PSC “Corporation VSMPO-AVISMA”

Interim Condensed Consolidated Financial Statements (unaudited) for the six months ended 30 June 2018

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Statement of management's responsibilities for the preparation and approval of the interim condensed consolidated financial statements for the six months ended 30 June 2018

The following statement, which should be read in conjunction with the auditors' responsibilities stated in the independent auditors' report on review of interim condensed consolidated financial statements set out on pages 4-5, is made with a view to distinguish the responsibilities of management and those of the auditors in relation to the unaudited interim condensed consolidated financial statements of Public Stock Company "Corporation VSMPO-AVISMA" and its subsidiaries (the "Group").

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the six months ended 30 June 2018 in accordance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34).

In preparing the interim condensed consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The interim condensed consolidated financial statements for the six months ended 30 June 2018 were approved by:

M.V. Voevodin	**D.Yu. Sannikov**
General Director	Chief Accountant
Verkhnyaya Salda, Russia	
29 August 2018	

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Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of Public stock company "Corporation VSMPO-AVISMA"

Introduction

We have reviewed the interim condensed consolidated statement of financial position of Public stock company "Corporation VSMPO-AVISMA" (the "Company") and its subsidiaries (the "Group") as at 30 June 2018, and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months ended 30 June 2018 and 2017 and notes, comprising a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Audited entity: PSC "Corporation VSMPO-AVISMA"

Registration No. in the Unified State Register of Legal Entities 1026600784011.

Verkhnaya Salda, Sverdlovsk region, Russia.

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements as at 30 June 2018, and for the six-months periods ended 30 June 2018 and 2017 is not prepared, in all material respects, in accordance IAS 34 *Interim Financial Reporting*.

Adamov N.A.

JSC "KPMG"

Moscow, Russia

29 August 2018

	Note	Six months ended 30 June 2018 ’000 USD	2017 ’000 USD	2018 ’000 RUB	2017 ’000 RUB
Revenue	5, 6	786 083	760 972	46 656 874	44 125 857
Cost of sales	7	(440 338)	(492 749)	(26 135 661)	(28 572 648)
Gross profit		**345 745**	**268 223**	**20 521 213**	**15 553 209**
Distribution expenses		(14 920)	(15 457)	(885 527)	(896 293)
General and administrative expenses	7	(97 524)	(95 924)	(5 788 436)	(5 562 254)
Operating profit before loss on disposal of property, plant and equipment		**233 301**	**156 842**	**13 847 250**	**9 094 662**
Loss on disposal of property, plant and equipment	12	(9 875)	(3 682)	(586 110)	(213 493)
Operating profit		**223 426**	**153 160**	**13 261 140**	**8 881 169**
Finance income	8	29 738	23 715	1 765 051	1 375 155
Share in income of equity accounted investees		2 834	1 784	168 263	103 448
Finance costs	8	(60 280)	(17 760)	(3 577 872)	(1 029 822)
Profit before income tax		**195 718**	**160 899**	**11 616 582**	**9 329 950**
Income tax expense	10	(28 136)	(41 161)	(1 669 949)	(2 386 782)
Profit for the period		**167 582**	**119 738**	**9 946 633**	**6 943 168**
Other comprehensive income/(loss)					
Items that will never be reclassified to profit or loss					
Equity investments at FVOCI – net change in fair value	13	(29 972)	-	(1 778 938)	-
Translation to presentation currency		(253 919)	75 207	-	-
Related income tax	10	(11 097)	109	(696 393)	6 384
		(294 988)	**75 316**	**(2 475 331)**	**6 384**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences - foreing operations		(694)	(549)	(41 157)	(31 842)
Net change in fair value of available-for-sale financial assets		-	(221)	-	(12 835)
Equity-accounted investees – share of other comprehensive income		78	3 581	4 616	207 651
Related income tax	10	(15)	(716)	(923)	(41 530)
		(631)	**2 095**	**(37 464)**	**121 444**
Other comprehensive (loss)/income for the period, net of income tax		**(295 619)**	**77 411**	**(2 512 795)**	**127 828**
Total comprehensive (loss)/income for the period		**(128 037)**	**197 149**	**7 433 838**	**7 070 996**
Profit/(loss) attributable to:					
Shareholders of the Company		167 733	119 479	9 955 620	6 928 135
Non-controlling interests		(151)	259	(8 987)	15 033
Profit for the period		**167 582**	**119 738**	**9 946 633**	**6 943 168**
Total comprehensive (loss)/income attributable to:					
Shareholders of the Company		(127 507)	196 913	7 465 293	7 057 283
Non-controlling interests		(530)	236	(31 455)	13 713
Total comprehensive (loss)/income		**(128 037)**	**197 149**	**7 433 838**	**7 070 996**
Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD/RUB per share)	9	14,555	10,368	863,918	601,202

The interim condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

		’000 USD		’000 RUB	
	Note	30 June 2018	31 December 2017	30 June 2018	31 December 2017
ASSETS					
Non-current assets					
Property, plant and equipment	12	2 757 844	3 066 677	173 072 617	176 641 226
Goodwill		31 898	34 754	2 001 817	2 001 817
Intangible assets		19 229	19 578	1 206 769	1 127 748
Equity-accounted investees		42 565	42 487	2 671 211	2 447 257
Long-term trade and other receivables	14	-	1 590	-	91 567
Other investments	13	346 518	182 949	21 746 296	10 537 882
Deferred tax assets	10	3 854	2 403	241 856	138 401
Other non-current assets		2 664	2 604	167 178	150 016
Total non-current assets		**3 204 572**	**3 353 042**	**201 107 744**	**193 135 914**
Current assets					
Inventories		618 038	645 294	38 785 879	37 169 040
Other investments	13	5 867	108 574	368 229	6 253 911
Short-term trade and other receivables	14	291 447	239 119	18 290 161	13 773 274
Current income tax receivable		6 586	1 755	413 309	101 093
Cash and cash equivalents		721 609	806 527	45 285 624	46 456 130
Other current assets		2 486	3 161	156 026	182 089
Total current assets		**1 646 033**	**1 804 430**	**103 299 228**	**103 935 537**
Total assets		**4 850 605**	**5 157 472**	**304 406 972**	**297 071 451**
EQUITY AND LIABILITIES					
Equity	16				
Share capital		22 785	22 785	596 313	596 313
Share premium		153 924	153 924	4 594 608	4 594 608
Treasury shares		(1 407)	(1 407)	(47 842)	(47 842)
Retained earnings		1 860 731	1 766 435	66 672 698	61 591 124
Reserves		1 442 752	1 578 260	98 114 912	106 195 563
Cumulative currency translation difference		(770 223)	(515 989)	255 744	274 433
Total equity attributable to shareholders of the Company		**2 708 562**	**3 004 008**	**170 186 433**	**173 204 199**
Non-controlling interests		6 393	6 923	194 493	225 948
Total equity		**2 714 955**	**3 010 931**	**170 380 926**	**173 430 147**
Non-current liabilities					
Long-term borrowings	17	1 259 015	1 177 636	79 011 357	67 832 093
Long-term advances received from customers		1 735	8 490	108 907	489 052
Defined benefit pension plan		32 766	35 699	2 056 269	2 056 269
Other long-term liabilities		3 700	9 236	232 178	531 995
Deferred tax liabilities	10	407 304	445 620	25 560 997	25 667 791
Total non-current liabilities		**1 704 520**	**1 676 681**	**106 969 708**	**96 577 200**
Current liabilities					
Trade and other payables		78 722	93 339	4 940 325	5 376 394
Current income tax payable		5 354	6 064	336 004	349 263
Other taxes payable		4 843	6 863	304 035	395 428
Short-term borrowings	17	179 607	223 117	11 271 516	12 851 559
Advances received from customers		115 026	139 206	7 218 613	8 018 272
Dividends payable	16	47 578	1 271	2 985 845	73 188
Total current liabilities		**431 130**	**469 860**	**27 056 338**	**27 064 104**
Total liabilities		**2 135 650**	**2 146 541**	**134 026 046**	**123 641 304**
Total equity and liabilities		**4 850 605**	**5 157 472**	**304 406 972**	**297 071 451**

