

**PrJSC “ELECTROMETALLURGICAL WORKS
“DNIPROSPETSSTAL” NAMED AFTER A.M. KUZMIN”**

Consolidated financial statements

*for the year ended 31 December 2017
with independent auditor's report*

PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"
CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

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Independent auditor's report

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"

Qualified opinion

We have audited the consolidated financial statements of PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin" (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, 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 matters described Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, 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

(i) As described in Notes 11, 16, 17, 21 and 22 to the accompanying consolidated financial statements, during 2017 and 2016 the Group had a significant concentration of revenue from sales of finished goods, purchases of materials and selling expenses with several counterparties, and as at 31 December 2017 and 2016 - respective balances of trade receivables, advances received and trade payables. 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*.

(ii) The Group's accounting policy in respect of "Buildings and structures" and "Machinery and equipment" groups of its property, plant and equipment is revaluation model. As at 31 December 2017 the Group performed regular revaluation of these assets and recognized gain from revaluation in other comprehensive income of UAH 1,338,403 thousand, gain from reversal of previously recognized impairment loss of UAH 9,030 thousand, impairment loss in the amount UAH 4,513 thousand and related deferred tax effects. We were unable to obtain sufficient appropriate audit evidence about the assumptions used by the Group in determination of the fair value of these assets. As a result, we were unable to determine whether any adjustments to these amounts were necessary.

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.

Other information included in the Group's Annual Information of the Securities Issuer for 2017

Other information consists of the information included in the Annual information of the Securities Issuer for 2017 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 2017 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.



Kyiv, Ukraine
26 March 2018

PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(in thousands of Ukrainian hryvnia)

Entity: PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"	Date (year, month, date)	2017 12 31
Location: Factory district	per EDRPOU	00186536
Ownership: private joint stock company	per KOATUU	2310136600
State authority: DK PP Ukraine	per KOPFG	230
Type of activity: Production of pig iron, steel and ferroalloys	per KVED	24.10
Average headcount: 5 540		
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

Balance sheet
Statement of financial position
As at 31 December 2017

Form № 1

DKUD code

1801003

Assets	Line code	As at 31 December 2016	As at 31 December 2017
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	12,308	10,056
historical cost	1001	48,412	47,680
accumulated amortization	1002	(36,104)	(37,624)
Capital investments in progress	1005	42,179	27,477
Property, plant and equipment:	1010	3,254,461	4,766,698
historical cost	1011	3,530,248	4,871,019
accumulated depreciation	1012	(275,787)	(104,321)
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	21,126	1,918
Total Section I	1095	3,330,074	4,806,149
II. Current assets			
Inventories	1100	947,673	1,246,979
Raw materials	1101	407,465	503,520
Work in progress	1102	348,245	505,844
Finished goods	1103	191,963	237,534
Goods	1104	–	81
Current biological assets	1110	–	–
Notes receivable	1120	–	–
Accounts receivable for goods, works and services	1125	1,230,553	1,331,809
Accounts receivable on settlements:			
on prepayments made	1130	21,817	95,750
with budget	1135	72,680	107,499
with income tax	1136	8	31
with accrued income	1140	1,581	2,071
Internal accounts receivable	1145	–	–
Other accounts receivable	1155	10,056	10,256
Current financial investments	1160	119,225	191,681
Cash and cash equivalents:	1165	195,277	138,968
cash in hand	1166	7	7
cash at bank	1167	195,270	138,961
Future expenses	1170	1,612	1,829
Other current assets	1190	7,595	10,886
Total Section II	1195	2,608,069	3,137,728
III. Assets classified as held for distribution	1200	–	–
Balance	1300	5,938,143	7,943,877

PrJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 As at 31 December 2017
 (in thousands of Ukrainian hryvnia)

Liabilities and equity 1	Line code 2	As at 31 December 2016 3	As at 31 December 2017 4
I. Equity			
Share capital		49,720	49,720
Contributed capital	1405	2,143,793	3,342,226
Additional capital	1410	114,627	114,627
Reserve fund	1415	12,430	12,430
Retained earnings (accumulated deficit)	1420	(2,250,006)	(2,134,352)
Unpaid capital	1425	–	–
Treasury shares	1430	–	(761)
Total Section I	1495	70,564	1,383,890
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	22,256	317,193
Non-current bank loans	1510	2,385,375	866,635
Other non-current liabilities	1515	–	–
Other provisions	1520	385,185	460,273
Special purpose financing	1525	–	–
Total Section II	1595	2,792,816	1,644,101
III. Current liabilities and provisions			
Short-term bank loans	1600	–	–
Current liabilities for:		–	–
current portion of non-current liabilities	1610	1,751,007	3,320,295
for goods, works and services	1615	1,146,887	1,338,343
with budget	1620	9,752	11,643
with Income tax	1621	–	28
social insurance	1625	6,501	8,400
Wages	1630	19,872	26,697
Current liabilities for advance received	1635	45,237	98,952
Current liabilities for payments to participants	1640	14,335	14,333
Other provisions	1660	45,884	57,097
Deferred revenue	1665	–	–
Other current liabilities	1690	35,288	40,126
Total Section III	1695	3,074,763	4,915,886
IV. Liabilities directly associated with the assets classified as held for distribution			
	1700	–	–
Balance	1900	5,938,143	7,943,877

Acting Chairman of the Board



Vitaliy Kornievskiy

Chief Accountant

Halyna Luchko

26 March 2018

Translation of the original Ukrainian version

PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 As at 31 December 2017
 (in thousands of Ukrainian hryvnia)

Entity: PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"	Date (year, month, date) per EDRPOU	2017 12 31
		00186536

Statement of financial results
(Statement of comprehensive income)
for the year 2017

