairment indications caused by the risks associated with operating and economic environment as disclosed in Note 1 to the consolidated financial statements. Management's test for impairment of property, plant and equipment prepared as at 31 December 2016 did not indicate any impairment losses.

We analyzed the management's assessment of impairment indications for property, plant and equipment. We involved our internal valuation specialists to assist us in testing management's assumptions used in the value in use calculations, by comparing them to historical data and, where applicable, external benchmarks. We tested cash flow projections, growth rates and discount rates used by the Company and sensitivity of the model to the key inputs as well as mathematical accuracy of the model.

Other information included in the Group's Annual information of the Securities Issuer for 2016

Other information consists of the information included in the Annual information of the Securities Issuer for 2016 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual information of the Securities Issuer for 2016 is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

Responsibilities of management and the Supervisory Board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 auditor's 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 auditor's 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.

We communicate with the Supervisory Board 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.

Building a better working world

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Alexander Svistich.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

17 March 2017

Translation of the original Ukrainian version

PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"
CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2016
(in thousands of Ukrainian hryvnia)

BALANCE SHEET AS AT 31 DECEMBER 2016 (Form №1)

	Date (year, month, date)	2016 | 12 | 31
Entity: PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"	per EDRPOU	00186536
Location: Factory district	per KOATUU	2310136600
Ownership: public joint stock company	per KOPFG	230
State authority: DK PP Ukraine		
Type of activity: Production of pig iron, steel and ferroalloys	per KVED	24.10

Average headcount: 5 466

Units of measurement: thousands of UAH

Address: 81, Pivdene Highway, Zaporizhzhya, 69008, Zaporizhzhya region, Ukraine

Prepared in accordance with (mark with "v" in relevant box):

Ukrainian Accounting Standards	
International Financial Reporting Standards	V

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

Assets	Line code	As at 31.12.2015	As at 31.12.2016
1	2	3	4
I. Non-current assets Intangible assets:	1000	14,549	12,308
historical cost	1001	47,623	48,412
accumulated amortisation	1002	(33,074)	(36,104)
Capital investments in progress	1005	44,056	42,179
Property, plant and equipment:	1010	3,354,204	3,254,461
historical cost	1011	3,403,239	3,530,248
accumulated depreciation	1012	(49,035)	(275,787)
Investment Property	1015	-	-
Long-term biological assets	1020	-	-
Non-current financial investments:		-	-
accounted for under the equity method	1030	-	-
other financial investments	1035	-	-
Non-current receivables	1040	-	-
Deferred tax assets	1045	-	-
Other non-current assets	1090	50,365	21,126
Total Section I	1095	3,463,174	3,330,074
II. Current assets			
Inventories	1100	893,535	947,673
Raw materials	1101	374,668	407,465
Work in progress	1102	342,938	348,245
Finished goods	1103	175,929	191,963
Current biological assets	1110	-	-
Notes receivable	1120	-	-
Accounts receivable for goods, works and services	1125	919,943	1,230,553
Accounts receivable on settlements:			
on prepayments made	1130	20,818	21,817
with budget	1135	70,081	72,680
with income Tax	1136	21,142	8
with accrued income	1140	1,064	1,581
Internal accounts receivable	1145	-	-
Other accounts receivable	1155	11,319	10,056
Current financial investments	1160	-	119,225
Cash and cash equivalents:	1165	295,682	195,277
cash in hand	1166	7	7
cash at bank	1167	295,675	195,270
Future expenses	1170	1,136	1,612
Other current assets	1190	510	7,595
Total Section II	1195	2,214,088	2,608,069
III. Assets classified as held for distribution	1200	-	-
BALANCE	1300	5,677,262	5,938,143

The accompanying notes on pages 10 to 45 form an integral part of the consolidated financial statements

PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2016

(in thousands of Ukrainian hryvnia)

Liabilities and Equity	Код рядка	As at 31.12.2015	As at 31.12.2016
1	2	3	4
I. Equity Share capital	1400	49,720	49,720
Contributed capital	1405	2,292,771	2,143,793
Additional capital	1410	114,627	114,627
Reserve fund	1415	12,430	12,430
Retained earnings (accumulated deficit)	1420	(2,014,639)	(2,250,006)
Unpaid capital	1425	-	-
Treasury shares	1430	-	-
Total Section I	1495	454,909	70,564
II. Non-current liabilities and provisions Deferred tax liabilities	1500	96,104	22,256
Non-current bank loans	1510	2,104,908	2,385,375
Other non-current liabilities	1515	-	-
Other provisions	1520	384,880	385,185
Special purpose financing	1525	-	-
Total Section II	1595	2,585,892	2,792,816
III. Current liabilities and provisions Short-term bank loans	1600	567,194	
Current liabilities for:		-	-
current portion of non-current liabilities	1610	1,000,522	1,751,007
for goods, works and services	1615	880,793	1,146,887
with budget	1620	6,428	9,752
with Income tax	1621	-	-
social insurance	1625	7,991	6,501
wages	1630	18,868	19,872
Current liabilities for advance received	1635	61,095	45,237
Current liabilities for payments to participants	1640	14,347	14,335
Other provisions	1660	44,506	45,884
Deferred revenue	1665	-	-
Other current liabilities	1690	34,717	35,288
Total Section III	1695	2,636,461	3,074,763
IV. Liabilities directly associated with the assets classified as held for distribution	1700	-	-
BALANCE	1900	5,677,262	5,938,143

First Deputy Chairman of the Board –
Director for Finance and Economy — Sergey Kiyko

ДНІПРОСПЕЦСТАЛЬ
ЄДРПОУ 00186536

Chief Accountant — Halyna Luchko

17 March 2017

Translation of the original Ukrainian version

PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME as at 31 December 2016

(in thousands of Ukrainian hryvnia)

	Date (year, month, date)	2016 | 12 | 31
Entity: PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"	per EDRPOU	00186536

STATEMENT OF FINANCIAL RESULTS (STATEMENT OF COMPREHENSIVE INCOME) FOR THE YEAR 2016

Form №2

DKUD code 1801003

I. FINANCIAL RESULTS

Description	Line code	Current period	Preceding period (restated)
1	2	3	4
Net revenue from sales of goods (merchandise, works, services)	2000	6,319,107	6,857,441
Cost of goods (merchandise, works, services) sold	2050	(5,543,947)	(5,642,052)
Gross:			
Profit	2090	775,160	1,215,389
Loss	2095		-
Other operating income	2120	78,229	59,872
Administrative expenses	2130	(106,509)	(101,264)
Selling expenses	2150	(165,975)	(214,550)
Other operating expenses	2180	(95,857)	(172,757)
Financial results from operating activities:			
Profit	2190	485,048	786,690
Loss	2195	-	-
Income from investments accounted for under equity method	2200	-	-
Other finance income	2220	36,573	36,918
Other income	2240	2	20,648
Finance expenses	2250	(507,580)	(433,940)
Losses from investments accounted for under equity method	2255	-	-
Other expenses	2270	(495,251)	(1,294,002)
Financial results from ordinary activities before taxation: Profit	2290		
Loss	2295	(481,208)	(883,686)
Income tax on ordinary activities	2300	77,557	177,123
Financial results from stopped activities after taxation	2305	-	-
Net financial result:			
Profit	2350	-	-
Loss	2355	(403,651)	(706,563)

II. COMPREHENSIVE INCOME

Description	Line code	Current period	Preceding period (restated)
1	2	3	4
Revaluation (impairment) of non-current assets	2400	-	1,139,883
Revaluation (impairment) of financial instruments	2405	-	-
Accumulated translation differences	2410	-	-
Share of other comprehensive income of associates and joint ventures	2415	-	-
Other comprehensive income	2445	23 271	(58,287)
Other comprehensive income before tax	2450	23 271	1,081,596
Income tax related to other comprehensive income	2455	(3 965)	(186,310)
Other comprehensive income, net of tax	2460	19 306	895,286
Comprehensive profit (sum lines 2350, 2355 та 2460)	2465	(384 345)	188,723

The accompanying notes on pages 10 to 45 form an integral part of the consolidated financial statements

(in thousands of Ukrainian hryvnia)

III. ELEMENTS OF OPERATING EXPENSES

Description	Line code	Current period	Preceding period
1	2	3	4
Cost of materials	2500	4,850,325	5,070,434
Labour costs	2505	483,099	410,058
Social security charges	2510	102,124	141,954
Depreciation and amortisation	2515	232,609	201,100
Other operating expenses	2520	279,005	679,360
Total	2550	5,947,162	6,502,906

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	Current period	Preceding period
1	2	3	4
Annual average number of ordinary shares	2600	1,075,030	1,075,030
Adjusted annual average number of ordinary shares	2605	1,075,030	1,075,030
Net income per ordinary share	2610	(0.375)	(0.657)
Adjusted net income per ordinary share	2615	(0.375)	(0.657)
Dividends per ordinary share	2650	-	-