The interim condensed consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

'000 USD	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury share reserve	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**22 785**	**153 924**	**(1 407)**	**1 852 295**	**1 098 236**	**(653 047)**	**2 472 786**	**3 630**	**2 476 416**
Total comprehensive income for the period									
Profit for the period	-	-	-	119 479	-	-	119 479	259	119 738
Other comprehensive income									
Foreign currency translation difference - foreing operation	-	-	-	-	-	(526)	(526)	(23)	(549)
Translation to presentation currency	-	-	-	-	-	75 207	75 207	-	75 207
Net change in fair value of available-for-sale financial assets	-	-	-	-	(221)	-	(221)	-	(221)
Equity-accounted investees – share of other comprehensive income	-	-	-	-	3 581	-	3 581	-	3 581
Income tax on other comprehensive income	-	-	-	-	(607)	-	(607)	-	(607)
Total other comprehensive income	-	-	-	-	2 753	74 681	77 434	(23)	77 411
Total comprehensive income for the period	**-**	**-**	**-**	**119 479**	**2 753**	**74 681**	**196 913**	**236**	**197 149**
Dividends	-	-	-	(265 287)	-	-	(265 287)	-	(265 287)
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	59	59
Total transactions with owners	**-**	**-**	**-**	**(265 287)**	**-**	**-**	**(265 287)**	**59**	**(265 228)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	62 458	(62 458)	-	-	-	-
Balance at 30 June 2017	**22 785**	**153 924**	**(1 407)**	**1 768 945**	**1 038 531**	**(578 366)**	**2 404 412**	**3 925**	**2 408 337**

The interim condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

’000 USD	**Attributable to equity holders of the Company**								
	Share capital	**Share premium**	**Treasury share reserve**	**Retained earnings**	**Reserves**	**Cumulative translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018, as previously reported	**22 785**	**153 924**	**(1 407)**	**1 766 435**	**1 578 260**	**(515 989)**	**3 004 008**	**6 923**	**3 010 931**
Adjustment on initial application of IFRS 9 (net of tax) (see Note 4)	-	-	-	(3 760)	-	-	(3 760)	-	(3 760)
Adjusted balance at 1 January 2018	**22 785**	**153 924**	**(1 407)**	**1 762 675**	**1 578 260**	**(515 989)**	**3 000 248**	**6 923**	**3 007 171**
Total comprehensive income for the period									
Profit for the period	-	-	-	167 733	-	-	167 733	(151)	167 582
Other comprehensive loss									
Foreign currency translation difference - foreing operation	-	-	-	-	-	(315)	(315)	(379)	(694)
Translation to presentation currency	-	-	-	-	-	(253 919)	(253 919)	-	(253 919)
Equity investments at FVOCI – net change in fair value	-	-	-	-	(29 972)	-	(29 972)	-	(29 972)
Equity-accounted investees – share of other comprehensive income	-	-	-	-	78	-	78	-	78
Income tax on other comprehensive income	-	-	-	-	(11 112)	-	(11 112)	-	(11 112)
Total other comprehensive loss	-	-	-	-	(41 006)	(254 234)	(295 240)	(379)	(295 619)
Total comprehensive income for the period	**-**	**-**	**-**	**167 733**	**(41 006)**	**(254 234)**	**(127 507)**	**(530)**	**(128 037)**
Dividends	-	-	-	(164 179)	-	-	(164 179)	-	(164 179)
Total transactions with owners	**-**	**-**	**-**	**(164 179)**	**-**	**-**	**(164 179)**	**-**	**(164 179)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	94 502	(94 502)	-	-	-	-
Balance at 30 June 2018	**22 785**	**153 924**	**(1 407)**	**1 860 731**	**1 442 752**	**(770 223)**	**2 708 562**	**6 393**	**2 714 955**

The interim condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

'000 RUB	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury share reserve	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**596 313**	**4 594 608**	**(47 842)**	**66 120 455**	**78 640 142**	**274 294**	**150 177 970**	**33 746**	**150 211 716**
Total comprehensive income for the period									
Profit for the period	-	-	-	6 928 135	-	-	6 928 135	15 033	6 943 168
Other comprehensive income									
Foreign currency translation difference - foreing operation	-	-	-	-	-	(30 522)	(30 522)	(1 320)	(31 842)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(12 835)	-	(12 835)	-	(12 835)
Equity-accounted investees – share of other comprehensive income	-	-	-	-	207 651	-	207 651	-	207 651
Income tax on other comprehensive income	-	-	-	-	(35 146)	-	(35 146)	-	(35 146)
Total other comprehensive income	-	-	-	-	159 670	(30 522)	129 148	(1 320)	127 828
Total comprehensive income for the period	**-**	**-**	**-**	**6 928 135**	**159 670**	**(30 522)**	**7 057 283**	**13 713**	**7 070 996**
Dividends	-	-	-	(14 988 399)	-	-	(14 988 399)	-	(14 988 399)
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	3 443	3 443
Total transactions with owners	**-**	**-**	**-**	**(14 988 399)**	**-**	**-**	**(14 988 399)**	**3 443**	**(14 984 956)**
Write-off of revaluation of property, plant and equipment due to disposal and depreciation	-	-	-	3 621 695	(3 621 695)	-	-	-	-
Balance at 30 June 2017	**596 313**	**4 594 608**	**(47 842)**	**61 681 886**	**75 178 117**	**243 772**	**142 246 854**	**50 902**	**142 297 756**