Form № 2

DKUD code

1801003

I. FINANCIAL RESULTS

Description 1	Line code 2	Current period 3	Preceding period 4
Net revenue from sales of goods (merchandise, works, services)	2000	8,164,952	6,319,107
Cost of goods (merchandise, works, services) sold	2050	(7,151,107)	(5,543,947)
Gross:			
Profit	2090	1,013,845	775,160
Loss	2095	-	-
Other operating income	2120	121,732	78,229
Administrative expenses	2130	(125,836)	(106,509)
Selling expenses	2150	(216,943)	(165,975)
Other operating expenses	2180	(118,647)	(95,857)
Financial results from operating activities:			
Profit	2190	674,151	485,048
Loss	2195	-	-
Income from investments accounted for under equity method	2200	-	-
Other finance income	2220	34,244	36,573
Other income	2240	9,093	2
Finance expenses	2250	(516,880)	(507,580)
Losses from investments accounted for under equity method	2255	-	-
Other expenses	2270	(125,651)	(495,251)
Financial results from ordinary activities before taxation:			
Profit	2290	74,957	-
Loss	2295	-	(481,208)
Income tax on ordinary activities	2300	(21,281)	77,557
Financial results from stopped activities after taxation	2305	-	-
Net financial result:			
Profit	2350	53,676	-
Loss	2355	-	(403,651)

II. COMPREHENSIVE INCOME

Description 1	Line code 2	Current period 3	Preceding period (restated) 4
Revaluation (impairment) of non-current assets	2400	1,629,200	-
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	(95,105)	23,271
Other comprehensive income before tax	2450	1,534,095	23,271
Income tax related to other comprehensive income	2455	(273,684)	(3,965)
Other comprehensive income, net of tax	2460	1,260,411	19,306
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	1,314,087	(384,345)

The accompanying notes 1-33 form an integral part of the consolidated financial statements.

PrJSC "Electrometallurgical Works "Dnipropetsstal" named after A.M. Kuzmin"
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
As at 31 December 2017
(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	6,573,974	4,850,325
Labour costs	2505	553,750	483,099
Social security charges	2510	128,113	102,124
Depreciation and amortization	2515	220,078	232,609
Other operating expenses	2520	350,425	279,005
Total	2550	7,826,340	5,947,162

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	0.050	(0.375)
Adjusted net income per ordinary share	2615	0.050	(0.375)
Dividends per ordinary share	2650	—	—

Acting Chairman of the Board

Vitaliy Kornievskiy

Chief Accountant

Halyna Luchko

26 March 2018



Translation of the original Ukrainian version

PrJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"
CONSOLIDATED CASH FLOW STATEMENT
As at 31 December 2017
(in thousands of Ukrainian hryvnia)

Entity: PrJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"	Date (year, month, date) per EDRPOU	2017 12 31
		00186536

**Cash flow statement
for the year 2017**

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	8,738,267	6,544,717
Refund of taxes/compulsory payments	3005	307,295	251,587
With VAT	3006	307,247	251,544
Special purpose financing	3010	12,067	8,194
Subsidies and grants	3011	12,067	8,194
Advance received	3015	98,952	47,437
Return of an advances	3020	33,698	23,219
Interest on balances in current accounts	3025	33,755	36,043
Debtors penalties (fines, penalties)	3035	1,158	1,897
Income from operational lease	3040	6,176	9,973
Other inflows	3095	10,395	11,338
Cash outflow due to payment for:			
Goods (works, services)	3100	(7,708,705)	(5,669,283)
Salary for employees	3105	(444,864)	(365,596)
Deductions for social security charges	3110	(166,384)	(143,782)
Tax liabilities and charges	3115	(162,262)	(125,528)
Liabilities for income tax	3116	(211)	(60)
Expenditure on payment obligations for VAT	3117	(14,192)	(1,226)
Liabilities for other taxes/compulsory payments	3118	(147,859)	(124,242)
Advances	3135	(95,750)	(23,317)
Refund of advances	3140	(5,477)	(4,442)
Other outflows	3190	(156,201)	(60,658)
Net cash flow from operating activities	3195	502,120	541,799
II. Cash flows from investing activities			
Proceeds from sale of:			
financial investments	3200	-	-
non-current assets	3205	-	-
Receipt of:			
interest	3215	-	10
Dividends	3220	-	-
Income from derivatives	3225	-	-
Income from loans settlement	3230	-	-
Other proceeds	3250	51,400	135,700
Purchase of:			
financial investments	3255	-	-
non-current assets	3260	(55,822)	(114,133)
Payments for derivatives	3270	-	-
Collateral deposit	3275	-	-
Other payments	3290	(55,719)	(201,646)
Net cash flows from investing activities	3295	(60,141)	(180,069)
III. Cash flows from financing activities			
Income from:			
Share capital	3300	-	-
Proceeds from borrowings	3305	256,814	567,730
Other proceeds	3340	-	-
Purchase of:			
Own securities	3345	(761)	-
Repayment of borrowings	3350	(316,323)	(592,539)

The accompanying notes 1-33 form an integral part of the consolidated financial statements.

Translation of the original Ukrainian version

PrJSC "Electrometallurgical Works "Dniprospsstal" named after A.M. Kuzmin"
CONSOLIDATED CASH FLOW STATEMENT
 As at 31 December 2017
 (in thousands of Ukrainian hryvnia)

Description 1	Line code 2	Reporting period 3	Preceding period 4
Dividends paid	3355	(2)	(13)
Interest paid	3360	(437,195)	(438,038)
Other payments	3390	-	-
Net cash flows from financing activities	3395	(497,467)	(462,860)
Net (decrease)/increase in cash and cash equivalents	3400	(55,488)	(101,130)
Cash balance at the beginning of the year	3405	195,277	295,682
Net foreign exchange difference	3410	(821)	725
Cash balance at the end of the year	3415	138,968	195,277

Acting Chairman of the Board



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Vitaliy Kornievskiy

Chief Accountant

[Handwritten signature]

Halyna Luchko

26 March 2018

Translation of the original Ukrainian version

PrJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"
CONSOLIDATED EQUITY STATEMENT
As at 31 December 2017
(in thousands of Ukrainian hryvnia)

Entity: PrJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"