First Deputy Chairman of the Board –
Director for Finance and Economy

Sergey Kiyko

Chief Accountant

Halyna Luchko

17 March 2017

(in thousands of Ukrainian hryvnia)

Date (year, month, date	2016 | 12 | 31
per EDRPOU	00186536

Entity: PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"

CASH FLOW STATEMENT FOR THE YEAR 2016

Form №3 DKUD code 1801004

Description	Line code	Reporting period	Preceding period
1	2	3	4
I. Cash flows from operating activities Cash inflow from: Revenue from sales of goods (merchandise, works, services)	3000	6,544,717	7,087,190
Refund of taxes/compulsory payments	3005	251,587	360,467
With VAT	3006	251,544	360,442
Special purpose financing	3010	8,194	10,071
Subsidies and grands	3011	8,194	6,967
Advance received	3015	47,437	61,095
Return of an advances	3020	23,219	6,739
Interest on balances in current accounts	3025	36,043	35,832
Debtors penalties (fines, penalties)	3035	1,897	16,717
Income from operational lease	3040	9,973	11,358
Other inflows	3095	11,338	15,696
Cash outflow due to payment for: Goods (works, services)	3100	(5,669,283)	(6,320,236)
Salary for employees	3105	(365,596)	(316,551)
Deductions for social security charges	3110	(143,782)	(195,037)
Tax liabilities and charges	3115	(125,528)	(85,197)
Liabilities for income tax	3116	(60)	(453)
Expenditure on payment obligations for VAT	3117	(1,226)	(1,036)
Liabilities for other taxes/compulsory payments	3118	(124,242)	(83,708)
Advances	3135	(23,317)	(20,818)
Refund of advances	3140	(4,442)	(5,332)
Other outflows	3190	(60,658)	(56,634)
Net cash flow from operating activities	3195	541,799	605,360
II. Cash flows from investing activities Proceeds from sale of: financial investments	3200	-	-
non-current assets	3205	-	-
Receipt of: interest	3215	10	17
dividends	3220	-	-
Income from derivatives	3225	-	-
Income from loans settlement	3230	-	259
Other proceeds	3250	135,700	-
Purchase of: financial investments	3255	-	-
non-current assets	3260	(114,133)	(23,869)
Payments for derivatives	3270	-	-
Collateral deposit	3275	-	-
Other payments	3290	(201,646)	(52,963)
Net cash flows from investing activities	3295	(180,069)	(76,556)
III. Cash flows from financing activities Income from: Share capital	3300	-	-
Proceeds from borrowings	3305	567,730	797,599
Other proceeds	3340	-	1
Purchase of: Own securities	3345	-	-
Repayment of borrowings	3350	(592,539)	(797,358)

The accompanying notes on pages 10 to 45 form an integral part of the consolidated financial statements

(in thousands of Ukrainian hryvnia)

Description	Line code	Reporting period	Preceding period
1	2	3	4
Dividends paid	3355	(13)	(2)
Interest paid	3360	(438,038)	(359,083)
Other payments	3390	-	-
Net cash flows from financing activities	3395	(462,860)	(358,843)
Net (decrease)/increase in cash and cash equivalents	3400	(101,130)	169,961
Cash balance at the beginning of the year	3405	295,682	134,932
Net foreign exchange difference	3410	725	(9,211)
Cash balance at the end of the year	3415	195,277	295,682

First Deputy Chairman of the Board -
Director for Finance and Economy — Sergey Kiyko

Chief Accountant — Halyna Luchko

ЗАПОРІЖЖЯ • ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО ЕЛЕКТРОМЕТАЛУРГІЙНИЙ ЗАВОД "ДНІПРОСПЕЦСТАЛЬ" ІМ. А.М. КУЗЬМІНА
ДНІПРОСПЕЦСТАЛЬ
ЄДРПОУ 00186536

17 March 2017

PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"
CONSOLIDATED EQUITY STATEMENT as at 31 December 2016
(in thousands of Ukrainian hryvnia)

Date (year, month, date)	2016	12	31
per EDRPOU	00186536		

Entity: PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"

EQUITY STATEMENT
FOR THE YEAR 2016

Form №4 DKUD code 1801005

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	49,720	2,292,771	114,627	12,430	(2,014,639)	-	-	454,909
Adjustments: Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other adjustments	4090	-	-	-	-	-	-	-	-
Adjusted balance at the beginning of the year	4095	49,720	2,292,771	114,627	12,430	(2,014,639)	-	-	454,909
Net profit (loss) for the reporting period	4100	-	-	-	-	(403,651)	-	-	(403,651)
Other comprehensive income	4110	-	-	-	-	19,306	-	-	19,306
Increase in the value of non-current assets	4111	-	-	-	-	-	-	-	-
Other income	4116	-	-	-	-	19,306	-	-	19,306
Distribution of profit: Payments to shareholders (dividends)	4200	-	-	-	-	-	-	-	-
Distribution of profit to share capital	4205	-	-	-	-	-	-	-	-
Distribution to the reserve fund	4210	-	-	-	-	-	-	-	-
Contributions made by shareholders: Contributions to capital	4240	-	-	-	-	-	-	-	-
Repayment of debts from equity	4245	-	-	-	-	-	-	-	-

The accompanying notes on pages 10 to 45 form an integral part of the consolidated financial statements

CONSOLIDATED EQUITY STATEMENT as at 31 December 2016
(in thousands of Ukrainian hryvnia)

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Withdrawal of capital: Purchase of shares (contributions)	4260	-	-	-	-	-	-	-	-
Re-sale of purchased shares (contributions)	4265	-	-	-	-	-	-	-	-
Cancellation of purchased shares (contributions)	4270	-	-	-	-	-	-	-	-
Withdrawal of contribution in capital	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(148,978)	-	-	148,978	-	-	-
Total changes in equity	4295	-	(148,978)	-	-	(235,367)	-	-	(384,345)
Balance at the end of the year	4300	49,720	2,143,793	114,627	12,430	(2,250,006)	-	-	70,564

EQUITY STATEMENT
FOR THE YEAR 2015

Form №4 DKUD code 1801005

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Balance at the beginning of the year	4000	49,720	1,475,848	114,627	12,430	(1,386,439)	-	-	266,186
Adjustments: Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other adjustments	4090	-	-	-	-	-	-	-	-
Adjusted balance at the beginning of the year	4095	49,720	1,475,848	114,627	12,430	(1,386,439)	-	-	266,186
Net profit (loss) for the reporting period	4100	-	-	-	-	(706,563)	-	-	(706,563)
Other comprehensive income	4110	-	942,835	-	-	(47,549)	-	-	895,286

The accompanying notes on pages 10 to 45 form an integral part of the consolidated financial statements

PJSC "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin"
CONSOLIDATED EQUITY STATEMENT as at 31 December 2016
(in thousands of Ukrainian hryvnia)

Description	Line code	Share capital	Contributed capital	Additional capital	Reserve fund	Retained earnings	Unpaid capital	Treasury shares	Total
1	2	3	4	5	6	7	8	9	10
Increase in the value of non-current assets	4111	-	1,139,883	-	-	-	-	-	1,139,883
Other income	4116	-	(197,048)	-	-	(47,549)	-	-	(244,597)
Distribution of profit: Payments to shareholders (dividends)	4200	-	-	-	-	-	-	-	-
Distribution of profit to share capital	4205	-	-	-	-	-	-	-	-
Distribution to the reserve fund	4210	-	-	-	-	-	-	-	-
Contributions made by shareholders: Contributions to capital	4240	-	-	-	-	-	-	-	-
Repayment of debts from equity	4245	-	-	-	-	-	-	-	-
Withdrawal of capital: Purchase of shares (contributions)	4260	-	-	-	-	-	-	-	-
Re-sale of purchased shares (contributions)	4265	-	-	-	-	-	-	-	-
Cancellation of purchased shares (contributions)	4270	-	-	-	-	-	-	-	-
Withdrawal of contribution in capital	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(125,912)	-	-	125,912	-	-	-
Total changes in equity	4295	-	816,923	-	-	(628,200)	-	-	188,723
Balance at the end of the year	4300	49,720	2,292,771	114,627	12,430	(2,014,639)	-	-	454,909

First Deputy Chairman of the Board –
Director for Finance and Economy — Sergey Kiyko

Chief Accountant — Halyna Luchko

17 March 2017

ДНІПРОСПЕЦСТАЛЬ
ЄДРПОУ 00186536

The accompanying notes on pages 10 to 45 form an integral part of the consolidated financial statements

1. Corporate information

Open Joint Stock Company “Electrometallurgical Works “Dneprospetsstal” named after A.N. Kuzmin” (the “Company”) was incorporated in 1994 under the laws of Ukraine. The Company was established in the process of reorganisation of its predecessor a state owned enterprise “Electrometallurgical works “Dneprospetsstal” named after A. N. Kuzmin”, founded in 1932, to Open Joint Stock Company “Electrometallurgical works “Dneprospetsstal” named after A. N. Kuzmin” in accordance with the decree of the President of Ukraine #210 dated 15 June 1993 “On corporatization of companies” and the order of the Ministry of Economics of Ukraine #54 dated 27 August 1993 “On approval of the list of companies to be corporatised”. Assets and liabilities of the enterprise and certain assets owned by the association of the Company’s employees were contributed into its share capital. Following the requirements of the Ukrainian legislation, on 31 March 2011 the Company changed its name from Open Joint Stock Company “Electrometallurgical Works “Dneprospetsstal” named after A.N. Kuzmin” to Public Joint Stock Company “Electrometallurgical Works “Dneprospetsstal” named after A.N. Kuzmin”.