The interim condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

’000 RUB	**Attributable to equity holders of the Company**								
	Share capital	**Share premium**	**Treasury share reserve**	**Retained earnings**	**Reserves**	**Cumulative translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018, as previously reported	**596 313**	**4 594 608**	**(47 842)**	**61 591 124**	**106 195 563**	**274 433**	**173 204 199**	**225 948**	**173 430 147**
Adjustment on initial application of IFRS 9 (net of tax) (see Note 4)	-	-	-	(216 581)	-	-	(216 581)	-	(216 581)
Balance at 1 January 2018	**596 313**	**4 594 608**	**(47 842)**	**61 374 543**	**106 195 563**	**274 433**	**172 987 618**	**225 948**	**173 213 566**
Total comprehensive income for the period									
Profit for the period	-	-	-	9 955 620	-	-	9 955 620	(8 987)	9 946 633
Other comprehensive loss									
Foreign currency translation difference - foreing operation	-	-	-	-	-	(18 689)	(18 689)	(22 468)	(41 157)
Equity investments at FVOCI – net change in fair value	-	-	-	-	(1 778 938)	-	(1 778 938)	-	(1 778 938)
Equity-accounted investees – share of other comprehensive income	-	-	-	-	4 616	-	4 616	-	4 616
Income tax on other comprehensive income	-	-	-	-	(697 316)	-	(697 316)	-	(697 316)
Total other comprehensive loss	-	-	-	-	(2 471 638)	(18 689)	(2 490 327)	(22 468)	(2 512 795)
Total comprehensive income for the period	**-**	**-**	**-**	**9 955 620**	**(2 471 638)**	**(18 689)**	**7 465 293**	**(31 455)**	**7 433 838**
Dividends	-	-	-	(10 266 478)	-	-	(10 266 478)	-	(10 266 478)
Total transactions with owners	**-**	**-**	**-**	**(10 266 478)**	**-**	**-**	**(10 266 478)**	**-**	**(10 266 478)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	5 609 013	(5 609 013)	-	-	-	-
Balance at 30 June 2018	**596 313**	**4 594 608**	**(47 842)**	**66 672 698**	**98 114 912**	**255 744**	**170 186 433**	**194 493**	**170 380 926**

The interim condensed consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

	Note	Six months ended 30 June 2018 '000 USD	2017 '000 USD	2018 '000 RUB	2017 '000 RUB
Cash flows from operating activities					
Profit before income tax		195 718	160 899	11 616 582	9 329 950
Adjustments for:					
Depreciation and amortization	7	94 091	185 068	5 584 616	10 731 382
Impairment loss of accounts receivable/(reversal)	7(b)	5 590	(115)	331 771	(6 677)
Share in profit of equity accounted investees		(2 834)	(1 784)	(168 263)	(103 448)
Interest income	8	(18 302)	(18 646)	(1 086 284)	(1 081 235)
Dividend income	8	(11 436)	-	(678 767)	-
Foreign currency translation loss		38 794	3 030	1 984 587	137 959
Interest expenses	8	25 217	17 760	1 496 725	1 029 822
Reversal of loss of inventory obsolescence	7(a)	(6 723)	(10 250)	(399 017)	(594 335)
Loss on disposal of property, plant and equipment		9 875	3 682	586 110	213 493
Operating profit before changes in working capital and other long-term liabilities		**329 990**	**339 644**	**19 268 060**	**19 656 911**
Changes in:					
Trade and other receivables		(52 544)	(13 139)	(3 115 235)	(761 898)
Advances to suppliers		(17 164)	3 313	(1 018 764)	192 114
Inventories		4 335	10 563	353 048	612 400
Trade and other payables, advances received and other taxes payable		(23 438)	(4 650)	(1 391 119)	(269 696)
Other current assets		604	(998)	35 862	(57 881)
Other long-term liabilities		(5 866)	233	(348 178)	13 516
Cash flows from operations before income taxes and interest paid		**235 917**	**334 966**	**13 783 674**	**19 385 466**
Income taxes paid		(48 330)	(51 722)	(2 868 556)	(2 999 157)
Interest paid		(23 473)	(18 358)	(1 393 229)	(1 064 524)
Net cash from operating activities		**164 114**	**264 886**	**9 521 889**	**15 321 785**

The interim condensed consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

		Six months ended 30 June			
	Note	2018 '000 USD	2017 '000 USD	2018 '000 RUB	2017 '000 RUB
Cash flows from investing activities					
Purchases of property, plant and equipment, including advances	12	(66 075)	(64 708)	(3 921 713)	(3 752 164)
Purchases of intangible assets		(21)	(16)	(1 248)	(940)
Proceeds from disposal of property, plant and equipment		187	138	11 110	8 004
Loans provided and acquisition of other investments		(217 933)	(220 809)	(12 935 124)	(12 803 874)
Proceeds from disposal of investments		100 364	-	5 956 953	-
Interest received		22 540	15 648	1 337 815	887 239
Net cash used in investing activities		**(160 938)**	**(269 747)**	**(9 552 207)**	**(15 661 735)**
Cash flows from financing activities					
Dividends paid to shareholders		(123 898)	(185 628)	(7 353 821)	(10 763 877)
Proceeds from treasury shares disposal		10 461	-	671 996	-
Proceeds from borrowings		411 569	697 941	24 428 083	40 470 946
Repayment of borrowings		(369 053)	(513 938)	(21 904 630)	(29 801 311)
Net cash used in financing activities		**(70 921)**	**(1 625)**	**(4 158 372)**	**(94 242)**
Effect of exchange rate changes on cash and cash equivalents		(17 173)	1 981	3 018 184	(834 546)
Net decrease in cash and cash equivalents		**(84 918)**	**(4 505)**	**(1 170 506)**	**(1 268 738)**
Cash and cash equivalents at the beginning of the period		**806 527**	**638 029**	**46 456 130**	**38 700 845**
Cash and cash equivalents at the end of the period		**721 609**	**633 524**	**45 285 624**	**37 432 107**

The interim condensed consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed consolidated financial statements set out on pages 14 to 35.

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1. Reporting entity

(a) Organisation and operations

Public Stock Company “Corporation VSMPO-AVISMA” (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad. The Group is one of the world’s leading titanium producers. The Company was originally established as a state owned enterprise in 1933 in the Moscow region and moved to Verkhnyaya Salda (Sverdlovsk region) in 1941. The Company was privatized in the form of a joint stock company in 1992 and registered as an open joint stock company “Verkhnesaldinskoye Metallurgicheskoe Proizvodstvennoe Obyedinenie” (“VSMPO”) in accordance with the Law on Joint Stock Companies of the Russian Federation.

In 1998, VSMPO acquired a controlling interest in open joint stock company “AVISMA” (“AVISMA”). In January 2005, VSMPO was renamed to open joint stock company “Corporation VSMPO-AVISMA”. In July 2005, following the acquisition of the outstanding non-controlling interest AVISMA was reorganized in the form of a merger into the Company.

