JSC Chelyabinsk zinc plant
Consolidated Financial Statements
for 2014
and Auditors’ Report

Contents

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Auditors' Report

To the Shareholders and Board of Directors of JSC "Chelyabinsk Zinc Plant"

We have audited the accompanying consolidated financial statements of JSC "Chelyabinsk Zinc Plant" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Vakhidov N.U.

Director of Ekaterinburg Branch of JSC "KPMG" – Ural Regional Center, (power of attorney dated 24 March 2015)

27 April 2015

Ekaterinburg, Russian Federation

’000 RUB	Note	31 December 2014	31 December 2013
Assets			
Property, plant and equipment	8	6,852,061	5,119,417
Advances for acquisition of business	10	3,400,000	-
Advances for acquisition of property, plant and equipment		103,830	179,814
Intangible assets	9	148,351	94,883
Financial Assets	13	-	686,301
Deferred tax assets	25	-	46,373
Other non-current assets		557	377
Non-current assets		**10,504,799**	**6,127,165**
Inventories	11	2,334,184	2,602,039
Trade and other receivables	12	3,181,629	2,456,636
Current income tax prepayment		1,420	60,536
Financial assets	13	56,694	460,730
Cash and cash equivalents	14	447,750	445,786
Current assets		**6,021,677**	**6,025,727**
Total assets		**16,526,476**	**12,152,892**
Equity	15		
Share capital		127,635	127,635
Share premium		1,375,231	1,375,231
Legal reserve		3,011	3,011
Translation reserve		1,274,349	(16,893)
Retained earnings		11,326,915	8,974,372
Total equity		**14,107,141**	**10,463,356**
Liabilities			
Provision for asset retirement obligations	17	145,173	100,693
Deferred income tax liabilities	25	183,274	137,984
Other non-current liabilities		62,287	55,317
Total non-current liabilities		**390,734**	**293,994**
Accounts payable, accrued expenses and advances from customers	18	1,491,972	1,149,238
Current income tax payable		38,179	5,508
Other taxes payable	19	403,162	240,796
Bank overdrafts	14	95,288	-
Total current liabilities		**2,028,601**	**1,395,542**
Total liabilities		**2,419,335**	**1,689,536**
Total equity and liabilities		**16,526,476**	**12,152,892**

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 9 to 58.

'000 RUB	Note	2014	2013
Revenue	20	16,507,852	13,062,475
Cost of sales	21	(11,793,148)	(11,077,407)
Gross profit		**4,714,704**	**1,985,068**
Other operating income	23	393,457	66,615
Commercial costs	22	(796,979)	(716,156)
General and administrative expenses	22	(1,016,660)	(983,921)
Other operating expenses	23	(99,272)	(634,582)
Results from operating activities		**3,195,250**	**(282,976)**
Finance income		132,452	134,111
Finance expense		(18,557)	(43,282)
Foreign exchange loss	24	(353,860)	(21,812)
Profit /(Loss) before income tax		**2,955,285**	**(213,959)**
Income tax (expense)/benefit	25	(602,742)	5,728
Profit/(Loss) for the period		**2,352,543**	**(208,231)**
Other comprehensive income			
Total items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		1,291,242	145,787
Total other comprehensive income		**1,291,242**	**145,787**
Total comprehensive income/(loss) for the period		**3,643,785**	**(62,444)**
Profit/(loss) is attributable to:			
Shareholders of the Company		2,352,543	(208,231)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		3,643,785	(62,444)
Earnings/(loss) per share – basic and diluted (in RUB)	16	**43.4**	**(3.8)**

These consolidated financial statements were approved by management on 27 April 2015 and were signed on its behalf by:

P.A. Izbrekht
General Director

S.B. Kondakov
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 9 to 58.

’000 RUB

	Share capital	Share premium	Legal reserve	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2013	**127,635**	**1,375,231**	**3,011**	**(162,680)**	**9,182,603**	**10,525,800**
Loss for the period	-	-	-	-	(208,231)	(208,231)
Other comprehensive income	-	-	-	145,787		145,787
Total comprehensive income for the period	**-**	**-**	**-**	**145, 787**	**(208,231)**	**(62,444)**
Balance at 31 December 2013	**127,635**	**1,375,231**	**3,011**	**(16,893)**	**8,974,372**	**10,463,356**
Balance at 1 January 2014	**127,635**	**1,375,231**	**3,011**	**(16,893)**	**8,974,372**	**10,463,356**
Profit for the period	-	-	-	-	2,352,543	2,352,543
Other comprehensive income				1,291,242	-	1,291,242
Total comprehensive income for the period	**-**	**-**	**-**	**1,291, 242**	**2,352,543**	**3,643,785**
Balance at 31 December 2014	**127,635**	**1,375,231**	**3,011**	**1,274,349**	**11,326,915**	**14,107,141**

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 9 to 58.