Principal activities of the Company and its subsidiaries (together – “the Group”) include design, manufacture and distribution of stainless, tool, high-speed, powder, bearing and alloy structural steel products. The Group’s products are used for manufacture of machinery parts, tools for metal and alloy machining, tubes and pipes, and bearings. The information about the Company’s subsidiaries is disclosed in Note 30.

The registered office of the Company and principal place of business of the Group is 81, Pivdene Shose, Zaporizhzhya, Ukraine. The main production facilities of the Group are located on 83, Pivdene Shose, Zaporizhzhya, Ukraine. As at 31 December 2016, the Group employed 5,625 people (2015: 5,744 people).

As at 31 December 2016 and 2015 the shares of the Company were held by a number of legal entities and individuals such that none of them or their ultimate owners has unilateral control over the Company.

The consolidated financial statements of the Group as at 31 December 2016 and for the year then ended were authorized for issue on 17 March 2017.

Operating environment in Ukraine

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

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

The weakness of the national currency (UAH), which experienced more than triple devaluation against US dollar (2.5 times devaluation against Euro) since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country’s traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the IMF and other international donors is contingent upon the mentioned above structural reforms sustaining momentum.

The known and estimable effects of the above factors on the financial position and performance of the Group in the reporting period have been taken into account in preparing these consolidated financial statements. As at 31 December 2016 and 2015 the Group did not have assets located in Crimea or Donetsk and Lugansk region.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effect to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group’s financial position and performance in a manner not currently determinable.

2. Going concern

For the year ended 31 December 2016 the Group incurred net losses of UAH 403,651 thousand (2015: UAH 706,563 thousand), current liabilities exceeded its current assets by UAH 466,694 thousand (2015: UAH 422,373 thousand). In addition, as described in Note 15, the Group breached certain loan covenants specified in the loan agreement with JSC "OTP Bank" and JSC "Ukreximbank". The Group received the letter from JSC "OTP Bank" dated at 29 December 2016, where noted that any sanctions and requirements of early payment would not be applied to the Group, in spite of breached certain loan covenants mentioned above.

Deterioration of financial results, first of all, is related to worsening economic conditions and devaluation of Ukrainian hryvnia as described in Note 1. The loss from foreign exchange differences recorded in line 2270 «Other expenses» of the consolidated statement of comprehensive income for 2016 comprised UAH 490,480 thousand (2015: UAH 1,257,619 thousand), which mainly relates to translation of loans received by the Group in foreign currencies into Ukrainian hryvnia.

As at 31 December 2016 the Group should pay UAH 1,751,007 thousand during 2017 (2015: UAH 567,194 thousand of short-term interest bearing loans and UAH 1,000,522 thousand of current portion of long-term liabilities).

Nevertheless, the management believes that the application of going concern principle for the preparation of these consolidated financial statements of the Group is appropriate in the current circumstances, based on the following.

The Group is a powerful exporter of metallurgical products and produces a wide range of finished goods having stable demand. The proportion of finished goods export sales in the total revenue from sales of goods comprised 62% for 2016 (2015: 56%) which allowed the Group to receive profit from operating activities of UAH 485,048 thousand (2015: 786,690 thousand) and net cash inflows from operating activities of UAH 541,799 thousand (2015: UAH 605,360 thousand). The management believes that the above trend will continue in future periods and is taking actions to support economic stability in the current circumstances.

Subsequent to 31 December 2016, the Group started negotiations JSC "OTP bank" to restructure the loan till 2020. This may have impacts on the interest rates as well may require additional pledges of assets of the Group. It is expected that the Group will be able to perform restructuring of these loans during 2017.

In addition, the Group is undertaking several initiatives aimed at improving performance and liquidity, including but not limited to, the following:

- The Group's finance plan envisages increase in cash inflows from operating activities as a result of restructuring of order portfolio by increasing the proportion of sales to regions with lower country risk and increase in foreign currency exchange rates;
- The Group is implementing a cost fixation program. This program assumes maximum freezing of expenses to be incurred, in Ukrainian hryvnia, resulting in increase in marginality of finished goods and release of additional cash flows from operations.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Group will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities when they fall due in the normal course of business.

3. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain groups of property, plant and equipment, which have been measured at fair value and certain financial instruments measured in accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement". These consolidated financial statements are presented in the Ukrainian hryvnia ("UAH") and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Company and subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(in thousands of Ukrainian hryvnia)

Changes in comparative information

The following comparative information has been restated due to changes in presentation.

Changes in the notes to consolidated statement of comprehensive income as at 31 December, 2016

(A) Other operating income for the year ended 31 December 2015.

Caption	2015 (as previously reported)	Corrections (A)	2015 (as restated)
1	2	3	4
Gains from excess inventory	11,010	14,999	26,009
Gain on disposal of inventory, net	4,196	-	4,196
Fines and penalties received	16,862	-	16,862
Other income	12,805	-	12,805
Total	44,873	14,999	59,872

(B) Other expenses for the year ended 31 December 2015.

Caption	2015 (as previously reported)	Corrections (A)	2015 (as restated)
1	2	3	4
Non-operational foreign exchange losses, net of gains	1,257,619	-	1,257,619
Loss on revaluation of property, plant and equipment	19,901	-	19,901
Loss from sale of non-current assets	1,478	14,999	16,477
Other losses	5	-	5
Total	1,279,003	14,999	1,294,002

Changes in presentation of comparative information

(A) The Group revised the presentation of other operating income and expenses and other income and expenses. As a result the amount of capitalized low value items with useful life less than 1 year wasn’t offset and included to other operating income and other operating expenses for the year ended 31 December 2015.

Changes in comparative information mentioned above didn’t have an effect on financial results, equity and net loss per share for the year 2015.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The subsidiaries’ financial statements are prepared as at the same reporting date as the Company’s, using consistent accounting policies. Adjustments are made to align any dissimilar accounting policies that may exist.

Subsidiaries were consolidated from the date of incorporation by the Company and continue to be consolidated until the date of disposal.

All intercompany balances and transactions, including unrealized profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

4. Accounting policies

4. 1. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the above policy change and the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2016:

- IFRS 14 Regulatory Deferral Accounts;
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements Cycle - 2012-2014
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The adoption of the standards or interpretations is described below.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.
The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply.

After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts
The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be made retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.
(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments do not have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.
These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
These amendments are applied retrospectively and do not have any impact on the Group.

4.2. Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements are presented in the Ukrainian hryvnia (“UAH”). Ukrainian hryvnia is the functional currency and the presentation currency of the Group.

Each entity of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions denominated in currencies other than the relevant functional currency (foreign currencies) are initially recorded in the functional currency at the rate in effect as at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the reporting date. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in the statement of financial results.

Property, plant and equipment

The carrying value of all groups of fixed assets, excluding land, is accounted by using revaluation model. As at 31 December 2016, carrying value of property, plant and equipment’s items included in these groups: i) buildings and improvements, ii) machinery and equipment iii) transport and motor vehicles, iv) fixtures and office equipment is stated at fair value less any depreciation and impairment.

In the last revaluation as at 31 December 2015 the fair value of property was determined by reference to market values of respective items at the valuation date. Fair values of specialized machinery, equipment, tools and fixtures were determined by using depreciated replacement cost approach as no market values were available for such items. Until next regular revaluation these items will be carried at the revalued amounts less any subsequent accumulated depreciation and impairment. The land is stated at cost. Significant accounting judgments and factors that are taken into account with determining fair value of property, plant and equipment stated in Note 5.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of financial results, except to the extent that it offsets an existing surplus on the same asset recognized in revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Construction in progress is stated at cost and comprises property, plant and equipment, which have not yet been completed. No depreciation is recorded on such assets until they are available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

When an item of property, plant and equipment is revalued, any amount of accumulated depreciation at the date of the revaluation is treated as elimination against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The useful lives of the assets are estimated as follows:

Buildings and improvements	5 to 173 years
Machinery and equipment	1 to 166 years
Transport and motor vehicles	4 to 75 years
Fixtures and office equipment	3 to 76 years

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. The items of social infrastructure facilities do not meet the definition of an asset according to IFRS, therefore these items are not recorded in these consolidated financial statements. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

Borrowing costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If they are not attributable to such an asset they are recognized as an expense when incurred.