The Company’s legal organizational form was changed from “Open joint stock company (OJSC)” to “Public stock company (PSC)” in 2015.

The Company’s main operations are based on two production sites located in Verkhnaya Salda (Sverdlovsk region) and in Berezniki (Perm region) in the Russian Federation. The production site at Berezniki (referred to as AVISMA) produces titanium sponge and primary magnesium. Titanium sponge is then used in the production of titanium products at the Verkhnaya Salda site. The Group’s final products are titanium melted and mill products; as well as forgings and press forming for aerospace, industrial and other applications. It also produces ferrotitanium, aluminium extrusions and specialty steel mill products and forgings. These products are sold both in the Russian Federation and abroad. There is no seasonality in the Group operations.

The Company and its subsidiaries form a vertically integrated group.

As at 30 June 2018, the ultimate parent of the Group is CJSC “BUSINESS ALLIANCE COMPANY” that controls 65,27% share of the Company. CJSC “BUSINESS ALLIANCE COMPANY” is controlled by the management of the Group, in particular majority shares of CJSC “BUSINESS ALLIANCE COMPANY” is controlled by Shelkov M. E., who is the ultimate beneficiary of the Group.

The Company’s registered address is: Parkovaya St. 1, Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760.

(b) Russian business environment

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

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

The interim condensed consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Ukrainian business environment

Part of the Group's activities are carried out in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

Ukraine’s economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Russian Federation and military tensions in Eastern Ukraine. Although instability continued throughout 2016 and 2017, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine (the “NBU”) and general revival in business activity.

In 2016 and 2017, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund continued to support the Ukrainian government under the four-year Extended Fund Facility Programme approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In August 2017, Moody’s upgraded Ukraine’s credit rating to Caa2, with a positive outlook, reflecting recent government reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group’s results and financial position in a manner not currently determinable. These interim condensed consolidated financial statements reflect management’s current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. Basis of accounting

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017. These interim condensed consolidated financial statements do not include all the information required for full annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

This is the first set of the Group’s financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 4.

The same accounting policies and methods of computation have been followed in these interim condensed consolidated financial statements for the six months ended 30 June 2018 as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2017, with the exception of the facts described in Note 4.

Exchange rates used in the preparation of the interim condensed consolidated financial statements are presented below:

	As at 30 June 2018	Average for six months 2018	As at 31 December 2017	Average for six months 2017
USD	62,7565	59,3536	57,6002	57,9862
EUR	72,9921	71,8223	68,8668	62,7187

3. Use of estimates and judgments

Preparing the interim condensed consolidated financial statements requires Management to make judgements, estimates assumptions that affect the application of accounted policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The most significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last consolidated financial statements as of and for the year ended 31 December 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 4.

4. Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group’s financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Group has adopted IFRS 15 since 1 January 2018. Application of the standard did not require significant changes to the method of revenue recognition.

IFRS 9 *Financial Instruments*

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

The following table summarises the impact, of transition to IFRS 9 on the opening balance of reserves, retained earnings (for a description of the transition method, see ((iii)) below).

	Impact of adopting IFRS 9 on 1 January 2018	
Retained earnings	**’000 USD**	**’000 RUB**
Recognition of expected credit losses under IFRS 9	4 648	267 714
Related tax	(888)	(51 133)
Impact as at 1 January 2018	**3 760**	**216 581**

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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

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

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

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

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

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

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

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

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

Equity securities designated as available-for-sale in accordance with IFRS (IAS) 39, represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group continued to consider these investments at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

Trade, other receivables and other investments that were classified as receivables and loans under IAS 39 are now classified at amortised cost. An increase of USD 4 648 thousand or RUB 267 714 thousand (excluding taxes) in the allowance for impairment over these receivables was recognised in the opening retained earnings as at 1 January 2018 on transition to IFRS 9.

(ii) Impairment of financial assets

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

The financial assets at amortised cost consist of trade receivables, cash and cash equivalents, and corporate debt securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

- *12-month ECL*s: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECL*s: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

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

Measurement of ECLs

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

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

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

Presentation of impairment

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

For equity securities at FVOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the asset.

Impairment losses related to trade and other receivables amounted to USD 3 565 thousand or RUB 205 329 thousand. The income from impairment recovery in respect of other investments amounted to USD 39 thousand or RUB 2 264 thousand.

Impact of the new impairment model

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

	’000 USD	’000 RUB
Loss allowance at 31 December 2017 under IAS 39	**17 326**	**998 004**
Additional impairment recognised as at 1 January 2018 on:	4 648	267 714
Trade and other receivables	1 921	110 650
Other investments	1 605	92 451
Cash and cash equivalents	1 122	64 613
Loss allowance at 1 January 2018 under IFRS 9	**21 974**	**1 265 718**

Trade receivables

The following analysis provides further detail about the calculation of ECLs related to trade receivables and contract assets on the adoption of IFRS 9. The Group considers the model and some of the assumptions used in calculating these ECLs as key sources of estimation uncertainty.

The ECLs were calculated based on actual credit loss experience over the past five years.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for other customers as at 1 January 2018.

’000 USD	Weighted-average loss rate	Gross carrying amount*	Loss allowance	Credit-impaired
Current (not past due)	0,00%	144 526	-	No
Past due less than 3 months	0,09%	19 974	(19)	No
Past due less from 3 to 6 months	2,49%	702	(17)	Yes
Past due less from 6 to 12 months	8,17%	310	(25)	Yes
Past due over 12 months	13,49%	434	(58)	Yes
		165 946	**(119)**	

*these amounts do not include fully impaired balances receivable from one of the counterparties in the amount USD 9 375 thousand

’000 RUB	Weighted-average loss rate	Gross carrying amount*	Loss allowance	Credit-impaired
Current (not past due)	0,00%	8 324 706	-	No
Past due less than 3 months	0,09%	1 150 522	(1 088)	No
Past due less from 3 to 6 months	2,49%	40 409	(1 008)	Yes
Past due less from 6 to 12 months	8,17%	17 859	(1 458)	Yes
Past due over 12 months	13,49%	24 973	(3 369)	Yes
		9 558 469	**(6 923)**	

*these amounts do not include fully impaired balances receivable from one of the counterparties in the amount RUB 540 066 thousand

(iii) Transition

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

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

– The determination of the business model within which a financial asset is held;

– The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL;

– The designation of certain investments in equity instruments not held for trading as at FVOCI;

– If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

5. Segment reporting

The Group has one primary reportable segment: the manufacturing and sale of titanium products. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. In 2018, the Group revised the presentation of geographical segments in the financial statements by aggregating them, and the Group identified the main market segment in terms of sales management and concentration of market risks.