’000 RUB	Note	2014	2013
Cash flows from operating activities			
Profit /(Loss)		2,352,543	(208,231)
Adjustments for:			
Depreciation and amortisation	8, 9	985,221	1,011,595
Loss on disposal of property, plant and equipment		89,245	6,077
(Reversal of)/impairment of loans issued, trade and other receivables		(1,037)	2,136
Impairment losses/(reversal of impairment) of inventory provision		1,602	(21,366)
Net finance income		(113,895)	(90,829)
Unrealized foreign exchange gains		237,186	(10,224)
(Reversal of)/impairment losses on fixed assets and assets under construction	8	(322,221)	385,431
Adjustment of the expenses for electricity transmission services	21	(358,647)	-
(Reversal of)/accrual taxes provision		(19,342)	74,228
Other non-monetary operating (income)/expenses		(20,308)	32,741
Income tax expense/(benefit)	25	602,742	(5,728)
		3,433,089	**1,175,830**
Changes in:			
Trade and other receivables		357,154	(494,048)
Inventories		379,390	(515,731)
Trade and other payables		233,944	284,790
Taxes payable		58,994	72,718
Restricted cash balance		(727)	(142)
Cash flows from operations		**4,461,844**	**523,416**
Interest paid		-	(1,022)
Income tax paid		(435,369)	(115,620)
Net cash from operating activities		**4,026,475**	**406,774**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	8, 9	(1,640,475)	(1,008,966)
Advances for acquisition of business	10	(3 400 000)	-
Capitalized stripping costs	8	(211,546)	(188,964)
Proceeds from sale of property, plant and equipment		4,151	604
Loans issued		(28,701)	(1,066)
Proceeds from repayment of loans issued		25,199	303,610
Interest income received		3,534	149,828
Proceeds from bank deposits repayment		2,158,970	1,004,384
Bank deposits placements		(1,051,000)	(659 000)
Net cash used in investing activities		**(4,139,868)**	**(399,571)**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents		19,342	12,238
Net (decrease)/increase in cash and cash equivalents		**(94,051)**	**19,441**
Cash and cash equivalents at 1 January		**444,827**	**425,386**
Cash and cash equivalents at 31 December	13	**350,776**	**444,827**

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 9 to 58.

1. Background

(a) Business Environment

Russian Federation and Republic of Kazakhstan

The Group's operations are primarily located in the Russian Federation and the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and the Republic of Kazakhstan 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 and the Republic of Kazakhstan.

The recent 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 business environment in the Russian Federation and the Republic of Kazakhstan on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC "Chelyabinsk Zink Plant" (the "Company") was incorporated in May 1993 and is domiciled in the Russian Federation. The Company is an open joint stock company and was set up in accordance with the Russian legislation. The Group includes the Company and its subsidiaries.

As of 31 December 2014 and 31 December 2013 the Group's immediate parent company was NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares. It is also the company which ultimately controls the Group. None of the shareholders of NF Holdings BV individually or jointly with other shareholders controls the Group.

The Company is listed on the Moscow Stock Exchange and the London Stock Exchange in the form of Global Depositary Receipts.

Principal activities. The Group's principal business activity is the extraction and integrated processing of ore with the purpose of producing zinc and lead concentrates, production and distribution of zinc, zinc alloys and by-products. The Group's manufacturing facilities are based in Chelyabinsk (the Russian Federation), Akzhal (the Republic of Kazakhstan) and Cannock (the United Kingdom). The Group includes a number of subsidiaries. The main Group companies were set up under the legislation of the Russian Federation (JSC Chelyabinsk zinc plant), the Republic of

Kazakhstan (LLP "Nova Zinc") and the United Kingdom (Brock Metal Ltd). As of 31 December 2014 the Group employed 3,173 employees (31 December 2013: 3,236 employees).