Date (year, month, date)
per EDRPOU
2017 | 12 | 31
00186536

Equity statement
for the year 2017

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	2,143,793	114,627	12,430	(2,250,006)	-	-	70,564
Adjustments:									
Changes in accounting policies	4005	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-
Other adjustments	4090	-	-	-	-	-	-	-	-
Adjusted balance at the beginning of the year	4095	49,720	2,143,793	114,627	12,430	(2,250,006)	-	-	70,564
Net profit (loss) for the reporting period	4100	-	-	-	-	53,676	-	-	53,676
Other comprehensive income	4110	-	1,338,403	-	-	(77,992)	-	-	1,260,411
Increase in the value of non-current assets	4111	-	1,338,403	-	-	-	-	-	1,338,403
Other income	4116	-	-	-	-	(77,992)	-	-	(77,992)
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	-	-	-	-	-	-	(761)	(761)
Re-sale of purchased shares (contributions)	4265	-	-	-	-	-	-	-	-

The accompanying notes 1-33 form an integral part of the consolidated financial statements.

PrJSC "Electrometallurgical Works "Dniprospeksstal" named after A.M. Kuzmin"
CONSOLIDATED EQUITY STATEMENT
As at 31 December 2017
(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
Cancellation of purchased shares (contributions)	4270	-	-	-	-	-	-	-	-
Withdrawal of contribution in capital	4275	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	(139,970)	-	-	139,970	-	-	-
Total changes in equity	4295	-	1,198,433	-	-	115,654	-	(761)	1,313,326
Balance at the end of the year	4300	49,720	3,342,226	114,627	12,430	(2,134,352)	-	(761)	1,383,890

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	-	-	-	-	-	-	-	-

PRJSC "Electrometallurgical Works "Dniprospsstal" named after A.M. Kuzmin"
CONSOLIDATED EQUITY STATEMENT
As at 31 December 2017
(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
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	-	(148,978)	-	-	-	-	-	-
Total changes in equity	4295	-	(148,978)	-	-	148,978	-	-	-
Balance at the end of the year	4300	49,720	2,143,793	114,627	12,430	(235,367)	-	-	(384,345)
						(2,250,006)	-	-	70,564

Acting Chairman of the Board

Vitaliy Komievskiy

Chief Accountant

Halyna Luchko

26 March 2018



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1. Corporate information

Private Joint Stock Company "Electrometallurgical Works "Dneprospetsstal" named after A.N. Kuzmin" (the "Company") is a successor of a predecessor a state owned enterprise "Electrometallurgical works "Dneprospetsstal" named after A.N. Kuzmin" created in 1994 in the process of reorganisation, 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". On June 7, 2017, the Annual General Meeting of Shareholders of the Company decided to change the type of the Company from the public to private and to change the name from the public joint-stock company "Electrometallurgical Works Dneprospetsstal" named after A.N. Kuzmin" on a private joint-stock company "Electrometallurgical Works Dneprospetsstal" named after A.M. 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 2017, the Group employed 5,540 people (2016: 5,625 people).

As at 31 December 2017 and 2016 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 2017 and for the year then ended were authorized for issue on 26 March 2018.

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 2014-2016, 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 (3 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 2017 and 2016 the Group did not have assets located in Crimea, 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.

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2. Going concern

For the year ended 31 December 2017 the Group incurred net income of UAH 53,676 thousand (2016: net loss in the total amount of UAH 403,651 thousand), current liabilities exceeded its current assets by UAH 1,778,158 thousand (2016: UAH 466,694 thousand).

The excess of current liabilities of the Group over its current assets is mainly due to the fact that as at 31 December 2017 the contractual maturity of a part of long-term obligations on bank loans in the amount of UAH 3,320,295 thousand fall due during 2018 (2016: UAH 1,751,007 thousand during 2017).

The management does not consider that such an excess creates a significant uncertainty as to appropriateness of the application of going concern principle for the preparation of these separate financial statements of the Group 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 63% for 2017 (2016: 62%) which allowed the Group to receive profit from operating activities of UAH 674,151 thousand (2016: 485,048 thousand) and net cash inflows from operating activities of UAH 502,120 thousand (2016: UAH 541,799 thousand).

The management believes that the above trend of maintaining positive operating indicators will continue in the future periods, given the availability of a stable and projected portfolio of orders for the next year and the possibility of fixing operating expenses to release additional working capital.

The constancy of operational indicators achieved, timely fulfillment by the Group of its obligations on servicing loans and diversification of the loan portfolio will allow it during 2018 to restructure the loans, as in previous years, to at least 2020, with the preservation of acceptable credit conditions.

Subsequent to 31 December 2017, the Company has already begun negotiations with some of the banks for restructuring loans and expects the completion of these and other negotiations before the contractual maturities of the short-term part of the loan portfolio become due.

Based on abovementioned considerations, 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.

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.

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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 2017:

- *IAS 7 Disclosure Initiative* – Amendments to IAS 7;
- *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses* – Amendments to IAS 12;
- Annual improvements cycle – 2012-2104: Amendments to IFRS 12 *Disclosure of Interests in Other Entities*: Clarification of the scope of disclosure requirements in IFRS 12.

The impact of the adoption of the standards or interpretations on the Group is described below.

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. Application of the amendments required additional disclosures provided in Notes 15 and 19, and reclassification of comparative information in Note 28.

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 have no impact on the Group.

Annual improvements cycle 2012-2104

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

In December 2016, the IASB issued Annual Improvements to IFRS standards 2014-2016 cycle. Amendments to IFRS 12 *Disclosure of Interests in Other Entities* to clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or associate) that is classified (or included in a disposal group that is classified) as held for sale or discontinued operations, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

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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 profit and loss.

Property, plant and equipment

The carrying value of all groups of fixed assets, excluding land and construction in progress and uninstalled equipment, is accounted by using revaluation model. The Group regularly performs an analysis of the carrying value of property, plant and equipment to determine the need for a further revaluation.

