PSC “Corporation VSMPO-AVISMA”

Consolidated Financial Statements
for 2015
and Auditors’ Report

Contents

JSC "KPMG"
Urals Regional Center
«Limerance» Business Center
8, Ul. Voevodina
Ekaterinburg, Russia, 620014

Telephone +7 (343) 253 0900
Fax +7 (343) 253 1900
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors

Public Stock Company "Corporation VSMPO-AVISMA"

We have audited the accompanying consolidated financial statements of PSC "Corporation VSMPO-AVISMA" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: PSC "Corporation VSMPO-AVISMA".

Registered by administration of Verkhnyaya Salda on 18 February 1993, Registration No. 162 II-ВИ.

Registered in the Unified State Register of Legal Entities on 11 July 2002 by Sverdlovsk Region Interregion Inspection of Ministry of Russian Federation on taxation No.3, Registration No. 1026600784011, Certificate series 66 No. 002624651.

1 Parkovaya Street, Verkhnyaya Salda, Sverdlovsk Region, Russian Federation, 624760.

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

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

Adamov N.A.

Deputy Director (power of attorney dated 15 October 2015 №262/15)

Ekaterinburg branch of JSC "KPMG" - Ural Regional Center

26 April 2016

Ekaterinburg, Russian Federation

	Note	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Revenue	6	1 294 241	1 630 894	78 894 124	61 909 223
Cost of sales	7	(617 136)	(899 224)	(37 619 288)	(34 134 832)
Gross profit		**677 105**	**731 670**	**41 274 836**	**27 774 391**
Distribution expenses	7	(33 950)	(37 850)	(2 069 531)	(1 436 800)
General and administrative expenses	7	(181 188)	(246 176)	(11 044 819)	(9 344 910)
Operating profit		**461 967**	**447 644**	**28 160 486**	**16 992 681**
Impairment loss on intangible assets and property, plant and equipment	13, 14	(36 964)	(5 481)	(2 533 543)	(208 074)
Finance income	8	32 367	26 849	1 973 045	1 019 198
Share in income / (loss) of equity accounted investees	16	120	(3 355)	7 319	(127 349)
Finance costs	8	(144 165)	(264 651)	(8 787 988)	(10 046 247)
Profit before income tax		**313 325**	**201 006**	**18 819 319**	**7 630 209**
Income tax expense	12	(36 294)	(47 178)	(2 212 421)	(1 790 873)
Profit for the year		**277 031**	**153 828**	**16 606 898**	**5 839 336**
Other comprehensive income / (loss)					
Items that will never be reclassified to profit or loss					
Revaluation of property, plant and equipment		1 446 163	44 705	105 107 677	1 697 011
Translation to presentation currency		(159 553)	(532 713)	-	-
Remeasurement of defined benefit obligations		(5 689)	13 935	(346 770)	528 980
Related income tax	12	(260 901)	-	(19 015 143)	-
		1 020 020	**(474 073)**	**85 745 764**	**2 225 991**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		(19 885)	(101 283)	557 721	(8 467)
Net change in fair value of available-for-sale financial assets		378	(606)	23 068	(23 000)
Equity-accounted investees – share in other comprehensive income	16	1 929	-	117 558	-
Related income tax	12	(4 103)	121	(250 102)	4 600
		(21 681)	**(101 768)**	**448 245**	**(26 867)**
Other comprehensive income / (loss) for the year, net of income tax		**998 339**	**(575 841)**	**86 194 009**	**2 199 124**
Total comprehensive income / (loss) for the year		**1 275 370**	**(422 013)**	**102 800 907**	**8 038 460**
Profit / (loss) attributable to:					
Shareholders of the Company		280 182	157 088	16 798 975	5 963 099
Non-controlling interests		(3 151)	(3 260)	(192 077)	(123 763)
Profit for the year		**277 031**	**153 828**	**16 606 898**	**5 839 336**
Total comprehensive income / (loss) attributable to:					
Shareholders of the Company		1 278 510	(420 802)	102 992 290	8 084 460
Non-controlling interests		(3 140)	(1 211)	(191 383)	(46 000)
Total comprehensive income / (loss) for the year		**1 275 370**	**(422 013)**	**102 800 907**	**8 038 460**
Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD/RUB per share)	9	24,419	13,638	1 464,106	517,713

These consolidated financial statements were approved by management on 26 April 2016 and were signed on its behalf by:

Voevodin M. V.

General Director

Sannikov D. Yu.

Chief Accountant

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 14 to 67.

	Note	'000 USD		'000 RUB	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
ASSETS					
Non-current assets					
Property, plant and equipment	13	2 050 372	723 684	149 436 666	40 713 311
Goodwill	15	27 466	35 583	2 001 817	2 001 817
Intangible assets	14	15 735	34 460	1 146 812	1 938 689
Equity-accounted investees	16	32 111	29 289	2 340 334	1 647 738
Long-term trade and other receivables	19	16 254	12 697	1 184 671	714 305
Other investments	17	40 533	52 339	2 954 210	2 944 498
Deferred tax assets	12	4 529	5 263	330 061	296 096
Other non-current assets		2 468	3 647	179 882	205 202
Total non-current assets		**2 189 468**	**896 962**	**159 574 453**	**50 461 656**
Current assets					
Inventories	18	428 999	492 813	31 266 620	27 724 844
Other investments	17	12 897	8 961	939 988	504 116
Short-term trade and other receivables	19	254 130	274 119	18 521 591	15 421 459
Current income tax assets		2 949	17 097	214 913	961 838
Cash and cash equivalents	20	509 120	496 620	37 106 057	27 939 066
Other current assets		4 131	6 564	301 055	369 270
Total current assets		**1 212 226**	**1 296 174**	**88 350 224**	**72 920 593**
Total assets		**3 401 694**	**2 193 136**	**247 924 677**	**123 382 249**

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 14 to 67.

		’000 USD		’000 RUB	
		31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
EQUITY AND LIABILITIES					
Equity	21				
Share capital		22 785	22 785	596 313	596 313
Share premium		153 924	158 054	4 594 608	4 800 527
Treasury shares		(1 407)	(29 365)	(47 842)	(1 654 690)
Retained earnings		1 501 740	1 548 483	42 071 355	43 926 218
Reserves		1 226 899	45 481	87 665 749	1 807 485
Cumulative currency translation difference		(1 052 036)	(868 946)	324 436	(10 615)
Total equity attributable to shareholders of the Company		**1 851 905**	**876 492**	**135 204 619**	**49 465 238**
Non-controlling interests		3 958	6 419	55 731	205 795
Total equity		**1 855 863**	**882 911**	**135 260 350**	**49 671 033**
Non-current liabilities					
Long-term borrowings	23	643 784	629 672	46 920 707	35 424 340
Defined benefit pension plan	10	25 456	25 007	1 855 268	1 406 837
Other long-term liabilities		10 277	2 384	749 003	134 147
Deferred tax liabilities	12	267 593	30 381	19 502 908	1 709 207
Total non-current liabilities		**947 110**	**687 444**	**69 027 886**	**38 674 531**
Current liabilities					
Trade and other payables	24	72 820	78 588	5 307 305	4 421 231
Current income tax liabilities		4 589	4 907	334 423	276 057
Other taxes payable		4 877	4 240	355 536	238 550
Short-term borrowings	23	466 047	475 907	33 966 773	26 773 763
Advances received from customers		49 670	58 561	3 620 060	3 294 546
Dividends payable		718	578	52 344	32 538
Total current liabilities		**598 721**	**622 781**	**43 636 441**	**35 036 685**
Total liabilities		**1 545 831**	**1 310 225**	**112 664 327**	**73 711 216**
Total equity and liabilities		**3 401 694**	**2 193 136**	**247 924 677**	**123 382 249**

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 14 to 67.

’000 USD	Attributable to shareholders of the Company								
	Share capital	Share premium	Treasury shares	Retained earnings	Reserves	Cumulative currency translation differences	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	**22 785**	**158 054**	**-**	**1 567 465**	**(12 674)**	**(232 901)**	**1 502 729**	**7 630**	**1 510 359**
Total comprehensive income									
Profit for the year	-	-	-	157 088	-	-	157 088	(3 260)	153 828
Other comprehensive income / (loss)									
Foreign currency translation differences for foreign operations	-	-	-	-	-	(103 332)	(103 332)	2 049	(101 283)
Translation to presentation currency	-	-	-	-	-	(532 713)	(532 713)	-	(532 713)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(606)	-	(606)	-	(606)
Revaluation of property, plant and equipment	-	-	-	-	44 705	-	44 705	-	44 705
Remeasurement of defined benefit obligations	-	-	-	-	13 935	-	13 935	-	13 935
Income tax on other comprehensive income	-	-	-	-	121	-	121	-	121
Total other comprehensive income / (loss)	-	-	-	-	58 155	(636 045)	(577 890)	(2 049)	(575 841)
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**157 088**	**58 155**	**(636 045)**	**(420 802)**	**(1 211)**	**(422 013)**
Dividends	-	-	-	(176 070)	-	-	(176 070)	-	(176 070)
Treasury shares acquired	-	-	(29 365)	-	-	-	(29 365)	-	(29 365)
Total transactions with shareholders	**-**	**-**	**(29 365)**	**(176 070)**	**-**	**-**	**(205 435)**	**-**	**(205 435)**
Balance at 31 December 2014	**22 785**	**158 054**	**(29 365)**	**1 548 483**	**45 481**	**(868 946)**	**876 492**	**6 419**	**882 911**

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 14 to 67.

’000 USD	Attributable to shareholders of the Company								
	Share capital	Share premium	Treasury shares	Retained earnings	Reserves	Cumulative currency translation differences	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	**22 785**	**158 054**	**(29 365)**	**1 548 483**	**45 481**	**(868 946)**	**876 492**	**6 419**	**882 911**
Total comprehensive income									
Profit for the year	-	-	-	280 182	-	-	280 182	(3 151)	277 031
Other comprehensive income / (loss)									
Foreign currency translation differences for foreign operations	-	-	-	-	-	(19 896)	(19 896)	11	(19 885)
Translation to presentation currency	-	-	-	-	-	(159 553)	(159 553)	-	(159 553)
Net change in fair value of available-for-sale financial assets	-	-	-	-	378	-	378	-	378
Revaluation of property, plant and equipment	-	-	-	-	1 446 163	-	1 446 163	-	1 446 163
Remeasurement of defined benefit obligations	-	-	-	-	(5 689)	-	(5 689)	-	(5 689)
Equity-accounted investees – share in other comprehensive income	-	-	-	-	1 929	-	1 929	-	1 929
Income tax on other comprehensive income	-	-	-	-	(261 363)	(3 641)	(265 004)	-	(265 004)
Total other comprehensive income / (loss)	-	-	-	-	1 181 418	(183 090)	998 328	11	998 339
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**280 182**	**1 181 418**	**(183 090)**	**1 278 510**	**(3 140)**	**1 275 370**
Dividends	-	-	-	(327 135)	-	-	(327 135)	-	(327 135)
Treasury shares sold	-	(4 130)	27 958	-	-	-	23 828	-	23 828
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	679	679
Share in changes in capital of equity accounted investees	-	-	-	210	-	-	210	-	210
Total transactions with shareholders	**-**	**(4 130)**	**27 958**	**(326 925)**	**-**	**-**	**(303 097)**	**679**	**(302 418)**
Balance at 31 December 2015	**22 785**	**153 924**	**(1 407)**	**1 501 740**	**1 226 899**	**(1 052 036)**	**1 851 905**	**3 958**	**1 855 863**

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 14 to 67.

