PSC “Corporation VSMPO-AVISMA”

Consolidated Financial Statements for 2017 and Independent Auditors’ Report

Contents

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for 2017

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

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

In preparing the 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 consolidated financial statements for the year ended 31 December 2017 were approved by:

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

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Public stock company "Corporation VSMPO-AVISMA" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and 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 requirements in the Russian Federation and 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of property, plant and equipment

Please refer to the Note 14 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group accounts for its property, plant and equipment at fair value. To determine the fair value of its property, plant and equipment the Group involved an independent appraiser. Most of the Group's property, plant and equipment items are specialized that requires significant degree of judgement application in calculation of depreciated replacement cost. Due to the significance of property, plant and equipment and the inherent uncertainty involved in forecasting and discounting future cash flows and determination of property, plant and equipment depreciated replacement cost this is a key audit matter.	We involved our internal valuation specialists to analyze key assumptions used by the Group to determine fair value of property, plant and equipment and perform economic obsolescence test. We tested depreciated replacement cost of property, plant and equipment on sample basis through analysis of calculations made and comparing to available market information. We analyzed revised property, plant and equipment useful lives for reasonableness, justification and comparability within similar groups of fixed assets. For the most significant property, plant and equipment items we agreed remaining useful lives with the Group's technical specialists. With respect to the discounted cash flows model used to determine economic obsolescence we compared key assumptions applied in the model to externally derived data as well as our own assessments. This included: — comparison of sales prices forecasts with expected sales prices growth rate based on internal and external sources; — comparison of EBITDA margins and production volumes forecasts with actual historic results of the Group and comparable companies; — comparison of key macroeconomic factors projections used, like inflation rates, exchange rates and other with consensus forecasts developed by recognized external sources; — recalculation of discount rate. We used alternative assumptions related to forecasts of EBITDA margin, sales growth, production volumes, discount rate and working capital to perform our own sensitivity analysis. We also compared actual financial performance results of the Group in 2017 with forecasts that were developed by the Group in previous periods for the purposes of impairment tests. We considered the accuracy and completeness of the disclosures in the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 engagement partner on the audit resulting in this independent auditors' report is:

КПМГ
KPMG
АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628
МОСКВА

Adamov N.A.

JSC "KPMG"

Moscow, Russia

27 April 2018

	Note	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Revenue	6	1 507 721	1 333 755	87 979 946	89 408 116
Cost of sales	7	(956 560)	(685 720)	(55 818 106)	(45 967 136)
Gross profit		**551 161**	**648 035**	**32 161 840**	**43 440 980**
Distribution expenses	7	(35 192)	(33 048)	(2 053 553)	(2 215 342)
General and administrative expenses	7	(207 966)	(176 297)	(12 135 421)	(11 818 032)
Operating profit before loss on disposal of property, plant and equipment		**308 003**	**438 690**	**17 972 866**	**29 407 606**
Loss on disposal of property, plant and equipment	14	(8 492)	(17 150)	(495 533)	(1 149 644)
Operating profit		**299 511**	**421 540**	**17 477 333**	**28 257 962**
Impairment loss on intangible assets and property, plant and equipment	14,15	(13 594)	(11 089)	(793 246)	(743 325)
Finance income	8	57 958	75 316	3 382 060	5 048 754
Share in income of equity accounted investees	17	1 449	54	84 549	3 622
Finance costs	8	(41 842)	(35 673)	(2 441 590)	(2 391 330)
Profit before income tax		**303 482**	**450 148**	**17 709 106**	**30 175 683**
Income tax expense	12	(83 680)	(69 992)	(4 882 979)	(4 691 937)
Profit for the period		**219 802**	**380 156**	**12 826 127**	**25 483 746**
Other comprehensive income/(loss)					
Items that will never be reclassified to profit or loss					
Revaluation of property, plant and equipment		741 463	70 397	42 708 423	4 270 055
Translation to presentation currency		137 055	399 407	-	-
Remeasurement of defined benefit obligations		99	(1 361)	5 800	(91 257)
Related income tax		(136 511)	(7 587)	(7 863 080)	(460 220)
		742 106	**460 856**	**34 851 143**	**3 718 578**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences - foreing operations		223	(3 201)	12 998	(214 594)
Net change in fair value of available-for-sale financial assets		(14 381)	514	(839 194)	34 487
Equity-accounted investees – share of other comprehensive income	17	(1 248)	7 127	(72 830)	477 734
Related income tax	12	250	2 113	14 566	119 532
		(15 156)	**6 553**	**(884 460)**	**417 159**
Other comprehensive income for the period, net of income tax		**726 950**	**467 409**	**33 966 683**	**4 135 737**
Total comprehensive income for the period		**946 752**	**847 565**	**46 792 810**	**29 619 483**
Profit attributable to:					
Shareholders of the Company		220 163	381 701	12 847 193	25 587 319
Non-controlling interests		(361)	(1 545)	(21 066)	(103 573)
Profit for the period		**219 802**	**380 156**	**12 826 127**	**25 483 746**
Total comprehensive income/(loss) attributable to:					
Shareholders of the Company		946 893	848 252	46 801 017	29 665 532
Non-controlling interests		(141)	(687)	(8 207)	(46 049)
Total comprehensive income		**946 752**	**847 565**	**46 792 810**	**29 619 483**
Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD/RUB per share)	9	19,105	33,123	1 114,840	2 220,389

The 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 consolidated financial statements set out on pages 16 to 70.

	Note	’000 USD		’000 RUB	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
ASSETS					
Non-current assets					
Property, plant and equipment	14	3 066 677	2 287 950	176 641 226	138 779 929
Goodwill	16	34 754	33 002	2 001 817	2 001 817
Intangible assets	15	19 578	24 748	1 127 748	1 501 108
Equity-accounted investees	17	42 487	40 642	2 447 257	2 465 210
Long-term trade and other receivables	20	1 590	14 157	91 567	858 741
Other investments	18	182 949	52 535	10 537 882	3 186 594
Deferred tax assets	12	2 403	300	138 401	18 216
Other non-current assets		2 604	3 441	150 016	208 747
Total non-current assets		**3 353 042**	**2 456 775**	**193 135 914**	**149 020 362**
Current assets					
Inventories	19	645 294	702 367	37 169 040	42 603 386
Other investments	18	108 574	22 792	6 253 911	1 382 527
Short-term trade and other receivables	20	239 119	258 734	13 773 274	15 694 079
Current income tax receivable		1 755	4 912	101 093	297 938
Cash and cash equivalents	21	806 527	638 029	46 456 130	38 700 845
Other current assets		3 161	3 845	182 089	233 222
Total current assets		**1 804 430**	**1 630 679**	**103 935 537**	**98 911 997**
Total assets		**5 157 472**	**4 087 454**	**297 071 451**	**247 932 359**
EQUITY AND LIABILITIES					
Equity	22				
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		1 766 435	1 852 295	61 591 124	66 120 455
Reserves		1 578 260	1 098 236	106 195 563	78 640 142
Cumulative currency translation difference		(515 989)	(653 047)	274 433	274 294
Total equity attributable to shareholders of the Company		**3 004 008**	**2 472 786**	**173 204 199**	**150 177 970**
Non-controlling interests		6 923	3 630	225 948	33 746
Total equity		**3 010 931**	**2 476 416**	**173 430 147**	**150 211 716**
Non-current liabilities					
Long-term borrowings	24	1 177 636	639 616	67 832 093	38 797 107
Long-term advances received from customers		8 490	21 887	489 052	1 327 587
Defined benefit pension plan	10	35 699	33 013	2 056 269	2 002 446
Other long-term liabilities		9 236	10 055	531 995	609 889
Deferred tax liabilities	12	445 620	294 123	25 667 791	17 840 586
Total non-current liabilities		**1 676 681**	**998 694**	**96 577 200**	**60 577 615**
Current liabilities					
Trade and other payables	25	93 339	98 964	5 376 394	6 002 853
Current income tax payable		6 064	6 258	349 263	379 597
Other taxes payable		6 863	12 902	395 428	782 701
Short-term borrowings	24	223 117	390 594	12 851 559	23 692 243
Advances received from customers		139 206	102 800	8 018 272	6 235 536
Dividends payable		1 271	826	73 188	50 098
Total current liabilities		**469 860**	**612 344**	**27 064 104**	**37 143 028**
Total liabilities		**2 146 541**	**1 611 038**	**123 641 304**	**97 720 643**
Total equity and liabilities		**5 157 472**	**4 087 454**	**297 071 451**	**247 932 359**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

’000 USD	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury share reserve	Retained earnings	Reserves	Cumulative currency translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**22 785**	**153 924**	**(1 407)**	**1 501 740**	**1 226 899**	**(1 052 036)**	**1 851 905**	**3 958**	**1 855 863**
Total comprehensive income for the period									
Profit for the period	-	-	-	381 701	-	-	381 701	(1 545)	380 156
Other comprehensive income/(loss)									
Foreign currency translation difference - foreing operation	-	-	-	-	-	(4 059)	(4 059)	858	(3 201)
Translation to presentation currency	-	-	-	-	-	399 407	399 407	-	399 407
Net change in fair value of available-for-sale financial assets	-	-	-	-	514	-	514	-	514
Revaluation of property, plant and equipment	-	-	-	-	70 397	-	70 397	-	70 397
Defined benefit plan revaluation	-	-	-	-	(1 361)	-	(1 361)	-	(1 361)
Equity-accounted investees – share of other comprehensive income	-	-	-	-	7 127	-	7 127	-	7 127
Income tax on other comprehensive income	-	-	-	-	(9 115)	3 641	(5 474)	-	(5 474)
Total other comprehensive income/(loss)	-	-	-	-	67 562	398 989	466 551	858	467 409
Total comprehensive income for the period	**-**	**-**	**-**	**381 701**	**67 562**	**398 989**	**848 252**	**(687)**	**847 565**
Dividends	-	-	-	(227 279)	-	-	(227 279)	-	(227 279)
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	359	359
Equity-accounted investees – change in capital	-	-	-	(92)	-	-	(92)	-	(92)
Total transactions with owners	**-**	**-**	**-**	**(227 371)**	**-**	**-**	**(227 371)**	**359**	**(227 012)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	196 225	(196 225)	-	-	-	-
Balance at 31 December 2016	**22 785**	**153 924**	**(1 407)**	**1 852 295**	**1 098 236**	**(653 047)**	**2 472 786**	**3 630**	**2 476 416**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

'000 USD	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury share reserve	Retained earnings	Reserves	Cumulative currency 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	-	-	-	220 163	-	-	220 163	(361)	219 802
Other comprehensive income/(loss)									
Foreign currency translation difference - foreing operation	-	-	-	-	-	3	3	220	223
Translation to presentation currency	-	-	-	-	-	137 055	137 055	-	137 055
Net change in fair value of available-for-sale financial assets	-	-	-	-	(14 381)	-	(14 381)	-	(14 381)
Revaluation of property, plant and equipment	-	-	-	-	741 463	-	741 463	-	741 463
Defined benefit plan revaluation	-	-	-	-	99	-	99	-	99
Equity-accounted investees – share of other comprehensive income	-	-	-	-	(1 248)	-	(1 248)	-	(1 248)
Income tax on other comprehensive income	-	-	-	-	(136 261)	-	(136 261)	-	(136 261)
Total other comprehensive income/(loss)	-	-	-	-	589 672	137 058	726 730	220	726 950
Total comprehensive income for the period	**-**	**-**	**-**	**220 163**	**589 672**	**137 058**	**946 893**	**(141)**	**946 752**
Dividends	-	-	-	(415 671)	-	-	(415 671)	-	(415 671)
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	3 434	3 434
Total transactions with owners	**-**	**-**	**-**	**(415 671)**	**-**	**-**	**(415 671)**	**3 434**	**(412 237)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	109 648	(109 648)	-	-	-	-
Balance at 31 December 2017	**22 785**	**153 924**	**(1 407)**	**1 766 435**	**1 578 260**	**(515 989)**	**3 004 008**	**6 923**	**3 010 931**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

’000 RUB	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury share reserve**	**Retained earnings**	**Reserves**	**Cumulative currency translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2016	**596 313**	**4 594 608**	**(47 842)**	**42 071 355**	**87 665 749**	**324 436**	**135 204 619**	**55 731**	**135 260 350**
Total comprehensive income for the period									
Profit for the period	-	-	-	25 587 319	-	-	25 587 319	(103 573)	25 483 746
Other comprehensive income/(loss)									
Foreign currency translation difference - foreing operation	-	-	-	-	-	(272 118)	(272 118)	57 524	(214 594)
Net change in fair value of available-for-sale financial assets	-	-	-	-	34 487	-	34 487	-	34 487
Revaluation of property, plant and equipment	-	-	-	-	4 270 055	-	4 270 055	-	4 270 055
Defined benefit plan revaluation	-	-	-	-	(91 257)	-	(91 257)	-	(91 257)
Equity-accounted investees – share of other comprehensive income	-	-	-	-	477 734	-	477 734	-	477 734
Income tax on other comprehensive income	-	-	-	-	(562 664)	221 976	(340 688)	-	(340 688)
Total other comprehensive income/(loss)	-	-	-	-	4 128 355	(50 142)	4 078 213	57 524	4 135 737
Total comprehensive income for the period	**-**	**-**	**-**	**25 587 319**	**4 128 355**	**(50 142)**	**29 665 532**	**(46 049)**	**29 619 483**
Dividends	-	-	-	(14 686 004)	-	-	(14 686 004)	-	(14 686 004)
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	24 064	24 064
Equity-accounted investees – change in capital	-	-	-	(6 177)	-	-	(6 177)	-	(6 177)
Total transactions with owners	**-**	**-**	**-**	**(14 692 181)**	**-**	**-**	**(14 692 181)**	**24 064**	**(14 668 117)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	13 153 962	(13 153 962)	-	-	-	-
Balance at 31 December 2016	**596 313**	**4 594 608**	**(47 842)**	**66 120 455**	**78 640 142**	**274 294**	**150 177 970**	**33 746**	**150 211 716**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