The fair value of property is determined by reference to market values of respective items at the valuation date. The fair values of specialized machinery, equipment, tools and fixtures are determined by using depreciated replacement cost approach as no market values are available for such items. Until next regular revaluation these items are carried at the revalued amounts less any subsequent accumulated depreciation and impairment.

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

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 profit and loss, 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 profit and loss 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.

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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 profit and loss 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.

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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 profit and loss.

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 profit and loss. 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 the profit and loss 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 profit and loss 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 profit and loss, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the profit and loss.

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.

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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 profit and loss.

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 profit and loss 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.

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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 profit and loss. 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 the profit and loss.

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

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the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss.

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 known 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.

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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 profit and loss.

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.

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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 and interpretations, if applicable, 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 modified 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.

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.

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 amendments are not applicable to the Group as it does not use share-based payments.

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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 is assessing the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and is effective for reporting periods starting on or after 1 January 2021, it establishes a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: a specific adaptation for contracts with direct participation features (the variable fee approach); a simplified approach (the premium allocation approach) mainly for short-duration contracts. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4). IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected. The standard will not have impact on the Group's financial statements or accounting policies.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The amendment is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Group has no investment property, thus, these amendments did not impact the Group's financial statements or accounting policies.

Annual improvements 2014-2016 cycle (issued in December 2016)

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment introduces the deletion of short-term exemptions for first-time adopters in paragraphs E3-E7 of IFRS 1. The amendment is effective from 1 January 2018. The Group is not a first-time adopter, thus this amendment will have no impact on the Group's financial statements or accounting policies.

IAS 28 Investments in Associates and Joint Ventures

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

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If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The amendment will not have impact on the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9.

The amendment is effective for annual periods beginning on or after 1 January 2018. The Group has no insurance contracts, thus, these amendments are not expected to impact the Group's financial statements or accounting policies.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The amendment is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Group had always applied the abovementioned approach, thus this amendment will have no impact on the Group's financial statements or accounting policies.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* which clarifies application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. The interpretation will not have impact on the Group's financial statements or accounting policies.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The IASB also clarified that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss. Amendments are effective for annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The Group is assessing the potential effect of the amendments on the financial statements.

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Long-term interests in associates and joint ventures – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments are effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The amendments will not have impact on the Group's financial statements or accounting policies.

IFRS Practice Statement 2: Making Materiality Judgements

Companies are permitted to apply the guidance in the Practice Statement (PS) to financial statements prepared any time after 14 September 2017. The PS contains non-mandatory guidance to help entities making materiality judgements when preparing general purpose IFRS financial statements. The PS may also help users of financial statements to understand how an entity makes materiality judgements in preparing such financial statements. Since the PS is a non-mandatory document, it does not change or introduce any requirements in IFRS.

Annual improvements 2015-2017 cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

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.

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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 2017 and 2016, allowances for doubtful accounts have been made in the amount of UAH 9 thousand and UAH 23 thousand, respectively (Note 11).

As at 31 December 2017, inventory write-down using allowances to its net realisable value amounted to UAH 16,028 thousand (2016: UAH 27,061 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 2017 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.

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Fair value of property, plant and equipment

The carrying value of all groups of fixed assets, excluding land and construction in progress and uninstalled equipment, is accounted by using revaluation model. As as 31 December 2017 the Company performed the regular revaluation of the carrying value of items included in these groups of property, plant and equipment: (i) buildings and improvements and (ii) machinery and equipment.

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 2017 (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.

For assessment of physical deterioration appraiser used as basis the determination of the effective age and useful life of assets. The effective age was determined on the basis of its actual age with adjustments on type of its use and maintenance.

In determining the economic impairment for the valuation model, the appraiser applied the basic assumption – the discount of forecasted cash flows for 5 years using rates WACC in range 21.89-22.69% (in particular, for WACC determination, appraisers have applied rates: risk-free rate in US dollars 2.58%, country risk 6.20%, systematic risk 5.08%, etc.) and the average consumer price index at 8.3%.

Increase in estimated discount rate (WACC) would result in a lower fair value of the items under revaluation; decreases in discount rate would result in a higher value of revalued items.

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.

The Group has conducted an appropriate analysis of factors that could indicate the possibility that the carrying amount of property, plant and equipment differed from their fair value as at 31 December 2017 and concluded that the carrying amount of items of property, plant and equipment included in the groups (ii) vehicles and (iv)) inventory and office equipment did not differ significantly from their fair value determined during the previous revaluation less depreciation that was accrued from that moment.

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

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

	<i>Land and capital improvements</i>	<i>Buildings and improvements</i>	<i>Machinery and equip- ment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
2017							
Historical cost							
At 1 January 2017	18,456	1,718,554	1,563,497	148,308	81,433	42,179	3,572,427
Additions	—	5,217	100,475	1,638	5,034	(14,702)	97,662
Disposals	—	(1,480)	(24,193)	(1,286)	(288)	—	(27,247)
Revaluation	—	1,194,640	61,014	—	—	—	1,255,654
At 31 December 2017	18,456	2,916,931	1,700,793	148,660	86,179	27,477	4,898,496
Depreciation							
At 1 January 2017	(533)	(76,938)	(123,645)	(41,832)	(32,839)	—	(275,787)
Charge for the year	(33)	(75,515)	(114,299)	(17,282)	(9,149)	—	(216,278)
Disposals	—	339	8,234	918	190	—	9,681
Revaluation	—	151,220	226,843	—	—	—	378,063
At 31 December 2017	(566)	(894)	(2,867)	(58,196)	(41,798)	—	(104,321)
Net book value							
At 1 January 2017	17,923	1,641,616	1,439,852	106,476	48,594	42,179	3,296,640
At 31 December 2017	17,890	2,916,037	1,697,926	90,464	44,381	27,477	4,794,175
						<i>Construction in progress and uninstalled equipment</i>	
2016	<i>Land and capital improvements</i>	<i>Buildings and improvements</i>	<i>Machinery and equip- ment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>		<i>Total</i>
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

The Group accounts for the items of property, plant and equipment included in the groups: (i) buildings and improvements, (ii) machinery and equipment, (iii) transport and motor vehicles, (iv) fixtures and office equipment at fair value less any depreciation and impairment. The items of property, plant and equipment included in the group land and capital improvements are accounted for at cost less any depreciation and impairment.