’000 RUB	Attributable to shareholders of the Company								
	Share capital	Share premium	Treasury shares	Retained earnings	Reserves	Cumulative currency translation differences	Total	Non-controlling interests	Total
Balance at 1 January 2014	**596 313**	**4 800 527**	**-**	**44 108 735**	**(400 106)**	**75 615**	**49 181 084**	**251 795**	**49 432 879**
Total comprehensive income									
Profit for the year	-	-	-	5 963 099	-	-	5 963 099	(123 763)	5 839 336
Other comprehensive income / (loss)	-	-	-	-	-	-	-	-	-
Foreign currency translation differences for foreign operations	-	-	-	-	-	(86 230)	(86 230)	77 763	(8 467)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(23 000)	-	(23 000)	-	(23 000)
Revaluation of property, plant and equipment	-	-	-	-	1 697 011	-	1 697 011	-	1 697 011
Remeasurement of defined benefit obligations	-	-	-	-	528 980	-	528 980	-	528 980
Income tax on other comprehensive income	-	-	-	-	4 600	-	4 600	-	4 600
Total other comprehensive income / (loss)	-	-	-	-	2 207 591	(86 230)	2 121 361	77 763	2 199 124
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**5 963 099**	**2 207 591**	**(86 230)**	**8 084 460**	**(46 000)**	**8 038 460**
Dividends	-	-	-	(6 145 616)	-	-	(6 145 616)	-	(6 145 616)
Treasury shares acquired	-	-	(1 654 690)	-	-	-	(1 654 690)	-	(1 654 690)
Total transactions with shareholders	**-**	**-**	**(1 654 690)**	**(6 145 616)**	**-**	**-**	**(7 800 306)**	**-**	**(7 800 306)**
Balance at 31 December 2014	**596 313**	**4 800 527**	**(1 654 690)**	**43 926 218**	**1 807 485**	**(10 615)**	**49 465 238**	**205 795**	**49 671 033**

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 14 to 67.

'000 RUB	Attributable to shareholders of the Company								
	Share capital	Share premium	Treasury shares	Retained earnings	Reserves	Cumulative currency translation differences	Total	Non-controlling interests	Total equity
Balance at 1 January 2015	**596 313**	**4 800 527**	**(1 654 690)**	**43 926 218**	**1 807 485**	**(10 615)**	**49 465 238**	**205 795**	**49 671 033**
Total comprehensive income									
Profit for the year	-	-	-	16 798 975	-	-	16 798 975	(192 077)	16 606 898
Other comprehensive income / (loss)									
Foreign currency translation differences for foreign operations	-	-	-	-	-	557 027	557 027	694	557 721
Net change in fair value of available-for-sale financial assets	-	-	-	-	23 068	-	23 068	-	23 068
Revaluation of property, plant and equipment	-	-	-	-	105 107 677	-	105 107 677	-	105 107 677
Remeasurement of defined benefit obligations	-	-	-	-	(346 770)	-	(346 770)	-	(346 770)
Equity-accounted investees – share in other comprehensive income	-	-	-	-	117 558	-	117 558	-	117 558
Income tax on other comprehensive income	-	-	-	-	(19 043 269)	(221 976)	(19 265 245)	-	(19 265 245)
Total other comprehensive income / (loss)	-	-	-	-	85 858 264	335 051	86 193 315	694	86 194 009
Total comprehensive income / (loss) for the year	**-**	**-**	**-**	**16 798 975**	**85 858 264**	**335 051**	**102 992 290**	**(191 383)**	**102 800 907**
Dividends	-	-	-	(18 666 616)	-	-	(18 666 616)	-	(18 666 616)
Treasury shares sold	-	(205 919)	1 606 848	-	-	-	1 400 929	-	1 400 929
Establishment of subsidiary with non-controlling interest	-	-	-	-	-	-	-	41 319	41 319
Share in changes in capital of equity accounted investees	-	-	-	12 778	-	-	12 778	-	12 778
Total transactions with shareholders	**-**	**(205 919)**	**1 606 848**	**(18 653 838)**	**-**	**-**	**(17 252 909)**	**41 319**	**(17 211 590)**
Balance at 31 December 2015	**596 313**	**4 594 608**	**(47 842)**	**42 071 355**	**87 665 749**	**324 436**	**135 204 619**	**55 731**	**135 260 350**

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 14 to 67.

	Note	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Cash flows from operating activities					
Profit before income tax		313 325	201 006	18 819 319	7 630 209
Adjustments for:					
Depreciation and amortization	13,14	78 831	117 922	4 805 431	4 476 352
Impairment of property, plant and equipment	13	26 610	-	1 902 402	-
Impairment of accounts receivable	7(c)	7 510	9 865	457 769	374 486
Impairment loss of intangible assets	14	10 354	5 481	631 141	208 074
(Reversal) / impairment of investments	17	(2 641)	4 241	(161 000)	161 000
Share in (profit) / loss of equity accounted investees	16	(120)	3 355	(7 319)	127 349
Interest income	8	(32 367)	(26 849)	(1 973 045)	(1 019 198)
Foreign currency translation loss		137 566	260 700	8 740 547	10 313 594
Interest expenses	8	30 072	30 680	1 833 072	1 164 630
Provision for inventory obsolescence	7(a)	1 116	735	68 056	27 912
Loss on disposal of property, plant and equipment	7(c)	1 230	2 998	74 972	113 815
Pension cost	7(a)	3 800	4 434	231 661	168 313
Operating profit before changes in working capital and provisions		**575 286**	**614 568**	**35 423 006**	**23 746 536**
Changes in:					
Trade and other receivables		(3 888)	(10 042)	(236 974)	(456 131)
Advances to suppliers		(664)	(2 061)	(40 479)	(99 157)
Inventories		(59 218)	(2 114)	(3 609 832)	(448 375)
Trade and other payables, advances received and other taxes payable		11 915	(43 893)	726 344	(961 066)
Other current assets		2 153	(2 755)	131 215	(114 399)
Other long-term liabilities		7 982	(4 942)	486 595	(187 606)
Cash flows from operations before income taxes and interest paid		**533 566**	**548 761**	**32 879 875**	**21 479 802**
Income taxes paid		(46 380)	(50 907)	(2 827 223)	(2 247 754)
Interest paid		(34 132)	(32 773)	(2 080 609)	(1 189 848)
Net cash from operating activities		**453 054**	**465 081**	**27 972 043**	**18 042 200**

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 14 to 67.

	Note	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Cash flows from investing activities					
Purchases of property, plant and equipment, including advances	13	(166 176)	(288 518)	(10 129 767)	(10 952 198)
Purchases of intangible assets	14	(6)	(15 414)	(357)	(585 118)
Proceeds from disposal of property, plant and equipment		1 393	9 121	84 815	346 159
Loans provided and acquisition of other investments		(5 490)	(93 071)	(334 658)	(3 533 016)
Proceeds from disposal of investments		2 437	17 447	148 555	662 296
Interest received		32 078	27 205	1 943 017	1 018 158
Net cash used in investing activities		**(135 764)**	**(343 230)**	**(8 288 395)**	**(13 043 719)**
Cash flows from financing activities					
Dividends paid to shareholders		(305 897)	(191 209)	(18 646 810)	(6 627 488)
Treasury shares acquired		-	(29 365)	-	(1 654 690)
Treasury shares sold		12 733	-	776 179	-
Proceeds from borrowings		1 244 271	805 610	75 848 067	30 581 186
Repayment of borrowings		(1 249 472)	(702 492)	(76 165 102)	(26 666 655)
Net cash used in financing activities		**(298 365)**	**(117 456)**	**(18 187 666)**	**(4 367 647)**
Effect of exchange rate changes on cash and cash equivalents		(6 425)	(6 566)	7 671 009	10 983 194
Net increase / (decrease) in cash and cash equivalents		**12 500**	**(2 171)**	**9 166 991**	**11 614 028**
Cash and cash equivalents at the beginning of the year	20	**496 620**	**498 791**	**27 939 066**	**16 325 038**
Cash and cash equivalents at the end of the year	20	**509 120**	**496 620**	**37 106 057**	**27 939 066**

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 14 to 67.

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 open 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 operation.

As at 31 December 2015 the ultimate parent of the Group is CJSC “Expotrade” that controls 65,27% share of the Company. CJSC “Expotrade” is controlled by the management of the Group, in particular majority shares of CJSC “Expotrade” 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 and related events has 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 imposed by the Russian government, 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

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea 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. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued through the date of these consolidated financial statements. As a result of this conflict, 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.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert 75% of foreign currency proceeds to local currency, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

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 2015 and 31 December 2014:

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Revenue	48 410	48 796	2 950 949	1 852 300
Net loss	(27 777)	(11 595)	(1 693 221)	(440 157)
Non-current assets	24 822	39 791	1 809 073	2 238 556
Current assets	19 902	22 817	1 450 479	1 283 640
Non-current liabilities	(411)	(2 197)	(29 966)	(123 573)
Current liabilities	(51 132)	(42 654)	(3 726 666)	(2 399 650)
Net assets	**(6 819)**	**17 757**	**(497 080)**	**998 973**

The Group includes a subsidiary LLC “VSMPO Titan Ukraine”, which produces and sells titanium products. In 2015, the Group performed an assessment of the recoverable amount of the property, plant and equipment of the subsidiary. The recoverable amount was determined based on value in use calculations determined by discounting the future cash flows generated from the continuing use of the assets. Based on the result of the above test carrying amount of the assets approximates its value in use as at the reporting date. As a result no impairment is required as at 31 December 2015.

The management has performed sensitivity analysis and identified that a decrease in sales prices by 5% and increase in discount rate by 1%-point will result in impairment in the approximate amount of USD 8,6 million or RUB 628 million.

Information on impairment loss on intangible assets of subsidiaries located in the Ukraine is presented in Note 14.

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 LLC “Demurinsky Ore-dressing Plant” 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 13 – Property, plant and equipment;
- Note 14 – Intangible assets;
- Note 15 – Goodwill;
- Note 25(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 13 – Property, plant and equipment;
- Note 14 – 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 13 – Property, plant and equipment;
- Note 25 – 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	**2015 '000 USD**	**2014 '000 USD**	**2015 '000 RUB**	**2014 '000 RUB**
Russia	414 888	677 164	25 290 699	25 705 334
North America	380 695	442 397	23 206 365	16 793 511
Europe	358 938	381 849	21 880 107	14 495 121
Asia	105 376	77 912	6 423 469	2 957 550
Other CIS countries	34 344	51 572	2 093 484	1 957 707
	1 294 241	**1 630 894**	**78 894 124**	**61 909 223**

The Group has revenue from one customer amounting to 10% or more of total revenue in the amount of approximately USD 195 million or RUB 11 911 million (2014: USD 212 million or RUB 8 029 million). Furthermore, revenue to parties under Government control is disclosed in Note 30.

6. Revenue

	2015 '000 USD	**2014 '000 USD**	**2015 '000 RUB**	**2014 '000 RUB**
Revenue from sales of goods	1 275 452	1 592 710	77 748 804	60 459 745
Revenue from services provided	15 988	22 471	974 611	852 996
Other revenue	2 801	15 713	170 709	596 482
	1 294 241	**1 630 894**	**78 894 124**	**61 909 223**

7. Income and expenses

(a) Cost of sales

	2015 '000 USD	**2014 '000 USD**	**2015 '000 RUB**	**2014 '000 RUB**
Materials and consumables used	(249 008)	(364 419)	(15 178 942)	(14 233 454)
Personnel cost	(122 703)	(169 597)	(7 479 670)	(6 437 969)
Utilities	(93 911)	(160 103)	(5 724 610)	(5 677 543)
Depreciation	(71 491)	(110 246)	(4 357 967)	(4 184 959)
Contributions to State pension fund	(38 483)	(54 346)	(2 345 857)	(2 063 005)
Repairs and maintenance	(15 784)	(17 824)	(962 186)	(676 605)
Mechanical processing	(6 108)	(5 014)	(372 316)	(190 324)
Pension cost	(3 800)	(4 434)	(231 661)	(168 313)
Provision for inventory obsolescence	(1 116)	(735)	(68 056)	(27 912)
Other costs	(14 732)	(12 506)	(898 023)	(474 748)
	(617 136)	**(899 224)**	**(37 619 288)**	**(34 134 832)**

(b) Distribution expenses

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Transportation costs	(11 649)	(9 682)	(710 055)	(367 540)
Personnel cost	(7 429)	(8 047)	(452 871)	(305 466)
Materials	(4 506)	(5 688)	(274 652)	(215 926)
Certification expenses	(2 919)	(4 837)	(177 963)	(183 614)
Customs	(1 585)	(3 293)	(96 616)	(125 021)
Contributions to State pension fund	(808)	(897)	(49 266)	(34 057)
Advertising expenses	(642)	(742)	(39 161)	(28 173)
Other	(4 412)	(4 664)	(268 947)	(177 003)
	(33 950)	**(37 850)**	**(2 069 531)**	**(1 436 800)**