'000 RUB	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury share reserve**	**Retained earnings**	**Reserves**	**Cumulative currency 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	-	-	-	12 847 193	-	-	12 847 193	(21 066)	12 826 127
Other comprehensive income/(loss)									
Foreign currency translation difference - foreing operation	-	-	-	-	-	139	139	12 859	12 998
Net change in fair value of available-for-sale financial assets	-	-	-	-	(839 194)	-	(839 194)	-	(839 194)
Revaluation of property, plant and equipment	-	-	-	-	42 708 423	-	42 708 423	-	42 708 423
Defined benefit plan revaluation	-	-	-	-	5 800	-	5 800	-	5 800
Equity-accounted investees – share of other comprehensive income	-	-	-	-	(72 830)	-	(72 830)	-	(72 830)
Income tax on other comprehensive income	-	-	-	-	(7 848 514)	-	(7 848 514)	-	(7 848 514)
Total other comprehensive income/(loss)	-	-	-	-	33 953 685	139	33 953 824	12 859	33 966 683
Total comprehensive income for the period	**-**	**-**	**-**	**12 847 193**	**33 953 685**	**139**	**46 801 017**	**(8 207)**	**46 792 810**
Dividends	-	-	-	(23 774 788)	-	-	(23 774 788)	-	(23 774 788)
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	200 409	200 409
Total transactions with owners	**-**	**-**	**-**	**(23 774 788)**	**-**	**-**	**(23 774 788)**	**200 409**	**(23 574 379)**
Write-off of revaluation reserve of property, plant and equipment due to disposal and depreciation	-	-	-	6 398 264	(6 398 264)	-	-	-	-
Balance at 31 December 2017	**596 313**	**4 594 608**	**(47 842)**	**61 591 124**	**106 195 563**	**274 433**	**173 204 199**	**225 948**	**173 430 147**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

	Note	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Cash flows from operating activities					
Profit before income tax		303 482	450 148	17 709 106	30 175 683
Adjustments for:					
Depreciation and amortization	7	286 818	172 802	16 736 667	11 583 743
Impairment loss of property, plant and equipment	14	6 106	18 471	356 304	1 238 195
Impairment loss/(reversal) of accounts receivable	7(c)	3 322	(2 684)	193 873	(179 942)
Impairment loss/(reversal) of intangible assets	15	7 488	(7 382)	436 942	(494 870)
Share in profit of equity accounted investees	17	(1 449)	(54)	(84 549)	(3 622)
Interest income	8	(39 902)	(27 049)	(2 328 403)	(1 813 200)
Foreign currency translation gain		(9 291)	(48 178)	(606 818)	(3 609 055)
Interest expenses	8	41 842	35 673	2 441 590	2 391 330
(Reversal of loss)/loss of inventory obsolescence)	7(a)	(2 164)	1 058	(126 286)	70 893
Loss on disposal of property, plant and equipment		8 492	17 150	495 533	1 149 644
Pension cost	7(a)	4 124	3 460	240 623	231 921
Operating profit before changes in working capital and other long-term liabilities		**608 868**	**613 415**	**35 464 582**	**40 740 720**
Changes in:					
Trade and other receivables		28 373	10 828	1 653 039	725 854
Advances to suppliers		8 975	3 899	523 724	261 428
Inventories		8 035	(32 471)	468 851	(2 176 629)
Trade and other payables, advances received and other taxes payable		(3 978)	75 624	(232 173)	5 069 424
Other current assets		736	464	42 932	31 104
Other long-term liabilities		(844)	(272)	(49 265)	(18 222)
Cash flows from operations before income taxes and interest paid		**650 165**	**671 487**	**37 871 690**	**44 633 679**
Income taxes paid		(82 508)	(94 840)	(4 814 588)	(6 357 612)
Interest paid		(40 689)	(37 847)	(2 374 332)	(2 537 089)
Net cash from operating activities		**526 968**	**538 800**	**30 682 770**	**35 738 978**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

	Note	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Cash flows from investing activities					
Purchases of property, plant and equipment, including advances	14	(145 679)	(134 341)	(8 498 259)	(9 005 416)
Purchases of intangible assets	15	(2 634)	(24)	(153 716)	(1 589)
Proceeds from disposal of property, plant and equipment		13 476	8 717	786 348	584 214
Loans provided and acquisition of other investments		(364 861)	(15 339)	(21 290 739)	(1 028 255)
Proceeds from disposal of investments		139 048	7 120	8 113 857	477 344
Interest received		37 884	24 051	2 210 657	1 641 497
Net cash used in investing activities		**(322 766)**	**(109 816)**	**(18 831 852)**	**(7 332 205)**
Cash flows from financing activities					
Dividends paid to shareholders		(407 035)	(219 113)	(23 751 698)	(14 688 250)
Proceeds from treasury shares disposal		1 600	1 562	93 365	104 704
Proceeds from borrowings		1 219 411	956 869	71 156 204	64 143 634
Repayment of borrowings		(856 193)	(1 049 962)	(49 961 368)	(70 384 106)
Net cash used in financing activities		**(42 217)**	**(310 644)**	**(2 463 497)**	**(20 824 018)**
Effect of exchange rate changes on cash and cash equivalents		6 513	10 569	(1 632 136)	(5 987 967)
Net increase in cash and cash equivalents		**168 498**	**128 909**	**7 755 285**	**1 594 788**
Cash and cash equivalents at the beginning of the year	21	**638 029**	**509 120**	**38 700 845**	**37 106 057**
Cash and cash equivalents at the end of the period	21	**806 527**	**638 029**	**46 456 130**	**38 700 845**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 70.

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.

The Company and its subsidiaries form a vertically integrated group.

As at 31 December 2017, 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 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 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.

The following is summarized financial information of Ukrainian subsidiaries as at and for the years ended 31 December 2017 and 31 December 2016:

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Revenue	25 281	25 545	1 475 238	1 712 388
Net profit/loss	(3 664)	(4 369)	(213 806)	(292 888)
Non-current assets	25 688	25 740	1 479 651	1 561 282
Current assets	16 160	18 155	930 815	1 101 252
Non-current liabilities	(1 559)	(1 639)	(89 793)	(99 439)
Current liabilities	(57 263)	(55 952)	(3 298 337)	(3 393 892)
Net assets	**(16 974)**	**(13 696)**	**(977 664)**	**(830 797)**

2. Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

3. Functional and presentation currency

The functional currency of the Company and the majority of its subsidiaries is considered to be the Russian Rouble (“RUB”). The functional currency of Cyprus based company “Limpieza” Ltd and Ukrainian based companies LLC “Demurinsky Ore-dressing Plant” and LLC “VSMPO Titan Ukraine” is the Ukrainian Hryvna.

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated into presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at average exchange rates; and
- all resulting exchange differences shall be recognised in other comprehensive income.

The accompanying consolidated financial statements have been prepared using the US Dollar (“USD”) and Russian Ruble (“RUB”) as the Group’s presentation currencies. All amounts in the consolidated financial statements are presented in thousands of USD and thousands of RUB, unless otherwise stated.

4. Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 14 – Property, plant and equipment;
- Note 15 – Intangible assets;

- Note 26(b)(i) – Credit risk.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 14 – Property, plant and equipment (related to fair value of property, plant and equipment and useful lives);
- Note 15 – Intangible assets (related to impairment of intangible assets).

Measurement of fair values

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

The Group involves independent appraiser if complex calculations of fair value are required. Key assumptions used in valuations are agreed with by the management of the Group.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 14 – Property, plant and equipment;
- Note 26 – Financial instruments.

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. Sales are based on the geographical area in which the customer is located. Production assets and the majority of assets and liabilities of the Group are located in the Russian Federation.

Revenue	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Europe	483 664	433 795	28 223 228	29 079 392
North America	443 315	420 211	25 868 731	28 168 805
Russia	424 394	345 342	24 764 633	23 149 961
Asia	144 109	121 370	8 409 212	8 136 026
Other CIS countries	12 239	13 037	714 142	873 932
	1 507 721	**1 333 755**	**87 979 946**	**89 408 116**

The Group has revenue from one customer amounting to 10% or more of total revenue in the amount of approximately USD 276 million or RUB 16 078 million (2016: USD 222 million or RUB 14 898 million). Furthermore, revenue to parties under Government control is disclosed in Note 31.

6. Revenue

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Revenue from sales of goods	1 477 720	1 316 220	86 229 283	88 232 642
Revenue from services provided	29 771	16 604	1 737 206	1 113 028
Other revenue	230	931	13 457	62 446
	1 507 721	**1 333 755**	**87 979 946**	**89 408 116**

7. Income and expenses

(a) Cost of sales

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Materials and consumables used	(322 342)	(233 596)	(18 809 659)	(15 659 077)
Depreciation	(266 955)	(146 708)	(15 577 613)	(9 834 525)
Personnel cost	(145 860)	(122 130)	(8 511 334)	(8 186 990)
Utilities	(116 380)	(88 461)	(6 791 137)	(5 929 993)
Social insuarance costs	(43 954)	(36 463)	(2 564 871)	(2 444 275)
Repairs and maintenance	(24 709)	(20 814)	(1 441 814)	(1 395 252)
Semi-product processing services	(13 910)	(13 019)	(811 699)	(872 722)
Pension cost	(4 124)	(3 460)	(240 623)	(231 921)
Provision for inventory obsolescence	2 164	(1 058)	126 286	(70 893)
Other costs	(20 490)	(20 011)	(1 195 642)	(1 341 488)
	(956 560)	**(685 720)**	**(55 818 106)**	**(45 967 136)**

(b) Distribution expenses

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Personnel cost	(9 377)	(8 289)	(547 184)	(555 639)
Transport	(7 874)	(9 288)	(459 473)	(622 604)
Materials	(6 299)	(5 045)	(367 551)	(338 171)
Certification expenses	(3 105)	(1 536)	(181 214)	(102 964)
Advertising expenses	(1 544)	(1 293)	(90 079)	(86 675)
Social insuarance costs	(1 166)	(887)	(68 022)	(59 480)
Customs	(133)	(535)	(7 768)	(35 854)
Other	(5 694)	(6 175)	(332 262)	(413 955)
	(35 192)	**(33 048)**	**(2 053 553)**	**(2 215 342)**

(c) General and administrative expenses

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Personnel cost	(82 382)	(67 878)	(4 807 233)	(4 550 185)
Insurance	(23 284)	(21 451)	(1 358 683)	(1 437 980)
Depreciation	(19 863)	(26 094)	(1 159 054)	(1 749 218)
Social insuarance costs	(17 720)	(14 188)	(1 034 023)	(951 119)
Charity expenses	(10 069)	(9 886)	(587 554)	(662 688)
Taxes other than income tax	(8 667)	(5 241)	(505 732)	(351 313)
Repair and maintenance	(6 259)	(6 528)	(365 232)	(437 579)
Consulting expenses	(4 706)	(4 833)	(274 603)	(323 963)
Change in trade and other receivables impairment provision	(3 322)	2 684	(193 873)	179 942
Materials	(2 503)	(4 885)	(146 034)	(327 456)
Accrual of provisions	-	(93)	-	(6 238)
Other expenses	(29 191)	(17 904)	(1 703 400)	(1 200 235)
	(207 966)	**(176 297)**	**(12 135 421)**	**(11 818 032)**

8. Net finance income

Finance income	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Interest income	39 902	27 049	2 328 403	1 813 200
Foreign currency exchange gain, net	18 056	48 267	1 053 657	3 235 554
Finance income	**57 958**	**75 316**	**3 382 060**	**5 048 754**
Finance costs				
Interest expenses	(41 842)	(35 673)	(2 441 590)	(2 391 330)
Finance costs	**(41 842)**	**(35 673)**	**(2 441 590)**	**(2 391 330)**

9. Earnings per share

The calculation of earnings per share is based on the profit for the year and weighted average number of ordinary shares outstanding during the year, 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	2017	2016
Issued shares as at 1 January	11 523 801	11 523 801
Effect of treasury shares owned	-	-
Weighted average number of shares for the year ended 31 December	11 523 801	11 523 801
'000 USD	**2017**	**2016**
Weighted average number of shares for the year ended 31 December	11 523 801	11 523 801
Profit attributable to the equity holders of the Company ('000 USD)	220 163	381 701
Basic earnings per share (USD per 1 share)	19,105	33,123
'000 RUB	**2017**	**2016**
Weighted average number of shares for the year ended 31 December	11 523 801	11 523 801
Profit attributable to the equity holders of the Company ('000 RUB)	12 847 193	25 587 319
Basic earnings per share (RUB per 1 share)	1 114,840	2 220,389

10. Employee benefits

The post employment and post retirement program of the Company consists of lump-sum benefits upon death and retirement, an occupational pension plan and additional support provided by the Company to its retired employees. The pension benefits are dependent on participants' past service. The lump sum benefits upon retirement are based on the monthly base wage and are further dependent on a participant's past service at retirement.