As at 31 December 2017 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.

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If buildings and improvements, machinery and equipment, transport and motor vehicles and fixtures and office equipment were measured using the cost model, the net book value amounts would be as follows:

	Net book value	
	2017	2016
Buildings and constructions	202,011	212,095
Machinery and equipment	489,367	435,400
Transport and motor vehicles	13,851	14,142
Fixtures and office equipment	27,019	27,115

The following table provides the fair value measurement hierarchy of the Company's fixed assets:

	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
31 December 2017			
<i>Fair value hierarchy</i>			
Fixed assets	460,166	4,272,675	4,732,841
	460,166	4,272,675	4,732,841
	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
31 December 2016			
<i>Fair value hierarchy</i>			
Fixed assets	219,473	2,947,340	3,166,813
	219,473	2,947,340	3,166,813

The total increase of revalued amount of property, plant and equipment is UAH 1,633,717 thousand. Increase of revalued amount that recognized in other comprehensive income in amount UAH 1,629,200 thousand. Part of increase in revalued amount, which reverse losses on revaluation decrease of prior periods amounted UAH 9,030 thousand was recognized as other income in the profit and loss of current period. Loss on revaluation of property, plant and equipment that exceeds increase of revalued amount of previous periods was recognized in the profit and loss through other expenses amounted to UAH 4,513 thousand.

For property, plant and equipment items categorized within Level 3 of fair value hierarchy, according to valuation methods applied by independent appraiser, the fair value was as follows:

	Fair value of Level 3
As at 1 January 2017	2,947,340
Transfers into Level 3	25,436
Transfers out of Level 3	(179,603)
Remeasurement recognized in profit or loss	1,724
Remeasurement recognized in other comprehensive income	1,517,158
Depreciation	(181,377)
Purchases	141,997
As at 31 December 2017	4,272,675

As at 31 December 2017, the carrying value of buildings of UAH 2,177,709 thousand (2016: UAH 1,063,165 thousand) and machinery and equipment of UAH 1,501,323 thousand (2016: UAH 1,374,144 thousand) were pledged secured commitments for loans granted by banks (Note 15).

As at 31 December 2017, the property, plant and equipment items in the amount of UAH 78,529 thousand (2016: UAH 17,171 thousand) were fully depreciated but were still in use.

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7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	2017	2016
Cost		
At 1 January	48,412	47,623
Additions	1,645	1,670
Disposal	(2,377)	(881)
At 31 December	47,680	48,412
Amortisation		
At 1 January	36,104	33,074
Charge for the year	3,800	3,911
Disposal	(2,280)	(881)
At 31 December	37,624	36,104
Net book value		
At 1 January	12,308	14,549
At 31 December	10,056	12,308

Intangible assets consist mainly of software. As at 31 December 2017, the accounting software with carrying value of UAH 725 thousand (2016: UAH 1,073 thousand) and remaining amortisation period of 25 months (2016: 37 months) and the license for a right to use software with the carrying value of UAH 4,337 thousand (2016: UAH 5,606 thousand) and remaining amortisation period of 41 months (2016: 53 months) were the major components of intangible assets.

As at 31 December 2017, the intangible assets with historical value of UAH 3,724 thousand (2016: UAH 3,057 thousand) were fully amortised but were still in use.

8. Other non-current assets

As at 31 December 2016 other non-current assets consisted of prepaid income tax in the amount of UAH 21,126 thousand. The management of the Group considered it necessary to represent it as long term due to low probability of its utilization during 2017, which was caused by losses of the Group during 2015 and 2016. In 2017 prepaid income tax in amount of UAH 19,208 thousand was used to pay corporate income tax and tax penalties according to the ruling of Dnipropetrovsk Administrative Court of Appeal.

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9. Income tax

The components of income tax expenses for 2017 and 2016 were as follows:

Profit and loss

	2017	2016
Current income tax charge	28	256
Deferred tax relating to origination and reversal of temporary differences	21,253	(77,813)
Income tax expense/(benefit)	21,281	(77,557)

Other comprehensive income

	2017	2016
Deferred income tax attributable to revaluation of PP&E	290,797	–
Deferred income tax expense/(benefit) attributable to actuarial gains and losses	(17,113)	3,965
Income tax expense/(benefit) reflected in other comprehensive income	273,684	3,965

Profit / (loss) before tax for financial reporting purposes is reconciled to tax expense as follows:

	2017	2016
Profit/(loss) before tax	74,957	(481,208)
Income tax expense/(benefit) at respectively enacted rates (2017: 18%, 2016: 18%)	13,492	(86,617)
Tax effect of disallowable expenses	7,789	9,060
Reassessment of temporary differences at the beginning of the period	–	–
Income tax expense/(benefit)	21,281	(77,557)

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Deferred tax assets and liabilities related to the following:

	31 December 2017	Changes recognised in profit and loss for 2017	Changes recognised in other comprehensive income for 2017	31 December 2016
Deferred tax assets				
Inventory (i)	4,737	(2,013)	–	6,750
Non-current provisions (ii)	81,240	(3,656)	17,113	67,783
Tax losses carry-forward	294,655	(44,159)	–	338,814
Deferred tax liabilities				
Property, plant and equipment (iii)	(697,825)	28,575	(290,797)	(435,603)
Deferred tax liability, net	(317,193)	–	–	(22,256)
Deferred income tax expense	–	(21,253)	(273,684)	–

	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				
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)	–

The nature of temporary differences is 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.