Intangible assets

Intangible assets include patent, trademark, accounting software, patents and other property rights acquired separately from business combination and measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

All intangible assets of the Group are assessed to have finite lives from 2 to 20 years.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In 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. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses of continuing operations are recognised in the statement of financial results in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. After such reversal depreciation costs of future periods are adjusted so that to assure an orderly write-off of the reassessed carrying amount of the asset less its residual value during the remaining period of its useful life

Investments and other financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

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

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

The Group's financial assets include loans and receivables, represented by cash and cash equivalents, accounts receivables for goods, works and services, accounts receivables on settlements, other accounts receivables.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognised in the statement of financial results.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the statement of financial results. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Group has not designated any financial assets as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of financial results when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Gains and losses are recognised in the statement of financial results when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial results, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial results.

Investment in subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) in which the company directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the company controls another entity.

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include loans and borrowings, represented by bank loans and current liabilities for goods, works and services.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the statement of financial results.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the statement of financial results when the liabilities are derecognised as well as through the amortisation process.

The Group recognised liabilities for borrowings in the borrowing structure but liabilities for accrued interests in other current liabilities.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. The Group did not issue financial guarantees during the years ended 31 December 2016 and 2015.

Offsetting of financial instruments

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

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

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

Loans and receivables

For amounts due from loans and receivables from customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of financial results. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the statement of financial results.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of financial results.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Value-added tax receivable

Value-added tax (VAT) receivable relates to purchases of goods and services. The tax authorities permit the settlement of sales and purchases VAT on a net basis. The Group's management believes that the amount due from the state will be either recovered in cash or will be reclaimed against the VAT liabilities related to sales.

Cash and cash equivalents

Cash and bank deposits are considered cash and cash equivalents for the purposes of cash flow statement and comprise cash in hand and cash at bank and highly liquid demand deposits (with maturity date of less than 3 months) free from contractual encumbrances which are readily convertible to know amounts of cash and which are subject to insignificant risk of changes in value.

Provisions

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

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

If the effect of the time value of money is material, 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, where appropriate, the risks specific to the liability.

Pension obligations

The Group entities make defined contributions to the Ukrainian state pension schemes at the statutory rates in force during the year, based on gross salary payments;

such expense is charged in the period the related salaries are earned. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due.

In addition, the Group has two significant defined benefit post-employment plans, both of which are unfunded. These plans comprise: a) the Group's legal contractual obligation to its employees to make one-off payment on retirement to employees with long service and other benefits according to the collective bargaining agreements, and b) the Group's legal obligation to compensate the Ukrainian state pension fund for additional pension benefits paid to certain categories of the former and existing employees of the Group. The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method in respect of those employees entitled to such payments.

Management uses actuarial techniques in calculating the liability related to these obligations at each reporting date. Actual results could vary from estimates made to the date.

Contingent liabilities

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

Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current tax expense is calculated by the Group on the pre-tax income determined in accordance with the tax law of Ukraine using tax rates enacted at the reporting date.

Deferred tax

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

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

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

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

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

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

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

Deferred income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the statement of financial results. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue from rendering of services is recognized when services are rendered.

Cost of sales and other expenses recognition

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

4.3. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group’s financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 “Financial Instruments”

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments. Contracts with customers in which the sale of equipment is generally expected to be the only performance obligation are not expected to have any impact on the Group’s profit or loss.

The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Group is currently assessing the impact of IFRS 15 and plans to use it on the date of entry into force.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will consider the possibility of implementation of these amendments.

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of the amendments will result in additional disclosures provided by the Group.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.
On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces 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*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group plans to assess the potential effect of IFRS 16 on its financial statements.

5. Significant accounting judgments and estimates

According to the IAS 1 “Presentation of Financial Statements”, the Group accounts for and presents transactions and other events in accordance with their substance and economic reality and not merely their legal form.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the reporting date. Actual results could differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of assets – determination of cash-generating units

IAS 36 “Impairment of Assets” requires an entity to perform impairment tests on cash-generating units. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. For many of the Group's identified cash-generating units a significant proportion of their output is consumed by another cash-generating unit.

The Group has determined that sufficient independent pricing information exists to accurately designate cash-generating units on a group level. Due to the current economic and political situation in Ukraine (Note 1) it is complicated for the Group to estimate forecasts of generating of future cash flows and the Group is taking all possible actions to the most reliable forecasting of cash flows.

Allowances

Significant judgment is used to estimate doubtful accounts and respective impairment allowances. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions and historical customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2016 and 2015, allowances for doubtful accounts have been made in the amount of UAH 23 thousand and UAH 15 thousand, respectively (Note 11).

As at 31 December 2016, inventory write-down using allowances to its net realisable value amounted to UAH 27,061 thousand (2015: UAH 24,549 thousand) (Note 10). Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the period.

Deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance (Note 9).

Value-added tax recoverable

Value-added tax receivable is reviewed at each reporting date and the outstanding balance is reduced to the extent that it is no longer probable that refund or VAT payable will be available within reasonably short period of time (usually twelve months) from the reporting date. The Group considers that VAT as at 31 December 2015 is fully recoverable.

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving the benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). The Group uses all available information about experience of its former employees with the other entities participating in the defined benefit state pension plan which. Therefore, the Group accounts for the benefits relating to former employees as if it was a defined benefit plan. More details are provided in Note 20.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year end on the basis of expectations of their future usage taking into consideration technological developments, competition, market conditions and other factors. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8, *Accounting policies, Changes in Accounting Estimates and Errors*. These estimates may have an impact on the amount of the carrying values of property, plant and equipment in the consolidated statement of financial position and depreciation recognised in the profit and loss.

Fair value of property, plant and equipment

The carrying value of all groups of fixed assets, excluding land is accounted by using revaluation model. As at 31 December 2016, carrying value of property, plant and equipment's items included in these groups: i) buildings and improvements, ii) machinery and equipment iii) transport and motor vehicles, iv) fixtures and office equipment is stated at fair value less any depreciation and impairment.

The fair value of real estate and non-specific equipment was determined by comparison with market value of similar property as at last valuation date 31 December 2015 (Level 2 inputs). The fair value of specialized machinery, equipment is established at depreciated replacement cost method because market price for these fixed assets was not available (Level 3 inputs). In assessing the fair value of assets of Level 3 of the hierarchy, appraisers used method for determining depreciated replacement cost, based on applying the value of the resemble asset to those, being evaluated and adjusted for actual depreciation (physical depreciation, functional depreciation and economic impairment). Assets similar to those, being evaluated, have to meet several requirements: (i) the similarity of the basic characteristics and parameters of the estimated object; (ii) proximity in time to the date of assessment by prices of comparable items.

As at 31 December 2016 the Group have performed the impairment test for property, plant and equipment. The recoverable amount has been determined based on value in use using cash flow projections prepared and approved by the Group, covering a five-year period. For this model was used basic assumption - determination of the discounted projected cash flows for 5 years, using the weighted average cost of capital WACC 22.3% and average CPI at 5.6%. Increase in estimated discount rate (WACC) would result in a significantly lower fair value of the items under revaluation; decreases in discount rate would result in a significantly higher value of revalued items.

The calculation of value in use of the CGU is particularly sensitive to the following assumptions:

(in thousands of Ukrainian hryvnia)

- Gross margins - management determined budgeted gross margin based on past performance and its expectations of market developments;
- Raw materials price inflation - estimates are obtained from published indices. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

No impairment losses were identified as a result of impairment testing.

The Group evaluates the necessity of undertaking revaluation of the above mentioned property, plant and equipment on the annual basis taking into account market and non-market factors that certify on the probability of deviation of the carrying amounts from their fair values, in particular, significant drop or increase in market prices, industry or economic trends (Note 1), changes in market conditions and other factors.

As at 31 December 2016 the Group have analysed economic and market factors influencing valuation of all groups of property, plant and equipment and concluded that carrying value of the following groups of property, plant and equipment: i) buildings and improvements, ii) machinery and equipment iii) transport and motor vehicles, iv) fixtures and office equipment does not differ from their fair value.