(c) General and administrative expenses

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Personnel cost	(64 391)	(83 318)	(3 925 184)	(3 162 791)
Insurance	(23 026)	(23 673)	(1 403 606)	(898 623)
Contributions to State pension fund	(14 215)	(18 962)	(866 546)	(719 801)
Charity expenses	(9 057)	(13 833)	(552 110)	(525 105)
Change in impairment provision for trade and other receivables	(7 510)	(9 865)	(457 769)	(374 486)
Taxes other than income tax	(7 155)	(11 202)	(436 148)	(425 247)
Depreciation	(7 055)	(7 434)	(430 035)	(282 228)
Repair and maintenance	(6 854)	(6 876)	(417 832)	(261 007)
Consulting expenses	(2 961)	(5 211)	(180 495)	(197 813)
Accrual of liabilities for customer claims	(2 950)	(6 179)	(179 819)	(234 558)
Materials	(1 566)	(1 918)	(95 435)	(72 823)
Loss on disposal of property, plant and equipment	(1 230)	(2 998)	(74 972)	(113 815)
Other expenses	(33 218)	(54 707)	(2 024 868)	(2 076 613)
	(181 188)	**(246 176)**	**(11 044 819)**	**(9 344 910)**

8. Net finance costs

Finance income	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Interest income	32 367	26 849	1 973 045	1 019 198
Total finance income	**32 367**	**26 849**	**1 973 045**	**1 019 198**
Finance costs				
Interest expenses	(30 072)	(30 680)	(1 833 072)	(1 164 630)
Foreign currency exchange loss, net	(114 093)	(233 971)	(6 954 916)	(8 881 617)
Total finance costs	**(144 165)**	**(264 651)**	**(8 787 988)**	**(10 046 247)**

9. Earnings per share

The calculation of earnings per share is based upon the profit for the year and the 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	**2015**	**2014**
Issued shares as at 1 January	11 398 987	11 529 538
Effect of treasury shares sold / (acquired)	74 888	(11 388)
Weighted average number of shares for the year ended 31 December	11 473 875	11 518 150

	2015	**2014**
Weighted average number of shares for the year ended 31 December	11 473 875	11 518 150
Profit attributable to the equity holders of the Company ('000 USD)	280 112	157 088
Basic earnings per share (USD per 1 share)	24,419	13,638

	2015	**2014**
Weighted average number of shares for the year ended 31 December	11 473 875	11 518 150
Profit attributable to the equity holders of the Company ('000 RUB)	16 798 975	5 963 099
Basic earnings per share (RUB per 1 share)	1 464,106	517,713

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 was performed in March 2016 with a valuation date of 31 December 2015. 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	**2015**	**2014**
Balance as at 1 January	**25 007**	**57 487**
Included in profit or loss		
Current service cost	800	717
Interest cost	3 000	3 717
	3 800	**4 434**
Included in OCI		
Remeasurements loss / (gain):		
- Actuarial loss / (gain)	5 689	(13 935)
	5 689	**(13 935)**
Other		
Benefits paid	(2 133)	(3 003)
Cumulative translation adjustment	(6 907)	(19 976)
	(9 040)	**(22 979)**
Balance as at 31 December	**25 456**	**25 007**

	Defined benefit obligation	
'000 RUB	**2015**	**2014**
Balance as at 1 January	**1 406 837**	**1 881 504**
Included in profit or loss		
Current service cost	48 772	27 200
Interest cost	182 889	141 113
	231 661	**168 313**
Included in OCI		
Remeasurements loss / (gain):		
- Actuarial loss / (gain)	346 770	(528 980)
	346 770	**(528 980)**
Other		
Benefits paid	(130 000)	(114 000)
	(130 000)	**(114 000)**
Balance as at 31 December	**1 855 268**	**1 406 837**

(b) Actuarial assumptions

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

	2015	**2014**
Discount rate	9,50%	13,00%
Future salary growth	5,40%	6,00%
Future pension growth	5,40%	6,00%
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 2014	Sverdlovsk region population 2013

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 2015	Defined benefit obligation	
'000 USD	**Increase**	**Decrease**
Discount rate (5% movement)	(6 610)	15 629
Future salary (5% movement)	15 424	(7 014)

31 December 2015	Defined benefit obligation	
'000 RUB	**Increase**	**Decrease**
Discount rate (5% movement)	(481 712)	1 139 094
Future salary (5% movement)	1 124 145	(511 140)

11. Employee benefit expenses

	2015 '000 USD	**2014 '000 USD**	**2015 '000 RUB**	**2014 '000 RUB**
Payroll and Contributions to State pension fund	(248 029)	(335 167)	(15 119 394)	(12 723 089)
Pension cost	(3 800)	(4 434)	(231 661)	(168 313)
	(251 829)	**(339 601)**	**(15 351 055)**	**(12 891 402)**

12. Income taxes

The Company applied 18,45% tax rate for income tax in 2015 (2014: 18,37%). Other Russian subsidiaries applied 20% tax rate for income tax in 2015 (2014: 20%).

(a) Amounts recognised in profit or loss

	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Current tax expense				
Current year	(61 348)	(44 601)	(3 739 649)	(1 693 054)
Over / (under) provided in prior years	760	-	46 287	(9)
	(60 588)	**(44 601)**	**(3 693 362)**	**(1 693 063)**
Deferred tax expense				
Origination and reversal of temporary differences	24 294	(2 577)	1 480 941	(97 810)
	(36 294)	**(47 178)**	**(2 212 421)**	**(1 790 873)**

(b) Amounts recognised in other comprehensive income

’000 USD	**2015**			**2014**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Translation to presentation currency	(159 553)	-	(159 553)	(532 713)	-	(532 713)
Foreign currency translation differences for foreign operations	(19 885)	(3 641)	(23 526)	(101 283)	-	(101 283)
Net change in fair value of available-for-sale financial assets	378	(76)	302	(606)	121	(485)
Revaluation of property, plant and equipment	1 446 163	(260 901)	1 185 262	44 705	-	44 705
Remeasurement of defined benefit obligations	(5 689)	-	(5 689)	13 935	-	13 935
Share in changes in capital of equity accounted investees	1 929	(386)	1 543	-	-	-
	1 263 343	**(265 004)**	**998 339**	**(575 962)**	**121**	**(575 841)**

’000 RUB	**2015**			**2014**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Foreign currency translation differences for foreign operations	557 721	(221 976)	335 745	(8 467)	-	(8 467)
Net change in fair value of available-for-sale financial assets	23 068	(4 614)	18 454	(23 000)	4 600	(18 400)
Revaluation of property, plant and equipment	105 107 677	(19 015 143)	86 092 534	1 697 011	-	1 697 011
Remeasurement of defined benefit obligations	(346 770)	-	(346 770)	528 980	-	528 980
Share in changes in capital of equity accounted investees	117 558	(23 512)	94 046	-	-	-
	105 459 254	**(19 265 245)**	**86 194 009**	**2 194 524**	**4 600**	**2 199 124**

Reconciliation of effective tax rate:

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Profit before income tax	313 325	201 006	18 819 319	7 630 209
Income tax at applicable tax rate	(57 808)	(36 925)	(3 472 164)	(1 401 669)
Effect of income taxed at different rates	4 449	(4 273)	275 558	(162 256)
Non-taxable income / (non-deductible expenses)	16 305	(5 980)	937 898	(226 939)
Over / (under) provided in prior years	760	-	46 287	(9)
	(36 294)	**(47 178)**	**(2 212 421)**	**(1 790 873)**

(c) Movement in deferred tax balances

'000 USD	1 January 2015	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	31 December 2015 Net deferred balances	31 December 2015 Deferred tax asset	31 December 2015 Deferred tax liability
Property, plant and equipment	(31 463)	112	(260 901)	7 171	(285 081)	436	(285 517)
Intangible assets	1 124	1 774	-	(241)	2 657	3 047	(390)
Inventories	13 976	21 238	-	(6 663)	28 551	33 417	(4 866)
Trade and other receivables	3 655	(44)	-	(826)	2 785	2 946	(161)
Trade and other payables	4 755	501	-	(1 167)	4 089	4 089	-
Investments	403	(1 220)	(4 103)	779	(4 141)	2 719	(6 860)
Tax loss carry-forwards	1 579	(1 160)	-	(170)	249	249	-
Borrowings	(909)	(443)	-	280	(1 072)	-	(1 072)
Other items	(18 238)	3 536	-	3 601	(11 101)	2 606	(13 707)
Total deferred tax balances	**(25 118)**	**24 294**	**(265 004)**	**2 764**	**(263 064)**	**49 509**	**(312 573)**
Set-off of tax					**-**	**(44 980)**	**44 980**
Net deferred tax balances					**(263 064)**	**4 529**	**(267 593)**

'000 USD	1 January 2014	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	31 December 2014 Net deferred balances	31 December 2014 Deferred tax asset	31 December 2014 Deferred tax liability
Property, plant and equipment	(53 028)	(938)	-	22 503	(31 463)	700	(32 163)
Intangible assets	394	1 003	-	(273)	1 124	3 242	(2 118)
Inventories	12 696	9 764	-	(8 484)	13 976	14 800	(824)
Trade and other receivables	2 355	3 443	-	(2 143)	3 655	4 137	(482)
Trade and other payables	6 566	1 385	-	(3 196)	4 755	4 755	-
Investments	(459)	872	121	(131)	403	626	(223)
Tax loss carry-forwards	3 068	(305)	-	(1 184)	1 579	1 579	-
Borrowings	(1 363)	(173)	-	627	(909)	-	(909)
Other items	(10 861)	(17 628)	-	10 251	(18 238)	639	(18 877)
Total deferred tax balances	**(40 632)**	**(2 577)**	**121**	**17 970**	**(25 118)**	**30 478**	**(55 596)**
Set-off of tax					**-**	**(25 215)**	**25 215**
Net deferred tax balances					**(25 118)**	**5 263**	**(30 381)**

’000 RUB	1 January 2015	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2015 Net deferred balances	31 December 2015 Deferred tax asset	31 December 2015 Deferred tax liability
Property, plant and equipment	(1 770 048)	6 816	(19 015 143)	885	(20 777 490)	31 742	(20 809 232)
Intangible assets	63 211	108 151	-	22 269	193 631	222 072	(28 441)
Inventories	786 243	1 294 639	-	-	2 080 882	2 435 515	(354 633)
Trade and other receivables	205 642	(2 656)	-	-	202 986	214 728	(11 742)
Trade and other payables	267 485	30 560	-	-	298 045	298 045	-
Investments	22 654	(74 393)	(250 102)	-	(301 841)	198 155	(499 996)
Tax loss carry-forwards	88 843	(70 728)	-	-	18 115	18 115	-
Borrowings	(51 164)	(26 990)	-	-	(78 154)	-	(78 154)
Other items	(1 025 977)	215 542	-	1 414	(809 021)	189 947	(998 968)
Total deferred tax balances	**(1 413 111)**	**1 480 941**	**(19 265 245)**	**24 568**	**(19 172 847)**	**3 608 319**	**(22 781 166)**
Set-off of tax					**-**	**(3 278 258)**	**3 278 258**
Net deferred tax balances					**(19 172 847)**	**330 061**	**(19 502 908)**

’000 RUB	1 January 2014	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2014 Net deferred balances	31 December 2014 Deferred tax asset	31 December 2014 Deferred tax liability
Property, plant and equipment	(1 735 571)	(35 832)	-	1 355	(1 770 048)	39 371	(1 809 419)
Intangible assets	12 909	41 701	-	8 601	63 211	182 365	(119 154)
Inventories	415 532	370 711	-	-	786 243	832 615	(46 372)
Trade and other receivables	77 084	128 558	-	-	205 642	232 762	(27 120)
Trade and other payables	214 911	52 574	-	-	267 485	267 485	-
Investments	(15 027)	33 081	4 600	-	22 654	35 214	(12 560)
Tax loss carry-forwards	100 403	(11 560)	-	-	88 843	88 843	-
Borrowings	(44 594)	(6 570)	-	-	(51 164)	-	(51 164)
Other items	(355 504)	(670 473)	-	-	(1 025 977)	36 007	(1 061 984)
Total deferred tax balances	**(1 329 857)**	**(97 810)**	**4 600**	**9 956**	**(1 413 111)**	**1 714 662**	**(3 127 773)**
Set-off of tax					**-**	**(1 418 566)**	**1 418 566**
Net deferred tax balances					**(1 413 111)**	**296 096**	**(1 709 207)**

