Plant of Pure Iron OJSC

Financial statements

For the year ended 31 December 2016
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of
Plant of Pure Iron OJSC

Opinion

We have audited the financial statements of Plant of Pure Iron OJSC (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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 financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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 opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Valuation of investment available for sale

The Company has an available for sale investment in equity of Zangezur Copper Molybdenum Combine CJSC (ZCMC), which is measured at fair value. The fair value of the investment is determined by using discounted cash flow techniques classified as Level 3 in fair value measurement hierarchy.

No quoted prices for ZCMC equity shares are available in active markets. This matter was of most significance in our audit, because valuation techniques for this investment can be subjective in nature and involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Related disclosures are included in Notes 2 and 14 to the financial statements.

Our audit procedures comprised, amongst others, an assessment of the methodology and valuation model. We assessed key inputs used in the valuation such as the expected cash flows and discount rates. Further, we involved our internal valuation specialists to assess the valuation the investment available for sale, as part of these audit procedures. We also evaluated the Company's assessment of whether objective evidence of impairment existed for the investment. We considered the disclosures related to this available for sale investment made in the financial statements.

Related party transactions

All of the Company's current year revenue from providing services, and a significant part of its interest income from loans given were generated in transactions with related parties. These related party transactions include provision of services to ZCMC, an entity under common control. Related disclosures are included in Note 25 to the financial statements. This matter was one of the key matters in our audit due to the significance of the related party transactions to the financial statements.

We evaluated the management's process for identifying and recording related party transactions. We analyzed contracts and agreements with related parties and performed analytical procedures in respect of revenue transactions. We compared related party transaction recorded and disclosed in the financial statements to supporting documents. We analysed the Company’s transactions, on a sample basis, for transactions outside the normal course of business. We analysed the related party disclosures in the financial statements.

Other matter

The financial statements of the Company for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 25 May 2016.

Other information included in the Company’s 2016 Annual report

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

Our opinion on the 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 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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Board of Directors for the financial statements

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

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

The Board of Directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

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

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

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

Ernst & Young CJSC

On behalf of General Director A. Sarkisyan
(by power of attorney dated 1 August 2016)
Partner (Assurance)

Eric Hayrapetyan

19 April 2017
Yerevan, Armenia

Statement of financial position

as at 31 December 2016

'000 AMD	Note	31 December 2016	31 December 2015 (Note 2 (f))
Assets			
Property, plant and equipment	13	4,564,085	4,159,002
Intangible assets		4,943	6,194
Available-for-sale investments	14	26,284,846	13,608,010
Investment in an associate	15	351,373	355,740
Non-current prepayments	16	10,599,534	9,974,145
Term deposits	19	5,807,280	485,540
Loans given	25	12,098,500	–
Non-current assets		**59,710,561**	**28,588,631**
Inventories	17	1,344,336	1,018,672
Trade and other receivables	18	172,821	202,974
Current prepayments	16	36,224	490,336
Input VAT		14,002	47,506
Current tax assets		50,652	226,591
Loans given	25	103,683	12,197,392
Term deposits	19	996,074	4,855,276
Cash and cash equivalents	20	761,287	946,066
Current assets		**3,479,079**	**19,984,813**
Total assets		**63,189,640**	**48,573,444**
Equity			
Share capital	21	690,930	690,930
Fair value reserve for available-for-sale investments		9,421,469	(720,000)
Retained earnings		49,998,906	48,128,498
Total equity		**60,111,305**	**48,099,428**
Liabilities			
Deferred tax liabilities	12	2,759,415	156,558
Deferred income		–	68,510
Non-current liabilities		**2,759,415**	**225,068**
Trade and other payables	22	160,593	125,138
Advances received for provisionally priced sales		11	15,729
Taxes payable		125,866	108,081
Deferred income		32,450	–
Current liabilities		**318,920**	**248,948**
Total liabilities		**3,078,335**	**474,016**
Total equity and liabilities		**63,189,640**	**48,573,444**

These financial statements were approved by management on 19 April 2017 and were signed on its behalf by:

Karen Hakobyan
General Director

Artur Hakobyan
Chief Accountant

The accompanying notes form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2016