The Group has a license to mine lead and zinc ore at the Akzhal field in the Karaganda Region issued by the authorities of the Republic of Kazakhstan. The license expires in 2017, however, based on the analysis of the current licensing practices, the Group management believes that the license will be extended without any significant costs.

Legal address of the Company: Russian Federation, 454008, Chelyabinsk, Sverdlovsky trakt, 24

2. Basis of accounting

(a) Approval of the consolidated financial statements

These consolidated financial statements have been signed by Izbrekht P.A. who was appointed to the position of the General Director by the Board of Directors of JSC "Chelyabinsk Zinc Plant" on 26 December 2014.

(b) Statement of compliance

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

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of LLP "Nova Zinc" is the Kazakhstani Tenge ("KZT"), and the functional currency of Brock Metal Ltd is the pound sterling ("GBP"). All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

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 considering the exchange rates fluctuations, volume and amount of transactions at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

To restore the external competitiveness of the Tenge exchange rate, and of the foreign trade balance of the Kazakh economy and to support a competitive position of the domestic manufacturers, on the 11 February 2014 the National Bank of the Republic of Kazakhstan decided not to maintain the Tenge exchange rate at the existing level, reduce the volumes of foreign currency interventions and reduce its interference in the process of setting up the exchange rate of the Tenge. This decision caused a substantive change of the Tenge exchange rate to the Russian rouble and US dollar.

During November-December 2014, due to the worsening of the economic circumstances, significant fall of exchange rate of Russian rouble to primary international currencies occurred.

Change in exchange rates of Russian rouble to Kazakhstani tenge and English pound sterling significantly affected exchange differences on translation to presentation currency stated in the consolidated statement of profit or loss and other comprehensive income as well as translation reserve stated in the consolidated statement of financial position. The table below shows exchange rates used:

	Average exchange rates		Spot exchange rates as at	
Russian Rouble	**2014**	**2013**	**31 December 2014**	**31 December 2013**
1 Kazakhstani Tenge	0,2151	0,2096	0,3083	0,2131
1 Pound Sterling	63,36	49,90	87,42	53,95

(d) Basis of measurement

These consolidated financial statements have been prepared on the historical cost convention, except for derivative financial instruments recognized as at fair value through profit or loss.

(e) Critical accounting 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 8 – useful lives of property, plant and equipment;
- Note 17 – recognition and measurement of provision for asset retirement obligations.

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 8 – impairment test: key assumptions underlying recoverable amounts;
- Note 27 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

(f) 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.

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 notes 26.

3. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

a. IFRIC 21 Levies

b. Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).

c. Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

Adaptation of standards and amendments to standards stated above has no significant impact on these consolidated financial statements.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 3, which addresses changes in accounting policies.

(a) Basis of consolidation

(i) 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.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the 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.

(iii) Stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in field development before production commences are capitalised as part of field development costs and are subsequently amortised using the unit of production method over the life of the field operation.

The Group recognizes a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved;
- the costs relating to the improved access to that component can be measured reliably.

The Group allocates the expenses related to the initial cost of the stripping activity asset and cost of inventory extracted in the current period using production ratios, such as actual versus expected ratio of waste volumes extracted. Thereby, the Group determines the average ratio of production waste removal works in relation to the volume of ore extracted which is used to allocate the stripping costs to the current period inventory and stripping activity asset.

After initial recognition, stripping activity assets are accounted at cost less accumulated depreciation and impairment loss. Depreciation is calculated using the units of production method over useful life of the component of ore body to which access has been approved.

Stripping activity asset that provide access to ore to be mined in the future is recognised as an item of property, plant and equipment as a component of mining assets to which it relates (note 8).

(iv) Depreciation

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

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

Buildings and infrastructure	10 to 50
Plant, machinery and equipment	5 to 30
Other	2 to 30

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

Mining assets are depreciated using the unit-of-production method. Unit-of-production rates are based on proven developed reserves, which are zinc ore and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Zinc ore volumes are considered produced once they have been measured through meters at custody transfer.

(c) Intangible assets

(i) Exploration and evaluation costs

Recognition and subsequent measurement

Exploration and evaluation expenses are capitalized and measured at cost less provision for impairment, where required.