Tax losses (before calculating tax effect) and years of expiration are represented in the table below:

Year of expiration	Tax base, 2015 '000 USD	Tax base, 2015 '000 RUB	Tax base, 2014 '000 USD	Tax base, 2014 '000 RUB
2018	894	65 133	1 437	80 786
2019	-	-	816	45 910
2020	-	-	17	931
2021	-	-	1 689	95 038
2022	-	-	1 368	76 954
2023	-	-	173	9 747
2028	175	12 721	651	36 647
Total	**1 069**	**77 854**	**6 151**	**346 013**

As at 31 December 2015, a deferred tax liability for temporary differences (before calculating tax effect) of USD 251 659 thousand or RUB 18 341 609 thousand (2014: USD 180 229 thousand or RUB 10 139 390 thousand) related to investments in subsidiaries was 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. Property, plant and equipment

’000 USD	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
Cost							
Balance at 1 January 2014	348 411	1 034 195	29 865	75 586	83 518	326 433	1 898 008
Reclassification	(43 091)	68 751	151	11 529	(37 340)	-	-
Additions	5 104	51 368	81 098	3 211	3 544	146 373	290 698
Transfers	12 980	67 484	2 537	2 615	1 734	(87 350)	-
Disposals	(1 771)	(50 868)	(2 729)	(137)	(5 036)	(3 768)	(64 309)
Revaluation	-	-	44 705	-	-	-	44 705
Translation to presentation currency	(137 179)	(477 248)	(53 433)	(37 213)	(22 902)	(154 530)	(882 505)
Balance at 31 December 2014	**184 454**	**693 682**	**102 194**	**55 591**	**23 518**	**227 158**	**1 286 597**
Accumulated depreciation							
Balance at 1 January 2014	(168 691)	(611 160)	(17 390)	(36 688)	(57 776)	-	(891 705)
Reclassification	5 450	(34 855)	11	(1 747)	31 141	-	-
Depreciation charge	(9 368)	(96 018)	(4 749)	(4 109)	(3 436)	-	(117 680)
Disposals	1 450	47 097	2 054	96	1 493	-	52 190
Translation to presentation currency	71 373	282 872	8 151	17 218	14 668	-	394 282
Balance at 31 December 2014	**(99 786)**	**(412 064)**	**(11 923)**	**(25 230)**	**(13 910)**	**-**	**(562 913)**
Net book value							
Balance at 1 January 2014	**179 720**	**423 035**	**12 475**	**38 898**	**25 742**	**326 433**	**1 006 303**
Balance at 31 December 2014	**84 668**	**281 618**	**90 271**	**30 361**	**9 608**	**227 158**	**723 684**
Cost							
Balance at 1 January 2015	184 454	693 682	102 194	55 591	23 518	227 158	1 286 597
Reclassification	(8 064)	6 195	-	1 869	-	-	-
Additions	1 337	39 709	2 263	189	2 256	126 402	172 156
Transfers	11 847	92 757	456	3 404	1 571	(110 035)	-
Disposals	(496)	(25 108)	(2 337)	(34)	(1 200)	(378)	(29 553)
Revaluation	558 160	2 574 348	49 535	79 326	7 034	16 919	3 285 322
Translation to presentation currency	(42 999)	(177 069)	(27 421)	(13 567)	(5 798)	(54 459)	(321 313)
Balance at 31 December 2015	**704 239**	**3 204 514**	**124 690**	**126 778**	**27 381**	**205 607**	**4 393 209**
Accumulated depreciation							
Balance at 1 January 2015	(99 786)	(412 064)	(11 923)	(25 230)	(13 910)	-	(562 913)
Reclassification	3 319	(2 550)	-	(769)	-	-	-
Depreciation charge	(4 503)	(65 120)	(5 217)	(1 859)	(1 847)	-	(78 546)
Impairment losses	-	(3 103)	-	-	-	-	(3 103)
Disposals	313	24 727	1 818	7	65	-	26 930
Revaluation	(367 944)	(1 424 562)	(16 426)	(53 304)	(430)	-	(1 862 666)
Translation to presentation currency	22 951	101 575	3 287	6 183	3 465	-	137 461
Balance at 31 December 2015	**(445 650)**	**(1 781 097)**	**(28 461)**	**(74 972)**	**(12 657)**	**-**	**(2 342 837)**
Net book value							
Balance at 1 January 2015	**84 668**	**281 618**	**90 271**	**30 361**	**9 608**	**227 158**	**723 684**
Balance at 31 December 2015	**258 589**	**1 423 417**	**96 229**	**51 806**	**14 724**	**205 607**	**2 050 372**

'000 RUB	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
Cost							
Balance at 1 January 2014	11 403 200	33 848 373	977 443	2 473 863	2 733 532	10 683 880	62 120 291
Reclassification	(1 635 762)	2 609 813	5 744	437 654	(1 417 449)	-	-
Additions	193 739	1 949 954	3 078 513	121 872	134 534	5 556 348	11 034 960
Transfers	492 737	2 561 706	96 296	99 278	65 826	(3 315 843)	-
Disposals	(67 214)	(1 930 948)	(103 591)	(5 210)	(191 151)	(143 020)	(2 441 134)
Revaluation	-	-	1 697 011	-	-	-	1 697 011
Translation to presentation currency	(9 609)	(13 428)	(2 180)	-	(2 136)	(1 853)	(29 206)
Balance at 31 December 2014	**10 377 091**	**39 025 470**	**5 749 236**	**3 127 457**	**1 323 156**	**12 779 512**	**72 381 922**
Accumulated depreciation							
Balance at 1 January 2014	(5 521 114)	(20 002 764)	(569 171)	(1 200 763)	(1 890 982)	-	(29 184 794)
Reclassification	206 898	(1 323 102)	419	(66 302)	1 182 087	-	-
Depreciation charge	(355 612)	(3 644 858)	(180 276)	(155 993)	(130 448)	-	(4 467 187)
Disposals	55 024	1 787 807	77 963	3 650	56 716	-	1 981 160
Translation to presentation currency	1 030	878	288	-	14	-	2 210
Balance at 31 December 2014	**(5 613 774)**	**(23 182 039)**	**(670 777)**	**(1 419 408)**	**(782 613)**	**-**	**(31 668 611)**
Net book value							
Balance at 1 January 2014	**5 882 086**	**13 845 609**	**408 272**	**1 273 100**	**842 550**	**10 683 880**	**32 935 497**
Balance at 31 December 2014	**4 763 317**	**15 843 431**	**5 078 459**	**1 708 049**	**540 543**	**12 779 512**	**40 713 311**
Cost							
Balance at 1 January 2015	10 377 091	39 025 470	5 749 236	3 127 457	1 323 156	12 779 512	72 381 922
Reclassification	(491 545)	377 626	-	113 919	-	-	-
Additions	81 511	2 420 547	137 957	11 544	137 523	7 705 168	10 494 250
Transfers	722 183	5 654 298	27 810	207 521	95 656	(6 707 468)	-
Disposals	(30 265)	(1 530 545)	(142 424)	(2 060)	(73 086)	(23 013)	(1 801 393)
Revaluation	40 680 199	187 625 440	3 317 595	5 781 529	512 745	1 233 117	239 150 625
Translation to presentation currency	(12 344)	(19 186)	(2 441)	-	(336)	(2 164)	(36 471)
Balance at 31 December 2015	**51 326 830**	**233 553 650**	**9 087 733**	**9 239 910**	**1 995 658**	**14 985 152**	**320 188 933**
Accumulated depreciation							
Balance at 1 January 2015	(5 613 774)	(23 182 039)	(670 777)	(1 419 408)	(782 613)	-	(31 668 611)
Reclassification	202 304	(155 419)	-	(46 885)	-	-	-
Depreciation charge	(274 470)	(3 969 555)	(318 100)	(113 334)	(112 543)	-	(4 788 002)
Impairment losses	-	(189 178)	-	-	-	-	(189 178)
Disposals	19 100	1 507 301	110 823	434	3 948	-	1 641 606
Revaluation	(26 816 781)	(103 825 915)	(1 197 196)	(3 884 944)	(31 336)	-	(135 756 172)
Translation to presentation currency	3 447	3 642	936	-	65	-	8 090
Balance at 31 December 2015	**(32 480 174)**	**(129 811 163)**	**(2 074 314)**	**(5 464 137)**	**(922 479)**	**-**	**(170 752 267)**
Net book value							
Balance at 1 January 2015	**4 763 317**	**15 843 431**	**5 078 459**	**1 708 049**	**540 543**	**12 779 512**	**40 713 311**
Balance at 31 December 2015	**18 846 656**	**103 742 487**	**7 013 419**	**3 775 773**	**1 073 179**	**14 985 152**	**149 436 666**

Depreciation expense of USD 71 491 thousand or RUB 4 357 967 thousand (2014: USD 110 246 thousand or RUB 4 184 959 thousand) has been charged to cost of goods sold and USD 7 055 thousand or RUB 430 035 thousand (2014: USD 7 434 thousand or RUB 282 228 thousand) to administrative expenses.

(a) Revaluation of property, plant and equipment

The major amount of additions within "Transport" group in 2014 refers to airplane acquired by the Group. After significant acquisitions in 2014 the Group decided to change its accounting policy in respect of accounting model for Transport and changed from cost model to revaluation. As at 31 December 2014 the Group employed independent appraiser to determine fair value of these fixed assets. The fair value was determined using cost approach based on current replacement cost of similar assets as at the date of fair value measurement which was adjusted for physical and economical depreciation. Information on current replacement cost was obtained from producers of the respective fixed assets and based on actual historic cost of the fixed assets inflated to the valuation date. Given significance of unobservable inputs used in the valuation, the fair value measurement is classified as Level 3 in hierarchy of fair values. As a result, fair value of transport increased by USD 44 705 thousand or RUB 1 697 011 thousand as at 31 December 2014. Should the Group continue accounting for transport items using cost model as at 31 December 2014 net book value of these fixed assets would amount to USD 60 106 thousand or RUB 3 381 448 thousand. Revaluation surplus recognized in the amount of USD 44 705 thousand or RUB 1 697 011 thousand is not subject to distribution to shareholders of the Group.

In 2015, the Group changed its accounting policy in respect of accounting model from cost model to revaluation model for all categories of property, plant and equipment except for land with net book value of USD 1 395 thousand or RUB 101 705 thousand as at 31 December 2015.

In 2015, the Group's management employed independent appraiser to determine fair value of property, plant and equipment as at 31 December 2015. The fair value of property, plant and equipment was determined in the amount of USD 2 048 977 thousand or RUB 149 334 961 thousand, which has been classified as a Level 3 in the fair value hierarchy based on the inputs to the valuation techniques used.

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 2015 and budgets for 2016-2022. Budgets for 2016 – 2022 are based on concluded long-term contracts, which allow forecast for a period of more than five years. The Group's management expects to maintain levels of titan production at 28 thousand tons based on actual levels in 2015 of approximately 28,4 thousand tons (2014: 28,9 thousand tons). The projections of target production levels are supported with past experience of the Group;
- A pre-tax discount rate of 19,9% was applied to discount projected cash flows for the period;

- Discount rate was estimated based on an industry weighted average cost of capital, which applied a possible debt leveraging of 40,22% at a market borrowing rate of 10,52%;
- A terminal rate of 4% 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 estimated discounted amount of the future cash flows approximately equals the carrying amount of plant, property and equipment.

As a result of revaluation the carrying amount of property, plant and equipment changed by USD 1 422 656 thousand or RUB 103 394 453 thousand as at 31 December 2015.

Decrease of the carrying amount of certain fixed assets in the amount of USD 23 507 thousand or RUB 1 713 224 thousand was recognized in the current year loss. Impairment of these fixed assets relates to underused capacity, the Group’s plans for certain objects termination of usage and due to existence of unused objects, which cannot be sold by the Group.

Increase of the carrying amount of property, plant and equipment in the amount of USD 1 446 163 thousand or RUB 105 107 677 thousand was recognized in other comprehensive income.

Information on net book value of property, plant and equipment as at 31 December 2015 should the Group continue accounting using cost model is provided below. Change in accounting policy doesn’t have effect on depreciation charge for 2015.