'000 AMD	*Note*	*2016*	*2015 (Note 2 (f))*
Revenue	7	6,566,170	13,376,828
Cost of sales	8	(4,529,804)	(11,335,603)
Gross profit		**2,036,366**	**2,041,225**
Reversal of write-down/(Write-down) of inventory to its net realisable value		109,431	(109,431)
Administrative expenses	9	(875,151)	(961,359)
Other operating expenses	10	(316,159)	(538,683)
Other operating income		39,411	81,957
Operating profit		**993,898**	**513,709**
Finance income	11	1,428,648	1,208,638
Finance costs	11	–	(69,580)
Net foreign exchange gain		10,983	466,473
Share of loss of an associate	15	(4,367)	(6,121)
Profit before income tax		**2,429,162**	**2,113,119**
Income tax expense	12	(558,754)	(474,992)
Profit for the year		**1,870,408**	**1,638,127**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Change in fair value of available-for-sale financial assets	14	12,676,836	(900,000)
Related income tax	12	(2,535,367)	180,000
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**10,141,469**	**(720,000)**
Other comprehensive income/(loss) for the year, net of income tax		**10,141,469**	**(720,000)**
Total comprehensive income for the year, net of income tax		**12,011,877**	**918,127**
Earnings per share			
Basic and diluted, attributable to equity holders of the parent		**27**	**24**

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2016

'000 AMD	*Share capital (Note 21)*	*Retained earnings*	*Fair value reserve for available-for-sale investments (net of tax)*	*Total equity*
Balance at 1 January 2015	**690,930**	**46,490,371**	**–**	**47,181,301**
Profit for the year	–	1,638,127	–	**1,638,127**
Other comprehensive loss for the year, net of income tax	–	–	(720,000)	**(720,000)**
Total comprehensive income for the year, net of income tax	**–**	**1,638,127**	**(720,000)**	**918,127**
Balance at 31 December 2015	**690,930**	**48,128,498**	**(720,000)**	**48,099,428**
Profit for the year	–	1,870,408	–	**1,870,408**
Other comprehensive income for the year, net of income tax	–	–	10,141,469	**10,141,469**
Total comprehensive income for the year, net of income tax	**–**	**1,870,408**	**10,141,469**	**12,011,877**
Balance at 31 December 2016	**690,930**	**49,998,906**	**9,421,469**	**60,111,305**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2016

AMD'000	*Note*	*2016*	*2015 (Note 2 (f))*
Operating activities			
Receipts from customers, including VAT		7,777,603	13,276,792
Payments to suppliers, including VAT		(3,707,125)	(15,938,344)
Payments to employees		(2,077,740)	(1,996,620)
Payment of income tax		–	(606,670)
Payments for taxes other than on income		(908,946)	(337,591)
Receipt of VAT receivable		–	3,248,177
Donations provided		(115,953)	(213,811)
Return of advances from suppliers		150,129	–
Other receipts		1,710	8,341
Other payments		(52,549)	(77,509)
Interest received		860,057	846,258
Cash flows from / (used in) operating activities		**1,927,186**	**(1,790,977)**
Investing activities			
Investment in term deposits		(4,560,935)	(5,267,100)
Repayment of term deposits		3,108,145	10,540,380
Acquisition of property, plant and equipment and intangible assets		(662,904)	(167,949)
Proceeds from sale of property, plant and equipment		4,760	–
Repayments of loans given		–	2,395,793
Cash flows (used in) / from investing activities		**(2,110,934)**	**7,501,124**
Financing activities			
Repayment of loans and borrowings		–	(6,702,740)
Dividends paid		–	(1,280)
Interest paid		–	(143,416)
Cash flows used in financing activities		**–**	**(6,847,436)**
Net decrease in cash and cash equivalents		**(183,749)**	**(1,137,289)**
Cash and cash equivalents at 1 January	20	946,066	2,087,314
Effect of exchange rate fluctuations on cash and cash equivalents		(1,030)	(3,959)
Cash and cash equivalents at 31 December	20	**761,287**	**946,066**

During 2016 income tax payable in the amount of AMD 315,325 thousand was set-off with withholding tax prepayment.

The accompanying notes form an integral part of these financial statements.

1. Background

a) Organisation and operations

Plant of Pure Iron OJSC (the "Company") is a legal successor of Clean Iron Development and Industrial Plant founded in 1968. In 1995 the Company was reorganized and renamed as Plant of Pure Iron OJSC.

The Company's principal activity is molybdenum concentrate processing into ferro-molybdenum and sintered molybdenum metal. Till 2015 the Company also produced its own ferro-molybdenum and sintered molybdenum metal. In 2015 the Company started to provide molybdenum concentrate processing services.

The Company's registered address is 75 Artsakh Avenue, Yerevan, Republic of Armenia.

Most of the Company's transactions are with related parties. As a result, the Company is economically dependent upon related parties. Related party transactions are disclosed in Note 25.

b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Despite still turbulent global economic environment, Armenia's GDP growth was still positive. The country recorded significant improvement in trade balance with exports growing 20% year over year while imports showed growth as well. As a result, current account balance improved. Obviously, stabilization in Eurasian Economic Union (especially during the second half of the year) had its positive impact on trade volume and inflow of remittances.