The defined benefit pension plan provides an old age retirement pension and disability pension.

Such post employment, post retirement and pension plans are not tax deductible under Russian tax rules and the Company does not recognize any deferred tax assets related to defined benefit obligation.

The last independent actuarial valuation of pension and other post employment and post retirement benefits for the purpose of IFRS financial statements preparation was performed in March 2018 with a valuation date of 31 December 2017. For the purposes of that valuation, census data as at the valuation date was collected for the Company.

(a) Movement in net defined benefit liability

The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit liability and its components.

	Defined benefit obligation	
'000 USD	**2017**	**2016**
Balance as at 1 January	**33 013**	**25 456**
Included in profit or loss		
Current service cost	1 207	830
Interest cost	2 917	2 630
	4 124	**3 460**
Included in other comprehensive income		
Remeasurements loss/(gain):		
- Actuarial (gain)/loss	(99)	1 361
	(99)	**1 361**
Other		
Benefits paid	(3 102)	(2 625)
Cumulative translation adjustment	1 763	5 361
	(1 339)	**2 736**
Balance as at 31 December	**35 699**	**33 013**

	Defined benefit obligation	
'000 RUB	**2017**	**2016**
Balance as at 1 January	**2 002 446**	**1 855 268**
Included in profit or loss		
Current service cost	70 415	55 670
Interest cost	170 208	176 251
	240 623	**231 921**
Included in other comprehensive income		
Remeasurements loss/(gain):		
- Actuarial (gain)/loss	(5 800)	91 257
	(5 800)	**91 257**
Other		
Benefits paid	(181 000)	(176 000)
	(181 000)	**(176 000)**
Balance as at 31 December	**2 056 269**	**2 002 446**

(b) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2017	2016
Discount rate	7,50%	8,50%
Future salary growth	4,00%	5,00%
Future pension growth	5,00%	5,00%
Staff turnover	up to age 49: 5% p.a. from age 50: 0% p.a.	up to age 49: 5% p.a. from age 50: 0% p.a.
Mortality	Sverdlovsk region population 2016	Sverdlovsk region population 2015

Assumptions regarding future mortality have been based on published statistics and mortality tables.

(c) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts are provided below:

31 December 2017	**Defined benefit obligation**	
'000 USD	**Increase**	**Decrease**
Discount rate (1% movement)	(3 206)	3 837
Future salary (1% movement)	3 921	(3 322)

31 December 2017	**Defined benefit obligation**	
'000 RUB	**Increase**	**Decrease**
Discount rate (1% movement)	(184 679)	221 004
Future salary (1% movement)	225 836	(191 319)

11. Employee benefit expenses

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Wages and salaries, social insuarance costs	(300 459)	(249 835)	(17 532 667)	(16 747 688)
Pension cost	(4 124)	(3 460)	(240 623)	(231 921)
	(304 583)	**(253 295)**	**(17 773 290)**	**(16 979 609)**

12. Income tax expense

The Company applied 18,37% tax rate for income tax in 2017 (2016: 17,46%). Other Russian subsidiaries applied 20% tax rate for income tax in 2017 (2016: 20%).

(a) Amounts recognised in profit or loss

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Current tax expense				
Current period	(85 644)	(95 375)	(4 997 651)	(6 393 495)
(Under)/over provided in prior periods	(318)	533	(18 529)	35 718
	(85 962)	**(94 842)**	**(5 016 180)**	**(6 357 777)**
Deferred tax expense				
Origination and reversal of temporary differences	2 282	24 850	133 201	1 665 840
	(83 680)	**(69 992)**	**(4 882 979)**	**(4 691 937)**

(b) Amounts recognised in other comprehensive income

'000 USD	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Translation to presentation currency	137 055	-	137 055	399 407	-	399 407
Foreign currency translation differences	223	-	223	(3 201)	3 641	440
Net change in fair value of available-for-sale financial assets	(14 381)	-	(14 381)	514	(103)	411
Revaluation of property, plant and equipment	741 463	(136 511)	604 952	70 397	(7 587)	62 810
Defined benefit plan revaluation	99	-	99	(1 361)	-	(1 361)
Equity-accounted investees – share of other comprehensive income	(1 248)	250	(998)	7 127	(1 425)	5 702
	863 211	**(136 261)**	**726 950**	**472 883**	**(5 474)**	**467 409**

'000 RUB	2017			2016		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Foreign currency translation differences	12 998	-	12 998	(214 594)	221 976	7 382
Net change in fair value of available-for-sale financial assets	(839 194)	-	(839 194)	34 487	(6 897)	27 590
Revaluation of property, plant and equipment	42 708 423	(7 863 080)	34 845 343	4 270 055	(460 220)	3 809 835
Defined benefit plan revaluation	5 800	-	5 800	(91 257)	-	(91 257)
Equity-accounted investees – share of other comprehensive income	(72 830)	14 566	(58 264)	477 734	(95 547)	382 187
	41 815 197	**(7 848 514)**	**33 966 683**	**4 476 425**	**(340 688)**	**4 135 737**

Reconciliation of effective tax rate:

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Profit before income tax	303 482	450 148	17 709 106	30 175 683
Income tax at applicable tax rate	(55 750)	(78 596)	(3 253 163)	(5 268 674)
Effect of income taxed at different rates	(4 108)	248	(239 751)	16 599
Effect of non-taxable income/(non-deductible expenses)	(8 817)	7 823	(514 503)	524 420
Write-off of previously recognized deferred tax assets	(14 687)	-	(857 033)	-
(Under)/over provided in prior years	(318)	533	(18 529)	35 718
	(83 680)	**(69 992)**	**(4 882 979)**	**(4 691 937)**

(c) Movement in deferred tax balances

'000 USD	1 January 2017	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2017		
					Net deferred balances	Deferred tax asset	Deferred tax liability
Property, plant and equipment	(304 003)	7 662	(136 511)	(16 037)	(448 889)	796	(449 685)
Intangible assets	2 040	(3 660)	-	209	(1 411)	202	(1 613)
Inventories	7 270	7 948	-	490	15 708	36 650	(20 942)
Trade and other receivables	4 284	(2 331)	-	197	2 150	2 269	(119)
Trade and other payables	933	11	-	50	994	1 021	(27)
Investments	3 138	(12 957)	250	(1)	(9 570)	13	(9 583)
Tax loss carry-forwards	23	3	-	2	28	28	-
Borrowings	(1 903)	(210)	-	(104)	(2 217)	-	(2 217)
Other items	(5 605)	5 816	-	(221)	(10)	265	(275)
Total deferred tax balances	**(293 823)**	**2 282**	**(136 261)**	**(15 415)**	**(443 217)**	**41 244**	**(484 461)**
Set-off of tax					**-**	**(38 841)**	**38 841**
Net deferred tax balances					**(443 217)**	**2 403**	**(445 620)**

'000 USD	1 January 2016	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2016		
					Net deferred balances	Deferred tax asset	Deferred tax liability
Property, plant and equipment	(285 081)	41 739	(7 587)	(53 074)	(304 003)	1 026	(305 029)
Intangible assets	2 657	(1 364)	-	747	2 040	3 713	(1 673)
Inventories	28 551	(24 463)	-	3 182	7 270	40 343	(33 073)
Trade and other receivables	2 785	848	-	651	4 284	4 596	(312)
Trade and other payables	4 089	(3 602)	-	446	933	949	(16)
Investments	(4 141)	5 559	2 113	(393)	3 138	9 267	(6 129)
Tax loss carry-forwards	249	(249)	-	23	23	23	-
Borrowings	(1 072)	(556)	-	(275)	(1 903)	-	(1 903)
Other items	(11 101)	6 938	-	(1 442)	(5 605)	4 467	(10 072)
Total deferred tax balances	**(263 064)**	**24 850**	**(5 474)**	**(50 135)**	**(293 823)**	**64 384**	**(358 207)**
Set-off of tax					**-**	**(64 084)**	**64 084**
Net deferred tax balances					**(293 823)**	**300**	**(294 123)**

'000 RUB	1 January 2017	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2017		
					Net deferred balances	Deferred tax asset	Deferred tax liability
Property, plant and equipment	(18 439 891)	447 117	(7 863 080)	(260)	(25 856 114)	45 850	(25 901 964)
Intangible assets	123 754	(213 567)	-	8 553	(81 260)	11 661	(92 921)
Inventories	440 977	463 781	-	-	904 758	2 111 020	(1 206 262)
Trade and other receivables	259 848	(136 001)	-	-	123 847	130 709	(6 862)
Trade and other payables	56 577	645	-	-	57 222	58 785	(1 563)
Investments	190 315	(756 074)	14 566	-	(551 193)	776	(551 969)
Tax loss carry-forwards	1 421	194	-	-	1 615	1 615	-
Borrowings	(115 426)	(12 268)	-	-	(127 694)	-	(127 694)
Other items	(339 945)	339 374	-	-	(571)	15 254	(15 825)
Total deferred tax balances	**(17 822 370)**	**133 201**	**(7 848 514)**	**8 293**	**(25 529 390)**	**2 375 670**	**(27 905 060)**
Set-off of tax					**-**	**(2 237 269)**	**2 237 269**
Net deferred tax balances					**(25 529 390)**	**138 401**	**(25 667 791)**

'000 RUB	1 January 2016	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2016 Net deferred balances	Deferred tax asset	Deferred tax liability
Property, plant and equipment	(20 777 490)	2 797 962	(460 220)	(143)	(18 439 891)	62 240	(18 502 131)
Intangible assets	193 631	(91 407)	-	21 530	123 754	225 228	(101 474)
Inventories	2 080 882	(1 639 905)	-	-	440 977	2 447 090	(2 006 113)
Trade and other receivables	202 986	56 862	-	-	259 848	278 775	(18 927)
Trade and other payables	298 045	(241 468)	-	-	56 577	57 562	(985)
Investments	(301 841)	372 624	119 532	-	190 315	562 104	(371 789)
Tax loss carry-forwards	18 115	(16 694)	-	-	1 421	1 421	-
Borrowings	(78 154)	(37 272)	-	-	(115 426)	-	(115 426)
Other items	(809 021)	465 138	-	3 938	(339 945)	270 912	(610 857)
Total deferred tax balances	**(19 172 847)**	**1 665 840**	**(340 688)**	**25 325**	**(17 822 370)**	**3 905 332**	**(21 727 702)**
Set-off of tax					**-**	**(3 887 116)**	**3 887 116**
Net deferred tax balances					**(17 822 370)**	**18 216**	**(17 840 586)**

As at 31 December 2017, deferred tax liabilities for temporary differences (before calculating tax effect) of USD 463 294 thousand or RUB 26 685 836 thousand (2016: USD 422 148 thousand or RUB 25 606 185 thousand) related to investments in subsidiaries were not recognized because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

13. 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:

	Note	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Operating profit		299 511	421 540	17 477 333	28 257 962
Adjustments for:					
- Depreciation	14	286 517	172 553	16 719 078	11 567 022
- Amortisation	15	301	249	17 589	16 721
EBITDA		**586 329**	**594 342**	**34 214 000**	**39 841 705**