	Six months ended 30 June	
Revenue	**2017 '000 USD**	**2017 '000 RUB**
Europe	268 987	15 597 513
North America	226 870	13 155 315
Russia	215 990	12 524 407
Asia	44 719	2 593 083
Other CIS countries	4 406	255 539
	760 972	**44 125 857**

	Six months ended 30 June	
Revenue	**2018 '000 USD**	**2018 '000 RUB**
Foreign countries other than CIS, including:	574 478	34 097 382
Aerospace Industry	*494 632*	*29 358 168*
Other Industries	*79 846*	*4 739 214*
Russia and CIS, including:	211 605	12 559 492
Aerospace Industry	*142 140*	*8 436 517*
Other Industries	*69 465*	*4 122 975*
	786 083	**46 656 874**

The Group has revenue from one customer amounting to 10% or more of total revenue in the amount of approximately USD 142 million or RUB 8 419 million (for the six months ended 2017 – USD 136 million or RUB 7 859 million). Furthermore, revenue to parties under Government control is disclosed in Note 20.

6. Revenue

	Six months ended 30 June			
	2018 '000 USD	2017 '000 USD	2018 '000 RUB	2017 '000 RUB
Revenue from sales of goods	773 457	723 207	45 907 462	41 936 003
Revenue from services provided	12 506	15 688	742 247	909 688
Other revenue	120	22 077	7 165	1 280 166
	786 083	**760 972**	**46 656 874**	**44 125 857**

7. Income and expenses

(a) Cost of sales

	Six months ended 30 June			
	2018 '000 USD	2017 '000 USD	2018 '000 RUB	2017 '000 RUB
Materials and consumables used	(174 764)	(143 950)	(10 372 895)	(8 347 093)
Depreciation	(89 955)	(180 933)	(5 339 117)	(10 491 591)
Personnel cost	(70 929)	(67 964)	(4 209 867)	(3 940 958)
Utilities	(59 677)	(57 241)	(3 542 061)	(3 319 199)
Social insuarance costs	(21 580)	(20 654)	(1 280 830)	(1 197 651)
Repairs and maintenance	(11 330)	(8 349)	(672 454)	(484 104)
Semi-product processing services	(5 867)	(7 648)	(348 240)	(443 558)
Provision for inventory obsolescence	6 723	10 250	399 017	594 335
Other costs	(12 959)	(16 260)	(769 214)	(942 829)
	(440 338)	**(492 749)**	**(26 135 661)**	**(28 572 648)**

(b) General and administrative expenses

	Six months ended 30 June			
	2018 '000 USD	2017 '000 USD	2018 '000 RUB	2017 '000 RUB
Personnel cost	(38 518)	(37 945)	(2 286 157)	(2 200 280)
Insurance	(10 520)	(12 227)	(624 397)	(709 019)
Social insuarance costs	(8 921)	(8 094)	(529 496)	(469 341)
Materials	(6 375)	(1 770)	(378 386)	(102 624)
Charity expenses	(6 117)	(5 806)	(363 076)	(336 655)
Change in trade and other receivables impairment provision	(5 590)	115	(331 771)	6 677
Taxes other than income tax	(4 536)	(2 965)	(269 226)	(171 913)
Depreciation	(4 136)	(4 135)	(245 499)	(239 791)
Repair and maintenance	(2 540)	(2 752)	(150 779)	(159 592)
Consulting expenses	(2 188)	(2 363)	(129 847)	(137 044)
Other expenses	(8 083)	(17 982)	(479 802)	(1 042 672)
	(97 524)	**(95 924)**	**(5 788 436)**	**(5 562 254)**

8. Net finance (costs)/income

	Six months ended 30 June			
	2018	**2017**	**2018**	**2017**
Finance income	**'000 USD**	**'000 USD**	**'000 RUB**	**'000 RUB**
Interest income	18 302	18 646	1 086 284	1 081 235
Dividend income	11 436	-	678 767	-
Foreign currency exchange gain, net	-	5 069	-	293 920
Finance income	**29 738**	**23 715**	**1 765 051**	**1 375 155**
Finance costs				
Interest expenses	(25 217)	(17 760)	(1 496 725)	(1 029 822)
Foreign currency exchange loss, net	(35 063)	-	(2 081 147)	-
Finance costs	**(60 280)**	**(17 760)**	**(3 577 872)**	**(1 029 822)**

9. Earnings per share

The calculation of earnings per share is based on the profit for the period and weighted average number of ordinary shares outstanding during the period, calculated as shown below. The Company has no dilutive potential ordinary shares, thus diluted earning per share is equal to base earning per share.

In units of shares	**2018**	**2017**
Issued shares as at 1 January	11 523 801	11 523 801
Effect of treasury shares owned	-	-
Weighted average number of shares for the period ended 30 June	11 523 801	11 523 801

’000 USD	**2018**	**2017**
Weighted average number of shares for the period ended 30 June	11 523 801	11 523 801
Profit attributable to the equity holders of the Company (’000 USD)	167 733	119 479
Basic earnings per share (USD per 1 share)	14,555	10,368

’000 RUB	**2018**	**2017**
Weighted average number of shares for the period ended 30 June	11 523 801	11 523 801
Profit attributable to the equity holders of the Company (’000 RUB)	9 955 620	6 928 135
Basic earnings per share (RUB per 1 share)	863,918	601,202

10. Income tax expense

The Company applied 18,25% tax rate for income tax for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 18,55%). Other Russian subsidiaries applied 20% tax rate for income tax for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 20%).

(a) Amounts recognised in profit or loss

	Six months ended June 30			
	2018	**2017**	**2018**	**2017**
	'000 USD	**'000 USD**	**'000 RUB**	**'000 RUB**
Current tax expense				
Current period	(43 002)	(49 100)	(2 552 335)	(2 847 159)
Over/(under) provided in prior periods	191	(11)	11 329	(632)
	(42 811)	**(49 111)**	**(2 541 006)**	**(2 847 791)**
Deferred tax expense				
Origination and reversal of temporary differences	14 675	7 950	871 057	461 009
	(28 136)	**(41 161)**	**(1 669 949)**	**(2 386 782)**

(b) Movement in deferred tax balances

'000 USD	1 January 2018	Adjustment on initial application of IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	30 June 2018 Net deferred balances	30 June 2018 Deferred tax asset	30 June 2018 Deferred tax liability
Property, plant and equipment	(448 889)	-	15 598	(11 097)	36 046	(408 342)	595	(408 937)
Intangible assets	(1 411)	-	(470)	-	(101)	(1 982)	14	(1 996)
Inventories	15 708	-	(45)	-	(1 289)	14 374	34 280	(19 906)
Trade and other receivables	2 150	367	408	-	(228)	2 697	2 802	(105)
Trade and other payables	994	-	(1 856)	-	19	(843)	745	(1 588)
Investments	(9 570)	521	899	(15)	696	(7 469)	484	(7 953)
Tax loss carry-forwards	28	-	384	-	(23)	389	389	-
Borrowings	(2 217)	-	(147)	-	191	(2 173)	-	(2 173)
Other items	(10)	-	(96)	-	5	(101)	323	(424)
Total deferred tax balances	**(443 217)**	**888**	**14 675**	**(11 112)**	**35 316**	**(403 450)**	**39 632**	**(443 082)**
Set-off of tax						**-**	**(35 778)**	**35 778**
Net deferred tax balances						**(403 450)**	**3 854**	**(407 304)**