Management believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

2. Basis of preparation

a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

b) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Company's functional currency and the currency in which these financial statements are presented. These financial statements are presented in thousands of Armenian Dram ("AMD"), and all values are rounded off to the nearest thousands, except when otherwise indicated. The official CBA exchange rates at 31 December 2016 and 31 December 2015 were 483.94 AMD and 483.75 AMD to 1 USD.

c) Basis of measurement

The financial statements have been prepared under the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial assets are stated at fair value.

d) Use of estimates and judgments

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 14 Available-for-sale Investments.

Management's judgement is required in determining an appropriate costing basis and assessing if the inventory on hand at year end is lower than the net realizable value (Note 17). There are also judgements required in determining inventory excess and obsolescence provisions as these are based on forecast inventory usage and assessing if the provision level is adequate.

2. Basis of preparation (continued)

e) Measurement of fair values

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

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

Further information about the measuring fair values is included in Note 23.

f) Reclassifications of comparatives

The following items in statement of financial position of the Company do not correspond with the respective items in the statement in the previously issued Company's financial statements for the year ended 31 December 2015 because the Company made reclassifications within this statement to ensure consistent presentation of items between periods.

	As previously reported	*Reclassification*	*As adjusted*
Investments	13,963,750	(13,963,750)	–
Available-for-sale investments	–	13,608,010	13,608,010
Investments in an associate	–	355,740	355,740
Trade and other receivables	740,816	(537,842)	202,974
Current prepayments	–	490,336	490,336
Input VAT	–	47,506	47,506
Trade and other payables	248,948	(123,810)	125,138
Advances received for provisionally priced sales	–	15,729	15,729
Taxes payable	–	108,081	108,081

The following items in statement of profit or loss and other comprehensive income of the Company do not correspond with the respective items in the statement in the previously issued Company's financial statements for the year ended 31 December 2015 because the Company made reclassifications within this statement to ensure consistent presentation of items between periods.

	As previously reported	*Reclassification*	*As adjusted*
Cost of sales	(11,445,034)	109,431	(11,335,603)
Write-down of inventory to its net realizable value	–	(109,431)	(109,431)
Other operating expenses	(544,804)	6,121	(538,683)
Share of loss of an associate	–	(6,121)	(6,121)
Finance income	1,675,111	(466,473)	1,208,638
Net foreign exchange gain	–	466,473	466,473

The following items in statement of cash flows of the Company do not correspond with the respective items in the statement in the previously issued Company's financial statements for the year ended 31 December 2015 because the Company made reclassifications within this statement to ensure consistent presentation of items between periods.

	As previously reported	*Reclassification*	*As adjusted*
Payments to suppliers, including VAT	(15,984,590)	46,246	(15,938,344)
Donations provided	–	(213,811)	(213,811)
Other payments	(245,074)	167,565	(77,509)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

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

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases and the carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value.

b) Revenue

Goods sold

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of ferro-molybdenum and molybdenum metal sintered, the transfer usually occurs when the product is cleared for export at customs.

The Company's ferro-molybdenum and sintered molybdenum metal sales contracts, in general, provide for a provisional payment as specified in individual contracts, which are based upon provisional assays and spot metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period both for ferro-molybdenum and molybdenum metal sintered is up to two months after the month of shipment.

The Company's provisionally priced sales contracts contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price adjustment based on a future price, is recorded as a trade receivable or advances received on the statement of financial position and marked to market (fair value) through revenue.

Services

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

3. Significant accounting policies (continued)

c) Finance income and costs

The Company's finance income and finance costs include:

- interest income on funds invested and borrowings provided;
- dividend income;
- interest expense on borrowing costs.

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

d) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

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

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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

e) Employee benefits

Short-term benefits

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

f) Income tax

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

i. Current tax

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

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (continued)

f) Income tax (continued)

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

g) Inventories and cost of sales

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

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

The Company's molybdenum concentrate purchase contracts, in general, provide for a provisional payments specified in individual contracts, which are based upon provisional assays and spot metal prices. Final settlement is done based on market metal average prices for a specified future quotation period. Typically, the future quotation period for molybdenum concentrate is two months after the month of shipment.

The Company's provisionally priced purchase contracts contain an embedded derivative that, because it is unrelated to the commodity purchase, is required to be separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement adjustment based on a future price, is recorded as a trade payable or advances paid on the statement of financial position and marked to market (fair value) through cost of sales.

h) Other expenses

Social expenditure

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

i) Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

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

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

ii. Subsequent expenditure

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

3. Significant accounting policies (continued)

i) Property, plant and equipment (continued)

iii. Depreciation

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

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Buildings	from 12 to 40 years
Plant and equipment	from 5 to 20 years
Motor vehicles	from 2 to 9 years
Fixtures and fittings	from 1 to 5 years

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

j) Intangible assets

i. Recognition and measurement

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

ii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognised in the profit or loss as incurred.

iii. Amortisation

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

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

Software	10 years
Licenses and other	from 3 to 10 years

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

k) Financial instruments

The Company classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

i. Non-derivative financial assets and financial liabilities – recognition and derecognition

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

3. Significant accounting policies (continued)

k) Financial instruments (continued)

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

Loans and receivables

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

Loans and receivables category comprise the following classes of financial assets: loans given, trade receivables, term deposits and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and current bank accounts.