14. Property, plant and equipment

’000 USD	Buildings and construc-tions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
Cost							
Balance at 1 January 2016	760 013	3 327 409	117 879	126 511	41 825	207 172	4 580 809
Additions	75	23 147	266	13	840	114 886	139 227
Transfers	31 638	113 762	1 072	287	3 093	(149 852)	-
Disposals	(965)	(65 500)	(2 465)	(452)	(1 146)	(586)	(71 114)
Revaluation	28 548	(269 086)	(22 423)	5 947	(2 852)	590	(259 276)
Translation to presentation currency	153 803	672 124	23 581	25 485	7 876	38 078	920 947
Balance at 31 December 2016	**973 112**	**3 801 856**	**117 910**	**157 791**	**49 636**	**210 288**	**5 310 593**
Accumulated depreciation							
Balance at 1 January 2016	(503 156)	(1 902 534)	(21 650)	(76 652)	(26 445)	-	(2 530 437)
Depreciation charge	(20 298)	(268 158)	(8 472)	(7 266)	(6 063)	-	(310 257)
Impairment losses	(4 302)	(10 899)	(89)	(83)	(976)	(2 122)	(18 471)
Disposals	719	41 900	1 601	241	786	-	45 247
Revaluation	(3 027)	330 100	(2 493)	382	4 711	-	329 673
Translation to presentation currency	(103 961)	(407 420)	(5 071)	(16 197)	(5 526)	(223)	(538 398)
Balance at 31 December 2016	**(634 025)**	**(2 217 011)**	**(36 174)**	**(99 575)**	**(33 513)**	**(2 345)**	**(3 022 643)**
Net book value							
Balance at 1 January 2016	**256 857**	**1 424 875**	**96 229**	**49 859**	**15 380**	**207 172**	**2 050 372**
Balance at 31 December 2016	**339 087**	**1 584 845**	**81 736**	**58 216**	**16 123**	**207 943**	**2 287 950**
Cost							
Balance at 1 January 2017	973 112	3 801 856	117 910	157 791	49 636	210 288	5 310 593
Additions	1 619	20 168	1 500	3	1 330	121 093	145 713
Transfers	36 406	75 000	4 234	6 015	3 112	(124 767)	-
Disposals	(2 095)	(64 916)	(3 091)	(936)	(1 935)	(11 160)	(84 133)
Revaluation	18 152	133 733	27	4 221	(500)	10 705	166 338
Translation to presentation currency	51 630	201 222	6 243	8 440	2 604	10 687	280 826
Balance at 31 December 2017	**1 078 824**	**4 167 063**	**126 823**	**175 534**	**54 247**	**216 846**	**5 819 337**
Accumulated depreciation							
Balance at 1 January 2017	(634 025)	(2 217 011)	(36 174)	(99 575)	(33 513)	(2 345)	(3 022 643)
Depreciation charge	(23 779)	(153 994)	(8 751)	(6 859)	(5 876)	-	(199 259)
Impairment losses	(1 943)	(4 313)	(12)	(84)	(411)	657	(6 106)
Disposals	1 068	56 933	1 821	671	1 672	-	62 165
Revaluation	139 584	426 759	2 654	2 230	3 898	-	575 125
Translation to presentation currency	(33 856)	(118 813)	(1 993)	(5 366)	(1 802)	(112)	(161 942)
Balance at 31 December 2017	**(552 951)**	**(2 010 439)**	**(42 455)**	**(108 983)**	**(36 032)**	**(1 800)**	**(2 752 660)**
Net book value							
Balance at 1 January 2017	**339 087**	**1 584 845**	**81 736**	**58 216**	**16 123**	**207 943**	**2 287 950**
Balance at 31 December 2017	**525 873**	**2 156 624**	**84 368**	**66 551**	**18 215**	**215 046**	**3 066 677**

'000 RUB	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
Cost							
Balance at 1 January 2016	55 391 855	242 510 544	8 591 365	9 220 469	3 048 318	15 099 251	333 861 802
Additions	5 053	1 551 611	17 812	897	56 290	7 701 309	9 332 972
Transfers	2 120 864	7 625 994	71 889	19 271	207 326	(10 045 344)	-
Disposals	(64 633)	(4 390 756)	(165 241)	(30 270)	(76 810)	(39 291)	(4 767 001)
Revaluation	1 731 644	(16 321 905)	(1 360 133)	360 718	(173 018)	35 759	(15 726 935)
Translation to presentation currency	(158 803)	(366 672)	(3 628)	-	(51 317)	3 665	(576 755)
Balance at 31 December 2016	**59 025 980**	**230 608 816**	**7 152 064**	**9 571 085**	**3 010 789**	**12 755 349**	**322 124 083**
Accumulated depreciation							
Balance at 1 January 2016	(36 671 358)	(138 661 806)	(1 577 946)	(5 586 623)	(1 927 403)	-	(184 425 136)
Depreciation charge	(1 360 663)	(17 975 961)	(567 905)	(487 098)	(406 425)	-	(20 798 052)
Impairment losses	(288 404)	(730 576)	(5 954)	(5 561)	(65 432)	(142 268)	(1 238 195)
Disposals	48 218	2 808 776	107 331	16 153	52 665	-	3 033 143
Revaluation	(183 602)	20 022 817	(151 195)	23 197	285 773	-	19 996 990
Translation to presentation currency	(2 178)	59 752	1 485	-	28 037	-	87 096
Balance at 31 December 2016	**(38 457 987)**	**(134 476 998)**	**(2 194 184)**	**(6 039 932)**	**(2 032 785)**	**(142 268)**	**(183 344 154)**
Net book value							
Balance at 1 January 2016	**18 720 497**	**103 848 738**	**7 013 419**	**3 633 846**	**1 120 915**	**15 099 251**	**149 436 666**
Balance at 31 December 2016	**20 567 993**	**96 131 818**	**4 957 880**	**3 531 153**	**978 004**	**12 613 081**	**138 779 929**
Cost							
Balance at 1 January 2017	59 025 980	230 608 816	7 152 064	9 571 085	3 010 789	12 755 349	322 124 083
Additions	94 454	1 176 890	87 526	179	77 604	7 066 154	8 502 807
Transfers	2 124 393	4 376 492	247 079	350 983	181 588	(7 280 535)	-
Disposals	(122 259)	(3 788 030)	(180 384)	(54 540)	(112 917)	(651 246)	(4 909 376)
Revaluation	1 045 558	7 703 130	1 529	243 112	(28 787)	616 591	9 581 133
Translation to presentation currency	(27 658)	(53 462)	(2 704)	-	(3 620)	(15 962)	(103 406)
Balance at 31 December 2017	**62 140 468**	**240 023 836**	**7 305 110**	**10 110 819**	**3 124 657**	**12 490 351**	**335 195 241**
Accumulated depreciation							
Balance at 1 January 2017	(38 457 987)	(134 476 998)	(2 194 184)	(6 039 932)	(2 032 785)	(142 268)	(183 344 154)
Depreciation charge	(1 387 598)	(8 986 021)	(510 629)	(400 233)	(342 816)	-	(11 627 297)
Impairment losses	(113 399)	(251 712)	(684)	(4 889)	(23 976)	38 356	(356 304)
Disposals	62 338	3 322 197	106 232	39 183	97 545	-	3 627 495
Revaluation	8 040 046	24 581 381	152 869	128 470	224 524	-	33 127 290
Translation to presentation currency	6 496	9 409	1 004	-	2 046	-	18 955
Balance at 31 December 2017	**(31 850 104)**	**(115 801 744)**	**(2 445 392)**	**(6 277 401)**	**(2 075 462)**	**(103 912)**	**(158 554 015)**
Net book value							
Balance at 1 January 2017	**20 567 993**	**96 131 818**	**4 957 880**	**3 531 153**	**978 004**	**12 613 081**	**138 779 929**
Balance at 31 December 2017	**30 290 364**	**124 222 092**	**4 859 718**	**3 833 418**	**1 049 195**	**12 386 439**	**176 641 226**

Depreciation expense of USD 266 955 thousand or RUB 15 577 613 thousand (2016: USD 146 708 thousand or RUB 9 834 525 thousand) has been charged to cost of sales and USD 19 562 thousand or RUB 1 141 465 thousand (2016: USD 25 845 thousand or RUB 1 732 497 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 31 December 2017 in the amount of USD 127 780 thousand or RUB 7 534 908 thousand (2016: USD 188 374 thousand or RUB 12 626 689 thousand)).

In 2017, the Group completed a significant phase of its investment program and is at the stage of investment planning for the future. As a result of this process, the Group carried out annual analysis of property, plant and equipment useful lives in accordance with the requirements of IAS 16. The analysis was conducted with the assistance of an independent appraiser. As a result of the analysis, the useful lives were revised. Determination of useful lives is an estimate and its revision is applied prospectively in accordance with IAS 8. The amount of depreciation in 2017 amounted to USD 199 259 thousand or RUB 11 627 297 thousand. The amount of depreciation using useful lives before the revision would have been USD 366 744 thousand or RUB 21 266 170 thousand. Calculation of the effect for subsequent periods is practically not feasible.

(a) Revaluation of property, plant and equipment

The Group's management employed independent appraiser to determine fair value of property, plant and equipment except for land as at 31 December 2017.

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales of comparable property, plant and equipment for using a market-based approach for determining fair value.

Consequently the fair value of property, plant and equipment was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Depreciated replacement cost was estimated based on internal sources and analysis of the Russian and international markets for similar property, plant and equipment. Various market data were collected from published information, catalogues, statistical data, etc. and industry experts and suppliers of property, plant and equipment were contacted both in the Russian Federation and abroad.

In addition to the determination of the depreciated replacement cost, cash flow testing was conducted. As a result depreciated replacement cost values were not decreased.

The following key assumptions were used in performing the cash flow testing:

- Cash flows were projected based on actual operating results for 2017 and budgets for 2018-2022. Budgets for 2018 – 2022 are based on concluded contracts, which allow forecast for a period of five years. During the mentioned period the Group's management plans to maintain levels of titan production at the level of previous years;
- EBITDA was projected at the level historically achieved by the Group;
- Capital expenditures for 2018 were projected based on the Group's investment program. Capital expenditures for 2018-2022 ranged from 5,7% to 4,0% of the Group's forecasted revenue. In the terminal period the amount of capital expenditures equalled to 4,9% of the terminal period forecasted revenue, which is comparable with the annual physical depreciation calculated on the basis of replacement cost;
- The forecasted USD exchange rates range from 58,5 roubles per dollar in 2018 to 66,8 roubles per dollar in 2022. In the terminal period the forecasted USD exchange rate is 67,8 roubles per dollar;
- The forecasted rates of ruble inflation were: in 2018 – 3,9%; in 2019 – 2022 – range from 4,3% to 4,7%, in the terminal period – 3,5%;
- The forecasted rates of dollar inflation were: in 2018 – 2,2%; in 2019 – 2,3%; in 2020 – 1,3%; in 2021 – 1,8%; in 2022 – 1,9%; in the terminal period – 1,9%;
- An after tax discount rate of 12,1% was applied to discount projected cash flows for the whole period;
- Discount rate was estimated based on an industry weighted average cost of capital, which applied a possible debt leveraging of 31% at a market borrowing rate of 6,1%;
- A terminal rate of 3,5% was considered in estimating the terminal value.

The values assigned to the key assumptions represent management’s assessment of future trends in the industry and are based on both external sources and internal sources.

The amount of discounted cash flows exceeded the carrying value of property, plant and equipment and goodwill as at 31 December 2017.

Decrease of the carrying amount of certain fixed assets in the amount of USD 6 106 thousand or RUB 356 304 thousand was recognized in the current year loss (2016: USD 18 471 thousand or RUB 1 238 195 thousand).

Increase of the carrying amount of property, plant and equipment in the amount of USD 741 463 thousand or RUB 42 708 423 thousand was recognized in other comprehensive income (2016: USD 70 397 thousand or RUB 4 270 055 thousand). The revaluation surplus is not subject to distribution to shareholders of the Group.

Information on net book value of property, plant and equipment as at 31 December 2017 should the Group continue accounting using cost model is provided below. Actual depreciation charge for 2017 is higher by USD 113 676 thousand or RUB 6 633 326 thousand (2016: USD 223 515 thousand or RUB 14 983 306 thousand) comparing to depreciation charge that would have been charged under cost model.

’000 USD	Buildings and construc-tions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
Balance at 31 December 2017	130 014	451 877	54 210	30 720	11 318	189 372	867 511

’000 RUB	Buildings and construc-tions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
Balance at 31 December 2017	7 488 780	26 028 242	3 122 503	1 769 433	651 890	10 907 946	49 968 794

(b) Security

At 31 December 2017, properties with a net book value of USD 13 133 thousand or RUB 756 455 thousand (2016: USD 2 986 thousand or RUB 181 144 thousand) are pledged to secure bank loans (see Note 24).

(c) Property, plant and equipment under construction

Advances given to suppliers for capital construction in the amount of USD 26 026 thousand or RUB 1 499 083 thousand (31 December 2016: USD 17 896 thousand or RUB 1 085 488 thousand) are included in the balance of assets under construction.

In 2017, capitalized borrowing costs related to the construction of new property, plant and equipment amounted to USD 4 785 thousand or RUB 279 228 thousand (2016: USD 4 527 thousand or RUB 303 492 thousand) with an average capitalization rate of 4,00% (2016: 4,20%).