Exploration and evaluation expenditure relates to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs relating to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling; and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditure incurred on activities that precede exploration for and evaluation of mineral resources, being all expenditure incurred prior to securing the legal rights to explore an area, is expensed immediately.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. Costs are accumulated on a field-by-field basis. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a resource is proven. Once commercial reserves are found, exploration and evaluation assets are transferred to development tangible and intangible assets and amortised using the unit-of-production method based on proved and probable mineral reserves. No amortisation is charged during the exploration and evaluation stage.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

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

Expenses on CZP SHG certificate	30 years
Computer software and licenses	3-5 years

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

(d) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Significant accounting policies in relation to those financial instruments which are presented in the statement of financial position of the Group as at the reporting date are disclosed in the notes below.

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

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

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group 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.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 3(e)(i)).

Loans and receivables category comprise the following classes of financial assets: trade and other receivables (note 12), loans issued, bank deposits (note 13) and cash and cash equivalents (note 14).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Restricted cash balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management. Bank overdrafts for which a legally enforceable right to offset against the cash balances exist and management intends to offset assets and liabilities simultaneously or on a net basis, are included in cash and cash equivalents or in bank overdrafts in the statement of financial position.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to reduce the risks related to the fluctuations of zinc prices. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

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

(iii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

(iv) 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) Impairment

(i) Non-derivative financial assets

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

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

- default or delinquency by a debtor; restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the Group;
- economic conditions that correlate with defaults;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

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.

(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 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 (cash generating unit).

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

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

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

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

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Zinc ore is recognised as raw materials when delivered to the surface and is valued at the average cost of extraction. The cost of main finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity) less cost of by-products. The cost of sales for by-products is determined on the basis of standard cost and the expected margin.

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

(g) 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.

Asset retirement obligations

Asset retirement costs include landfill site restoration and closure (dismantling and demolition of infrastructure, the removal of residual materials and remediation of disturbed areas). Estimated landfill site restoration and closure costs are provided for in the consolidated financial statements and included in the cost of property, plant and equipment in the accounting period when the obligation arising from the related disturbance occurs during the mine development phase, based on the net present value of estimated future costs. Provisions for asset retirement obligations do not include any additional obligations expected to arise from future disturbances. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated at regular intervals during the life of the operation to reflect known developments, e.g., updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review.

The amortisation, or “unwinding”, of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period.

(h) Revenue

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of zinc, the transfer usually occurs when the product is received at the customer’s warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller. Generally for such products the buyer has no right of return.

Sales of services including services on processing of ore are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(i) Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

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

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

(iii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and 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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability 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 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.

(j) Leases

(i) Determining whether an arrangement contains a lease

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

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

(ii) Leased assets

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

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

(iii) Lease payments

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

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

(k) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- the net gain or loss on derivative instruments recognized at fair value through profit or loss;
- the foreign currency gain or loss on financial assets and financial liabilities;
- the reclassification of net gains previously recognised in OCI.

Interest income is recognised using the effective interest method.

(l) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

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

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. The assessment of tax risks of the Group is disclosed in the note 27.

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

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

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

(ii) Foreign operations

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

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

(n) Earnings per share

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

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are presented in the consolidated financial statements based on the same principles as they are reported to the chief operating decision maker (the Board of Directors). All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

5. 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 2014, 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 no intention for the early adoption of this standard. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

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

  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 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

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

- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- 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).
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.

6. Operating segments

The Group is organized as a vertically integrated business and has three reportable operating segments:

- Mining segment is represented by LLP "Nova Zinc", an operator of lead zinc mine "Akzhal" in the Republic of Kazakhstan, which produces zinc and lead concentrate.
- Smelting segment is represented by JSC Chelyabinsk zinc plant, which produces Special High Grade zinc of 99.995% metal purity and zinc-based alloys.
- Alloying segment is represented by Brock Metal Ltd, a British producer of die-cast zinc alloys.

The Board of Directors assesses performance and allocates resources based on financial information for these segments, which includes earnings before interest, tax, depreciation and amortisation, adjusted for impairment, finance income and expenses and foreign exchange differences on borrowings and deposits (segment EBITDA) as a key measure of profitability. Since this indicator is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

There are varying levels of integration between the Mining and Smelting reportable segments. This integration includes transfers of raw materials represented by zinc concentrate.