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 other category of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

ii. Non-derivative financial liabilities – measurement

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

iii. Derivative financial instruments

The Company holds embedded derivative financial instruments related to molybdenum concentrate purchase and ferro-molybdenum and sintered molybdenum metal sales transactions.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

l) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

3. Significant accounting policies (continued)

m) Impairment

i. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- Economic conditions that correlate with defaults;
- The disappearance of an active market for a security; or
- Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

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

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in profit or loss and cannot be reversed.

Equity-accounted investees

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

ii. Non-financial assets

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

3. Significant accounting policies (continued)

m) Impairment (continued)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Provisions

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

o) Deferred income

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on a pattern of consumption of the benefits of the underlying asset by equal annual instalments.

The Company has elected to present the grant, which is received in form of non-monetary asset, in the statement of financial position as deferred income, which is recognised in profit or loss on a systematic and rational basis over the useful life of the asset.

p) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating results of the Company's operating segment are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance.

Management considers that the Company comprises of one operating segment.

4. New standards, interpretations and amendments to existing standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. In the preparation of these financial statements, the Company followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2016. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual financial statements of the Company. Certain other new standards, interpretations and amendments to existing standards and interpretations, which are not presented below, are not applicable for the financial statements of the Company.

The nature and the impact of each new standard or amendment is described below:

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively.

These amendments do not have any impact on the Company as there has been no interest acquired in a joint operation during the period.

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

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. This amendment does not have material effect on the Company's financial statements.

Annual improvements 2012-2014 cycle

These improvements are effective from 1 January 2016 and the Company has applied these amendments for the first time in these financial statements. They include:

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

IAS 19 Employee Benefits

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

4. New standards, interpretations and amendments to existing standards and interpretations (continued)

Annual improvements 2012-2014 cycle (continued)

Amendments to IAS 1 Disclosure Initiative

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

The amendments clarify:

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

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

5. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective. Certain other standards issued but not yet effective, which are not presented below, are not applicable for the financial statements of the Company.

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 Company plans to adopt the new standard on the required effective date. During 2016, the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. The Company is assessing the impact of IFRS 9 on its financial statements.

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 recognized 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 Company is assessing the potential effect of the amendments on its financial statements. The Company started the process of transition to IFRS 15 and is expected to finalize it by the end of 2017.

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. Entities may apply the amendments on a fully retrospective basis. Early application of interpretation is permitted and must be disclosed. It is effective for annual periods beginning on or after 1 January 2018. The Company is assessing the potential effect of the interpretation on its financial statements.

5. Standards issued but not yet effective (continued)

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 Company will apply these amendments when they become effective. The Company is assessing the impact of the amendment on its financial statements.

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Company.

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 Company is assessing the potential effect of the amendments on its financial statements. The Company started the process of transition to IFRS 15 and is expected to finalize it by the end of 2017.

6. Segment Information

The Company's principal activity is molybdenum concentrate processing into ferro-molybdenum and sintered molybdenum metal. Till 2015 the Company also produced its own ferro-molybdenum and sintered molybdenum metal. In 2015 the Company started to provide molybdenum concentrate processing services.
As services rendered and sale of products refer to the same activity of molybdenum concentrate processing, Management considers that the Company comprises of one reportable operating segment.

Operating results of the Company's single operating segment are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance.

In 2016 revenue from transactions with a single external customer (Armenia), a related party, amounted to AMD 6,566,170 thousand or 100% of the Company's total revenue. In 2015 revenues from the services rendered to an external customer (Armenia), a related party, amounted to AMD 3,995,488 thousand or 30% of total revenue, and revenues from the sale of products to entities under common control (Germany) amounted to AMD 9,381,340 or 70% of total revenue.

The Company's operations are primarily concentrated in Armenia. The Company has no non-current assets outside Armenia.