15. Intangible assets

’000 USD	**Mining rights**	**Land lease rights**	**Other**	**Total**
Cost				
Balance at 1 January 2016	35 442	8 017	1 102	44 561
Acquisitions	21	-	3	24
Disposals	-	-	(35)	(35)
Effect of the movement of exchange rates	2 290	1 615	41	3 946
Balance at 31 December 2016	**37 753**	**9 632**	**1 111**	**48 496**
Accumulated amortization and impairment losses				
Balance at 1 January 2016	(27 706)	(270)	(850)	(28 826)
Amortization for the period	(9)	(210)	(30)	(249)
Disposals	-	-	35	35
Reversal of (impairment losses)	7 837	(455)	-	7 382
Effect of the movement of exchange rates	(1 957)	(125)	(8)	(2 090)
Balance at 31 December 2016	**(21 835)**	**(1 060)**	**(853)**	**(23 748)**
Carrying amounts				
Balance at 1 January 2016	**7 736**	**7 747**	**252**	**15 735**
Balance at 31 December 2016	**15 918**	**8 572**	**258**	**24 748**
Cost				
Balance at 1 January 2017	37 753	9 632	1 111	48 496
Acquisitions	1	2 314	319	2 634
Effect of the movement of exchange rates	807	543	(139)	1 211
Balance at 31 December 2017	**38 561**	**12 489**	**1 291**	**52 341**
Accumulated amortization and impairment losses				
Balance at 1 January 2017	(21 835)	(1 060)	(853)	(23 748)
Amortization for the period	(11)	(265)	(25)	(301)
Impairment losses	(6 614)	(874)	-	(7 488)
Effect of the movement of exchange rates	(887)	(72)	(267)	(1 226)
Balance at 31 December 2017	**(29 347)**	**(2 271)**	**(1 145)**	**(32 763)**
Carrying amounts				
Balance at 1 January 2017	**15 918**	**8 572**	**258**	**24 748**
Balance at 31 December 2017	**9 214**	**10 218**	**146**	**19 578**

'000 RUB	**Mining rights**	**Land lease rights**	**Other**	**Total**
Cost				
Balance at 1 January 2016	2 583 083	584 309	80 315	3 247 707
Acquisitions	1 379	-	210	1 589
Disposals	-	-	(2 337)	(2 337)
Effect of the movement of exchange rates	(294 572)	-	(10 789)	(305 361)
Balance at 31 December 2016	**2 289 890**	**584 309**	**67 399**	**2 941 598**
Accumulated amortization and impairment losses				
Balance at 1 January 2016	(2 019 277)	(19 698)	(61 920)	(2 100 895)
Amortization for the period	(626)	(14 108)	(1 987)	(16 721)
Disposals	-	-	2 337	2 337
Reversal of (impairment losses)	525 347	(30 477)	-	494 870
Effect of the movement of exchange rates	170 115	-	9 804	179 919
Balance at 31 December 2016	**(1 324 441)**	**(64 283)**	**(51 766)**	**(1 440 490)**
Carrying amounts				
Balance at 1 January 2016	**563 806**	**564 611**	**18 395**	**1 146 812**
Balance at 31 December 2016	**965 449**	**520 026**	**15 633**	**1 501 108**
Cost				
Balance at 1 January 2017	2 289 890	584 309	67 399	2 941 598
Acquisitions	64	135 053	18 599	153 716
Effect of the movement of exchange rates	(68 851)	-	(11 647)	(80 498)
Balance at 31 December 2017	**2 221 103**	**719 362**	**74 351**	**3 014 816**
Accumulated amortization and impairment losses				
Balance at 1 January 2017	(1 324 441)	(64 283)	(51 766)	(1 440 490)
Amortization for the period	(671)	(15 459)	(1 459)	(17 589)
Impairment losses	(385 926)	(51 016)	-	(436 942)
Effect of the movement of exchange rates	20 657	-	(12 704)	7 953
Balance at 31 December 2017	**(1 690 381)**	**(130 758)**	**(65 929)**	**(1 887 068)**
Carrying amounts				
Balance at 1 January 2017	**965 449**	**520 026**	**15 633**	**1 501 108**
Balance at 31 December 2017	**530 722**	**588 604**	**8 422**	**1 127 748**

Amortization expense for intangible assets of USD 301 thousand or RUB 17 589 thousand (2016: USD 249 thousand or RUB 16 721 thousand) has been charged to administrative expenses.

(a) "Tsentralnoe" deposit mining rights

In July 2011, the Group acquired mining rights for the development of the Northern part of the Eastern field of the "Tsentralnoe" deposit located in the Tambov region of Russia for the amount of USD 50 134 thousand or RUB 1 473 317 thousand.

This license gives the right to explore the deposits and mine ilmenite-rutile-zircon sands, which serve as the main raw material for the production of titanium sponge. The Group carried out a complex of experimental and scientific works to determine the feasibility of developing "Tsentralnoe" deposit as a source of titanium raw materials. As a result of the analysis of the work carried out, the Group concluded that the minimum possible volume of extraction of sands and the production of commercial concentrates (ilmenite, rutile, and zirconium) from which the deposit is economically feasible significantly exceeds the market demand. Overproduction of concentrates was identified as the most significant risk in the implementation of the project.

Therefore in 2017 the Group recognized the project for the extraction of ilmenite-rutile-zircon sands of "Tsentralnoe" deposit as unprofitable and decided to close the project. Therefore, the cost of the license was fully impaired, the impairment loss in 2017 amounted to USD 6 614 thousand or USD 385 926 thousand.

(b) “Volchanskoe” deposit mining rights

In July 2012, the Group acquired 75% share in Limpieza Group, which holds a license on extraction of ilmenite-zircon sands in “Volchanskoe” field in the Dnepropetrovsk region of Ukraine. The total amount of the field’s reserves are assessed at the level of 5 million tonnes of ilmenite, rutil, zircon and other minerals. The Group acquired these mining rights for USD 44 380 thousand or RUB 1 456 420 thousand. The Group commenced mining in 2016.

Before 2017, the Group recognized impairment loss in the amount of USD 18 321 thousand or RUB 520 794 thousand due to the delay in project realisation and increase of discount rate due to increased country risks.

As at 31 December 2017, the Group analyzed whether any previously accrued impairment on license for extraction on Volchansk deposit should be reversed and concluded that actual performance results of the Group on this deposit generally correspond to projections made by the management as part of impairment test as at 31 December 2016. Therefore there is no need for significant reversal or accrual of additional impairment as at 31 December 2017.

16. Goodwill

	’000 USD	’000 RUB
Balance as at 1 January 2016	**27 466**	**2 001 817**
Cumulative translation adjustment	5 536	-
Balance as at 31 December 2016	**33 002**	**2 001 817**
Balance as at 1 January 2017	**33 002**	**2 001 817**
Cumulative translation adjustment	1 752	-
Balance as at 31 December 2017	**34 754**	**2 001 817**

Impairment testing of goodwill

Goodwill was originally determined as a result of VSMPO’s acquisition of AVISMA.VSMPO’s main objectives when acquiring AVISMA were to further expand vertically as well as to ensure full control over its main provider of raw materials. The goodwill relates not only to the specifics of the business of AVISMA but largely to the synergies VSMPO, and the Group as a whole, would benefit from as a result of the business combination. Correspondingly, the goodwill is allocated to VSMPO-AVISMA, as this represents the lowest level within the Group at which the goodwill is monitored by management.

Goodwill related to acquisition of Limpieza Group was initially recognized in July 2012. The goodwill relates to the developed production technology of LLC “Demurinskiy GOK”, high quality of the ilmenite-zircon sands extracted by LLC “Demurinskiy GOK”. The Group as a whole is expected to benefit from this vertical integration and the synergies of the business combination. Correspondingly, the goodwill is allocated to VSMPO-AVISMA, as this represents the lowest level within the Group at which the goodwill is monitored by management.

The recoverable amount was determined based on value in use calculations as determined by discounting the future cash flows generated from the continuing use of the plants (Note 14).

17. Equity-accounted investees and joint operation

The Group has the following investments in equity-accounted investees:

		2017			2016		
	Country	**Carrying value '000 USD**	**Carrying value '000 RUB**	**Interest**	**Carrying value '000 USD**	**Carrying value '000 RUB**	**Interest**
LLC "Uniti"	USA	9 463	545 086	50%	9 780	593 202	50%
OJSC "Uralredmet"	Russia	15 998	921 463	25%	14 681	890 508	25%
LLC "Aviacapital Service"	Russia	17 026	980 708	27%	16 181	981 500	27%
		42 487	**2 447 257**		**40 642**	**2 465 210**	

(a) Joint ventures

LLC "Uniti"

On 29 April 2003, the Group entered into the joint arrangement with Allegheny Technologies Incorporated (ATI) to form a joint venture to engage in the marketing and sale of titanium products and conversion services. The joint venture is organized in the form of LLC "Uniti" ("Uniti"), a company registered in the United States of America. The Group's share in net assets 2017 – 50% (2016 – 50%).

In accordance with the agreement, income or losses are allocated based on the percentage interest in the goods and services provided by the partners that were included in Uniti's sales. Percentage interest is defined as the ratio of each partner's transfer price charged for all goods and services included in Uniti's cost of goods sold for reporting period.

The following is summarised financial information of Uniti as at and for 2017 and 2016:

	2017 '000 USD	**2016 '000 USD**	**2017 '000 RUB**	**2016 '000 RUB**
Non-current assets	70	104	4 032	6 308
Current assets	22 015	22 959	1 268 068	1 392 622
Current liabilities	(2 345)	(3 576)	(135 072)	(216 909)
Net assets (100%)	**19 740**	**19 487**	**1 137 028**	**1 182 021**

	2017 '000 USD	**2016 '000 USD**	**2017 '000 RUB**	**2016 '000 RUB**
Revenue	56 247	45 356	3 282 178	3 040 435
Profit and total comprehensive income for the year (100%)	**253**	**37**	**14 810**	**2 328**
Group's share of loss for the year	(317)	(633)	(18 444)	(42 406)
Dividends received by the Group	-	(3 114)	-	(208 774)

In 2017, the Group had sales to Uniti of USD 15 046 thousand or RUB 877 968 thousand (2016: USD 15 296 thousand or RUB 1 025 366 thousand).

(b) Associates

OJSC "Uralredmet"

In September 2010, the Group acquired 18,98% of shares in OJSC "Uralredmet", which is one of the key suppliers of alloys to the Group. In April 2011, the Group acquired a further 6,03% of shares in OJSC "Uralredmet" for USD 6 168 thousand or RUB 181 261 thousand. After this acquisition the Group's share in OJSC "Uralredmet" increased to 25% + 1 share and resulted in obtaining significant influence over the operating and financial activities of the company. Investments in OJSC "Uralredmet" were made by the Group to secure supplies of one of the key raw materials used in production of titanium products.

The following is summarized financial information of OJSC “Uralredmet” as at and for the year ended 31 December 2017 and 31 December 2016:

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Revenue	82 335	61 623	4 804 505	4 130 883
Profit for the year (100%)	**2 122**	**2 234**	**123 819**	**149 775**
Group’s share of profit for the year	531	559	30 955	37 444
Non-current assets	24 646	23 375	1 419 587	1 417 859
Current assets	32 321	29 294	1 861 699	1 776 885
Non-current liabilities	(3 489)	(3 430)	(200 949)	(208 052)
Current liabilities	(7 421)	(7 545)	(427 463)	(457 637)
Net assets (100%)	**46 057**	**41 694**	**2 652 874**	**2 529 055**
Group’s share of net assets (25%)	11 514	10 424	663 219	632 264

Purchases of the Group for the year ended 31 December 2017 were USD 68 018 thousand or RUB 3 969 060 thousand (2016: USD 55 562 thousand or RUB 3 724 593 thousand).

LLC “Aviacapital-Service”

In September 2014, the Group acquired 27,02% share in statutory capital of LLC “Aviacaptal-Service”. The Group converted loan issued to this company in 2012 in the amount of RUB 465 000 thousand or USD 8 265 thousand to the share in statutory capital. After this transaction, the Group obtained significant influence over the operating and financial activities of the company. LLC “Aviacapital-Service” is involved in aircraft leasing business and currently holds two active agreements for delivery of new airplanes: Boeing 737 and MC-21.

The following is summarized financial information of LLC “Aviacapital-Service” as at 31 December 2017 and 31 December 2016:

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Revenue	-	-	-	-
Profit for the period (100%)	**4 569**	**474**	**266 610**	**31 768**
Other comprehensive loss for the period (100%)	**(4 619)**	**26 375**	**(269 540)**	**1 768 077**
Movement of share premium for the period (100%)	**-**	**(341)**	**-**	**(22 861)**
Group’s share in change of net assets for the year	(14)	7 162	(792)	480 141
Non-current assets	35 964	34 143	2 071 561	2 071 027
Current assets	60 190	59 649	3 466 979	3 618 102
Non-current liabilities	(7 415)	(8 115)	(427 093)	(492 222)
Current liabilities	(23 588)	(23 760)	(1 358 692)	(1 441 222)
Net assets (100%)	**65 151**	**61 917**	**3 752 755**	**3 755 685**
Group’s share of net assets (27%)	17 604	16 730	1 013 994	1 014 786

(c) Joint operation

The Group is a 50% partner in JSC “Ural Boeing Manufacturing” (located in Verkhnyaya Salda, Russia) a joint arrangement formed with the Boeing Company to perform titanium forgings machining services. JSC “Ural Boeing Manufacturing” is separated from the parties in a legal entity. The activity of the arrangement is designed to provide the parties with substantially all output of the joint arrangement. The Group classifies the joint arrangement as a joint operation and consolidates 50% of assets and liabilities of the arrangement.

The Group is a 4,8% partner in “AlTi Forge” Sarl (Switzerland), which in turn owns 100% shares in the capital of JSC “AlTi Forge” (Samara, Russia). In accordance with shareholders agreement with

JSC “ARKONIK SMZ” the parties have joint control over the activities of these companies, since decisions on all significant activities of this joint operation require consent of both parties. The activity of this joint operation is designed to provide the parties with substantially all output of the joint arrangement. The purpose of this joint operation for the Group is to secure additional pressing facilities to increase production volumes and ensure continuity of the production process. The Group classifies the joint arrangement as a joint operation and consolidates 4,8% of assets and liabilities of the arrangement.