The financial information reported on operating segments is based on management accounts. There are differences in the reported amounts and the amounts presented in this consolidated financial statements in accordance with IFRS due to the differences in accounting policies.

The segment revenue and EBITDA provided to the Board of Directors for the years ended 31 December 2014 and 31 December 2013, respectively, were as follows:

'000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
The year ended 31 December 2014				
Total segment revenue	2,216,019	12,302,308	3,398,032	17,916,359
Intersegment revenue	1,747,634	178,500	-	1,926,134
Revenue from external customers	468,385	12,123,808	3,398,032	15,990,225
Capital expenditure	267,010	1,152,460	15,527	1,434,997
Segment EBITDA	605,621	2,985,251	58,553	3,649,425
The year ended 31 December 2013				
Total segment revenue	1,605,731	10,672,514	2,029,138	14,307,383
Intersegment revenue	1,189,648	12,797	-	1,202,445
Revenue from external customers	416,083	10,659,717	2,029,138	13,104,938
Capital expenditure	269,225	604,921	6,454	880,600
Segment EBITDA	285,719	539,442	37,147	862,308

The following tables show a reconciliation of revenue, capital expenditure and EBITDA used by management for decision-making and profit or loss before tax per the consolidated financial statements prepared in accordance with IFRS:

’000 RUB	**2014**	**2013**
Revenue from external customers of reportable segments	15,990,225	13,104,938
Reclassification of precious metals sales revenue recognised as other revenue	574,969	-
Timing differences (iii)	20,287	48,936
Adjustments for other revenue	(19,661)	(24,576)
Revenue from precious metals primary processing (i)	(173,083)	(174,010)
Other business activities not in scope of the Board of Directors review	115,115	107,187
IFRS revenue	**16,507,852**	**13,062,475**

’000 RUB	**2014**	**2013**
Segments’ capital expenditure, including:	1,434,997	880,600
Capitalisation of expenses (iv)	453,774	265,642
Capitalization of exploration and evaluation costs	(13,939)	(19,171)
Social objects write-off	(19,712)	(28,012)
Adjustments	72,452	(38,583)
IFRS capital expenditure	**1,927,572**	**1,060,475**

’000 RUB	**2014**	**2013**
Segment EBITDA	**3,649,425**	**862,308**
Accounting policy differences:		
Inventory adjustments (ii)	(72,242)	94,534
Timing differences (iii)	2,099	54,009
Capitalisation of expenses (iv)	453,774	265,642
Elimination of intersegment operations	(193,325)	(23,152)
Employee benefits (v)	(1,210)	8,229
Reversal/(accrual) of tax provision	19,342	(74,288)
Other reconciling items	387	(73,260)
Items excluded from segment EBITDA:		
Depreciation and amortisation	(985,221)	(1,011,595)
Impairment reversal/(impairment) of property, plant and equipment	322,221	(385,403)
Foreign exchange loss, net	(353,860)	(21,812)
Finance income	132,452	134,111
Finance costs	(18,557)	(43,282)
IFRS profit/(loss) before tax based	**2,955,285**	**(213,959)**

The reconciling items are attributable to the following:

(i) Revenue related to primary processing of precious metals contained in zinc concentrate into clinker or cake which was netted-off in accordance with IFRS;

(ii) Inventory adjustments consist of provisions for slow-moving goods and materials, overhead absorption and other adjustments required to cost inventory in accordance with IFRS;

(iii) Timing differences are both revenue and zinc concentrates purchase transactions which are recognised in different accounting periods in IFRS as compared to the management accounts;

(iv) Capitalisation of expenses: certain costs and expenses in the management accounts which are required to be capitalised under IFRS as they extend the remaining useful life of an asset (capitalised major overhauls and anodes, stripping activity costs);

(v) Employee benefits include directors' and key management's compensation which is recognised in different accounting periods in this consolidated financial statements as compared to the management accounts, accrual of unused vacation and pension plan benefits in accordance with IFRS.