6. Property, plant and equipment and capital investments in progress

Property, plant and equipment and related accumulated depreciation consist of the following:

2016	Land and capital improvements	Buildings and improvements	Machinery and equipment	Transport and motor vehicles	Fixtures and office equipment	Construction in progress and uninstalled equipment	Total
Historical cost							
At 1 January 2016	18,456	1,714,219	1,446,314	145,877	78,373	44,056	3,447,295
Additions	-	5,804	124,813	2,982	4,670	(1,691)	136,578
Disposals	-	(1,469)	(7,630)	(551)	(1,610)	(186)	(11,446)
At 31 December 2016	18,456	1,718,554	1,563,497	148,308	81,433	42,179	3,572,427
Depreciation							
At 1 January 2016	(501)	(970)	(2,659)	(21,782)	(23,123)	-	(49,035)
Charge for the year	(32)	(76,109)	(122,052)	(20,261)	(10,243)	-	(228,697)
Disposals	-	141	1,066	211	527	-	1,945
At 31 December 2016	(533)	(76,938)	(123,645)	(41,832)	(32,839)	-	(275,787)
Net book value							
At 1 January 2016	17,955	1,713,249	1,443,655	124,095	55,250	44,056	3,398,260
At 31 December 2016	17,923	1,641,616	1,439,852	106,476	48,594	42,179	3,296,640

(in thousands of Ukrainian hryvnia)

2015	Land and capital improvements	Buildings and improvements	Machinery and equipment	Transport and motor vehicles	Fixtures and office equipment	Construction in progress and uninstalled equipment	Total
Historical cost							
At 1 January 2015	18,456	894,028	1,236,245	144,355	76,572	21,105	2,390,761
Additions	-	9,264	49,067	3,088	2,689	22,951	87,059
Disposals	-	(890)	(17,201)	(1,566)	(888)	-	(20,545)
Revaluation	-	811,817	178,203	-	-	-	990,020
At 31 December 2015	18,456	1,714,219	1,446,314	145,877	78,373	44,056	3,447,295
Depreciation							
At 1 January 2015	(468)	(859)	(2,500)	(53)	(778)	-	(4,658)
Charge for the year	(33)	(39,442)	(113,483)	(21,859)	(22,693)	-	(197,510)
Disposals	-	52	2,328	130	348	-	2,858
Revaluation	-	39,279	110,996	-	-	-	150,275
At 31 December 2015	(501)	(970)	(2,659)	(21,782)	(23,123)	-	(49,035)
Net book value							
At 1 January 2015	17,988	893,169	1,233,745	144,302	75,794	21,105	2,386,103
At 31 December 2015	17,955	1,713,249	1,443,655	124,095	55,250	44,056	3,398,260

As at 31 December 2016, property, plant and equipment items of groups: i) buildings and improvements, ii) machinery and equipment, iii) transport and motor vehicles, iv) fixtures and office equipment have been stated at their fair value less any depreciation and impairment.

As at 31 December 2016 the Group believes that the most profitable and best use of the property, plant and equipment of the groups: i) buildings and improvements, ii) machinery and equipment, iii) transport and motor vehicles, iv) fixtures and office equipment does not differ from its current use.

If buildings and constructions, and machinery and equipment were measured using the cost model, the net book value amounts would be as follows:

	Net book value	
	2016	2015
Buildings and constructions	212,095	216,723
Machinery and equipment	435,400	343,711
Transport and motor vehicles	14,142	12,375
Fixtures and office equipment	27,115	27,938

As at 31 December 2016, the carrying value of buildings of UAH 1,063,165 thousand (2015: UAH 1,045,325 thousand) and machinery and equipment of UAH 1,374,144 thousand (2015: UAH 1,208,804 thousand) were pledged secured commitments for loans granted by banks (Note 15).

As at 31 December 2016, the property, plant and equipment items in the amount of UAH 17,171 thousand (2015: UAH 12,629 thousand) were fully depreciated but were still in use.

(in thousands of Ukrainian hryvnia)

7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	2016	2015
Cost		
At 1 January	47,623	46,426
Additions	1,670	2,661
Disposal	(881)	(1,464)
At 31 December	48,412	47,623
Amortisation		
At 1 January	33,074	30,382
Charge for the year	3,911	3,675
Disposal	(881)	(983)
At 31 December	36,104	33,074
Net book value		
At 1 January	14,549	16,044
At 31 December	12,308	14,549

Intangible assets consist mainly of software. As at 31 December 2016, the accounting software with carrying value of UAH 1,073 thousand (2015: UAH 1,422 thousand) and remaining amortisation period of 37 months (2015: 49 months) and the license for a right to use software with the carrying value of UAH 5,606 thousand (2015: UAH 6,876 thousand) and remaining amortisation period of 53 months (2015: 65 months) were the major components of intangible assets.

As at 31 December 2016, the intangible assets with historical value of UAH 3,057 thousand (2015: UAH 2,670 thousand) were fully amortised but were still in use.

8. Other non-current assets

As at 31 December 2016 other non-current assets are represented by prepaid income tax amount of UAH 21,126 thousand. The management of the Group considers it necessary to represent it as long term due to low probability of its utilization during 2017 financial year, which was caused by losses of the Group during 2015 and 2016.

As at 31 December 2015 other non-current assets were presented by long-term bank deposits in the amount of UAH 50,365 thousand at JSC “Ukreximbank” that were pledged. The management of the Group considered necessary to present these deposits in the non-current assets according to the expectation of prolongation of mentioned above agreements. Due to change of the prolongation date of these deposits they were presented in current assets as at 31 December 2016 (Note 14).

9. Income tax

The components of income tax expenses for 2016 and 2015 were as follows:

Profit and loss

	2016	2015
Current income tax charge	256	343
Deferred tax relating to origination and reversal of temporary differences	(77,813)	(177,466)
Income tax benefit	(77,557)	(177,123)

(in thousands of Ukrainian hryvnia)

Other comprehensive income

	2016	2015
Deferred income tax attributable to revaluation of PP&E	-	(197,048)
Deferred income tax attributable to actuarial gains and losses	(3,965)	10,738
Income tax benefit reflected in other comprehensive income	(3,965)	(186,310)

Profit before tax for financial reporting purposes is reconciled to tax expense as follows:

	2016	2015
Loss before tax	(481,208)	(883,686)
Tax at nominal rates (2016 and 2015: 18%)	(86,617)	(159,063)
Tax effect of non-deductible expenses	9,060	1,024
Reassessment of temporary differences at the beginning of the period	-	(19,084)
Income tax benefit/expense	(77,557)	(177,123)

(in thousands of Ukrainian hryvnia)

Deferred tax related to the following:

	31 December 2016	Changes recognised in profit and loss for 2016	Changes recognised in other comprehensive income for 2016	31 December 2015
Deferred tax assets / (liabilities):				
Inventory (i)	6,750	378	-	6,372
Non-current provisions (ii)	67,783	4,166	(3,965)	67,582
Tax losses carry-forward	338,814	41,426	-	297,388
Deferred income tax liabilities:				
Property, plant and equipment (iii)	(435,603)	31,843	-	(467,446)
Deferred tax liability, net	(22,256)	-	-	(96,104)
Deferred income tax (expense)/benefit	-	77,813	(3,965)	-

	31 December 2015.	Changes recognised in profit and loss for 2015	Changes recognised in other comprehensive income for 2015	31 December 2014.
Deferred tax assets / (liabilities):				
Inventory (i)	6,372	2,961	–	3,411
Non-current provisions (ii)	67,582	2,489	10,738	54,355
Current provisions (ii)	–	(6,291)	–	6,291
Tax losses carry-forward	297,388	136,196		161,192
Deferred income tax liabilities:				
Property, plant and equipment (iii)	(467,446)	42,111	(197,048)	(312,509)
Deferred tax liability, net	(96,104)	–	–	(87,260)
Deferred income tax (expense)/benefit	-	177,466	(186,310)	–

The nature of temporary differences s the following:
(i) Inventory – differences in evaluation methods and periods of recognition;
(ii) Non-current provisions – differences in periods of recognition ;
(iii) Property, plant and equipment – differences in depreciation methods and useful lives estimates.

(in thousands of Ukrainian hryvnia)

As at 31 December 2016 the Group has tax losses in amount of UAH 1,880,874 thousand (2015: UAH 1,650,402 thousand). Deferred tax assets have been recognized in full amount in respect of these losses, as they can be offset against future taxable profits.

10. Inventories

Inventories consisted of the following:

	2016	2015
Finished goods		
Stainless steel	92,379	93,783
Structural steel	49,341	37,431
Tool steel	33,257	30,334
High-speed tool steel	8,066	7,419
Heat resistant steel	2,130	4,041
Bearing steel	15,889	9,800
Other	1,520	2,309
Allowance for impairment	(10,619)	(9,188)
Finished goods (at net realisable value)	191,963	175,929
Raw materials		
Materials	339,259	331,388
Spare parts	59,029	37,495
Other	9,741	7,732
Allowance for impairment	(564)	(1,947)
Raw materials (at net realisable value)	407,465	374,668
Work in process	364,123	356,352
Allowance for impairment	(15,878)	(13,414)
Work in process (at net realisable value)	348,245	342,938
	947,673	893,535

As at 31 December 2016, finished goods and raw materials with carrying value of UAH 627,700 thousand (2015: UAH 577,700 thousand), were pledged as a security for the bank loans (see Note 15).