18. Other investments

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Non-current				
Loans receivable	67 798	50 525	3 905 171	3 064 705
Investments available-for-sale measured at fair value	114 664	1 383	6 604 669	83 863
Other investments	487	627	28 042	38 026
	182 949	**52 535**	**10 537 882**	**3 186 594**
Current				
Loans receivable	108 317	22 679	6 239 094	1 375 645
Bank deposits	257	113	14 817	6 882
	108 574	**22 792**	**6 253 911**	**1 382 527**

In December 2014, the Group issued a subordinated loan to JSC “AKB Novikombank”, which is controlled by State Corporation “Rostec”, in the amount of RUB 2 800 000 thousand or USD 59 155 thousand at the exchange rate at the date of transaction. The loan is payable in 2020. Interest rate equals to 14% fixed per annum. Interest is payable on a monthly basis. The loan is not secured. The Group estimates risks of default on this loan as low.

As at 31 December 2017, the balance sheet of the Group includes short-term loans issued to a company under ultimate beneficiary’s control in the amount of USD 100 174 thousand or RUB 5 770 070 thousand. The loans are not overdue and were repaid in 2018.

In 2017, the Group acquired shares of PSC “RusHydro” in the amount of USD 125 553 thousand or RUR 7 360 000 thousand in the quantity of 8 910 454 384 shares. The shares were purchased at market quotes. These investments were classified in the category of investments available-for-sale. The group plans to hold shares of PSC “RusHydro” to receive income from dividends and growth of quotations.

As at 31 December 2017, fair value of this securities amounted to USD 112 757 thousand or RUB 6 494 830 thousand. Difference between fair value and acquisition costs was included in other comprehensive income in the amount of USD 12 796 thousand or RUB 865 170 thousand.

19. Inventories

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Raw materials and consumables	183 469	183 926	10 567 845	11 156 396
Work in progress	131 283	167 639	7 561 950	10 168 472
Finished goods and goods for resale	330 542	350 802	19 039 245	21 278 518
	645 294	**702 367**	**37 169 040**	**42 603 386**

Inventories are shown net of provision of USD 19 193 thousand or RUB 1 105 493 thousand (31 December 2016: USD 20 307 thousand or RUB 1 231 779 thousand).

At 31 December 2017, there are no pledged inventories. At 31 December 2016, inventories with a net book value of USD 76 480 thousand or RUB 4 639 017 thousand had been pledged as security for certain bank loans of the Group, see Note 24.

20. Trade and other receivables

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Long-term trade accounts receivable	1 590	3 378	91 567	204 910
Short-term trade accounts receivable	173 731	183 291	10 006 968	11 117 838
Other accounts receivable	38 818	39 161	2 235 904	2 375 399
Less: provision	(17 326)	(16 762)	(998 004)	(1 016 709)
	196 813	**209 068**	**11 336 435**	**12 681 438**
Advances to suppliers	15 869	23 703	914 053	1 437 777
Less: provision	(714)	(1 125)	(41 102)	(68 242)
Value-added tax recoverable	18 489	21 847	1 064 952	1 325 198
Other taxes receivable	10 252	19 398	590 503	1 176 649
	240 709	**272 891**	**13 864 841**	**16 552 820**

At 31 December 2017, there are no pledged receivables. At 31 December 2016, receivables with a carrying amount of USD 56 235 thousand or RUB 3 411 039 thousand had been pledged as security for certain bank loans of the Group, see Note 24.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 26.

21. Cash and cash equivalents

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Petty cash	64	33	3 667	1 979
Bank balances	46 730	57 210	2 691 726	3 470 191
Deposits	759 498	580 541	43 747 221	35 213 843
Other cash and cash equivalents	235	245	13 516	14 832
	806 527	**638 029**	**46 456 130**	**38 700 845**

Bank deposits were classified as cash equivalents as their maturity does not exceed three months.

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Cash on hand and bank balances denominated in RUB	26 109	34 242	1 503 883	2 077 029
Cash on hand and bank balances denominated in USD	17 165	15 573	988 735	944 611
Cash on hand and bank balances denominated in other currencies	3 520	7 428	202 775	450 530
Short-term bank deposits, denominated in RUB	192 144	56 047	11 067 532	3 399 661
Short-term bank deposits, denominated in USD	567 141	524 389	32 667 452	31 807 788
Short-term bank deposits, denominated in other currencies	213	105	12 237	6 394
Other cash equivalents	235	245	13 516	14 832
	806 527	**638 029**	**46 456 130**	**38 700 845**

The fair value of cash and cash equivalents is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of the Group’s cash and cash equivalents is as follows:

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Cash on hand	64	33	3 667	1 979
Rated Ba2 and above*	323 669	141 273	18 643 372	8 569 188
Rated B1*	479 391	20 013	27 613 057	1 213 941
Rated B2*	6	3 302	346	200 272
Rated B3*	-	471 389	-	28 593 025
Unrated	3 397	2 019	195 688	122 440
	806 527	**638 029**	**46 456 130**	**38 700 845**

* Based on the credit ratings of independent rating agency Moody’s.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

As part of its operations, the Group receives cash from customers in order to fulfil government contracts. In accordance with the legislation requirements, funds received under government contracts should be used only for the purposes related to their fulfilment. Thus, funds received under government contracts are restricted in use. At 31 December 2017, restricted funds amounted to USD 143 751 thousand or RUB 8 280 102 thousand (2016: USD 53 622 thousand or RUB 3 252 520 thousand).

22. Capital and reserves

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	Ordinary shares 2017	Ordinary shares 2016
Authorised shares	11 529 538	11 529 538
Par value	1 RUB	1 RUB
On issue at the beginning of year	11 529 538	11 529 538
On issue at the end of year, fully paid	**11 529 538**	**11 529 538**

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 general shareholders’ meetings of the Company.

Dividends were declared in May 2017 in respect of 2016 to the holders of ordinary shares in the amount of RUB 1 300,00 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.

Dividends were declared in September 2017 in respect of first half of 2017 to the holders of ordinary shares in the amount of RUB 762,68 per ordinary share (equivalent to USD 13,05 per share translated at the exchange rate at the date of declaration), for the total amount of USD 150 505 thousand or RUB 8 793 349 thousand.

Dividends were declared in May 2016 in respect of 2015 to the holders of ordinary shares in the amount of RUB 458,22 per ordinary share (equivalent to USD 7,06 per share translated at the exchange rate at the date of declaration), for the total amount of USD 81 365 thousand or RUB 5 283 065 thousand.

Dividends were declared in September 2016 in respect of first half of 2016 to the holders of ordinary shares in the amount of RUB 816,00 per ordinary share (equivalent to USD 12,66 per share translated at the exchange rate at the date of declaration), for the total amount of USD 145 992 thousand or RUB 9 408 103 thousand.

In 2017, the Group recovered dividends for previous years that were not received by shareholders in the amount of USD 121 thousand or RUB 6 960 thousand (2016: USD 78 thousand or RUB 5 164 thousand).

In accordance with Russian 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 Russian Accounting Principles. For 2017, the net statutory profit of the Company as reported in the published annual statutory financial statements amounted to RUB 19 138 million (equivalent to USD 327 975 thousand translated at the average exchange rate for 2017) (2016: RUB 26 633 million (equivalent to USD 397 298 thousand translated at the average exchange rate for 2016)) and the closing balance of the retained earnings including the current year net statutory profit amounted to RUB 40 570 million (2016: RUB 45 311 million).

(b) Treasury shares

As at 31 December 2017, 5 737 shares are recorded as treasury shares (2016: 5 737).

(c) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

(d) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(e) Revaluation surplus

The revaluation surplus relates to the revaluation of property, plant and equipment.

23. Capital management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as to maintain the required level of financial resources for investing activities and to maintain an optimal capital structure to reduce the cost of capital.

The Group’s capital management includes compliance with externally imposed minimum capital requirements arising from the Group’s borrowings (see Note 24).

The Group monitors capital using a ratio of net debt to equity. For this purpose, net debt is defined as total liabilities, comprising interest-bearing loans and borrowings, less cash and cash equivalents. The Group considers total capital under management to be equity as shown in the IFRS consolidated statement of financial position. The Group’s strategy is to keep the ratio below 1.

	000 USD		000 RUB	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Total loans and borrowings	1 400 753	1 030 210	80 683 652	62 489 350
Less: cash and cash equivalents	(806 527)	(638 029)	(46 456 130)	(38 700 845)
Net debt	**594 226**	**392 181**	**34 227 522**	**23 788 505**
Total equity	3 010 931	2 476 416	173 430 147	150 211 716
Net debt to equity ratio at 31 December	**0,20**	**0,16**	**0,20**	**0,16**

24. 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. For more information about the Group’s exposure to interest rate, foreign currency and liquidity risk, see Note 26.

	2017 ’000 USD	**2016 ’000 USD**	**2017 ’000 RUB**	**2016 ’000 RUB**
Non-current liabilities				
Secured bank loans	16 817	2 500	968 670	151 642
Unsecured bank loans	1 160 819	637 116	66 863 423	38 645 465
	1 177 636	**639 616**	**67 832 093**	**38 797 107**
Current liabilities				
Secured bank loans	-	19 894	-	1 206 685
Unsecured bank loans	223 117	370 700	12 851 559	22 485 558
	223 117	**390 594**	**12 851 559**	**23 692 243**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

’000 USD			**2017**		**2016**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Long-term loans						
Secured bank loans						
Citibank, N.A.	USD	2023	9 000	9 000	2 500	2 500
The Boeing Company	RUB	2037	7 817	7 817	-	-
			16 817	***16 817***	***2 500***	***2 500***
Unsecured bank loans						
Sberbank	USD	2021-2022	379 167	375 914	183 337	179 269
UniCredit Bank	USD	2019-2022	251 226	248 872	216 443	214 630
Nordea Bank	USD	2021-2022	176 154	174 376	83 108	82 199
ING Bank	USD	2022	125 000	123 723	55 556	55 147
AKB Novikombank	USD	2022	100 000	100 000	-	-
Crédit Agricole CIB	USD	2022	50 000	49 487	-	-
AKB Rosbank	USD	2020	37 500	37 500	10 909	10 909
Commerzbank AG	EUR	2024-2025	21 577	21 415	19 657	19 501
Raiffeisen Bank	USD	2019	18 000	17 857	42 000	41 733
UniCredit Bank AG	EUR	2022-2024	11 751	11 675	11 992	11 920
Credi Agricole	USD	2019	-	-	22 000	21 808
			1 170 375	***1 160 819***	***645 002***	***637 116***
			1 187 192	**1 177 636**	**647 502**	**639 616**

’000 USD			**2017**		**2016**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Short-term loans						
Secured bank loans						
Bank of America	USD	2017	-	-	19 894	19 894
			-	-	***19 894***	***19 894***
Unsecured bank loans						
Alfa-Bank	USD	2018	70 000	70 000	-	-
Sberbank	USD	2018	54 213	53 693	33 379	33 190
UniCredit Bank	USD	2018	31 935	31 627	31 250	31 071
Raiffeisen Bank	USD	2018	24 000	23 809	8 000	7 949
AKB Rosbank	USD	2018	23 409	23 409	14 545	14 545
Credi Agricole	USD	2018	11 000	10 578	24 000	23 791
Nordea Bank	USD	2018	3 846	3 804	47 297	46 740
Commerzbank AG	EUR	2018	3 226	3 201	2 568	2 547
UniCredit Bank AG	EUR	2018	3 016	2 996	3 901	3 886
Alfa-Bank	RUB	2017	-	-	151 673	151 672
ING Bank	USD	2017	-	-	55 556	55 147
Credi Agricole	EUR	2017	-	-	162	162
			224 645	***223 117***	***372 331***	***370 700***
			224 645	**223 117**	**392 225**	**390 594**

'000 RUB			2017		2016	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Secured bank loans						
Citibank, N.A.	USD	2023	518 402	518 402	151 642	151 642
The Boeing Company	RUB	2037	450 268	450 268	-	-
			968 670	***968 670***	***151 642***	***151 642***
Unsecured bank loans						
Sberbank	USD	2021-2022	21 840 113	21 652 697	11 120 632	10 873 855
UniCredit Bank	USD	2019-2022	14 470 657	14 335 074	13 128 755	13 018 735
Nordea Bank	USD	2021-2022	10 146 497	10 044 103	5 041 080	4 985 963
ING Bank	USD	2022	7 200 025	7 126 468	3 369 827	3 345 059
AKB Novikombank	USD	2022	5 760 020	5 760 020	-	-
Crédit Agricole CIB	USD	2022	2 880 010	2 850 467	-	-
AKB Rosbank	USD	2020	2 160 008	2 160 008	661 712	661 712
Commerzbank AG	EUR	2024-2025	1 242 815	1 233 519	1 192 309	1 182 844
Raiffeisen Bank	USD	2019	1 036 804	1 028 556	2 547 590	2 531 424
UniCredit Bank AG	EUR	2022-2024	676 867	672 511	727 373	723 055
Credi Agricole	USD	2019	-	-	1 334 452	1 322 818
			67 413 816	***66 863 423***	***39 123 730***	***38 645 465***
			68 382 486	**67 832 093**	**39 275 372**	**38 797 107**

'000 RUB			2017		2016	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Short-term loans						
Secured bank loans						
Bank of America	USD	2017	-	-	1 206 685	1 206 685
			-	***-***	***1 206 685***	***1 206 685***
Unsecured bank loans						
Alfa-Bank	USD	2018	4 032 014	4 032 014	-	-
Sberbank	USD	2018	3 122 674	3 092 685	2 024 690	2 013 219
UniCredit Bank	USD	2018	1 839 490	1 821 735	1 895 500	1 884 646
Raiffeisen Bank	USD	2018	1 382 405	1 371 408	485 255	482 176
AKB Rosbank	USD	2018	1 348 368	1 348 368	882 282	882 282
Credi Agricole	USD	2018	633 602	609 277	1 455 766	1 443 074
Nordea Bank	USD	2018	221 539	219 120	2 868 907	2 835 089
Commerzbank AG	EUR	2018	185 826	184 396	155 752	154 492
UniCredit Bank AG	EUR	2018	173 718	172 556	236 615	235 693
Alfa-Bank	RUB	2017	-	-	9 200 000	9 200 000
ING Bank	USD	2017	-	-	3 369 828	3 345 060
Credi Agricole	EUR	2017	-	-	9 827	9 827
			12 939 636	***12 851 559***	***22 584 422***	***22 485 558***
			12 939 636	**12 851 559**	**23 791 107**	**23 692 243**

Exchange differences for 2017 amounted to USD 51 420 thousand or RUB 3 000 534 thousand (2016: USD 181 363 thousand or RUB 12 157 658 thousand), other movements were cash settled.