'000 USD	1 January 2017	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	30 June 2017 Net deferred balances	30 June 2017 Deferred tax asset	30 June 2017 Deferred tax liability
Property, plant and equipment	(304 003)	1 750	109	(8 117)	(310 261)	1 672	(311 933)
Intangible assets	2 040	32	-	34	2 106	3 844	(1 738)
Inventories	7 270	10 001	-	6	17 277	37 696	(20 419)
Trade and other receivables	4 284	(3 235)	-	174	1 223	1 592	(369)
Trade and other payables	933	(168)	-	28	793	816	(23)
Investments	3 138	(6 490)	(716)	217	(3 851)	3 471	(7 322)
Tax loss carry-forwards	23	(75)	-	3	(49)	24	(73)
Borrowings	(1 903)	(29)	-	(50)	(1 982)	-	(1 982)
Other items	(5 605)	6 164	-	(263)	296	446	(150)
Total deferred tax balances	**(293 823)**	**7 950**	**(607)**	**(7 968)**	**(294 448)**	**49 561**	**(344 009)**
Set-off of tax					**-**	**(46 509)**	**46 509**
Net deferred tax balances					**(294 448)**	**3 052**	**(297 500)**

'000 RUB	1 January 2018	Adjustment on initial application of IFRS 9	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	30 June 2018 Net deferred balances	30 June 2018 Deferred tax asset	30 June 2018 Deferred tax liability
Property, plant and equipment	(25 856 114)	-	925 784	(696 393)	593	(25 626 130)	37 314	(25 663 444)
Intangible assets	(81 260)	-	(27 908)	-	(15 218)	(124 386)	895	(125 281)
Inventories	904 758	-	(2 675)	-	-	902 083	2 151 290	(1 249 207)
Trade and other receivables	123 847	21 134	24 240	-	-	169 221	175 783	(6 562)
Trade and other payables	57 222	-	(110 178)	-	-	(52 956)	46 732	(99 688)
Investments	(551 193)	29 999	53 370	(923)	-	(468 747)	30 343	(499 090)
Tax loss carry-forwards	1 615	-	22 789	-	-	24 404	24 404	-
Borrowings	(127 694)	-	(8 707)	-	-	(136 401)	-	(136 401)
Other items	(571)	-	(5 658)	-	-	(6 229)	20 391	(26 620)
Total deferred tax balances	**(25 529 390)**	**51 133**	**871 057**	**(697 316)**	**(14 625)**	**(25 319 141)**	**2 487 152**	**(27 806 293)**
Set-off of tax						**-**	**(2 245 296)**	**2 245 296**
Net deferred tax balances						**(25 319 141)**	**241 856**	**(25 560 997)**

					30 June 2017		
’000 RUB	**1 January 2017**	**Recognized in profit or loss**	**Recognized in other comprehen-sive income**	**Translation difference**	**Net deferred balances**	**Deferred tax asset**	**Deferred tax liability**
Property, plant and equipment	(18 439 891)	101 484	6 384	77	(18 331 946)	98 816	(18 430 762)
Intangible assets	123 754	1 851	-	(1 199)	124 406	227 078	(102 672)
Inventories	440 977	579 897	-	-	1 020 874	2 227 264	(1 206 390)
Trade and other receivables	259 848	(187 589)	-	-	72 259	94 088	(21 829)
Trade and other payables	56 577	(9 719)	-	-	46 858	48 210	(1 352)
Investments	190 315	(376 328)	(41 530)	-	(227 543)	205 052	(432 595)
Tax loss carry-forwards	1 421	(4 326)	-	-	(2 905)	1 384	(4 289)
Borrowings	(115 426)	(1 659)	-	-	(117 085)	-	(117 085)
Other items	(339 945)	357 398	-	(3)	17 450	26 431	(8 981)
Total deferred tax balances	**(17 822 370)**	**461 009**	**(35 146)**	**(1 125)**	**(17 397 632)**	**2 928 323**	**(20 325 955)**
Set-off of tax					**-**	**(2 748 021)**	**2 748 021**
Net deferred tax balances					**(17 397 632)**	**180 302**	**(17 577 934)**

Changes of deferred tax liability related to property, plant and equipment recognized in other comprehensive income and refer to recalculation of deferred tax liability that arose on revaluation of property, plant and equipment due to changes in effective tax rate applied by the Company.

11. Earnings before interest, tax, depreciation and amortisation (EBITDA)

The management of the Group have presented the performance measure EBITDA as management monitors this performance measure at consolidated level and management believes this measure is relevant for understanding of the Group’s financial performance. EBITDA is calculated by adjusting operating profit to exclude the impact of depreciation and amortisation.

EBITDA is not a defined performance measure in IFRS. The Group’s definition of EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

Reconciliation of EBITDA:

		Six months ended 30 June			
	Note	**2018 '000 USD**	**2017 '000 USD**	**2018 '000 RUB**	**2017 '000 RUB**
Operating profit		223 426	153 160	13 261 140	8 881 169
Adjustments for:					
- Depreciation	12	93 927	184 934	5 574 878	10 723 631
- Amortisation		164	134	9 738	7 751
EBITDA		**317 517**	**338 228**	**18 845 756**	**19 612 551**

12. Property, plant and equipment

’000 USD	**Total**
Cost	
Balance at 1 January 2017	5 310 593
Additions	64 708
Disposals	(36 250)
Translation to presentation currency	140 711
Balance at 30 June 2017	**5 479 762**
Accumulated depreciation	
Balance at 1 January 2017	(3 022 643)
Depreciation charge	(106 400)
Disposals	32 430
Translation to presentation currency	(79 288)
Balance at 30 June 2017	**(3 175 901)**
Net book value	
Balance at 1 January 2017	**2 287 950**
Balance at 30 June 2017	**2 303 861**
Cost	
Balance at 1 January 2018	5 819 337
Additions	66 075
Disposals	(30 876)
Translation to presentation currency	(476 796)
Balance at 30 June 2018	**5 377 740**
Accumulated depreciation	
Balance at 1 January 2018	(2 752 660)
Depreciation charge	(118 778)
Disposals	20 814
Translation to presentation currency	230 728
Balance at 30 June 2018	**(2 619 896)**
Net book value	
Balance at 1 January 2018	**3 066 677**
Balance at 30 June 2018	**2 757 844**