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As at 31 December 2017 the Group has tax losses in amount of UAH 1,635,262 thousand (2016: UAH 1,880,874 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:

	2017	2016
Finished goods		
Stainless steel	116,267	92,379
Structural steel	57,502	49,341
Tool steel	40,954	33,257
High-speed tool steel	16,479	8,066
Bearing steel	6,542	15,889
Heat resistant steel	3,006	2,130
Other	2,206	1,520
Allowance for impairment	(5,422)	(10,619)
Finished goods (at net realisable value)	237,534	191,963
Raw materials		
Materials	406,020	339,259
Spare parts	87,970	59,029
Other	9,778	9,741
Allowance for impairment	(248)	(564)
Raw materials (at net realisable value)	50,520	407,465
Work in process	516,202	364,123
Allowance for impairment	(10,358)	(15,878)
Work in process (at net realisable value)	505,844	348,245
	1,246,898	947,673

As at 31 December 2017, finished goods and raw materials for the amount of UAH 627,700 thousand (2016: UAH 627,700 thousand), were pledged as a security for the bank loans (Note 15).

As at 31 December 2017 allowance for impairment of inventories comprised UAH 16,028 thousand (2016: UAH 27,061 thousand).

11. Accounts receivable for goods, works and services

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

	2017	2016
Trade accounts receivable	1,331,818	1,230,576
Less – allowance for bad debts	(9)	(23)
	1,331,809	1,230,553

As at 31 December 2017 trade accounts receivable (before allowance for bad debts) in the amount of UAH 978,318 thousand (2016: UAH 756,124 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 2017 trade accounts receivable for goods, works, services from three counterparties comprised UAH 838,691 thousand (2016: UAH 936,719 thousand).

As at 31 December 2017, trade receivables of UAH 9 thousand (2016: UAH 23 thousand) were impaired.

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

	2017	2016
At 1 January	23	15
Charge for the year	–	8
Utilised	(9)	–
Unused amounts reversed	(5)	–
At 31 December	9	23

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
2017	1,331,809	256	697,606	586,686	47,261
2016	1,230,553	65,696	468,134	371,409	325,314

12. Accounts receivable on settlements with budget

Trade receivables from taxation were the following:

	2017	2016
VAT receivable	107,468	72,672
Prepaid income tax	31	8
	107,499	72,680

13. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	2017	2016
Cash at banks	138,961	195,270
Cash on hand	7	7
	138,968	195,277

Cash at banks earns interest at floating rates based on daily bank deposit rates. During year ended 31 December 2017 floating rates were within 1.0%-16.25% per year (2016: 2.75-18.75%).

14. Current financial investments

Currency	2017		2016	
	Average annual interest rate	Amount	Average annual interest rate	Amount
Deposits in hryvnias	10.2-14.5%	174,841	14.5-16.5%	102,910
Deposits in US dollars	1.1-3.2%	16,840	3.2%	16,315
		191,681		119,225

The maturity period of these deposits is November 2018 (2016: September 2017).

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15. Bank borrowings

Long and short-term borrowings consisted of the following:

	2017	2016
Current portion of non-current liabilities	3,320,295	1,751,007
Non-current bank loans	866,635	2,385,375
	4,186,930	4,136,382

As at 31 December 2017 and 2016, the Group's interest bearing loans due to banks represent revolving loan arrangements.

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

Currency	2017		2016	
	Interest rate	Outstanding principal	Interest rate	Outstanding principal
<i>Fixed rates</i>				
USD	5.75-11.25%	3,930,116	10.50-11.50%	4,136,382
UAH	17.25%	256,814	—	—
		4,186,930		4,136,382

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

	2017	2016
Property, plant and equipment (see Note 6)	3,679,032	2,437,309
Inventories (see Note 9)	627,700	627,700
Trade accounts receivable (see Note 10)	978,318	756,124
Future proceeds under sales agreements	5,572,520	6,585,225
Bank deposit (see Note 8)	190,716	115,008

Outstanding balance of the loans from banks were disclosed by the Group as part of current portion of non-current liabilities in accordance with the terms of loan agreements.

Changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were the following:

	2017
Bank loans at 1 January	4,136,382
Proceeds from bank loans	256,814
Repayment of bank loans	(316,323)
Foreign exchange effect	110,057
Bank loans at 31 December	4,186,930

16. Trade payables for goods, works and services

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

	2017	2016
Payables to domestic suppliers of materials and services	790,240	685,431
Payables to foreign suppliers of materials and services	548,103	461,456
	1,338,343	1,146,887

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

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As at 31 December 2017 trade accounts payable for goods, works, services to two counterparties comprised UAH 712,298 thousand (2016 : two counterparties – UAH 555,349 thousand).

17. Advances received

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

	2017	2016
Advances for metal products from local customers	93,589	39,811
Advances for metal products from foreign customers	5,360	5,423
Advances for metal products under commission agreements	3	3
	98,952	45,237

As at 31 December 2017 advances received from one counterparty comprised UAH 3 thousand (2016: UAH 130 thousand).

18. Other provisions

Other provisions consisted of the following:

	2017	2016
Material encouragement of workers	30,870	25,225
Unused vacation	24,000	18,633
Litigation provision	517	537
Other accruals	1,710	1,489
	57,097	45,884

19. Other current liabilities

Other current liabilities consisted of the following:

	2017	2016
Accrued interests for the bank loans	38,692	33,959
Other	1,434	1,329
	40,126	35,288

Changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were the following:

	2017
Interest on bank loans payable as at 1 January	33,959
Accrued interest for the bank loans	442,890
Paid interest for the bank loans	(437,195)
Foreign exchange effect	(962)
Interest on bank loans payable as at 31 December	38,692

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

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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 2017, total number of the plan participants accounted for 1,815 (2016: 1,789) staff including 1,430 (2016: 1,493) 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.