As at 31 December 2017, bank loans are secured with property, plant and equipment with carrying amount of USD 13 133 thousand and RUB 756 455 thousand and guarantee issued by the Boeing Company.

As at 31 December 2016, Bank loans are secured by following:

- Property, plant and equipment with a carrying amount of USD 2 986 thousand or RUB 181 144 thousand, see Note 14;

- Inventories with a carrying amount of USD 76 480 thousand or RUB 4 639 017 thousand, see Note 19;
- Trade and other accounts receivable with a carrying amount of USD 56 235 thousand or RUB 3 411 039 thousand, see Note 20.

As at 31 December 2017, the Group had undrawn credit line facilities for the total amount of USD 406 076 thousand or RUB 23 390 080 thousand (2016: USD 218 935 thousand or RUB 13 279 942 thousand).

A number of loans outstanding at the year end contain certain restrictive covenants in relation to unauthorized use of credit facilities, sales and purchases of assets, total amount of borrowings, change of controlling shareholders and management, defaults on liabilities, including tax liabilities, bankruptcy initiation, commencement of significant court proceedings, deterioration of financial position of the Group, improper execution of obligations and certain financial ratios.

In 2017, 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 the banks agreed not to demand early repayment of the loan as well in 2017. Therefore the loan was classified as long term in accordance with contractual payment terms.

25. Trade and other payables

	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Trade accounts payable	43 542	48 129	2 508 042	2 919 347
Accrued liabilities and other creditors	36 542	36 557	2 104 827	2 217 425
Payroll and social tax payable	13 255	14 278	763 525	866 081
Total accounts payable and accrued expenses	**93 339**	**98 964**	**5 376 394**	**6 002 853**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

26. Fair values and risk management

(a) Fair value and fair value hierarchy

The Group doesn’t have any financial assets or liabilities measured at fair value except for investments available-for-sale (see Note 18). Investments held-for-sale are classified as Level 1. Their fair value is determined based on quoted market prices.

As at 31 December 2017 and 31 December 2016, carrying amount of the Group's financial assets and liabilities did not differ significantly from their fair value.

As at 31 December 2017 and 31 December 2016, fair value of financial assets (except for investments available-for-sale) 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

(b) Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management procedures seek to minimize potential adverse effects on the financial performance of the Group.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers, deposits and investments.

Credit risk management is aimed at preventing losses of liquid assets placed on deposit or invested into financial institutions or decreasing value of accounts receivable.

The maximum exposure to credit risk related to the financial assets equals the carrying value of the Group's financial assets including loans receivable. The Group’s most significant customer represents 10% (2016: 10%) of trade accounts receivable at respective reporting dates.

The treasury department of the Group monitors and controls credit risk.

The credit quality of customers and borrowers is measured taking into account their financial position, prior experience and other factors. The Group deals with new customers and clients with creditworthiness concerns only on prepayment basis. Standard payment terms for delivered goods may be changed where there is a good history with the customer.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded, see Note 20.

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each individual customer. The concentration of credit risk geographically relates to the USA and Europe where the most significant customers are located.

The Group provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Credit losses, when realized, have been within the range of the Group’s expectations and, historically, have not been significant.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit at the reporting date was:

	Carrying amount		Carrying amount	
	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Loans receivable	176 115	73 204	10 144 265	4 440 350
Bank deposits, current	257	113	14 817	6 882
Trade accounts receivable	163 666	175 893	9 427 170	10 669 119
Other account receivable	33 147	33 175	1 909 265	2 012 319
Cash and cash equivalents	806 527	638 029	46 456 130	38 700 845
	1 179 712	**920 414**	**67 951 647**	**55 829 515**

Impairment losses

The ageing of trade receivables at the reporting date was as follows:

	2017		2016	
’000 USD	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Neither past due nor impaired	144 526	-	145 282	-
Past due less than 3 months	19 974	(2 126)	25 186	(555)
Past due from 3 to 6 months	702	-	3 136	(469)
Past due from 6 to 12 months	310	(72)	1 379	(200)
Past due over 12 months	9 809	(9 457)	11 686	(9 552)
	175 321	**(11 655)**	**186 669**	**(10 776)**

	2017		2016	
’000 RUB	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Neither past due nor impaired	8 324 706	-	8 812 333	-
Past due less than 3 months	1 150 522	(122 484)	1 527 710	(33 659)
Past due from 3 to 6 months	40 409	(9)	190 239	(28 428)
Past due from 6 to 12 months	17 859	(4 150)	83 635	(12 159)
Past due over 12 months	565 039	(544 722)	708 831	(579 383)
	10 098 535	**(671 365)**	**11 322 748**	**(653 629)**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2017		2016	
’000 USD	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**10 776**	**5 986**	**17 258**	**4 479**
Impairment loss recognised	6 024	1 050	2 223	2 435
Provision reversed	(3 252)	(226)	(6 532)	(1 078)
Provision used	(2 467)	(1 449)	(4 704)	(810)
Cumulative translation adjustment	574	310	2 531	960
Provision for impairment as at 31 December	**11 655**	**5 671**	**10 776**	**5 986**

	2017		2016	
’000 RUB	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**653 629**	**363 080**	**1 257 798**	**326 446**
Impairment loss recognised	351 512	61 294	149 045	163 229
Provision reversed	(189 791)	(13 131)	(437 926)	(72 264)
Provision used	(143 985)	(84 604)	(315 288)	(54 331)
Provision for impairment as at 31 December	**671 365**	**326 639**	**653 629**	**363 080**

(ii) Liquidity risk

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

The Group treasury department conducts liquidity planning on a weekly basis and reports to the management. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available, see Note 24.

The management ensures that sufficient liquidity is available to the Group to meet its short-term payment obligations. Such cash balances include current balances in bank accounts and bank deposits. The Group’s policy as regards working capital funding is aimed at maximum utilisation of the Group’s operating cash flows including obtaining short-term bank loans, borrowings and other external funding sources to maintain adequate level of liquidity.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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.

’000 USD	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2017						
Unsecured loans and borrowings	1 383 936	1 546 442	281 175	348 501	369 941	546 825
Secured loans and borrowings	16 817	33 652	960	960	963	30 769
Trade and other accounts payable	93 339	93 339	93 339	-	-	-
Total current and non-current liabilities	**1 494 092**	**1 673 433**	**375 474**	**349 461**	**370 904**	**577 594**

’000 USD	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2016						
Unsecured loans and borrowings	1 007 816	1 199 805	443 618	330 218	206 059	219 910
Secured loans and borrowings	22 394	22 945	19 935	41	41	2 928
Trade and other accounts payable	98 964	98 964	98 964	-	-	-
Total current and non-current liabilities	**1 129 174**	**1 321 714**	**562 517**	**330 259**	**206 100**	**222 838**

’000 RUB	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2017						
Unsecured loans and borrowings	79 714 982	89 075 368	16 195 738	20 073 734	21 308 687	31 497 209
Secured loans and borrowings	968 670	1 938 387	55 320	55 320	55 472	1 772 275
Trade and other accounts payable	5 376 394	5 376 394	5 376 394	-	-	-
Total current and non-current liabilities	**86 060 046**	**96 390 149**	**21 627 452**	**20 129 054**	**21 364 159**	**33 269 484**

’000 RUB	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3yrs
As at 31 December 2016						
Unsecured loans and borrowings	61 131 023	72 776 413	26 908 496	20 030 011	12 498 870	13 339 036
Secured loans and borrowings	1 358 327	1 391 829	1 209 192	2 507	2 507	177 623
Trade and other accounts payable	6 002 853	6 002 853	6 002 853	-	-	-
Total current and non-current liabilities	**68 492 203**	**80 171 095**	**34 120 541**	**20 032 518**	**12 501 377**	**13 516 659**

(iii) 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 Group’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

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the functional currency of the Group companies. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group companies.

The objective of the Group’s foreign exchange risk management activities is to minimise the volatility of the Group’s financial results by matching the same foreign currency denominated assets and liabilities. The Group does not currently hedge foreign exchange exposure using financial instruments. Group entities are prohibited from borrowing and investing in foreign currencies on a speculative basis.

The Group’s policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian rouble. Funds borrowed are mainly nominated in USD, being the currency of general export trade contracts.

The Group relies on export sales to generate foreign currency earnings. As the Group’s sales outside the Russian Federation form a significant portion of its production, it is exposed to foreign currency risk arising primarily on the volatility of the US dollar rate, in which major export sales are denominated.

Exposure to currency risk

The tables below summarises the Group’s exposure to foreign currency exchange rate risk at the reporting date:

As at 31 December 2017

’000 USD	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	584 306	1 543	2 190
Accounts receivable	167 853	1 614	476
Bank deposits	-	-	118
Loans receivable	17 637	100 174	-
Accounts payable and other liabilities	(12 896)	(4 818)	(1 395)
Loans and borrowings	(1 353 649)	(39 287)	-
Net exposure	**(596 749)**	**59 226**	**1 389**

As at 31 December 2016

’000 USD	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	540 801	4 355	2 339
Accounts receivable	176 147	1 833	781
Bank deposits	-	-	113
Loans receivable	11 272	-	-
Accounts payable and other liabilities	(19 542)	(6 605)	(681)
Loans and borrowings	(840 522)	(38 016)	-
Net exposure	**(131 844)**	**(38 433)**	**2 552**

As at 31 December 2017

’000 RUB	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	33 656 187	88 869	126 143
Accounts receivable	9 668 388	92 965	27 430
Bank deposits	-	-	6 817
Loans receivable	1 015 877	5 770 070	-
Accounts payable and other liabilities	(742 772)	(277 508)	(80 343)
Loans and borrowings	(77 970 402)	(2 262 982)	-
Net exposure	**(34 372 722)**	**3 411 414**	**80 047**

As at 31 December 2016

'000 RUB	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	32 803 341	264 184	141 798
Accounts receivable	10 684 517	111 179	47 383
Bank deposits	-	-	6 882
Loans receivable	683 742	-	-
Accounts payable and other liabilities	(1 185 335)	(400 669)	(41 315)
Loans and borrowings	(50 983 439)	(2 305 911)	-
Net exposure	**(7 997 174)**	**(2 331 217)**	**154 748**

The following significant exchange rates have been applied during the year:

	As at 31 December 2017	**Average for 2017**	**As at 31 December 2016**	**Average for 2016**
USD	57,6002	58,3529	60,6569	67,0349
EUR	68,8668	65,9014	63,8111	74,2310

Sensitivity analysis

A 10% weakening of the RUB against USD and Euro at 31 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

Sensitivity analysis

2017	**Equity '000 USD**	**Profit or loss '000 USD**
USD strengthening 10%	(59 675)	(59 675)
Euro strengthening 10%	5 923	5 923
2016		
USD strengthening 10%	(13 184)	(13 184)
Euro strengthening 10%	(3 843)	(3 843)

2017	**Equity '000 RUB**	**Profit or loss '000 RUB**
USD strengthening 10%	(3 437 272)	(3 437 272)
Euro strengthening 10%	341 141	341 141
2016		
USD strengthening 10%	(799 717)	(799 717)
Euro strengthening 10%	(233 122)	(233 122)

(iv) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense.

The Group's objective when managing interest rate risk is to protect net results as regards interest. Interest rate risk management function is performed by the finance and treasury department of the Group.