’000 RUB	**Total**
Cost	
Balance at 1 January 2017	322 124 083
Additions	3 752 164
Disposals	(2 102 004)
Translation to presentation currency	(1 027)
Balance at 30 June 2017	**323 773 216**
Accumulated depreciation	
Balance at 1 January 2017	(183 344 154)
Depreciation charge	(6 169 724)
Disposals	1 880 507
Translation to presentation currency	(15 040)
Balance at 30 June 2017	**(187 648 411)**
Net book value	
Balance at 1 January 2017	**138 779 929**
Balance at 30 June 2017	**136 124 805**
Cost	
Balance at 1 January 2018	335 195 241
Additions	3 921 713
Disposals	(1 832 627)
Translation to presentation currency	204 028
Balance at 30 June 2018	**337 488 355**
Accumulated depreciation	
Balance at 1 January 2018	(158 554 015)
Depreciation charge	(7 049 884)
Disposals	1 235 407
Translation to presentation currency	(47 246)
Balance at 30 June 2018	**(164 415 738)**
Net book value	
Balance at 1 January 2018	**176 641 226**
Balance at 30 June 2018	**173 072 617**

Depreciation expense of USD 89 944 thousand or RUB 5 338 490 thousand (for the six months ended 30 June 2017 – USD 180 933 thousand or RUB 10 491 591 thousand) has been charged to cost of sales and USD 3 983 thousand or RUB 236 388 thousand (for the six months ended 30 June 2017 – USD 4 001 thousand or RUB 232 040 thousand) to general and administrative expenses. The amount of depreciation recognized as expense is provided in Note 7 including change in depreciation charged to inventories as at 30 June 2018 in the amount of USD 143 569 thousand or RUB 9 009 914 thousand (as at 31 December 2017 – USD 127 780 thousand or RUB 7 534 908 thousand).

13. Other investments

	30 June 2018 ’000 USD	31 December 2017 ’000 USD	30 June 2018 ’000 RUB	31 December 2017 ’000 RUB
Non-current				
Loans receivable	66 910	67 798	4 199 067	3 905 171
Equity investments at FVOCI	279 161	114 664	17 519 187	6 604 669
Other investments	447	487	28 042	28 042
	346 518	**182 949**	**21 746 296**	**10 537 882**
Current				
Loans receivable	5 753	108 317	361 047	6 239 094
Bank deposits	114	257	7 182	14 817
	5 867	**108 574**	**368 229**	**6 253 911**

In addition to shares purchased as at 31 December 2017 of PSC “RusHydro”, in 2018, the Group acquired shares in the amount of USD 209 465 thousand or RUR 12 693 455 thousand. The shares were purchased at market quotes. These investments were classified in the category of equity investments at FVOCI. The group plans to hold shares of PSC “RusHydro” to receive income from dividends and growth of quotations.

As at 30 June 2018, fair value available on the Group's balance sheet shares of PSC “RusHydro”, amounted to USD 277 487 thousand or RUB 17 414 124 thousand. Fair value has been determined based on share prices as at 30 June 2018 (level 1 of the fair value hierarchy). Loss on the fair value of shares in the amount of USD 29 891 thousand or RUB 1 774 161 thousand was included in other comprehensive income.

14. Trade and other receivables

	30 June 2018 ’000 USD	30 December 2017 ’000 USD	30 June 2018 ’000 RUB	31 December 2017 ’000 RUB
Long-term trade accounts receivable	-	1 590	-	91 567
Short-term trade accounts receivable	204 804	173 731	12 852 795	10 006 968
Other accounts receivable	38 665	38 818	2 426 455	2 235 904
Less: provision	(23 009)	(17 326)	(1 443 987)	(998 004)
	220 460	**196 813**	**13 835 263**	**11 336 435**
Advances to suppliers	30 799	15 869	1 932 817	914 053
Less: provision	(669)	(714)	(41 999)	(41 102)
Value-added tax recoverable	18 498	18 489	1 160 852	1 064 952
Other taxes receivable	22 359	10 252	1 403 228	590 503
	291 447	**240 709**	**18 290 161**	**13 864 841**

15. Fair values of financial instruments

(a) Fair value and fair value hierarchy

The Group doesn’t have any financial assets or liabilities measured at fair value except equity investments at FVOCI (see Note 13). Value of equity investments at FVOCI are classified as Level 1. Their fair value is determined based on quoted market prices.

As at 30 June 2018 and 31 December 2017, carrying amount of the Group's financial assets and liabilities did not differ significantly from their fair value.

As at 30 June 2018 and 31 December 2017, fair value of financial assets (except for fair value of equity investments at FVOCI) and liabilities was calculated by applying discounted cash flows technique using market discount rate and relates to Level 3 in the fair value hierarchy.

Financial instruments not measured at fair value

Type of financial instrument	Valuation technique
Trade and other receivables	Discounted cash flows
Other investments and loans receivable	Discounted cash flows
Cash and cash equivalents	Discounted cash flows
Trade and other payables	Discounted cash flows
Loans and borrowings	Discounted cash flows

16. Capital and reserves

Dividends were declared in May 2018 in respect of 2017 to the holders of ordinary shares in the amount of RUB 890,45 per ordinary share (equivalent to USD 14,24 per share translated at the exchange rate at the date of declaration), for the total amount of USD 164 179 thousand or RUB 10 266 478 thousand.

Dividends were declared in May 2017 in respect of 2016 to the holders of ordinary shares in the amount of RUB 1 300 per ordinary share (equivalent to USD 23,01 per share translated at the exchange rate at the date of declaration), for the total amount of USD 265 287 thousand or RUB 14 988 399 thousand.

17. Loans and borrowings

This note provides information about the contractual terms of the Group’s interest-bearing loans and borrowings, which are measured at amortised cost.

	30 June 2018 ’000 USD	31 December 2017 ’000 USD	30 June 2018 ’000 RUB	31 December 2017 ’000 RUB
Non-current liabilities				
Secured bank loans	67 554	16 817	4 239 428	968 670
Unsecured bank loans	1 191 461	1 160 819	74 771 929	66 863 423
	1 259 015	**1 177 636**	**79 011 357**	**67 832 093**
Current liabilities				
Secured bank loans	17	-	1 051	-
Unsecured bank loans	179 590	223 117	11 270 465	12 851 559
	179 607	**223 117**	**11 271 516**	**12 851 559**

In 2017 and for the six months, ended 30 June 2018, the Group breached one of the covenants under the loan agreements with certain banks in terms level of loans issued. The Group informed the banks on the breach in 2017 and for the six months, ended 30 June 2018 and the banks agreed not to demand early repayment of the loan as well in 2017 and for the six months, ended 30 June 2018. Therefore the loan was classified as long term in accordance with contractual payment terms.