’000 USD	**Buildings and constructions**	**Plant and equipment**	**Transport**	**Transfer devices**	**Other**	**Assets under construction**	**Total**
Balance at 31 December 2015 before revaluation	68 373	273 631	44 781	25 783	8 119	188 688	609 375

’000 RUB	**Buildings and constructions**	**Plant and equipment**	**Transport**	**Transfer devices**	**Other**	**Assets under construction**	**Total**
Balance at 31 December 2015 before revaluation	4 983 237	19 942 963	3 263 739	1 879 188	591 769	13 752 031	44 412 927

The revaluation surplus for 2015 recognized in the amount of USD 1 446 163 thousand or RUB 105 107 677 thousand is not subject to distribution to shareholders of the Group.

(b) Security

Properties with a net book value of USD 9 846 thousand or RUB 717 593 thousand (2014: USD 7 391 thousand or RUB 415 816 thousand) are pledged to secure bank loans (see Note 23).

(c) Property, plant and equipment under construction

Advances given to suppliers for capital construction in the amount of USD 24 035 thousand or RUB 1 751 715 thousand (31 December 2014: USD 26 024 thousand or RUB 1 464 050 thousand) are included in the balance of assets under construction.

In 2015, capitalized borrowing costs related to the construction of new property, plant and equipment amounted to USD 5 301 thousand or RUB 323 162 thousand (2014: USD 2 180 thousand or RUB 82 762 thousand) with an average capitalization rate of 3,5% (2014: 3%).

(d) Impairment loss

In 2015, the Group recognized impairment loss on property, plant and equipment of one of the subsidiaries in the amount of USD 3 103 thousand or RUB 189 178 thousand as a result of delayed market entry and ongoing production set up costs.

14. Intangible assets

'000 USD	Mining rights	Land lease rights	Other	Total
Cost				
Balance at 1 January 2014	90 085	-	1 687	91 772
Acquisitions	2	15 393	19	15 414
Disposals	-	-	(20)	(20)
Translation to presentation currency	(40 869)	(5 007)	(441)	(46 317)
Balance at 31 December 2014	**49 218**	**10 386**	**1 245**	**60 849**
Accumulated amortization and impairment losses				
Balance at 1 January 2014	(40 420)	-	(914)	(41 334)
Amortization for the year	-	(147)	(94)	(241)
Impairment losses	(5 481)	-	-	(5 481)
Translation to presentation currency	20 481	48	138	20 667
Balance at 31 December 2014	**(25 420)**	**(99)**	**(870)**	**(26 389)**
Carrying amounts				
As at 1 January 2014	**49 665**	**-**	**773**	**50 438**
Balance at 31 December 2014	**23 798**	**10 287**	**376**	**34 460**
Cost				
Balance at 1 January 2015	49 218	10 386	1 245	60 849
Acquisitions	-	-	6	6
Disposals	-	-	(2)	(2)
Translation to presentation currency	(13 776)	(2 369)	(147)	(16 292)
Balance at 31 December 2015	**35 442**	**8 017**	**1 102**	**44 561**
Accumulated amortization and impairment losses				
Balance at 1 January 2015	(25 420)	(99)	(870)	(26 389)
Amortization for the year	-	(231)	(54)	(285)
Impairment losses	(10 354)	-	-	(10 354)
Translation to presentation currency	8 068	60	73	8 201
Balance at 31 December 2015	**(27 706)**	**(270)**	**(850)**	**(28 826)**
Carrying amounts				
Balance at 1 January 2015	**23 798**	**10 287**	**376**	**34 460**
Balance at 31 December 2015	**7 736**	**7 747**	**252**	**15 735**

'000 RUB	Mining rights	Land lease rights	Other	Total
Cost				
Balance at 1 January 2014	2 920 960	-	53 149	2 974 109
Acquisitions	81	584 309	728	585 118
Disposals	-	-	(742)	(742)
Translation to presentation currency	(152 135)	-	16 903	(135 232)
Balance at 31 December 2014	**2 768 906**	**584 309**	**70 038**	**3 423 253**
Accumulated amortization and impairment losses				
Balance at 1 January 2014	(1 294 317)	-	(29 001)	(1 323 318)
Amortization for the year	-	(5 590)	(3 575)	(9 165)
Impairment losses	(208 074)	-	-	(208 074)
Translation to presentation currency	72 321	-	(16 328)	55 993
Balance at 31 December 2014	**(1 430 070)**	**(5 590)**	**(48 904)**	**(1 484 564)**
Carrying amounts				
Balance at 1 January 2014	**1 626 643**	**-**	**24 148**	**1 650 791**
Balance at 31 December 2014	**1 338 836**	**578 719**	**21 134**	**1 938 689**
Cost				
Balance at 1 January 2015	2 768 906	584 309	70 038	3 423 253
Acquisitions	-	-	357	357
Disposals	-	-	(133)	(133)
Translation to presentation currency	(185 823)	-	10 053	(175 770)
Balance at 31 December 2015	**2 583 083**	**584 309**	**80 315**	**3 247 707**
Accumulated amortization and impairment losses				
Balance at 1 January 2015	(1 430 070)	(5 590)	(48 904)	(1 484 564)
Amortization for the year	-	(14 108)	(3 321)	(17 429)
Impairment losses	(631 141)	-	-	(631 141)
Translation to presentation currency	41 934	-	(9 695)	32 239
Balance at 31 December 2015	**(2 019 277)**	**(19 698)**	**(61 920)**	**(2 100 895)**
Carrying amounts				
Balance at 1 January 2015	**1 338 836**	**578 719**	**21 134**	**1 938 689**
Balance at 31 December 2015	**563 806**	**564 611**	**18 395**	**1 146 812**

Amortization of the mining rights will start after commencement of extraction and will be based on actual extraction volumes for the year compared to proven reserves of the licensed field under development.

Amortization expense for other intangible assets of USD 285 thousand or RUB 17 429 thousand (2014: USD 241 thousand or RUB 9 165 thousand) has been charged to administrative expenses.

Significant additions to "Land lease rights" category in 2014 relate to acquisition of recreation resort.

(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. The term of the license is until 2029. The mining rights provide access to mining ilmenite-rutile-zircon sands that are the main raw materials in the production of titanium sponge. The purchase price was determined with reference to the net present value of cash flows expected to be generated from the extraction of ilmenite-rutile-zircon sands from the whole Eastern field of the "Tsentralnoe" deposit. The Group intends to extend the current mining rights to the whole Eastern field of the "Tsentralnoe" deposit. Currently the Group is not able to estimate the approximate cost of such extension.

Before 2015, the Group recognized impairment loss in amount of USD 27 811 thousand or RUB 902 391 thousand due to the overall decrease in prices for titanium raw materials, lower than expected quality of titanium sands of the deposit, delays in realization of the project, as well as change in the discount rate.

In 2015, the Group recognized additional impairment loss in the amount of USD 3 035 thousand or RUB 185 000 thousand due to decrease in prices for ilmenite concentrate.

(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 acquired entity is in a start up phase of extraction and dressing of ilmenite-zircon sands that are the main raw materials in production of titanium sponge. The Group plans to commence extraction in 2016.

Before 2015, the Group recognized impairment loss in the amount of USD 18 839 thousand or RUB 600 000 thousand due to the delay in project realisation and increase of discount rate due to increased country risks.

The Group performed an assessment of the recoverable amount of the mining rights for development of the “Volchanskoe” deposit in the Dnepropetrovsk region. 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 assets. The following key assumptions were used in determining the recoverable amount:

- Cash flows were projected based on management plans to start production of ilmenite concentrate in 2016 and reach planned capacity of 25 thousand tons in 2026. The production will remain stable for the rest of the projection period till 2050 when management expects to complete exploration of the deposit;
- A pre-tax discount rates of 39,9% and 33,2% were applied to discount projected cash flows in 2016 and 2017, respectively. For the remaining period a pre-tax discount rates in range of 31,1%-33,3% were used to discount projected cash flows;
- The discount rates were estimated based on an industry weighted average cost of capital, which applied a possible debt leveraging of 33,00% at a market borrowing rates 19,34%, 15,04% and 13,34% for 2016, 2017 and 2018 respectively and 12,89% for the remaining period;
- A terminal rate of 5,5% was considered in estimating the terminal value from 2032 year.

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.

Based on the result of the above test the carrying amount of the mining rights as at 31 December 2015 exceeded its value in use as at reporting date. Impairment loss in amount of USD 7 319 thousand or RUB 446 141 thousand was recognized as at 31 December 2015 due to decrease in prices for ilmenite concentrate.

The management has performed sensitivity analysis and identified that a decrease in sales prices by 10% and increase in discount rate by 1%-point lead to additional impairment in the amount of approximately USD 4 million or RUB 290 million. An increase in sales prices by 10% and decrease in discount rate by 1%-point lead to decrease of the impairment in the amount of approximately USD 4,4 million or RUB 318 million.

15. Goodwill

	'000 RUB	'000 USD
Balance as at 1 January 2014	**2 001 817**	**61 163**
Translation to presentation currency	-	(25 580)
Balance as at 31 December 2014	**2 001 817**	**35 583**
Balance as at 1 January 2015	**2 001 817**	**35 583**
Translation to presentation currency	-	(8 117)
Balance as at 30 December 2015	**2 001 817**	**27 466**

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 gorno-obogatitelny kombinat", high quality of the ilmenite-zircon sands extracted by "DGOK". 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.

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

- Cash flows were projected based on actual operating results for 2015 year and budgets for 2016-2022. Budgets for 2016 – 2022 are based on concluded long-term contracts, which allow forecast for a period of more than five years. The Group's management expects to maintain levels of titan production at 28 thousand tons based on actual levels in 2015 of approximately 28,4 thousand tons (2014: 28,9 thousand tons). The projections of target production levels are supported with past experience of the Group;
- A pre-tax discount rate of 19,9% was applied to discount projected cash flows for the period;
- Discount rate was estimated based on an industry weighted average cost of capital, which applied a possible debt leveraging of 40,2% at a market borrowing rate of 10,52%;
- A terminal rate of 4% 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.

No impairment loss was recognised in respect of goodwill. The management has performed sensitivity analysis and identified that a decrease in sales prices by 5% and increase in discount rate by 1%-point lead to decrease of value in use in the amount of approximately USD 585 million or RUB 42 632 million.

16. Equity-accounted investees and joint operation

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

		2015			2014		
	Country	Carrying value '000 USD	Carrying value '000 RUB	Interest	Carrying value '000 USD	Carrying value '000 RUB	Interest
LLC "Uniti"	USA	13 527	985 911	50%	7 687	432 450	50%
OJSC "UralRedMet"	Russia	11 705	853 064	25%	14 450	812 942	25%
LLC "Aviacapital Service"	Russia	6 879	501 359	27%	7 152	402 346	27%
		32 111	**2 340 334**		**29 289**	**1 647 738**	

(a) Joint venture

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 2015 – 53,4% (2014 – 53,9%).

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 any given period. The Group was allocated 6,5% and 31,3% of the net income / (loss) of Uniti in 2015 and 2014, respectively.

The following is summarised financial information of Uniti as at and for 2015 and 2014:

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Non-current assets	102	85	7 434	4 758
Current assets	26 682	32 813	1 944 656	1 846 032
Current liabilities	(1 465)	(7 696)	(106 773)	(432 963)
Net assets (100%)	**25 319**	**25 202**	**1 845 317**	**1 417 827**

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Revenue	60 577	96 201	3 692 644	3 651 827
Income / (loss) and total comprehensive income / (loss) for the year (100%)	**247**	**(10 799)**	**15 057**	**(409 950)**
Group's share in profit / (loss) for the year	16	(2 443)	975	(92 732)
Dividends received by the Group	**-**	**-**	**-**	**-**

The Group had sales to Uniti of USD 17 924 thousand or RUB 1 092 609 thousand and USD 24 736 thousand or RUB 938 986 thousand during 2015 and 2014, respectively.