Market interest rates are monitored and the Group's positions as regards interest bearing borrowings are analysed by the treasury and finance departments of the Group under the interest rate risk management framework. The monitoring is performed taking into account current terms of refinancing, renewal of existing positions and alternative funding. The Group does not apply interest hedging.

The Group's interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group to the risk of future cash flows changes.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Fixed rate instruments				
Loans receivable	176 115	73 204	10 144 265	4 440 350
Bank deposits classified as cash equivalents	759 498	580 541	43 747 221	35 213 843
Bank deposits	257	113	14 817	6 882
Current loans and borrowings	(23 409)	(166 218)	(1 348 368)	(10 082 282)
Non-current loans and borrowings	(45 317)	(10 909)	(2 610 276)	(661 712)
	867 144	**476 731**	**49 947 659**	**28 917 081**
Variable rate instruments				
Current loans and borrowings	(199 708)	(224 376)	(11 503 191)	(13 609 961)
Non-current loans and borrowings	(1 132 319)	(628 707)	(65 221 817)	(38 135 395)
	(1 332 027)	**(853 083)**	**(76 725 008)**	**(51 745 356)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant:

	Profit or loss '000 USD	Equity '000 USD	Profit or loss '000 RUB	Equity '000 RUB
2017				
100 bp parallel fall	13 320	13 320	767 250	767 250
100 bp parallel rise	(13 320)	(13 320)	(767 250)	(767 250)
2016				
100 bp parallel fall	8 531	8 531	517 454	517 454
100 bp parallel rise	(8 531)	(8 531)	(517 454)	(517 454)

(c) Master netting or similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

As at 31 December 2017 and 2016, the Group does not have financial instruments, which can be offset.

27. Significant subsidiaries

	Country of incorporation	2017 Ownership voting	2016 Ownership voting
VSMPO-TIRUS, U.S., Ins	USA	100%	100%
VSMPO-TIRUS GmbH	Germany	100%	100%
Tirus International SA	Switzerland	100%	100%
GRIFOLDO LTD	Cyprus	100%	100%
VSMPO-TIRUS LIMITED	Cyprus	100%	100%
VSMPO Titan Scandinavia AB	Sweden	100%	100%
VSMPO-TIRUS LIMITED	UK	100%	100%
VSMPO-Tirus (Bejing) Metallic Materials Ltd.	China	100%	100%
LIMPIEZA LIMITED	Cyprus	75%	75%
VSMPO Titan Ukraine	Ukraine	100%	100%
LLC Demurinskiy gorno-obogatitelny kombinat	Ukraine	75%	75%
NORVEX LIMITED	British Virgin Islands	100%	100%
LLC Sanatorny complex	Russia	100%	100%
JSC Upravlenie gostinits	Russia	100%	100%
LLC Torgovy Dom VSMPO-AVISMA Corporation	Russia	100%	100%

28. Operating leases

The future minimum lease payments under non-cancellable leases were payable as follows:

	2017 '000 USD	2016 '000 USD	2017 '000 RUB	2016 '000 RUB
Less than 1 year	5 238	5 143	301 686	311 950
1 to 5 years	15 252	9 656	878 497	585 690
Over 5 years	4 867	5 584	280 325	338 714
	25 357	**20 383**	**1 460 508**	**1 236 354**

The Group leases a number of warehouse and factory facilities under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the year ended 31 December 2017, USD 3 670 thousand or RUB 214 154 thousand (2016: USD 2 411 thousand or RUB 161 643 thousand) was recognised in the consolidated statement of profit or loss and other comprehensive income in respect of operating leases.

29. Commitments

(a) Capital commitments

As at 31 December 2017, the Group has entered into contracts to purchase plant and equipment for USD 100 546 thousand or RUB 5 791 446 thousand (2016: USD 107 917 thousand or RUB 6 545 910 thousand).

(b) Long term sales contracts

In the normal course of business group companies enter into long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

30. Contingencies

(a) 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 consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

31. 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 excemption 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:

Relationship	2017 ’000 USD	2016 ’000 USD	2017 ’000 RUB	2016 ’000 RUB
Revenue				
Parties under Government control	141 225	151 356	8 240 868	10 146 159
Entities under Rostech control	153 959	99 887	8 983 962	6 695 928
Joint arrangement	15 094	15 329	880 771	1 027 568
Associates	1 578	1 573	92 080	105 416
Purchases				
Parties under Government control	(37 059)	(46 495)	(2 162 517)	(3 116 795)
Entities under Rostech control	(712)	(1 606)	(41 543)	(107 641)
Joint arrangement	(12 354)	(9 684)	(720 888)	(649 145)
Associates	(68 018)	(55 565)	(3 969 060)	(3 724 771)
Purchases of property, plant and equipment				
Parties under Government control	(309)	(324)	(18 008)	(21 730)
Sales of property, plant and equipment				
Joint arrangement	12 752	8 427	744 091	564 890
Loans provided				
Joint venture	(9 382)	(4 030)	(547 468)	(270 151)
Associates	-	(3 970)	-	(266 104)
Entities under ultimate beneficiary's control	(223 456)	(7 339)	(13 039 332)	(492 000)
Proceeds from borrowings				
Parties under Government control	247 055	149 724	14 416 380	10 036 755
Interest income				
Parties under Government control	16 883	17 791	985 198	1 192 607
Entities under Rostech control	6 718	5 848	392 000	392 000
Associates	275	155	16 033	10 373
Entities under ultimate beneficiary's control	7 205	-	420 415	-
Interest expenses				
Parties under Government control	(14 606)	(6 728)	(852 313)	(451 043)
Entities under ultimate beneficiary's control	-	(464)	-	(31 100)

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	**31 December 2017**	**31 December 2016**	**31 December 2017**	**31 December 2016**
Bank balances				
Parties under Government control	24 501	19 168	1 411 295	1 162 662
Entities under Rostech control	6	4	346	272
Trade and other receivables				
Parties under Government control	2 730	7 447	157 222	451 737
Entities under Rostech control	3 401	3 787	195 900	229 689
Joint arrangement	390	742	22 457	45 007
Associates	589	243	33 925	14 713
Entities under ultimate beneficiary's control	8 619	4 155	496 472	252 000
Ultimate beneficiary	11 036	10 779	635 681	653 831
Advances to suppliers				
Parties under Government control	618	1 815	35 618	110 093
Entities under Rostech control	1	9	41	527
Advances given to suppliers for capital construction				
Entities under ultimate beneficiary's control	-	194	-	11 752
Bank deposits, classified as cash and cash equivalents				
Parties under Government control	137 469	523 777	7 918 241	31 770 667
Investments available-for sale measured at fair value				
Parties under Government control	114 664	1 383	6 604 669	83 863
Loans issued				
Entities under Rostech control	48 611	46 161	2 800 000	2 800 000
Associates	3 942	3 942	227 076	239 126
Top management	132	248	7 629	15 059
Joint arrangement	13 513	4 030	778 344	244 447
Entities under ultimate beneficiary's control	100 174	14 030	5 770 070	851 000
Loans and borrowings				
Parties under Government control	(429 607)	(212 459)	(24 745 382)	(12 887 074)
Trade and other payables				
Parties under Government control	(2 612)	(2 564)	(150 457)	(155 549)
Entities under Rostech control	(299)	(87)	(17 225)	(5 301)
Joint arrangement	(4 168)	(2 124)	(240 067)	(128 828)
Associates	(4 625)	(1 876)	(266 391)	(113 815)
Advances received				
Parties under Government control	(37 593)	(40 842)	(2 165 381)	(2 477 340)
Entities under Rostech control	(76 169)	(47 463)	(4 387 374)	(2 878 985)
Joint arrangement	(138)	(142)	(7 952)	(8 633)
Associates	-	-	(7)	(4)

All outstanding balances with related parties are expected to be settled within twelve months of the reporting date except for loans issued. Loan issued to entity under Rostech control in the amount of USD 48 611 thousand or RUB 2 800 000 thousand is long-term and is not past due and was granted with the interest rate of 14%. The balance is not secured.

Loans and borrowing obtained from the related parties under Government control are nominated in USD and were received with the interest rate of LIBOR 3M + variable margin of 2,75% to 3,82%.

Bank deposits in USD and RUB, classified as cash and cash equivalents, in banks under Government control have interest rate from 1% to 6%.

As at 31 December 2017, the balance of loans issued to entities under ultimate beneficiary’s control amounted to USD 100 174 thousand or RUB 5 770 070 thousand (2016: USD 14 030 thousand or RUB 851 000 thousand). The interest rate on these loans was 5% (2016: from 6% to 11,2%). Loans are not overdue and were repaid in 2018.

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 consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017 amounted to USD 11 904 thousand or RUB 694 619 thousand (2016: USD 7 683 thousand or RUB 515 024 thousand). Related state pension and social security costs for the year ended 31 December 2017 amounted to USD 2 601 thousand or RUB 151 802 thousand (2016: USD 1 459 thousand or RUB 97 782 thousand). There were no significant post-employment or other long-term benefits.

32. Subsequent events

In 2018, the Group acquired 16 865 336 082 ordinary shares of JSC RusHydro in the amount of USD 210 777 thousand or RUB 12 693 455 thousand.

33. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the available-for-sale financial assets and property, plant and equipment (except for land), which are measured on fair value basis.

34. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Certain comparative amounts were reclassified to correspond with the current year presentation.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group (see Note 34(a)(iii)).

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less

- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss for period.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss for period.

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Interests in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue

(i) 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 is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The timing of the risks and rewards transfer varies depending on the individual terms of the sales agreement.

(ii) 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.

(c) Finance income and costs

The Group’s finance income and finance costs include:

- interest income;
- interest expense;
- the net gain or loss currency translation differences.

Interest income or expense is recognised using the effective interest method.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at average exchange rates.

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at average exchange rates.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(e) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans, including Russia’s State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(iii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group’s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(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 a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different 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.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group’s main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method, 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.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, are initially measured at cost.

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.

After initial recognition items of property, plant and equipment (except for land) are measured at fair value based on periodic valuation by external independent appraisers. Revaluation increase is recognised directly in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

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 «General and administrative expenses» in profit or loss. When revalued assets are disposed, any related amount included in the revaluation reserve as revaluation surplus is transferred to retained earnings. Also the revaluation reserve is transferred to retained earnings while revalued fixed assets are depreciated.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. 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:

	31 Decemder 2016	31 Decemder 2017
Buildings and constructions	15 years	23 years
Plant and equipment	11 years	13 years
Transport	10 years	11 years
Transfer devices	9 years	11 years
Other	3 years	5 years

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

(i) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and mining rights, 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 of intangible assets are from 3 to 20 years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Mining rights are amortized using the units-of-production method.

(j) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets held-to-maturity, loans and receivables and available-for-sale financial assets.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities 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 Group becomes a party to the contractual provisions of the instrument.

The Group 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 Group is recognised as a separate asset or liability.

The Group 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 Group 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 Group 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 Group and all counterparties.

(ii) Non-derivative financial assets – measurement

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 (see note 34(l)(i)).

Loans and receivables category comprise the following classes of financial assets: loans receivable (see note 18), trade and other receivables as presented in note 20 and cash and cash equivalents as presented in note 21.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories 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 (see note 34(l)(i)) and foreign currency differences on available-for-sale debt instruments (see note 34(d)(i)), 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.

Available-for-sale financial assets comprise equity securities and debt securities.

(iii) Non-derivative financial liabilities - measurement

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

(k) 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.

(l) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss, including an interest in an equity-accounted investee, 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 Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the Group;
- economic conditions that correlate with defaults;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

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 Group 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 Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement 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 Group 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 for period.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Equity-accounted investees

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

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

(m) Provisions

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

(n) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iv) Other expenses

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

(o) Earnings per share

The Group 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, which comprise convertible notes and share options granted to employees.

35. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

(a) Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has not completed its analysis of the impact that the initial application of IFRS 9 (see (b)) and IFRS 15 (see (c)) will have on its consolidated financial statements. The Group expects to complete its analysis of IFRS 9 and IFRS 15 adoption on its consolidated financial statements in 2018.

(b) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments 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.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

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

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. As at 31 December 2017, the Group had equity investments classified as available-for-sale with a fair value of USD 112 757 or RUB 6 494 830 thousand that are held for long-term strategic purposes. Under IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses will be recognised in profit or loss and no gains or losses would be reclassified to profit or loss on disposal.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model.

(iii) Classification - Financial liabilities

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

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group’s assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group’s assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will generally be recognised in retained earnings and reserves as at 1 January 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(c) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

(i) Sales of goods

For the sale of paper products, revenue is currently recognised when the related risks and rewards of ownership are transferred. Moment of risk and rewards transfer depends on conditions specified in contracts with customers. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. The Group expects that with adoption of IFRS 15 moment of revenue recognition will not change significantly.

The Group expects that financing component will not significantly affect the consolidated financial statements as historically amount of long term advances received is not significant.

(ii) Rendering of services

The Group renders different services. None of the services is significant. Therefore, the Group does not expect that application of IFRS 15 will result in significant impact on the consolidated financial statements in part of services revenue recognition.

(iii) Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

(d)* IFRS 16 *Leases

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

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

(i) Transition

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

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

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(e) Other standards

Other amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.