18. Commitments

Capital commitments

As at 30 June 2018, the Group has entered into contracts to purchase plant and equipment for USD 101 881 thousand or RUB 6 393 719 thousand (as at 31 December 2017 – USD 100 546 thousand or RUB 5 791 446 thousand).

19. Contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion in 2014 and thereon).

The compliance of prices with the arm’s length level could be as well subject to scrutiny on the basis of unjustified tax benefit concept.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2016 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group’s tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

Specifics of the Group's operations assume significant amount of transactions with subsidiaries registered in foreign jurisdictions, including the issuance of loans. The terms of specific transactions (interest rate, currency, terms) are analyzed by the Group's management at the date of the transactions. Subsequently, the terms of transactions can be reviewed depending on the current market situation, as well as the needs of the Group and subsidiaries in financial resources. The Group's management believes that, based on management's understanding of applicable Russian tax legislation, official explanations and court decisions, the Group satisfies completely with tax legislation. Nevertheless, the interpretation of these Group's position by the tax and judicial authorities may be different and, if the tax authorities can prove the legitimacy of their position, this could have significant impact on these consolidated financial statements.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these interim condensed consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

20. Related parties

(a) Government

The Government of the Russian Federation controls the State Corporation “Rostech” (SC “Rostech”), which has significant influence over the Company. The Government does not prepare financial statements for public use. Governmental economic and social policies affect the Group’s financial position, results of operations and cash flows.

(b) Transactions and balances with related parties

In the normal course of business, the Group enters into transactions with related parties and other entities under Government control. Taxes are accrued and settled in accordance with Russian tax legislation. The Group uses exception provided in clause 25 of IAS 24 and does not disclose information related to transactions with different authorities of Russian Federation. The following turnovers and balances arise from transactions with related parties except for settlements with tax authorities and other government structures of Russian Federation.

Transactions with related parties:

	Six months ended 30 June			
Relationship	**2018 ’000 USD**	**2017 ’000 USD**	**2018 ’000 RUB**	**2017 ’000 RUB**
Revenue				
Parties under Government control	56 894	77 138	3 376 876	4 472 929
Entities under Rostech control	81 182	77 235	4 818 436	4 478 544
Joint arrangement	15 969	8 244	947 794	478 053
Associates	659	680	39 134	39 430
Purchases				
Parties under Government control	(11 885)	(18 824)	(705 403)	(1 091 522)
Entities under Rostech control	(60)	(327)	(3 556)	(18 940)
Joint arrangement	(5 374)	(7 144)	(318 991)	(414 256)
Associates	(41 719)	(29 774)	(2 476 177)	(1 726 503)
Purchases of property, plant and equipment				
Parties under Government control	(197)	(52)	(11 664)	(3 022)
Sales of property, plant and equipment				
Joint arrangement	-	3	-	200
Loans provided				
Joint venture	(3 350)	-	(198 835)	-
Associates	(84)	-	(5 000)	-
Entities under ultimate beneficiary's control	-	(216 638)	-	(12 562 032)
Proceeds from borrowings				
Parties under Government control	-	248 618	-	14 416 380
Interest income				
Parties under Government control	159	8 426	9 454	488 599
Entities under Rostech control	3 275	3 352	194 389	194 389
Joint venture	387	4	22 954	241
Associates	138	136	8 183	7 915
Entities under ultimate beneficiary's control	1 428	1 761	84 733	106 267
Interest expenses				
Parties under Government control	(8 308)	(5 614)	(493 134)	(325 510)
Entities under Rostech control	(2 002)	-	(118 851)	-
Entities under ultimate beneficiary's control	-	(172)	-	(9 956)
Gains on investments				
Parties under Government control	11 436	-	678 767	-

Revenue from related parties refers to sales of titanium products under usual short term contracts. The Group does not have significant sales (over 5% from total group sales) to any individual related party.

Related party purchases mainly refer to electricity and gas which are made under standard short term agreements.

Balances with related parties:

	'000 USD		'000 RUB	
Relationship	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**
Bank balances				
Parties under Government control	24 382	24 501	1 530 118	1 411 295
Entities under Rostech control	1 048	6	65 776	346
Trade and other receivables				
Parties under Government control	13 676	2 730	858 273	157 222
Entities under Rostech control	2 933	3 401	184 057	195 900
Joint arrangement	587	390	36 825	22 457
Associates	317	589	19 866	33 925
Entities under ultimate beneficiary's control	4 016	8 619	252 000	496 472
Ultimate beneficiary	-	11 036	-	635 681
Advances to suppliers				
Parties under Government control	688	618	43 155	35 618
Entities under Rostech control	1	1	90	41
Associates	68	84	4 239	4 840
Bank deposits, classified as cash and cash equivalents				
Parties under Government control	135 203	137 469	8 484 893	7 918 241
Equity investments at FVOCI				
Parties under Government control	279 161	114 664	17 519 187	6 604 669
Loans issued				
Entities under Rostech control	44 617	48 611	2 800 000	2 800 000
Associates	3 974	3 942	249 404	227 076
Top management	122	132	7 629	7 629
Joint arrangement	16 587	13 513	1 040 945	778 344
Entities under ultimate beneficiary's control	-	100 174	-	5 770 070
Loans and borrowings				
Parties under Government control	(363 491)	(429 607)	(22 811 373)	(24 745 382)
Trade and other payables				
Parties under Government control	(3 313)	(2 612)	(207 937)	(150 457)
Entities under Rostech control	(165)	(299)	(10 365)	(17 225)
Joint arrangement	(1 815)	(4 168)	(113 885)	(240 067)
Associates	(3 123)	(4 625)	(196 018)	(266 391)
Advances received				
Parties under Government control	(40 817)	(37 593)	(2 561 506)	(2 165 381)
Entities under Rostech control	(48 936)	(76 169)	(3 071 027)	(4 387 374)
Joint arrangement	(121)	(138)	(7 612)	(7 952)
Associates	(2)	-	(150)	(7)

There were no significant changes in settlements with related parties for the six months ended 30 June 2018 compared to the previous period.

Key management personnel compensation

Compensation of key management personnel consists of remuneration paid to the members of the Management Boards of the Group's main subsidiaries and to members of Boards of Directors of the Company and its main subsidiaries. Compensation is made up of an annual remuneration and a performance bonus depending on the operating results.

Total key management personnel short-term benefits included in general and administrative expenses in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 amounted to USD 6 791 thousand or RUB 403 041 thousand (for the six months ended 30 June 2017 – USD 5 425 thousand or RUB 314 597 thousand). Related state pension and social security costs for the six months ended 30 June 2018 amounted to USD 1 749 thousand or RUB 103 804 thousand (for the six months ended 30 June 2017 – USD 1 217 thousand or RUB 70 566 thousand). There were no significant post-employment or other long-term benefits.