As at 31 December 2016 allowance for impairment of inventories comprised UAH 27,061 thousand (2015: UAH 24,549 thousand).

11. Accounts receivable for goods, works and services

Accounts receivable for goods, works and services consisted of the following:

	2016	2015
Trade accounts receivable	1,230,576	919,958
Less - allowance for bad debts	(23)	(15)
	1,230,553	919,943

As at 31 December 2016 trade accounts receivable amounting to UAH 756,124 thousand (2015: UAH 296,478 thousand) were pledged as a security for the bank loans obtained by the Group (see Note 15).

Trade receivables are non-interest bearing and are generally on 3-45 day contract term.

As at 31 December 2016 trade accounts receivable for goods, works, services from three counterparties comprised UAH 936,719 thousand (2015 : UAH 554,751 thousand).

As at 31 December 2016, trade receivables of UAH 23 thousand (2015: UAH 15 thousand) were impaired.

(in thousands of Ukrainian hryvnia)

Movements in the allowance for individual impairment of receivables were as follows:

	2016	2015
At 1 January	15	147
Charge for the year	8	-
Utilised	-	(132)
At 31 December	23	15

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30-60 days	>60 days
2016	1,230,553	65,696	468,134	371,409	325,314
2015	919,943	128,811	336,089	344,203	110,840

12. Accounts receivable on settlements with budget

Trade receivables from taxation were the following:

	2016	2015
VAT receivable	72,680	48,939
Prepaid income tax	-	21,142
	72,680	70,081

13. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	2016	2015
Cash at banks	195,270	295,675
Cash on hand	7	7
	195,277	295,682

Cash at banks earns interest at floating rates based on daily bank deposit rates. During year ended 31 December 2015 floating rates were within 2.75%-18.75% per year (2015: 2.5%-18%).

14. Current financial investments

As at 31 December 2016 current financial investments are presented by bank deposits that are pledged. The Company has four deposits in the total amount of UAH 119, 225 thousand at JSC “Ukreximbank”. Three deposits are denominated in Ukrainian hryvnia at average interest rates of 14.5% - 16.5%, one deposit is denominated in US dollars at average interest rate 3.2%. The maturity period of these deposits is September 2017 (2015: Note 8).

15. Bank borrowings

Long and short-term borrowings consisted of the following:

	2016	2015
Short-term bank loans	-	567,194
Current portion of non-current liabilities	1,751,007	1,000,522
Non-current bank loans	2,385,375	2,104,908
	4,136,382	3,672,624

As at 31 December 2016 and 2015, the Group’s interest bearing loans due to banks represent revolving loan arrangements.

(in thousands of Ukrainian hryvnia)

Borrowings are denominated in the following currencies and bear the following rates:

	2016		2015	
Currency	Interest rate	Outstanding principal	Interest rate	Outstanding principal
Fixed rates				
USD	10.50-11.50%	4,136,382	10.50-11.25%	3,672,624
		4,136,382		3,672,624

A summary of the security pledged for borrowings is set out below:

	2016	2015
Property, plant and equipment (see Note 6)	2,437,309	2,254,129
Inventories (see Note 9)	627,700	577,700
Trade accounts receivable (see Note 10)	756,124	296,478
Future proceeds under sales agreements	6,585,225	6,996,973
Bank deposit (see Note 8)	115,008	50,365

As at 31 December 2016 not all financial covenants provided in loan agreements with JSC “OTP Bank” and JSC “Ukreximbank” were fulfilled by the Group, particularly: net loss in Statement of comprehensive income for 2016 equals UAH 403,651 thousand, debt to equity ratio is 59, which is contrary to the bank’s requirements of positive net profit as well compliance with debt to equity ratio that should not exceed 4, that is against Bank’s expectations; compliance with operational profit to finance expenses ratio, which is contrary to the bank’s requirements of not lower, than 1.3.

The Group received the waiver from JSC "OTP Bank" dated at 29 December 2016, where any sanctions and requirements of early payment would not be applied to the Group, in spite of breached loan covenants mentioned above. Outstanding balance of this loan was disclosed by the Group as a part of current portion of non-current liabilities.

16. Trade payables for goods, works and services

Accounts payable for goods, works and services consisted of the following:

	2016	2015
Payables to domestic suppliers of materials and services	461,456	337,620
Payables to foreign suppliers of materials and services	685,431	543,173
	1,146,887	880,793

Trade payables are non-interest bearing and are normally settled in 30-90 days term.

As at 31 December 2016 trade accounts payable for goods, works, services to two counterparties comprised UAH 555,349 thousand (2015 : two counterparties - UAH 462,716 thousand).

(in thousands of Ukrainian hryvnia)

17. Advances received

Current liabilities for advance received comprised mostly advances for metal products and consisted of the following:

	2016	2015
Advances for metal products under commission agreements	3	2,352
Advances for metal products from local customers	39,811	57,831
Advances for metal products from foreign customers	5,423	912
	45,237	61,095

As at 31 December 2016 advances received from one counterparty comprised UAH 130 thousand (2015: UAH 2,531 thousand).

18. Other provisions

Other provisions consisted of the following:

	2016	2015
Material encouragement of workers	25,225	23,049
Unused vacation	18,633	16,133
Litigation provision	537	3,571
Other accruals	1,489	1,753
	45,884	44,506

19. Other current liabilities

Other current liabilities consisted of the following:

	2016	2015
Accrued interests in respect of the bank loans	33,959	33,339
Other	1,329	1,378
	35,288	34,717

20. Other non-current liabilities

Defined benefit state pension plan

The Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the former and existing employees of the Group. Under the plan the Group's employees who have working experience in health hazardous environment and thus eligible to early retirement are also entitled to additional compensations financed by the Group and paid through the Ukrainian State Pension Fund. These obligations fall under definitions of a defined benefit plan.

As at 31 December 2016, total number of the plan participants accounted for 1,789 (2015: 2,882) staff including 1,493 (2015: 1,520) pensioners receiving the benefit. The following tables summarise the components of benefit expense recognised in the profit and loss and amounts recognised in the statement of financial position for the plan. Benefit expense, with the exception of interest costs, is included in payroll and related expenses within cost of sales. Interest costs are included in finance costs.

(in thousands of Ukrainian hryvnia)

Benefit expense

	2016	2015
Current service costs	13,703	12,366
Interest costs	50,200	42,090
Recognised changes in past service cost	(3,173)	(21,903)
Benefit expense	60,730	32,553

Changes in the present value of defined pension benefit obligation

	2016	2015
Defined pension benefit obligation at 1 January	332,822	290,576
Current service costs	13,703	12,366
Interest costs	50,200	42,090
Benefits paid	(38,150)	(37,989)
Actuarial loss on obligation due to effect of changes in assumptions	(20,067)	47,682
- Experience adjustments	43,278	81,481
- Actuarial changes arising from changes in demographic assumptions	1,794	2,618
- Actuarial changes arising from changes in financial assumptions	(65,139)	(36,417)
Recognised changes in past service cost	(3,173)	(21,903)
Pension benefit obligation as at 31 December	335,335	332,822

The Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 38,168 thousand.

In 2016 the average duration of the defined benefit plan obligation is 8 years (2015: 9 years).

Other employee benefit plans

The Group has contractual commitments to pay lump-sum payments to the retiring employees with the long service according to collective bargaining agreements. This unfunded benefit plan covers all employees of the Group amounting to 5,566 (2015: 5,723) people. In 2007, the Group introduced two additional types of benefits under the plan: jubilee payments to which all employees of the Group are entitled and quarterly payments to certain categories of former employees. These changes are envisaged by the revised collective bargaining agreements and cover all employees of the Group and, additionally, 3,766 pensioners entitled the benefits.

The following tables summarise the components of benefit expense recognised in the statement of comprehensive income and amounts recognised in the statement of financial position for the plan. Benefit expense, with the exception of interest costs, is included in payroll and related expenses within cost of sales. Interest costs are included in finance costs.

Benefit expense

	2016	2015
Current service costs	2,360	2,194
Recognised actuarial loss	(4,835)	3,656
Interest costs	7,993	6,605
Past service costs	(1,015)	(1,413)
Benefit expense recognised in profit and loss	4,503	11,042

(in thousands of Ukrainian hryvnia)

Changes in the present value of defined benefit obligation

	2016	2015
Defined benefit obligation at 1 January	51,798	34,479
Current service costs	2,360	2,194
Interest costs	7,993	6,605
Benefits paid	(3,684)	(4,328)
Actuarial loss on obligation due to the effect of changes in assumptions	(8,039)	14,261
- Experience adjustments	541	17,582
- Actuarial changes arising from changes in demographic assumptions	(1,978)	(82)
- Actuarial changes arising from changes in financial assumptions	(6,602)	(3,239)
Recognised changes in past service cost	(1,015)	(1,413)
Defined benefit obligation at 31 December	49,413	51,798

The Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 16,383 thousand.