7. Revenue

'000 AMD	*2016*	*2015*
Revenues from the services rendered (molybdenum concentrate processing, Armenia)	6,566,170	3,995,488
Revenues from the sale of products (Germany)	–	9,381,340
Total revenue	**6,566,170**	**13,376,828**

8. Cost of sales

'000 AMD	*2016*	*2015*
Materials	1,952,199	1,868,724
Wages and salaries	1,497,694	1,581,502
Gas	423,847	571,466
Electricity	320,738	491,498
Depreciation	314,956	319,934
Water	17,079	16,703
Other	3,291	3,727
Molybdenum concentrate	–	6,482,049
	4,529,804	**11,335,603**

9. Administrative expenses

'000 AMD	*2016*	*2015*
Wages and salaries	501,898	532,246
Professional services	191,038	241,932
Depreciation and amortisation	37,687	46,696
Office and utility	34,033	20,868
Travel expenses	18,228	12,605
Taxes other than on income	16,104	15,367
Bank charges	12,426	9,690
Other	63,737	81,955
	875,151	**961,359**

10. Other operating expenses

'000 AMD	*2016*	*2015*
Donations	143,109	221,917
Depreciation	75,138	–
Production idle time costs	37,698	–
Write down of damaged inventory	22,584	–
Write-off of damaged PPE	20,535	–
Fines and penalties	6,214	291,839
Loss from sale of PPE	4,469	–
Other	6,412	24,927
	316,159	**538,683**

11. Finance income and finance costs

'000 AMD	*2016*	*2015*
Recognised in profit or loss		
Interest income	1,428,648	1,208,638
Finance income	**1,428,648**	**1,208,638**
Interest expense	–	(69,580)
Finance costs	**–**	**(69,580)**

12. Income tax expense

a) Amounts recognised in profit or loss

The Company's applicable tax rate is the income tax rate of 20% for Armenian companies for 2016 and 2015.

'000 AMD	*2016*	*2015*
Current tax expense		
Current tax charge	(491,264)	(415,881)
Adjustment for prior years	–	(29,185)
	(491,264)	**(445,066)**
Deferred tax expense		
Origination and reversal of temporary differences	(67,490)	(29,926)
Income tax expense	**(558,754)**	**(474,992)**

Reconciliation of effective tax rate

'000 AMD	*2016*	*2015*
Profit before income tax	**2,429,162**	**2,113,119**
Income tax at applicable tax rate	(485,832)	(422,624)
Adjustment for prior years	–	(29,185)
Non-deductible items	(72,922)	(23,183)
	(558,754)	**(474,992)**

b) Movement in temporary differences during the year

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2016 and 2015.The deductible temporary differences do not expire under current tax legislation.

12. Income tax expense (continued)

b) Movement in temporary differences during the year (continued)

Movements in temporary differences during the years ended 31 December 2016 and 2015 are presented as follows:

'000 AMD	*1 January 2016*	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*31 December 2016*
Investments	180,000	–	(2,535,367)	(2,355,367)
Property, plant and equipment	(405,672)	(45,604)	–	(451,276)
Inventories	69,114	(21,886)	–	47,228
	(156,558)	**(67,490)**	**(2,535,367)**	**(2,759,415)**

'000 AMD	*1 January 2015*	*Recognised in profit or loss*	*Recognised in other comprehensive income*	*31 December 2015*
Investments	–	–	180,000	180,000
Property, plant and equipment	(360,637)	(45,035)	–	(405,672)
Inventories	47,228	21,886	–	69,114
Trade and other receivables	(65,035)	65,035	–	–
Trade and other payables	71,812	(71,812)	–	–
	(306,632)	**(29,926)**	**180,000**	**(156,558)**

13. Property, plant and equipment

'000 AMD	*Land and buildings*	*Plant and equipment*	*Motor vehicles*	*Fixtures and fittings*	*Construc-tion in progress*	*Total*
Cost						
Balance at 1 January 2015	1,804,929	2,962,408	111,185	13,972	–	**4,892,494**
Additions	22,244	233,589	12,918	11,842	–	**280,593**
Disposals and write-offs	(7,027)	(50,367)	(1,697)	(628)	–	**(59,719)**
Transfers	5,115	(8,688)	–	3,573	–	**–**
Balance at 31 December 2015	**1,825,261**	**3,136,942**	**122,406**	**28,759**	**–**	**5,113,368**
Additions	247,685	243,098	28,358	40,273	307,621	**867,035**
Disposals and write-offs	–	(32,058)	–	(62)	–	**(32,120)**
Transfers	(30,983)	30,983	–	–	–	**–**
Balance at 31 December 2016	**2,041,963**	**3,378,965**	**150,764**	**68,970**	**307,621**	**5,948,283**
Depreciation						
Balance at 1 January 2015	(127,173)	(469,343)	(37,823)	(3,863)	–	**(638,202)**
Depreciation for the year	(63,994)	(268,848)	(27,635)	(4,115)	–	**(364,592)**
Disposals and write-offs	7,027	39,359	1,696	346	–	**48,428**
Transfers	(1,754)	2,713	–	(959)	–	**–**
Balance at 31 December 2015	**(185,894)**	**(696,119)**	**(63,762)**	**(8,591)**	**–**	**(954,366)**
Depreciation for the year	(69,942)	(338,926)	(20,688)	(8,459)	–	**(438,015)**
Disposals and write-offs	–	8,148	–	35	–	**8,183**
Transfers	8,101	(8,101)	–	–	–	**–**
Balance at 31 December 2016	**(247,735)**	**(1,034,998)**	**(84,450)**	**(17,015)**	**–**	**(1,384,198)**
Carrying amounts						
At 1 January 2015	**1,677,756**	**2,493,065**	**73,362**	**10,109**	**–**	**4,254,292**
At 31 December 2015	**1,639,367**	**2,440,823**	**58,644**	**20,168**	**–**	**4,159,002**
At 31 December 2016	**1,794,228**	**2,343,967**	**66,314**	**51,955**	**307,621**	**4,564,085**