Benefit expense

	2017	2016
Current service costs	8,929	13,703
Interest costs	50,372	50,200
Recognised changes in past service cost	(45,668)	(3,173)
Benefit expense	13,633	60,730

Changes in the present value of defined pension benefit obligation

	2017	2016
Defined pension benefit obligation at 1 January	335,335	332,822
Current service costs	8,929	13,703
Interest costs	50,372	50,200
Benefits paid	(41,026)	(38,150)
Actuarial (profit)/loss on obligation due to effect of changes in assumptions:	88,456	(20,067)
- Experience adjustments	43,657	43,278
- Actuarial changes arising from changes in demographic assumptions	(443)	1,794
- Actuarial changes arising from changes in financial assumptions	45,242	(65,139)
Recognised changes in past service cost	(45,668)	(3,173)
Pension benefit obligation as at 31 December	396,398	335,335

The Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 52,473 thousand.

In 2017 the average duration of the defined benefit plan obligation is 8 years (2016: 8 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 5,466 people (2016: 5,566 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, 3,610 pensioners entitled the benefits as at 31 December 2017 (2016: 3,766 people).

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.

Benefit expense

	2017	2016
Current service costs	1,925	2,360
Recognised actuarial loss	2,528	(4,835)
Interest costs	7,527	7,993
Past service costs	(24)	(1,015)
Benefit expense recognised in profit and loss	11,956	4,503

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Changes in the present value of defined benefit obligation

	2017	2016
Defined benefit obligation at 1 January	49,413	51,798
Current service costs	1,925	2,360
Interest costs	7,527	7,993
Benefits paid	(4,729)	(3,684)
Actuarial (profit)/loss on obligation due to the effect of changes in assumptions	9,177	(8,039)
- Experience adjustments	4,921	541
- Actuarial changes arising from changes in demographic assumptions	(122)	(1,978)
- Actuarial changes arising from changes in financial assumptions	4,378	(6,602)
Recognised changes in past service cost	(24)	(1,015)
Defined benefit obligation at 31 December	63,289	49,413

The Group's best estimate of contributions expected to be paid to the plan during the next year amounts to UAH 20,304 thousand.

In 2017 the average duration of obligation in accordance with collective agreement is 4.3 years (2016: 4.3 years) and for other obligation 5.3 years (2016: 5.3 years).

Principal assumptions

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

	2017	2016
Discount rate	14.50%	16.00%
Salary and benefits paid increase	6.00%	7.00%
Employee turnover	6.00%	6.00%
Rate of inflation	5.70%	6.00%

The sensitivity analysis of key assumptions as at 31 December 2017:

	Increase "+" / decrease "-" of the rate	Effect on benefit liability 2017	Effect on benefit liability 2016
Discount rate	+1%	(28,593)	(24,201)
Discount rate	-1%	32,270	27,317
Salary increase (annual)	+1%	21,927	13,659
Salary increase (annual)	-1%	(19,904)	(12,427)
Employee turnover	+1%	(598)	(192)
Employee turnover	-1%	690	231
Rate of inflation	+1%	6,252	11,735
Rate of inflation	-1%	(6,068)	(11,273)

21. Net revenue from sales of goods

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

	2017	2016
Stainless steel	4,385,159	3,279,561
Structural steel	1,805,589	1,270,324
Tool steel	1,058,859	829,980
Bearing steel	365,920	232,824
High-speed tool steel	344,411	256,712
Heat resistant steel	176,428	432,696
Special nickel-based alloys	10,219	—
Other	18,367	17,010
	8,164,952	6,319,107

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For 2017 year net revenue from sales of metal products to three counterparties including those under commission agreements amounted to UAH 4,611,113 thousand (2016: UAH 3,593,212 thousand). Commission agreements fee which is included in selling expenses for 2017 year amounted to UAH 705 thousand (2016: UAH 1,110 thousand).

22. Cost of goods sold

Cost of goods sold consisted of the following:

	2017	2016
Materials	4,965,498	3,544,672
Utilities, energy and other services	1,405,147	1,258,629
Payroll and related expenses	500,757	450,122
Depreciation and amortisation	202,380	212,515
Other	77,325	78,009
	7,151,107	5,543,947

For 2017 purchases of materials and services, which are included in the cost of sales and selling expenses, from three counterparties comprised UAH 1,996,317 thousand (2016: UAH 1,339,492 thousand).

23. Selling expenses

Selling and distribution expenses consisted of the following:

	2017	2016
Forwarding and transportation services	176,266	132,737
Payroll and related expenses	21,692	16,548
Storage and packaging expenses	4,794	2,937
Depreciation and amortization	2,455	2,460
Insurance costs relating to inventories and other assets	939	562
Other selling costs	10,797	10,731
	216,943	165,975

24. Administrative expenses

General and administrative expenses consisted of the following:

	2017	2016
Payroll and related expenses	75,967	65,321
Transportation	8,471	8,048
Bank fees	6,616	6,585
Professional services	4,282	4,001
Depreciation and amortisation	3,295	3,433
Materials	1,554	1,342
Communication	1,043	720
Other general and administrative costs	24,608	17,059
	125,836	106,509

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25. Other operating income and expenses

Other operating income consisted of the following:

	2017	2016
Operational foreign exchange gains, net of losses	66,669	37,013
Gains from excess inventory	34,651	31,035
Gain on disposal of inventory, net	3,770	4,839
Fines and penalties received	3,632	2,304
Return of excessively paid import duty	2,011	—
Other income	10,999	3,038
	121,732	78,229

Other operating expenses consisted of the following:

	2017	2016
Maintenance of social infrastructure assets	37,767	32,796
Bad debts allowance	18,867	36,329
Fines and penalties paid	18,152	1,589
VAT liability accrued according to the court decision	12,149	—
Charity	4,017	3,211
Shortages and losses from impairment of assets	2,181	2,405
Insurance against customers' default	10	13
Other expenses	25,504	19,514
	118,647	95,857

26. Other income and expenses

Other income consisted of the following:

	2017	2016
Reversals of revaluation decreases of prior periods	9,030	—
Gain on disposal of PP&E	63	—
Other gains	—	2
	63	2

Other expenses consisted of the following:

	2017	2016
Non-operational foreign exchange losses, net of gains	108,877	490,480
Loss from disposal of non-current assets	12,242	4,656
Loss on revaluation of property, plant and equipment	4,513	—
Other losses	19	115
	125,651	495,251

27. Other finance income

Other finance income consisted of the following:

	2017	2016
Interest received from cash deposits with banks and from current bank accounts	34,244	36,573
	34,244	36,573

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28. Finance expenses

Finance expenses consisted of the following:

	2017	2016
Interest expenses on borrowings	442,890	436,744
Interest expense on pension obligations	57,899	58,193
Other finance expenses	16,091	12,643
	516,880	507,580

29. Equity

Share capital

As at 31 December 2017 and 2016, 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:

	2017	2016
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 in accordance with the requirements of the statute.