(b) Associates

OJSC "Uralredmet"

In September 2010, VSMPO-AVISMA acquired 18,98% of shares in the company 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 2015 and 31 December 2014:

	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Revenue	61 176	71 901	3 729 156	2 729 400
Profit for the year (100%)	**2 633**	**2 954**	**160 488**	**112 150**
Group’s share in profit for the year	658	739	40 122	28 037
Non-current assets	20 340	26 910	1 482 404	1 513 932
Current assets	20 718	23 423	1 509 964	1 317 722
Non-current liabilities	(2 920)	(3 991)	(212 787)	(224 551)
Current liabilities	(5 492)	(6 924)	(400 301)	(389 545)
Net assets (100%)	**32 646**	**39 418**	**2 379 280**	**2 217 558**
Group’s share in net assets (25%)	8 162	9 855	594 820	554 390

Purchases of the Group for the year ended 31 December 2015 were USD 53 822 thousand or RUB 3 280 871 thousand (2014: USD 64 030 thousand or RUB 2 430 606 thousand).

LLC “Aviacapital-Service”

In September 2014, the Group acquired 27% 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 (deliveries scheduled in 2018 – 2020) and MC-21 (deliveries scheduled in 2017 - 2025).

The following is summarized financial information of LLC “Aviacapital-Service” as at 31 December 2015 and for the period from 1 September to 31 December 2014:

	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Revenue	-	-	-	-
Loss for the year (100%)	**(1 902)**	**(6 109)**	**(115 926)**	**(231 881)**
Other comprehensive income for the year (100%)	**7 137**	**-**	**435 077**	**-**
Increase of additional capital for the year (100%)	**776**	**-**	**47 291**	**-**
Group’s share in change of net assets for the year	1 624	(1 651)	99 013	(62 654)
Non-current assets	15 097	21 796	1 100 287	1 226 213
Current assets	25 718	16 662	1 874 387	937 365
Non-current liabilities	(574)	(462)	(41 828)	(26 010)
Current liabilities	(13 092)	(9 337)	(954 145)	(525 309)
Net assets (100%)	**27 149**	**28 659**	**1 978 701**	**1 612 259**
Group’s share of net assets (27%)	7 336	7 744	534 645	435 632

(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.

17. Other investments and loans receivable

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Non-current				
Loans receivable	39 334	51 195	2 866 770	2 880 175
Investments available-for-sale measured at fair value	677	468	49 376	26 308
Other investments	522	676	38 064	38 015
	40 533	**52 339**	**2 954 210**	**2 944 498**
Current				
Loans receivable	11 185	5 343	815 213	300 590
Bank deposits	861	116	62 775	6 526
Investments held-to-maturity	851	3 502	62 000	197 000
	12 897	**8 961**	**939 988**	**504 116**

In 2015, the Group reversed provision for loans given to related party in the amount of USD 2 641 thousand or RUB 161 000 thousand, which was accrued as at 31 December 2014. Provision was reversed as in 2015 the Group obtained evidence on recoverabilityof the loan.

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.

18. Inventories

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Raw materials and consumables	166 947	194 924	12 167 539	10 966 119
Work in progress	82 800	142 777	6 034 658	8 032 415
Finished goods and goods for resale	179 252	155 112	13 064 423	8 726 310
	428 999	**492 813**	**31 266 620**	**27 724 844**

Inventories are shown net of provision of USD 15 928 thousand or RUB 1 160 886 thousand (31 December 2014: USD 19 425 thousand or RUB 1 092 830 thousand).

At 31 December 2015, inventories with a net book value of USD 48 334 thousand or RUB 3 522 740 thousand (31 December 2014: USD 46 072 thousand or RUB 2 591 923 thousand) had been pledged as security for certain bank loans of the Group, see Note 23.

19. Trade and other receivables

	31 December 2015 '000 USD	31 December 2014 '000 USD	31 December 2015 '000 RUB	31 December 2014 '000 RUB
Long-term trade accounts receivable	16 254	12 697	1 184 671	714 305
Short-term trade accounts receivable	176 869	207 653	12 890 710	11 682 251
Other accounts receivable	33 248	25 282	2 423 206	1 422 311
Impairment provision	(21 737)	(20 420)	(1 584 244)	(1 148 811)
	204 634	**225 212**	**14 914 343**	**12 670 056**
Advances to suppliers	23 315	29 484	1 699 205	1 658 726
Impairment provision	(943)	(1 126)	(68 754)	(63 343)
Value-added tax recoverable	25 390	21 392	1 850 477	1 203 452
Other taxes receivable	17 988	11 854	1 310 991	666 873
	270 384	**286 816**	**19 706 262**	**16 135 764**

At 31 December 2014, receivables with a carrying amount of USD 75 062 thousand or RUB 5 470 689 thousand (2014: USD 91 192 thousand or RUB 5 130 313 thousand) had been pledged as security for certain bank loans of the Group, see Note 23.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 25.

20. Cash and cash equivalents

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Petty cash	44	401	3 211	22 568
Bank balances	27 675	18 093	2 017 043	1 017 891
Deposits	481 188	474 448	35 070 291	26 691 632
Other cash and cash equivalents	213	3 678	15 512	206 975
	509 120	**496 620**	**37 106 057**	**27 939 066**

Bank deposits were classified as cash equivalents as the Group has the right to withdraw the deposits before their contractual maturities at any time without bank approval.

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Petty cash and bank balances denominated in RUB	1 787	1 667	130 216	93 837
Petty cash and bank balances denominated in USD	21 591	12 951	1 573 641	728 577
Petty cash and bank balances denominated in other currencies	4 341	3 876	316 397	218 045
Short-term bank deposits, denominated in RUB	16 133	28 736	1 175 832	1 616 578
Short-term bank deposits, denominated in USD	464 806	445 452	33 876 320	25 060 404
Short-term bank deposits, denominated in other currencies	249	260	18 139	14 650
Other cash equivalents	213	3 678	15 512	206 975
	509 120	**496 620**	**37 106 057**	**27 939 066**

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:

	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Petty cash	44	401	3 211	22 568
Rated Ba2 and above*	52 333	55 322	3 814 220	3 112 354
Rated Ba3*	20	-	1 458	-
Rated B1*	13	-	929	-
Rated B2*	460	425	33 515	23 884
Rated B3*	455 663	-	33 209 950	-
Rated Caa1*	-	439 739	-	24 739 029
Unrated	587	733	42 774	41 231
	509 120	**496 620**	**37 106 057**	**27 939 066**

* 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 25.

21. Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	Ordinary shares 2015	Ordinary shares 2014
Authorised shares	11 529 538	11 529 538
Par value	1 RUB	1 RUB
On issue at beginning of year	11 529 538	11 529 538
On issue at 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 2015 in respect of 2014 to the holders of ordinary shares in the amount of RUB 831,07 per ordinary share (equivalent to USD 16,38 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 188 801 thousand or RUB 9 581 853.

Dividends were declared in September 2015 in respect of first half of 2015 to the holders of ordinary shares in the amount of RUB 788,00 per ordinary share (equivalent to USD 12,00 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 138 342 thousand or RUB 9 085 276.

Dividends were declared in 2014 in respect of 2013 to the holders of ordinary shares in the amount of RUB 533,91 per ordinary share (equivalent to USD 15,30 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 176 360 thousand or RUB 6 155 736 thousand.

In 2015, the Group recovered dividends for previous years that were not received by shareholders in amount of USD 8 thousand or RUB 513 thousand (2014: USD 290 thousand or RUB 10 120 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 2015 the net statutory profit of the Company as reported in the published annual statutory financial statements was RUB 14 414 million (equivalent to USD 236 454 thousand translated at the average exchange rate for 2014) (2014: RUB 4 019 million (equivalent to USD 105 865 thousand translated at the average exchange rate for 2014)) and the closing balance of the accumulated profit including the current year net statutory profit amounted to RUB 30 992 million (equivalent to USD 425 228 thousand translated at the closing exchange rate for 2015) (2014: RUB 35 220 million (equivalent to USD 626 040 thousand translated at the closing exchange rate for 2014).

(b) Treasury shares

In May 2015, the Group companies sold 124 814 Company's shares for the total amount of USD 23 828 thousand or RUB 1 400 929 thousand. As at 31 December 2015, 5 737 shares are recorded as Treasury shares (2014: 130 551).

(c) Revaluation reserve

Revaluation reserve relates to the revaluation of property, plant and equipment and to the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

22. 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 23).

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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Total loans and borrowings	1 109 831	1 105 579	80 887 480	62 198 103
Less: cash and cash equivalents	(509 120)	(496 620)	(37 106 057)	(27 939 066)
Net debt	**600 711**	**608 959**	**43 781 423**	**34 259 037**
Total equity	1 855 863	882 911	135 2630 350	49 671 033
Net debt to equity ratio at 31 December	**0,32**	**0,69**	**0,32**	**0,69**

23. 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 25.

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Non-current liabilities				
Unsecured bank loans	643 784	629 672	46 920 707	35 424 340
	643 784	**629 672**	**46 920 707**	**35 424 340**
Current liabilities				
Secured bank loans	23 544	35 197	1 715 957	1 980 102
Unsecured bank loans	442 503	440 710	32 250 816	24 793 661
	466 047	**475 907**	**33 966 773**	**26 773 763**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 USD			**2015**		**2014**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Long-term loans						
Unsecured bank loans						
JSC "UniCredit Bank"	USD	2017-2020	257 368	256 037	276 168	274 717
JSC "ING Bank (Eurasia)"	USD	2018	111 111	110 507	22 222	22 113
JSC "Nordea Bank"	USD	2018	89 865	89 381	162 622	161 765
PSC "Sberbank of Russia"	USD	2017	66 734	66 525	120 833	120 428
JSC "Credit Agricole Corporate and Investment Bank"	USD	2017	46 000	45 693	-	-
OJSC "Rosbank"	USD	2018	25 455	25 455	-	-
Commerzbank AG	EUR	2024-2025	23 101	22 967	16 443	16 308
JSC "RaiffeisenBank"	USD	2018	21 250	21 162	28 947	28 797
UniCredit Bank AG	EUR	2017-2022	6 090	6 057	5 544	5 544
			646 974	**643 784**	**632 779**	**629 672**

'000 USD			**2015**		**2014**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Short-term loans						
Secured bank loans						
Bank of America	USD	2016	23 544	23 544	35 197	35 197
			23 544	***23 544***	***35 197***	***35 197***
Unsecured bank loans						
JSC "UniCredit Bank"	USD	2016	155 171	154 029	147 556	146 778
JSC "Nordea Bank"	USD	2016	56 757	56 451	28 378	28 213
PSC "Sberbank of Russia"	USD	2016	54 171	54 012	116 707	116 641
Cador Ltd	USD	2016	45 000	45 000	-	-
OJSC "Rosbank"	USD	2016	44 545	44 545	30 000	30 000
JSC "Raiffeisen Bank"	USD	2016	37 697	37 460	51 053	50 732
JSC "ING Bank (Eurasia)"	USD	2016	36 111	35 866	22 222	22 113
JSC "Credit Agricole Corporate and Investment Bank"	USD	2016	7 978	7 916	40 000	40 000
Commerzbank AG	EUR	2016	4 376	4 370	6 233	6 233
UniCredit Bank AG	EUR	2016	2 362	2 349	-	-
JSC "Credit Agricole Corporate and Investment Bank"	EUR	2016	505	505	-	-
			444 673	***442 503***	***442 149***	***440 710***
			468 217	**466 047**	**477 346**	**475 907**

’000 RUB			2015		2014	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Unsecured bank loans						
JSC "UniCredit Bank"	USD	2017-2020	18 757 706	18 660 732	15 536 793	15 455 197
JSC "ING Bank (Eurasia)"	USD	2018	8 098 078	8 054 044	1 250 187	1 244 017
JSC "Nordea Bank"	USD	2018	6 549 594	6 514 357	9 148 832	9 100 664
PSC "Sberbank of Russia"	USD	2017	4 863 790	4 848 496	6 797 890	6 775 083
JSC "Credit Agricole Corporate and Investment Bank"	USD	2017	3 352 604	3 330 225	-	-
OJSC "Rosbank"	USD	2018	1 855 196	1 855 196	-	-
Commerzbank AG	EUR	2024-2025	1 683 669	1 673 900	925 077	917 448
JSC "RaiffeisenBank"	USD	2018	1 548 757	1 542 341	1 628 533	1 620 049
UniCredit Bank AG	EUR	2017-2022	443 881	441 416	311 882	311 882
			47 153 275	**46 920 707**	**35 599 194**	**35 424 340**