In 2016 the average duration of obligation in accordance with collective agreement is 4.3 years (2015: 6.3 years) and for other obligation 5.3 years (2015: 6.4 years).

Principal assumptions

The principal assumptions used in determining employee benefit obligations of the Group are shown below:

	2016	2015
Discount rate	16.0%	16.0%
Salary and benefits paid increase	7.00%	12.0%
Employee turnover	6.00%	5.15%
Inflation rate	6.00%	7.18%

The sensitivity analysis of key assumptions as at 31 December 2016

	Increase "+" / decrease "-" of the rate	Effect on benefit liability 2016	Effect on benefit liability 2015
Discount rate	+1%	(24,201)	31,116
Discount rate	-1%	27,317	(27,270)
Salary increase (annual)	+1%	13,659	(14,769)
Salary increase (annual)	-1%	(12,427)	16,039
Employee turnover	+1%	(192)	269
Employee turnover	-1%	231	(192)
Inflation rate	+1%	11,735	(10,808)
Inflation rate	-1%	(11,273)	11,000

(in thousands of Ukrainian hryvnia)

21. Net revenue from sales of goods

The Group's revenue was received from sale of the following products:

	2016	2015
Stainless steel	3,279,561	3,612,252
Structural steel	1,270,324	1,307,819
Tool steel	829,980	771,570
Heat resistant steel	432,696	534,609
High-speed tool steel	256,712	401,022
Bearing steel	232,824	217,862
Other	17,010	12,307
	6,319,107	6,857,441

For 2016 year net revenue from sales of metal products to three counterparties including those under commission agreements amounted to UAH 3,593,212 thousand (2015: UAH 3,471,699 thousand).
Commission agreements fee which is included in selling expenses for 2016 year amounted to UAH 1,110 thousand (2015: UAH 48 thousand).

22. Cost of goods sold

Cost of goods sold consisted of the following:

	2016	2015
Materials	3,544,672	3,737,682
Utilities, energy and other services	1,258,629	1,251,899
Payroll and related expenses	450,122	420,621
Depreciation and amortisation	212,515	176,085
Other	78,009	55,765
	5,543,947	5,642,052

For 2016 purchases of materials and services, which are included in the cost of sales and selling expenses, from two counterparties comprised UAH 1,339,492 thousand (2015: UAH 1,526,834 thousand).

23. Selling expenses

Selling and distribution expenses consisted of the following:

	2016	2015
Forwarding and transportation services	132,737	188,301
Payroll and related expenses	16,548	14,315
Storage and packaging expenses	2,937	2,025
Depreciation and amortisation	2,460	1,220
Insurance costs relating to inventories and other assets	562	609
Other selling costs	10,731	8,080
	165,975	214,550

(in thousands of Ukrainian hryvnia)

24. Administrative expenses

General and administrative expenses consisted of the following:

	2016	2015
Payroll and related expenses	65,321	63,814
Transportation	8,048	7,863
Bank fees	6,585	7,354
Professional services	4,001	4,350
Depreciation and amortisation	3,433	2,969
Materials	1,342	960
Communication	720	645
Other general and administrative costs	17,059	13,309
	106,509	101,264

25. Other operating income and expenses

Other operating income consisted of the following:

	2016	2015 (restated)
Operational foreign exchange gains, net of losses	37,013	-
Gains from excess inventory	31,035	26,009
Gain on disposal of inventory, net	4,839	4,196
Fines and penalties received	2,304	16,862
Other income	3,038	12,805
	78,229	59,872

Other operating expenses consisted of the following:

	2016	2015
Bed debts allowance	36,329	
Maintenance of social infrastructure assets	32,796	31,802
Shortages and losses from impairment of assets	2,405	6,865
Charity	3,211	2,828
Fines and penalties paid	1,589	366
Insurance against customers' default	13	81
Operational foreign exchange losses, net	-	105,827
Other expenses	19,514	24,988
	95,857	172,757

26. Other income and expenses

Other income consisted of the following:

	2016	2015
Reversals of revaluation decreases of prior periods	-	20,313
Gain on disposal of PP&E	-	335
Other gains	2	-
	2	20,648

(in thousands of Ukrainian hryvnia)

Other expenses consisted of the following:

	2016	2015 (restated)
Non-operational foreign exchange losses, net of gains	490,480	1,257,619
Loss from sale of non-current assets	4,656	16,477
Loss on revaluation of property, plant and equipment	-	19,901
Other losses	115	5
	495,251	1,294,002

27. Other finance income

Other finance income consisted of the following:

	2016	2015
Interest received from cash deposits with banks	36,573	36,918
	36,573	36,918

28. Finance expenses

Finance expenses consisted of the following:

	2016	2015
Interest expenses on borrowings	449,387	385,245
Interest expense on pension obligations	58,193	48,695
	507,580	433,940

29. Equity

Share capital

As at 31 December 2016 and 2015, the Group's authorized, issued and paid-in share capital comprised 1,075,030 ordinary shares, with a nominal amount value of UAH 46.25 each.

Additional capital

Additional capital consisted of the following:

	2016	2015
Hyperinflation adjustment to share capital (*)	114,627	114,627
	114,627	114,627

(*) The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Group has applied IAS 29 "Financial Reporting in Hyperinflationary Economies" and, accordingly, the consolidated financial statements present share capital at the nominal value of the shares on the reporting dates at their restated value by applying the relevant conversion factor for hyperinflation.

Reserve capital

The Group created reserve capital for coverage of expenses connected with compensation of losses and unexpected expenses of Group.

Dividend distribution

The Group has not declared any dividends for the years ending 31 December 2016 and 2015. In 2016, the Group paid UAH 13 thousand of dividends declared for the earlier years (2015: UAH 2 thousand).

(in thousands of Ukrainian hryvnia)

30. Subsidiaries and associates

The Group's subsidiaries are presented below:

Name of the company	Country of incorporation	Business activities	Ownership 2016	Ownership 2015
Ekovtorresurs LLC	Ukraine	Trading	100%	100%
Cutlery Plant LLC	Ukraine	Production	100%	100%

Cutlery Plant LLC was established in 2002. It produces and sells houseware products to domestic and foreign customers.

Ekovtoresurs LLC was established in 2007. The subsidiary purchases scrap metals and other raw materials and supplies them primarily to the Group.

The Group's associates are presented below:

Name of the company	*Country of incorporation*	*Business activities*	*Ownership 2016*	*Ownership 2015*
Ferroterm LLC	Ukraine	Trading	50%	50%

On 16 October 2012 the Group bought 50% of equity stake in Ferroterm LLC for agreed price of UAH 500, which corresponds to the nominal value of the stake. Ferroterm LLC carries out bulk trade in metal and metallic ore. It is a private company shares of which are not listed.

Summarized information on investment in Ferroterm LLC for the year ended 31 December 2016 is as follows:

	2016	2015
Current assets	38,068	34,165
Non-current assets	647	1,267
Current liabilities	(42,615)	(40,313)
Non-current liabilities	–	–
Deficit in net assets	(3,900)	(4,881)
Group's share	50%	50%
The carrying amount in the investment	–	–
Unrecognised share of accumulated losses in an associate	(1,950)	(2,441)

	2016	2015
Revenue	–	4,465
Cost of sales	–	(3,640)
Other expenses	(5 523)	(19,669)
Other income	6 505	15,086
Profit before tax	982	(3,758)
Income tax expenses	–	(37)
Net financial result	982	(3,795)
Groups share of loss for the period	491	(1,898)

31. Related party transactions

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

The following table provides the total amount of regular sales and purchase transactions which have been entered with related parties for the relevant financial year:

(in thousands of Ukrainian hryvnia)

		Sales to related parties	Other income from related parties	Purchases from related parties	Receivables due from related parties	Payables due to related parties
Associated companies	2016	45	-	651	12,333	66
Total 2016		45	-	651	12,333	66
Associated companies	2015	483	14,505	5,016	13,033	55
Total 2015		483	14,505	5,016	13,033	55

Terms and conditions of sale and purchase transactions with related parties and outstanding balances

Pricing of the transactions with related parties is established to cover the Group's operational costs and secure the margin necessary to maintain ongoing functionality of the production facilities held by the Group.

Outstanding balances at the year-end are unsecured, interest free and settlements occur in cash. There have been no guarantees provided or received for any related party receivables or payables.