Dividend distribution

The Group has not declared any dividends for the years ending 31 December 2017 and 2016. In 2017, the Group paid UAH 2 thousand of dividends declared for the earlier years (2016: UAH 13 thousand).

30. Subsidiaries and associates

The Group's subsidiaries are presented below:

Name of the company	Country of incorporation	Business activities	Ownership	
			2017	2016
Ekovtorresurs LLC	Ukraine	Trading	100%	100%
Cutlery Plant-DSS LLC	Ukraine	Production	100%	100%

Cutlery Plant-DSS 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	
			2017	2016
Ferroteerm LLC	Ukraine	Trading	50%	50%

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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 2017 is as follows:

	2017	2016
Current assets	39,066	38,068
Non-current assets	119	647
Current liabilities	(49,333)	(42,615)
Non-current liabilities	—	—
Deficit in net assets	(10,148)	(3,900)
Group's share	50%	50%
The carrying amount in the investment	—	—
Unrecognised share of accumulated losses in an associate	(5,074)	(1,950)
	2017	2016
Other income	3,229	6,505
Other expenses	(9,477)	(5,523)
Loss / profit before tax	(6,248)	982
Income tax expenses	—	—
Net financial result	(6,248)	982
Groups share of (loss) / profit for the period	(3,124)	491

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:

		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	2017	45	—	792	11,687	—
Total 2017		45	—	792	11,687	—
Associated companies	2016	45	—	651	12,333	66
Total 2016		45	—	651	12,333	66

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 occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by the related parties (2016: 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.

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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 Management Board.

Accordingly, as at 31 December 2017 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 Management Board of the Company (31 December 2016: six members of the Supervisory Board and five members of the Management Board of the Company).

In 2017 the members of the Supervisory Board received no compensation from the Company (2016: nil). The total compensation to the members of the Management Board representing short-term employee benefits amounted to UAH 3,527 thousand (2016: UAH 3,068 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 2017 the following transactions were subject for transfer pricing (TP) compliance:

- Business transactions with non-resident related parties;
- Sale and purchase of goods through non-resident commissioners;
- Business transactions with non-residents from low-tax jurisdictions according to the list approved by Ukrainian Government;
- Business transactions with non-residents that do not pay corporate income tax and/or which are not tax residents of the state where they are registered as legal entities, according to 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 150 million for the relevant tax (reporting) calendar year; and
- (ii) Aggregate volume of the business transactions of the taxpayer with such counterparty exceeds UAH 10 million (net of VAT).

Penalties for failure to comply with TP regulation:

- Failure to submit the TP Report – 300 subsistence minimum (approximately UAH 460 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 460 thousand);
- Failure to submit the TP Report or declare controlled transactions on time – 1 subsistence minimum for each calendar day of delay, but no more than 300 subsistence minimums;
- 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 310 thousand);
- Failure to submit the TP documentation on time – 2 subsistence minimum for each calendar day of delay, but no more than 200 subsistence minimums;
- Failure to submit the TP report and/or TP documentation within 30 calendar days following the last day of the payment of the penalty for non-submission – 5 subsistence minimum for each calendar day of delay.

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The Group has analyzed its operations in 2017 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 2017 (2016: nil).

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 2017, management estimates that such contingencies do not exceed UAH 55,926 thousand (2016: UAH 115,079 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 2017 the Group has contractual commitments for acquisition of property, plant and equipment amounted UAH 23,072 thousand (2016: UAH 23,582 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:

	USD	EUR	RUB
As at 31 December 2017	28.067	33.495	0.487
Average exchange rate per 2017	26.603	30.069	0.456
As at 31 December 2016	27.191	28.423	0.451
Average exchange rate per 2016	25.587	28.312	0.384

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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.

<i>For the year ended 31 December 2017</i>	<i>Increase "+" / decrease "-" in currency exchange rate, %</i>	<i>Effect on profit before tax</i>
RUR/UAH	+25.00%	57,049
EUR/UAH	+22.00%	87,466
USD/UAH	+14.00%	(617,320)
RUR/UAH	-16.50%	(37,652)
EUR/UAH	-9.00%	(35,782)
USD/UAH	-10.00%	440,943

<i>For the year ended 31 December 2016</i>	<i>Increase "+" / decrease "-" in currency exchange rate, %</i>	<i>Effect on profit before tax</i>
RUR/UAH	+58.00%	127,417
EUR/UAH	+53.00%	242,264
USD/UAH	+53.00%	(2,366,214)
RUR/UAH	-22.00%	(48,331)
EUR/UAH	-15.00%	(68,565)
USD/UAH	-13.00%	580,392

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 2017 and at 31 December 2016 based on contractual undiscounted payments:

<i>At 31 December 2017</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 6 years</i>	<i>Total</i>
Borrowings	133,898	3,544,671	891,137	4,569,706
Trade and other accounts payable	1,338,343	—	—	1,338,343
Other current liabilities	14,333	—	—	14,333
	1,486,574	3,544,671	891,137	5,922,382

<i>At 31 December 2016</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 6 years</i>	<i>Total</i>
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

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.

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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 2017 and 2016 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 consolidated financial statements 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 5.46-8.54% та 17.83% per annum for short- and long-term loans respectively has been determined as weighted-average effective rate for the respective loans denominated in USD and UAH.

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