’000 RUB			2015		2014	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Short-term loans						
Secured bank loans						
Bank of America	USD	2016	1 715 957	1 715 957	1 980 102	1 980 102
			1 715 957	***1 715 957***	***1 980 102***	***1 980 102***
Unsecured bank loans						
JSC "UniCredit Bank"	USD	2016	11 309 273	11 225 956	8 301 292	8 257 579
JSC "Nordea Bank"	USD	2016	4 136 586	4 114 332	1 596 522	1 587 199
PSC "Sberbank of Russia"	USD	2016	3 948 113	3 936 544	6 565 740	6 562 018
Cador Ltd	USD	2016	3 279 722	3 279 722	-	-
OJSC "Rosbank"	USD	2016	3 246 593	3 246 593	1 687 752	1 687 752
JSC "Raiffeisen Bank"	USD	2016	2 747 486	2 730 189	2 872 139	2 854 103
JSC "ING Bank (Eurasia)"	USD	2016	2 631 875	2 614 031	1 250 187	1 244 017
JSC "Credit Agricole Corporate and Investment Bank"	USD	2016	581 443	576 923	2 250 336	2 250 336
Commerzbank AG	EUR	2016	318 942	318 494	350 657	350 657
UniCredit Bank AG	EUR	2016	172 168	171 212	-	-
JSC "Credit Agricole Corporate and Investment Bank"	EUR	2016	36 820	36 820	-	-
			32 409 021	***32 250 816***	***24 874 625***	***24 793 661***
			34 124 978	**33 966 773**	**26 854 727**	**26 773 763**

Bank loans are secured by following:

- Property, plant and equipment with a carrying amount of USD 9 846 thousand or RUB 717 593 thousand (2014: USD 7 391 thousand or RUB 415 816 thousand), see Note 13;
- Inventories with a carrying amount of USD 48 334 thousand or RUB 3 522 740 thousand; (2014: USD 46 072 thousand or RUB 2 591 923 thousand), see Note 18;
- Trade and other accounts receivable with a carrying amount of USD 75 062 thousand or RUB 5 470 689 thousand (2014: USD 91 192 thousand or RUB 5 130 313 thousand), see Note 19;

As at 31 December 2015, the Group had an outstanding loan from Bank of America, which is secured with total assets of the Group’s subsidiary – Tirus US, except investment in Uniti. As at 31 December 2015 the assets of Tirus US amounted to USD 143 360 thousand or RUB 10 448 397 thousand (2014: USD 154 328 thousand or RUB 8 682 264 thousand), excluding Uniti.

As at 31 December 2015, the Group had undrawn credit line facilities for the total amount of USD 365 517 thousand or RUB 26 639 867 thousand (2014: USD 80 000 thousand or RUB 4 500 672 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 2015, the Group breached covenant with respect to unsecured bank loan with a carrying amount of USD 145 832 thousand and RUB 10 628 689 thousand at 31 December 2015 (2014: USD 173 978 thousand or RUB 9 787 729 thousand) which requires certain level of turnovers on the Group’s bank accounts opened with in this bank. The Group informed the bank on the breach in 2015 and the bank agreed not to demand early repayment of the loan. Given that the bank provided waiver in 2015, as at 31 December 2015, the Group retained its right to defer payments under this loan for more than 12 months from the reporting date therefore the loan was classified as long term in accordance with contractual payment terms.

24. Trade and other payables

	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Trade accounts payable	33 660	40 519	2 453 240	2 279 534
Accrued liabilities and other creditors	29 307	25 725	2 135 983	1 447 246
Payroll and social tax payable	9 853	12 344	718 082	694 451
	72 820	**78 588**	**5 307 305**	**4 421 231**

The Group’s exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25.

25. 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 17).

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, which are not measured at fair value:

	Carrying amount			
	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Loans receivable	50 519	56 538	3 681 983	3 180 765
Investments held-to-maturity	851	3 502	62 000	197 000
Long-term trade and other receivables	16 254	12 697	1 184 671	714 305
Loans and borrowings	(1 109 831)	(1 105 579)	(80 887 480)	(62 198 103)

	Fair value			
	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Loans receivable	48 658	50 520	3 546 318	2 842 148
Investments held-to-maturity	779	3 367	56 792	189 432
Long-term trade and other receivables	16 254	11 987	1 184 671	674 350
Loans and borrowings	(1 095 624)	(1 071 232)	(79 852 051)	(60 265 783)

As at 31 December 2015, fair value of financial assets and liabilities was calculated by applying discounted cash flows technique using market discount rate and relates to Level 3 in the fair value hierarchy.

As at 31 December 2015, carrying amount of short-term trade and other receivables, other investments, cash and cash equivalents, and trade and other payables did not differ significantly from their fair value.

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 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 13% (2014: 13%) 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 19.

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	
	2015 ’000 USD	**2014 ’000 USD**	**2015 ’000 RUB**	**2014 ’000 RUB**
Loans receivable	50 519	56 538	3 681 983	3 180 765
Investments held-to-maturity	851	3 502	62 000	197 000
Short-term bank deposits	861	116	62 775	6 526
Trade accounts receivable	175 865	203 765	12 817 583	11 463 495
Other account receivable	28 769	21 447	2 096 760	1 206 561
Cash and cash equivalents	509 120	496 620	37 106 057	27 939 066
	765 985	**781 988**	**55 827 158**	**43 993 413**

Impairment losses

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

	2015		**2014**	
’000 USD	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Neither past due nor impaired	144 925	-	147 394	-
Past due less than 3 months	27 924	(922)	48 484	(270)
Past due from 3 to 6 months	2 821	(94)	5 877	-
Past due from 6 to 12 months	579	(472)	3 017	(1 223)
Past due over 12 months	16 874	(15 770)	15 578	(15 092)
	193 123	**(17 258)**	**220 350**	**(16 585)**

	2015		**2014**	
’000 RUB	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Neither past due nor impaired	10 562 623	-	8 292 167	-
Past due less than 3 months	2 035 175	(67 190)	2 727 620	(15 190)
Past due from 3 to 6 months	205 635	(6 836)	330 613	-
Past due from 6 to 12 months	42 174	(34 427)	169 750	(68 831)
Past due over 12 months	1 229 774	(1 149 345)	876 406	(849 040)
	14 075 381	**(1 257 798)**	**12 396 556**	**(933 061)**

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

	2015		**2014**	
’000 USD	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**16 585**	**3 835**	**19 284**	**5 233**
Impairment loss recognised	8 537	2 021	8 980	1 542
Provision reversed	(3 163)	(1)	(657)	-
Provision used	(47)	(204)	(370)	(370)
Translation to presentation currency	(4 654)	(1 172)	(10 652)	(2 570)
Provision for impairment as at 31 December	**17 258**	**4 479**	**16 585**	**3 835**

	2015		**2014**	
’000 RUB	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**933 061**	**215 750**	**631 147**	**171 265**
Impairment loss recognised	520 384	123 213	340 888	58 538
Provision reversed	(192 792)	(76)	(24 940)	-
Provision used	(2 855)	(12 441)	(14 034)	(14 053)
Provision for impairment as at 31 December	**1 257 798**	**326 446**	**933 061**	**215 750**

Impairment loss recognized included revaluation of provision in respect of receivables nominated in currency that is under litigations with the customer, which began in 2012. The amount of the trade receivables provision revaluation for 2015 amounted to USD 2 665 thousand or RUB 162 448 thousand (2014: USD 6 344 thousand or RUB 243 755 thousand) and the amount of other receivable provision revaluation for 2015 amounted to USD 1 764 thousand or RUB 107 559 thousand (2014: nil).

(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 23.

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	Contrac-tual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2015						
Unsecured loans and borrowings	1 086 287	1 151 489	467 896	340 494	259 215	83 884
Secured loans and borrowings	23 544	23 544	23 544	-	-	-
Trade and other accounts payable	72 820	72 820	72 820	-	-	-
Total current and non-current liabilities	**1 182 651**	**1 247 853**	**564 260**	**340 494**	**259 215**	**83 884**
As at 31 December 2014						
Unsecured loans and borrowings	1 070 382	1 125 140	471 594	360 103	149 288	144 155
Secured loans and borrowings	35 197	35 708	35 708	-	-	-
Trade and other accounts payable	78 588	78 588	78 588	-	-	-
Total current and non-current liabilities	**1 184 167**	**1 239 436**	**585 890**	**360 103**	**149 288**	**144 155**

’000 RUB	Carrying amount	Contrac-tual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2015						
Unsecured loans and borrowings	79 171 523	83 923 646	34 101 519	24 816 142	18 892 288	6 113 697
Secured loans and borrowings	1 715 957	1 715 957	1 715 957	-	-	-
Trade and other accounts payable	5 307 305	5 307 305	5 307 305	-	-	-
Total current and non-current liabilities	**86 194 785**	**90 946 908**	**41 124 781**	**24 816 142**	**18 892 288**	**6 113 697**
As at 31 December 2014						
Unsecured loans and borrowings	60 218 001	63 298 628	26 531 150	20 258 820	8 398 713	8 109 945
Secured loans and borrowings	1 980 102	2 008 875	2 008 875	-	-	-
Trade and other accounts payable	4 421 231	4 421 231	4 421 231	-	-	-
Total current and non-current liabilities	**66 619 334**	**69 728 734**	**32 961 256**	**20 258 820**	**8 398 713**	**8 109 945**

(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:

31 December 2015

’000 USD	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	486 610	2 669	1 921
Accounts receivable	188 125	1 050	237
Bank deposits	746	-	115
Other investments	-	-	1
Loans receivable	4 611	-	-
Accounts payable and other liabilities	(13 118)	(6 437)	(832)
Loans and borrowings	(1 073 583)	(36 248)	-
Net exposure	**(406 609)**	**(38 966)**	**1 442**

31 December 2014

’000 USD	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	458 614	5 015	2 576
Accounts receivable	184 246	937	431
Bank deposits	-	-	116
Other investments	-	-	1
Loans receivable	4 347	-	-
Accounts payable and other liabilities	(13 060)	(10 928)	(1 454)
Loans and borrowings	(1 077 494)	(28 085)	-
Net exposure	**(443 347)**	**(33 061)**	**1 670**

31 December 2015

’000 RUB	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	35 465 420	194 528	140 008
Accounts receivable	13 711 050	76 500	17 255
Bank deposits	54 380	-	8 395
Other investments	-	-	38
Loans receivable	336 062	-	-
Accounts payable and other liabilities	(956 107)	(469 158)	(60 639)
Loans and borrowings	(78 245 638)	(2 641 842)	-
Net exposure	**(29 634 833)**	**(2 839 972)**	**105 057**

31 December 2014

’000 RUB	**USD**	**EUR**	**Other foreign currencies**
Cash and cash equivalents	25 800 870	282 160	144 907
Accounts receivable	10 365 403	52 738	24 252
Bank deposits	-	-	6 526
Other investments	-	-	38
Loans receivable	244 556	-	-
Accounts payable and other liabilities	(734 736)	(614 777)	(81 794)
Loans and borrowings	(60 618 116)	(1 579 987)	-
Net exposure	**(24 942 023)**	**(1 859 866)**	**93 929**

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

	31 December 2015	Average for 12 months 2015	31 December 2014	Average for 12 months 2014
USD	72,8827	60,9579	56,2584	37,9603
EUR	79,6972	67,7767	68,3427	50,8150

Sensitivity analysis

A 10% weakening of the RUB against the following currencies at 31 December 2015 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 2014.