For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by the related parties (2015: nil). This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which the related parties operate.

Sales to related parties mainly include sales of metal products. Purchases from related parties mainly include purchases of scrap metals, ferrous-based alloys and other raw materials.

Key management personnel

The corporate governance bodies of the Company, responsible for planning, directing and controlling the activities of the Group, comprise its Supervisory Board and Board of Directors. Accordingly, as at 31 December 2016 key management personnel of the Group includes six members of the Supervisory Board of the Company all nominated by its shareholders with significant influence over the Group as well as five members of the Board of Directors of the Company (31 December 2015: six members of the Supervisory Board and five members of the Board of Directors of the Company).

In 2016 the members of the Supervisory Board received no compensation from the Company (2015: nil). The total compensation to the members of the Board of Directors representing short-term employee benefits amounted to UAH 3,068 thousand (2015: UAH 3,239 thousand) and was included in general and administrative expenses in the consolidated statement of other comprehensive income.

32. Commitments, contingencies, and operating risks

Tax and other regulatory compliance matters relating to Ukraine

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control, custom regulations and transfer pricing, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

In 2016 the following transactions were subject for transfer pricing (TP) compliance:

- Business transactions with non-resident related parties
- Sales of goods through non-resident commissioners
- Business transactions with non-residents from low-tax jurisdictions the list approved by Ukrainian Government

Additionally, qualification of the above business transactions as controlled is conditioned by simultaneous meeting of the following criteria:
(i) Aggregate taxable income of the taxpayer exceeds UAH 50 million for the relevant tax (reporting) calendar year; and

(ii) Aggregate volume of the business transactions of the taxpayer with such counterparty exceeds UAH 5 million (net of VAT).
Penalties for failure to comply with TP regulation:

- Failure to submit the TP Report – 300 subsistence minimum (approximately UAH 480 thousand);
- Failure to include transactions into the TP Report – 1 % of the amount of undeclared transactions in submitted report, but no more than 300 subsistence minimum (approximately UAH 480 thousand)
- Failure to submit the TP documentation – 3 % of the amount of controlled transactions, but no more than 200 subsistence minimum for all the transactions (approximately UAH 320 thousand)

The Group has analyzed its operations in 2016 that fall under criteria of controllability and defined its tax liabilities from contract prices without any adjustments.

Overall, there is risk that transactions and reasonableness of interpretation that have not been appealed by regulatory authorities in the past will be questioned in the future.
However, this risk is significantly diminishing over time. The Group determined separate potential liabilities relating to taxation, accrual of provisions for which is not required in financial reporting. Such separate potential liabilities can arise and the Group will have to pay additional tax amounts. The Group determined that there are no such potential tax liabilities as at 31 December 2016 (2015: 0).

Litigations

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group beyond the provisions already recognised in these financial statements.

The Group has identified possible tax contingencies, which based on management best estimates are not required to be accrued. Such contingencies may materialize and require the Group to pay additional amount of taxes. As at 31 December 2016, management estimates that such contingencies do not exceed UAH 115,079 thousand (2015: UAH 10,636 thousand).

Lease of land

The Group uses land mainly on the basis of concluded land lease agreements with the exception of one plot of land for which it has the right to permanent use or land title. There are production and infrastructure facilities. The Group pays rent for public or state plots of land or land tax with regard to annual indexation rate of land valuation estimate. Plots of land that do not belong to Ukraine are used in accordance with existing legislation through concluding of land lease agreements and on the grounds of State Act for the permanent use.

Contractual commitments for the acquisition of property, plant and equipment and intangibles

As at 31 December 2016 the Group has contractual commitments for acquisition of property, plant and equipment amounted UAH 23,582 thousand (2015: UAH 77,943 thousand).

33. Financial risk management

The Group’s principal financial instruments comprise trade receivables and payables, borrowings and cash. The main purpose of these financial instruments is to provide funding for the Group’s operations. The Group has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations. During the year the Group undertook realization of financial instruments.

The main risks arising from the Group’s financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

Foreign currency risk

The Group performs its operations mainly in the following currencies: the Ukrainian hryvnia (“UAH”), the US dollar (“USD”), the Euro (“EUR”) and the Russian roubles (“RUB”). The exchange rates for those currencies to UAH as set by the National Bank of Ukraine (“NBU”) as at the dates stated were as follows:

(in thousands of Ukrainian hryvnia)

	USD	EUR	RUB
As at 31 December 2016	27.191	28.423	0.451
Average exchange rate per 2016	25.587	28.312	0.384
As at 31 December 2015	24.000	26.223	0.329
Average exchange rate per 2015	21.812	24.190	0.359
As at 17 March 2017	26.979	28.938	0.463

The Group exports its products to CIS, European and other countries; purchases materials from other countries, mainly from Russia; and attracts substantial amount of foreign currency denominated borrowings, and is thus exposed to foreign exchange risk. Foreign currency denominated trade receivables and payables, and borrowings give rise to foreign exchange exposure. The Group has not entered in transactions designed to hedge against these foreign currency risks.

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

For the year ended 31 December 2016	Increase “+” / decrease “-” in currency exchange rate, %	Effect on profit before tax
RUR/UAH	+58%	127,417
EUR/UAH	+53%	242,264
USD/UAH	+53%	(2,366,214)
RUR/UAH	-22%	(48,331)
EUR/UAH	-15%	(68,565)
USD/UAH	-13%	580,392

For the year ended 31 December 2015	Increase “+” / decrease “-” in currency exchange rate, %	Effect on profit before tax
RUR/UAH	+50%	81,180
EUR/UAH	+67%	178,314
USD/UAH	+67%	(2,646,627)
RUR/UAH	-33.5%	(54,391)
EUR/UAH	-18%	(47,905)
USD/UAH	-18%	711,034

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and borrowings. The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on expected repayment of various instruments.

The tables below summaries the maturity profile of the Group's financial liabilities at 31 December 2016 and at 31 December 2015 based on contractual undiscounted payments:

At 31 December 2016	Less than 3 months	3 to 12 months	1 to 6 years	Total
Borrowings	123,936	1,940,025	2,605,750	4,669,711
Trade and other accounts payable	1,146,887	-	-	1,146,887
Other current liabilities	14,335	-	-	14,335
	1,285,158	1,940,025	2,605,750	5,830,933

(in thousands of Ukrainian hryvnia)

At 31 December 2015	Less than 3 months	3 to 12 months	1 to 6 years	Total
Borrowings	685,170	1,194,008	2,333,117	4,212,295
Trade and other accounts payable	880,793	-	-	880,793
Other current liabilities	14,347	-	-	14,347
	1,580,310	1,194,008	2,333,117	5,107,435

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank accounts (Note 13), trade and other accounts receivable (Note 11).

Cash is placed in financial institutions, which are considered to have minimal risk of default at the time of deposit.

Management has developed and implemented a credit policy and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Most of the Group's sales are made to the customers with an appropriate credit history or on a prepayment basis. The Group does not require collateral in respect of its financial assets.

The credit risk exposure of the Group is monitored and analyzed on a case-by-case basis and the Group's management believes that there is no significant risk of loss to the Group beyond the impairment allowances already recognized against the assets.

Interest rate risk

The Group borrowed at a fixed rates. The Group hasn't had any transactions with floating interest rates during 2016 and 2015 years.

The Group has not entered into transactions designed to hedge against interest rate risk. The Group has no interest-bearing assets.

Capital management

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 maximise the return to shareholders. Management reviews the Group's performance and establishes key performance indicators.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders as well as to provide financing of its operating requirements, capital expenditures and the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and flexibility relating to Group's access to capital markets.

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes of its operating environment, market sentiment or its development strategy.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

Fair value of financial instruments

The carrying amounts of financial instruments, consisting of cash and cash deposits, accounts receivable and payable, investment certificates and other securities acquired and borrowings drawn approximate their fair values.

The fair value of financial assets and liabilities included in financial reporting equals to the amount for which an instrument can be changed in the ordinary course of business as the result of transaction between interested parties, other than from forced sale or liquidation. In evaluating fair value of financial instruments the Group uses different methods and assumptions that are based on market conditions existing at the reporting date.

The fair value of financial instruments not carried at the fair value at the reporting date was determined based on cash flows discounted using the respective current market interest rates for similar instruments and found not to be materially different from their carrying value. As the result of calculations it has been determined that the fair value does not significantly differ from the carrying amount.

The fair value of loans and borrowings was established using observed significant inputs (Level 2) among which are weighted-average value of the borrowed capital denominated in foreign currency with similar period, country risk and financial solvency of the borrower. The discount rate that has been applied in the amount of 12.90% and 11.45% per annum for short- and long-term loans respectively has been determined as weighted-average effective rate for the respective loans denominated in USD.

During reporting period there were no transfers between Level 2 and Level 3 of fair value hierarchy.