13. Property, plant and equipment (continued)

Depreciation charge

During 2016 depreciation expense of AMD 314,956 thousand (2015: AMD 319,934 thousand) has been charged to cost of sales, AMD 36,086 thousand (2015: AMD 44,658 thousand) to administrative expenses, AMD 75,138 thousand (2015: 0) to other operating expenses and AMD 11,835 thousand (2015: 0) was capitalized on CIP and Inventories.

14. Available-for-sale investments

'000 AMD	*2016*	*2015*
Available-for-sale investments		
Zangezour Copper-Molybdenum Combine CJSC	26,279,846	13,603,010
Metaghagorts CJSC	5,000	5,000
	26,284,846	**13,608,010**

Zangezour Copper-Molybdenum Combine CJSC

At 31 December 2016 the Company's shareholding in Zangezour Copper-Molybdenum Combine CJSC ("ZCMC") is 15% (2015: 15%). ZCMC is a related party to the Company and the shares were mostly acquired during the privatisation of ZCMC. The shares are not listed.

The fair value of shares in ZCMC was determined by using discounted cash flows techniques which are classified as Level 3.

The following table shows the significant unobservable inputs used in the measurement as at 31 December, 2016:

Significant unobservable inputs	*Estimates used*	*Inter-relationship between significant unobservable inputs and fair value measurement*
		The estimated fair value would increase (decrease) if:
EBITDA margin	18% to 40%	► the EBITDA margins were higher (lower);
Lack of control discount	23%	► the Lack of control discount was lower (higher); or
Risk-adjusted discount rate, after tax	12%	► the risk-adjusted discount rate was lower (higher).

The following table shows the significant unobservable inputs used in the measurement as at 31 December, 2015:

Significant unobservable inputs	*Estimates used*	*Inter-relationship between significant unobservable inputs and fair value measurement*
		The estimated fair value would increase (decrease) if:
EBITDA margin	13% to 27%	► the EBITDA margins were higher (lower);
Lack of marketability discount	7%	► the Lack of marketability discount was lower (higher); or
Risk-adjusted discount rate, after tax	14%	► the risk-adjusted discount rate was lower (higher).

The following table shows a reconciliation from the opening balances of equity securities available-for-sale to the closing:

'000 AMD	*2016*	*2015*
Balance at 1 January	**13,603,010**	**14,503,010**
Gain/(loss) included in OCI		
- Net change in fair value	12,676,836	(900,000)
Balance at 31 December	**26,279,846**	**13,603,010**

The significant increase of the fair value of equity securities available-for-sale if compared with prior year was due to overall increase of copper and molybdenum prices in the market.

Reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects.

14. Available-for-sale investments (continued)

'000 AMD	*Increase*	*Decrease*
31 December 2016		
EBITDA margin (3 percentage point movement)	6,175,214	(6,175,214)
Lack of control discount (1 percentage point movement)	(341,297)	341,297
Risk-adjusted discount rate, after tax (1 percentage point movement)	(2,939,668)	3,524,615

Metaghagorts CJSC

At 31 December 2016 the Company's shareholding in Metaghagorts CJSC is 31.18% (2015: 31.18%).