Sensitivity analysis

2015	**Equity ’000 USD**	**Profit or loss ’000 USD**
USD strengthening 10%	(40 661)	(40 661)
Euro strengthening 10%	(3 897)	(3 897)
2014		
USD strengthening 10%	(44 335)	(44 335)
Euro strengthening 10%	(3 306)	(3 306)

2015	**Equity ’000 RUB**	**Profit or loss ’000 RUB**
USD strengthening 10%	(2 963 483)	(2 963 483)
Euro strengthening 10%	(283 997)	(283 997)
2014		
USD strengthening 10%	(2 494 202)	(2 494 202)
Euro strengthening 10%	(185 987)	(185 987)

(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:

	2015 '000 USD	2014 '000 USD	2015 '000 RUB	2014 '000 RUB
Fixed rate instruments				
Loans receivable	50 519	56 538	3 681 983	3 180 765
Bank deposits classified as cash equivalents	481 188	474 448	35 070 291	26 691 632
Bank deposits	861	116	62 775	6 526
Current loans and borrowings	(89 545)	-	(6 526 315)	-
Non-current loans and borrowings	(25 455)	-	(1 855 196)	-
	417 568	**531 102**	**30 433 538**	**29 878 923**
Variable rate instruments				
Current loans and borrowings	(376 502)	(475 907)	(27 440 458)	(26 773 763)
Non-current loans and borrowings	(618 329)	(629 672)	(45 065 511)	(35 424 340)
	(994 831)	**(1 105 579)**	**(72 505 969)**	**(62 198 103)**

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
2015				
100 bp parallel fall	9 948	9 948	725 060	725 060
100 bp parallel rise	(9 948)	(9 948)	(725 060)	(725 060)
2014				
100 bp parallel fall	11 056	11 056	621 981	621 981
100 bp parallel rise	(11 056)	(11 056)	(621 981)	(621 981)

(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.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

’000 USD	**Trade and other receivables**	**Trade and other payables**
31 December 2015		
Gross amounts	36 465	12 084
Amounts offset in accordance with IAS 32 offsetting criteria	(1 144)	(1 144)
Net amounts presented in the statement of financial position	35 321	10 940
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1 986)	(1 986)
Net amount	**33 335**	**8 954**

’000 USD	**Trade and other receivables**	**Trade and other payables**
31 December 2014		
Gross amounts	93 262	13 505
Amounts offset in accordance with IAS 32 offsetting criteria	(1 380)	(1 380)
Net amounts presented in the statement of financial position	91 882	12 125
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(2 388)	(2 388)
Net amount	**89 494**	**9 737**

’000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2015		
Gross amounts	2 657 680	880 708
Amounts offset in accordance with IAS 32 offsetting criteria	(83 378)	(83 378)
Net amounts presented in the statement of financial position	2 574 302	797 330
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(144 739)	(144 739)
Net amount	**2 429 563**	**652 591**

’000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2014		
Gross amounts	5 246 750	759 796
Amounts offset in accordance with IAS 32 offsetting criteria	(77 628)	(77 628)
Net amounts presented in the statement of financial position	5 169 122	682 168
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(134 343)	(134 343)
Net amount	**5 034 779**	**547 825**

The net amounts presented in the statement of financial position disclosed above form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

26. Significant subsidiaries

	Country of incorporation	2015 Ownership voting	2014 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%

27. Operating leases

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

	2015 '000 USD	2014 '000 USD	2015 '000 RUR	2014 '000 RUR
Less than 1 year	4 642	4 449	338 342	250 310
1 to 5 years	13 378	12 649	975 017	711 586
Over 5 years	9 902	7 256	721 687	408 212
	27 922	**24 354**	**2 035 046**	**1 370 108**

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 current year USD 4 792 thousand or RUB 292 091 thousand (2014: USD 2 914 thousand or RUB 110 617 thousand) was recognised in the consolidated statement of comprehensive income in respect of operating leases.

28. Commitments

(a) Capital commitments

As at 31 December 2015, the Group has entered into contracts to purchase plant and equipment for USD 93 594 thousand or RUB 6 821 376 thousand (2014: USD 148 152 thousand or RUB 8 334 769 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.

29. 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; however, under certain circumstances a tax year may remain open longer. 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 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

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.

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

30. Related parties

(a) Government

The Government of the Russian Federation controls the State Corporation (“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. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation. The following turnovers and balances arise from transactions with related parties except for settlments with tax authorities and other government structures of Russian Federation.

Transactions with related parties:

Relationship	2015 ’000 USD	2014 ’000 USD	2015 ’000 RUB	2014 ’000 RUB
Revenue				
Parties under Government control	152 156	260 664	9 275 111	9 894 889
Entities under Rostech control	111 613	171 624	6 803 708	6 514 890
Joint arrangement	17 948	24 791	1 094 056	941 057
Associates	1 356	2 449	82 644	92 960
Purchases				
Parties under Government control	(97 812)	(148 977)	(5 962 411)	(5 655 227)
Entities under Rostech control	(3 271)	(5 780)	(199 420)	(219 423)
Joint arrangement	(5 669)	(5 014)	(345 578)	(190 324)
Associates	(53 822)	(64 030)	(3 280 871)	(2 430 606)
Purchases of property, plant and equipment				
Parties under Government control	(316)	(2 036)	(19 251)	(77 284)
Entities under Rostech control	(1)	-	(68)	-
Sales of property, plant and equipment				
Joint operation	-	2 116	-	80 321
Associates	38	-	2 300	-
Sale of own shares				
Ultimate beneficiary	23 828	-	1 400 929	-
Loans provided				
Entities under Rostech control	-	(73 761)	-	(2 800 000)
Entities under ultimate beneficiary's control	3 248	-	198 000	-
Proceeds from borrowings				
Entities under ultimate beneficiary's control	60 000	-	3 657 471	-
Interest income				
Parties under Government control	18 178	24 344	1 108 100	924 111
Entities under Rostech control	6 447	1 208	393 013	45 846
Associates	-	700	-	26 591
Interest expenses				
Parties under Government control	(5 572)	(9 191)	(339 648)	(348 888)
Entities under ultimate beneficiary's control	(322)	-	(19 635)	-

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 2015**	**31 December 2014**	**31 December 2015**	**31 December 2014**
Bank balances				
Parties under Government control	1 052	516	76 654	29 008
Entities under Rostech control	460	425	33 515	23 884
Trade and other receivables				
Parties under Government control	1 742	10 645	126 985	598 846
Entities under Rostech control	1 749	11 674	127 444	656 788
Joint arrangement	81	1 598	5 926	89 895
Associates	139	264	10 142	14 843
Ultimate beneficiary	14 406	-	1 049 970	-
Advances to suppliers				
Parties under Government control	4 442	2 791	323 718	157 037
Entities under Rostech control	2	2	178	115
Joint operation	-	-	-	-
Advances given to suppliers for capital construction				
Parties under Government control	5 463	-	398 153	-
Entities under ultimate beneficiary's control	583	-	42 505	-
Bank deposits, classified as cash and cash equivalents				
Parties under Government control	460 434	445 920	33 557 708	25 086 746
Entities under Rostech control	-	-	-	-
Investments available-for-sale measured at fair value				
Parties under Government control	677	468	49 376	26 308
Loans receivable				
Entities under Rostech control	38 418	49 770	2 800 000	2 800 000
Top management	722	1 354	52 599	76 165
Entities under ultimate beneficiary's control	5 324	-	388 000	-
Other investments				
Entities under Rostech control	-	2 400	-	135 000
Loans and borrowings				
Parties under Government control	(120 833)	(237 540)	(8 806 660)	(13 363 630)
Entities under ultimate beneficiary's control	(45 000)	-	(3 279 722)	-
Trade and other payables				
Parties under Government control	(3 981)	(1 123)	(290 171)	(63 187)
Entities under Rostech control	(478)	(371)	(34 836)	(20 845)
Joint arrangement	(1 675)	(1 356)	(122 056)	(76 264)
Associates	(2 460)	(2 926)	(179 296)	(164 633)
Entities under ultimate beneficiary's control	(293)	-	(21 386)	-
Advances received				
Parties under Government control	(23 059)	(32 212)	(1 680 621)	(1 812 168)
Entities under Rostech control	(10 696)	(11 226)	(779 517)	(631 576)
Joint operation	(128)	(178)	(9 314)	(9 994)
Associates	(1)	(1)	(107)	(30)

All outstanding balances with related parties are expected to be settled within twelve months of the reporting date except for loans. Loan issued to entity under Rostech control in the amount of USD 38 418 thousand or RUB 2 800 000 thousand is not past due and was granted with the interest rate of 14%. None of the balances are secured. In 2016, this loan will be converted in ordinaty shares of the borrower (see Note 31).

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%.

Bank deposits in USD, classified as cash and cash equivalents, in banks under Government control have interest rate from 2% to 6%.

In 2015, the Group received short-term loans from companies under shareholder’s control in the amount of USD 60 000 thousand or RUB 3 657 471 thousand payable June 2016. Interest rate for these loans is 2,25%.

In 2015, the Group sold the treasury shares to the ultimate beneficiary, see Note 21. The sale agreement provide payment by instalments for three years with interest rate of 5%. Sold shares are pledged.

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 2015 amounted to USD 7 771 thousand or RUB 473 690 thousand (2014: USD 8 652 thousand or RUB 328 436 thousand). Related state pension and social security costs for the year ended 31 December 2015 amounted to USD 1 469 thousand or RUB 89 571 thousand (2014: USD 1 549 thousand or RUB 58 788 thousand). There were no significant post-employment or other long-term benefits.

31. Subsequent events

On 13 April 2016, the shareholders’ meeting of JSC “AKB Novikombank” approved decision to increase share capital by 7 000 000 shares and to settle its liabilities under subordinated loans by converting them to these shares. Price of one share is USD 43,95 or RUB 2 916. As a result the Group will receive 960 219 shares, which comprise 7,96% in share capital of JSC “AKB Novikombank”.

32. 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 on each reporting date.

33. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 34 to all periods presented in these consolidated financial statements.

In 2015, the Group applied revaluation model to all categories of property, plant and equipment (except for land). This change provides more relevant information on values of the Group’s fixed assets in current market conditions (see Note 13).

34. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes described above (see Note 33) and have been applied consistently by the Group entities.

(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.

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.

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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. 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) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated 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 retranslated 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 in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation 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 presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations, which functional currency differs from RUB, are translated to presentation currency at exchange rates at the dates of the transactions, or by applying average exchange rate for a period of transactions, if deemed appropriate.

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 the 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 in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to 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.

(c) Financial instruments

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

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets 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.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are 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.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date or redeemable on demand without any restrictions or penalties that are subject to insignificant risk of changes in their fair value.

Loans and receivables category comprise the following classes of assets: loans receivable, trade and other receivables, other investments (promissory notes) and cash and cash equivalents as presented in notes 17, 19 and 20, respectively.

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 and foreign currency differences on available-for-sale debt instruments (see note 17), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, 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 of the Group comprise equity securities.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other 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 liability when its contractual obligations are discharged or cancelled or expire.

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, bank overdrafts, and trade and other payables.

(d) 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.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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.

Depreciation is calculated to allocate the cost of property, plant and equipment to their residual values on a straight-line basis over estimated useful lives of each part of an item of property, plant and equipment. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings and constructions	25 - 40 years
Plant and equipment	15 years
Transport	10 years
Transfer devices	20 years
Other	3 - 5 years

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

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in profit or loss as incurred.

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.

Gains and losses on disposal of an item of property, plant and equipment are recognised net within general and administrative expenses in profit or loss. When revaluated items are sold, any corresponding amount recognized in revaluation reserve under the heading of revaluation surplus is classified to retained earnings.

(ii) Subsequent costs

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

(f) Intangible assets

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 15.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

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.

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 profit or loss as incurred.

Amortisation is 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. Intangible assets useful lives range between 3 and 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.

(g) Leased assets

Leases in terms of which the Group assumes 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.

(h) Inventories

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

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

(i) 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 or 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.

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 than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. 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. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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. 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.

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.

(j) Employee benefits

(i) 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.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus 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.

(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; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. 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.

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

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each reporting date.

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and VAT. Revenues from sales of the Group's titanium products and related by-products are recognised when risks and rewards of ownership of the goods have been transferred to the buyer, 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. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

(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.

(m) Other expenses

(i) Lease payments

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) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at, they are recognised in profit or loss as incurred.

(n) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group’s right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are 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.

Current tax is 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 the declaration of dividends.

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.

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.

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.

A deferred tax asset is recognised for unused tax losses, 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 utilised. 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.

(p) 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, 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 not yet effective as at 31 December 2015, 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.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group has not analysed the likely impact on the financial position or performance. The Group does not intend to adopt this standard early.

- 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*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group has not analysed the likely impact on the financial position or performance. The Group does not intend to adopt this standard early;
- IFRS 16 replaces the existing lease accounting guidance in 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*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Group has not analysed the likely impact on the financial position or performance. The Group does not intend to adopt this standard early.

The following new or amended standards are not expected to have a significant impact of the Group’s consolidated financial statements.

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

Numbered, bound and sealed 67 (sixty seven) sheets.

Adamov N.A.

Deputy Director of Ekaterinburg branch of

JSC KPMG - Ural Regional Center