15. Investment in an associate

'000 AMD	*2016*	*2015*
Hin Areni LLC	351,373	355,740
	351,373	**355,740**

Hin Areni LLC

As at 31 December 2016 shareholding in Hin Areni LLC is 29.6% (2015: 29.6%). Hin Areni LLC is involved in production of wine in Armenia. The following table analyses the changes in carrying amount of the investment in the associate:

'000 AMD	*2016*	*2015*
1 January	**355,740**	**361,861**
The Company's share of loss for the year	(4,367)	(6,121)
31 December	**351,373**	**355,740**

The following table illustrates the summarized financial information of the Company's investment in Hin Areni LLC:

'000 AMD	*2016*	*2015*
Non-current assets	750,056	768,335
Intangible assets	386,198	366,218
Current assets	290,821	239,623
Non-current liabilities	(214,903)	–
Current liabilities	(25,101)	(172,352)
Equity	**1,187,071**	**1,201,824**
Company's carrying amount of the investment	**351,373**	**355,740**
Revenue	97,625	66,035
Cost of sales	(52,169)	(32,209)
Administrative expenses	(46,436)	(47,744)
Results from other operating activities	(13,176)	(6,968)
Net finance (expense)/income	(597)	207
Loss before tax	**(14,753)**	**(20,679)**
Company's share of loss for the year	**(4,367)**	**(6,121)**

16. Prepayments

'000 AMD	*2016*	*2015*
Non-current prepayments		
Advances given for purchase of molybdenum concentrate	10,535,663	9,971,469
Prepayments for property, plant and equipment	63,871	2,676
	10,599,534	**9,974,145**
Current prepayments		
Tax prepayments	23,034	363,439
Prepayments for consulting services	–	93,750
Other prepayments	13,190	33,147
	36,224	**490,336**

Non-current advances for purchase of molybdenum concentrate are provided to a related party. Per supply agreement the concentrate should be supplied in 2020 to 2021. Interest is charged on the balance before the supply occurs at a rate of one month Libor plus 4.95%. No accrued interest has been repaid during 2016 (2015: AMD 119,244 thousand).

17. Inventories

'000 AMD	*2016*	*2015*
Finished goods	627,840	150,874
Raw materials and consumables	478,549	755,877
Work in progress	117,543	–
Spare parts	14,288	19,751
Construction materials	12,533	341
Other	93,583	91,829
	1,344,336	**1,018,672**

During 2015, AMD 109,431 thousand was recognised as an expense for inventories carried at net realisable value. The write down was reversed during 2016 due to increase in respective market prices.
Damaged inventories in the amount of AMD 22,584 thousand have been written down during 2016 (2015: 0).

18. Trade and other receivables

'000 AMD	*2016*	*2015*
Trade receivables	172,678	50,012
Other receivables	143	152,962
	172,821	**202,974**

There are neither impaired nor past due trade receivables as at 31 December 2016 and 2015. No allowance for credit losses was created during 2016 and 2015. Trade and other receivables are non-interest bearing and are generally on terms of 30-90 days.

19. Term deposits

'000 AMD	*2016*	*2015*
Non-current deposits		
5 Largest Armenian banks	5,807,280	485,540
	5,807,280	**485,540**
Current deposits		
5 Largest Armenian banks	27,205	3,887,060
Other Armenian banks	968,869	968,216
	996,074	**4,855,276**

19. Term deposits (continued)

At 31 December 2016, the Company holds a non-current deposit at contractual interest rate of 6% per annum. The deposit agreement was concluded in 2016 with one Armenian bank and have maturity on 2 April 2018.

At 31 December 2016, the Company holds a current deposit at contractual interest rate of 8% per annum. The deposit agreement was concluded in 2016 with one Armenian bank and have maturity on 27 April 2017.

20. Cash and cash equivalents

'000 AMD	*2016*	*2015*
Bank balances	460,186	946,063
Deposit on demand	300,000	–
Petty cash	1,101	3
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	**761,287**	**946,066**

At 31 December 2016, the Company holds AMD denominated deposit on demand at contractual interest rate of 6.5% per annum in one Armenian bank.

21. Capital and reserves

a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	*2016*	*2015*
Authorized shares	69,093	69,093
Par value	AMD 10,000	AMD 10,000
On issue at 1 January and 31 December, fully paid	**69,093**	**69,093**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

b) Dividends

In accordance with Armenian legislation, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with International Financial Reporting Standards.

No dividends were declared during 2016 and 2015.

c) Capital management

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

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

22. Trade and other payables

'000 AMD	*2016*	*2015*
Salaries payable	89,531	103,777
Payables for utilities	61,088	17,380
Payables for acquisitions of raw materials	3,682	964
Other	6,292	3,017
	160,593	**125,138**

23. Fair values and risk management

a) Fair values

The management considers that the fair values of Company's cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following tables provide the fair value measurement hierarchy of the Company's assets and liabilities:

Fair value measurement hierarchy as at 31 December 2016:

	Fair value measurement using	
'000 AMD	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value		
Available for sale investments	26,284,846	**26,284,846**
Assets for which fair values are disclosed		
Term deposits	6,791,532	**6,791,532**
Loans given	12,417,210	**12,417,210**

Fair value measurement hierarchy as at 31 December 2015:

	Fair value measurement using	
'000 AMD	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value		
Available for sale investments	13,608,010	**13,608,010**
Assets for which fair values are disclosed		
Term deposits	5,392,261	**5,392,261**
Loans given	12,418,257	**12,418,257**

The significant unobservable inputs used in the fair value measurements of Loans given and term deposits of the Company categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2016 and 2015 are as shown below:

	Valuation technique	*Significant unobservable inputs*	*Range*	*Sensitivity of the input to fair value*
Term deposits	DCF	Market interest rate	**2016**: 4.04%-6.01% **2015**: 4.53%-7.05%	1% (2015: 1%) increase (decrease) would result in an increase (decrease) in fair value by AMD 68,407 thousand (2015: AMD 33,530 thousand)
Loans given	DCF	Market interest rate	**2016**: 2.61% **2015**: 2.93%	1% (2015: 1%) increase (decrease) would result in an increase (decrease) in fair value by AMD 162,372 thousand (2015: AMD 273,330 thousand)

23. Fair values and risk management (continued)

b) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

i. Risk management framework

The Management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

ii. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

Most of the Company's revenue is attributable to transactions of rendering services to one related party. Historically no losses have occurred with this party. The Company does not require collateral in respect of trade receivables.

Cash and cash equivalents and term deposits

The cash and cash equivalents and term deposits are held with reputable Armenian banks and the Company does not expect them to fail to meet their obligations.

Loans given

The Company's policy is to provide borrowings only to related parties and it does not require collateral in respect of loans given. The loans are not overdue and the management expects that the amounts are collectible.

iii. Liquidity risk

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

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

23. Fair values and risk management (continued)

b) Financial risk management (continued)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

	31 December 2016		
'000 AMD	***Carrying amount***	***Contractual cash flows***	***Less than 2 months***
Trade and other payables	160,593	160,593	160,593
	160,593	**160,593**	**160,593**

	31 December 2015		
'000 AMD	***Carrying amount***	***Contractual cash flows***	***Less than 2 months***
Trade and other payables	125,138	125,138	125,138
	125,138	**125,138**	**125,138**

iv. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk on sales, purchases, deposits, cash and cash equivalents, loans given, which are denominated in currency other that functional currency of the Company. The currency in which these transactions are primarily denominated is USD.

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AMD, as indicated below, against USD at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Strengthening	***Weakening***
'000 AMD	***Profit or loss***	***Profit or loss***
31 December 2016		
AMD 6% movement against USD	(1,155,420)	1,155,420
31 December 2015		
AMD 10% movement against USD	(1,071,208)	1,071,208

23. Fair values and risk management (continued)

b) Financial risk management (continued)

v. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to the risk of changes in market interest rates as the Company do not have financial instruments with floating interest rates.

Fair value sensitivity analysis for fixed rate instruments

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

24. Contingencies

a) Insurance

The insurance industry in Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

b) Environmental matters

The Company is subject to various state laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling and storage of wastes. Management is of the opinion that the Company has met the Government's requirements concerning environmental matters, and therefore the Company has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation in Armenia is in the process of development and potential changes in the legislation and its interpretation may give rise to material liabilities in the future.

c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

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

25. Related parties

a) Control relationships

The Company's immediate parent company is Cronimet Ferroleg GmbH. The ultimate parent of the Company is Cronimet Holding GmbH which is controlled by Günter Pilarsky and his family.

b) Transactions with key management personnel

For the years ended 31 December total compensation to key management personnel is presented below:

'000 AMD	*2016*	*2015*
Salaries and bonuses, including related taxes	196,328	184,281

c) Other related party transactions

	Transaction value		*Outstanding balance as at*	
'000 AMD	*2016*	*2015*	*31 December 2016*	*31 December 2015*
Sales of production and services				
Entities under common control of Pilarsky family	6,566,170	13,376,828	172,678	50,012
Purchase of materials and services				
Ultimate parent	3,175	–	3,175	–
Entities under common control Pilarsky family (materials)	–	5,519,833	10,535,663	9,971,469
Entities under common control of Pilarsky family (services)	–	127,949	–	–
Other transactions				
Entities under common control of Pilarsky family	–	–	–	152,137

Outstanding balance for purchase of materials relates to advances for purchase of molybdenum concentrate. Per supply agreement the concentrate should be supplied in 2020 to 2021. Interest is charged on the balance before the supply occurs at a rate of one month Libor plus 4.95%. Interest income accrued on the balance in 2016 amounted to AMD 560,394 thousand.

	Interest income		*Outstanding balance as at*	
'000 AMD	*2016*	*2015*	*31 December 2016*	*31 December 2015*
Loans given				
Ultimate parent company	408,433	416,869	12,202,183	12,197,392

The loan given to the related party bears annual interest of 3.4% and is repayable in May 2018.