Segments' assets and liabilities

Total segments' assets and liabilities provided to the Board of Directors for the years ended 31 December 2014 and 31 December 2013, respectively, were as follows:

'000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
As at 31 December 2014:				
Inventories	224,446	2,038,656	121,689	2,384,791
Accounts receivable	1,345,736	1,597,024	1,024,105	3,966,865
Segments' assets	**1,570,182**	**3,635,680**	**1,145,794**	**6,351,656**
Accounts payable	299,690	2,218,869	87,706	2,606,265
Segments' liabilities	**299,690**	**2,218,869**	**87,706**	**2,606,265**
As at 31 December 2013:				
Inventories	-	1,173,733	-	1,173,733
Accounts receivable	674,866	1,624,066	464,249	2,763,181
Segments'' assets	**674,866**	**2,797,799**	**464,249**	**3,936,914**
Accounts payable	175,557	1,311,839	114,012	1,601,408
Segments' liabilities	**175,557**	**1,311,839**	**114,012**	**1,601,408**

As at 31 December 2013 data on reportable segments' assets and liabilities, which was submitted to the Board of Directors, included detailed information about balance of zinc in raw materials and finished goods of smelting segment, information about other inventories of the rest of the Group's segments was submitted collectively. As at 31 December 2014 detailed information about total balance of inventories of all the Group's segments was submitted to the Board of Directors. This balance refers to the reportable segments' assets reconciliation stated below.

Reportable segments' assets are reconciled to consolidated inventory and trade and other receivable balances in these consolidated financial statements as follows:

’000 RUB	31 December 2014	31 December 2013
Total segments’ assets	6,351,656	3,936,914
Intersegment eliminations	(1,035,884)	(428,753)
Elimination of income tax prepayment	(1,420)	(60 536)
Other inventories of smelting segment, which are not in scope of the Board of Directors review	-	1,065,720
Inventories of mining and alloying segments, which are not in scope of the Board of Directors review	-	161,777
Netting of accounts receivable and accounts payable	(26,563)	(4,328)
Inventory adjustments (ii)	70,400	155,141
Timing differences (iii)	(20,701)	28 585
Adjustment on input VAT related to electricity expenses under litigation (Note 12)	38,127	84,075
Other business activities not in scope of the Board of Directors review	18,715	17,589
Other differences	121,483	102,490
IFRS inventories, trade and other receivables	**5,515,813**	**5,058,675**

Reportable segments’ liabilities are reconciled to total current liabilities in these consolidated financial statements as follows:

’000 RUB	31 December 2014	31 December 2013
Total segments’ liabilities	2,606,265	1,601,408
Intersegment eliminations	(874,137)	(434,517)
Settlements with employees	38,516	28,334
Timing differences (iii)	1,746	42,979
Netting of accounts receivable and accounts payable	(29,012)	(17,414)
Taxes payable	114,441	107,166
Provision on ecological legislation (Note 27)	54,660	-
Other business activities not reviewed by the Board of Directors	27,115	24,487
Adjustment on input VAT related to electricity expenses under litigation (Note 12)	38,127	84,075
Other differences	(44,409)	(40,976)
IFRS current liabilities	**1,933,312**	**1,395,542**

Geographical information

In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

Non-current assets, other than deferred tax asset and long-term deposits, for each individual country are reported separately as follows:

’000 RUB	31 December 2014	31 December 2013
Russia	8,537,825	4,493,139
Kazakhstan	1,899,548	861,915
United Kingdom	57,522	29,731
Other	9,904	9,706
IFRS non-current assets	**10,504,799**	**5,394,491**

Significant increase of non-current assets is related to smelting segment's advances given for acquisition of business in December 2014 (note 10).

Revenues are reported separately as follows:

'000 RUB	**2014**	**2013**
Russia	12,292,710	10,230,588
United Kingdom	1,918,191	1,264,487
Kazakhstan	623,850	525,868
Germany	335,137	229,080
Italy	266,322	108,927
France	175,267	85,874
Switzerland	53,417	128,696
Other countries	842,958	488,955
IFRS revenue	**16,507,852**	**13,062,475**

Revenues from customers which represent 10% or more of the total revenue were as follows:

'000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
For 2014				
The group of companies MMK	-	3,746,249	-	3,746,249
JSC Severstal	-	2,640,371	-	2,640,371
The group of companies UGMK	-	2,497,694	-	2,497,694
Other customers	451,964	3,759,763	3,411,812	7,623,538
Total IFRS revenue	**451,964**	**12,644,076**	**3,411,812**	**16,507,852**

'000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
For 2013				
The group of companies MMK	-	3,762,765	-	3,762,765
JSC Severstal	-	2,344,304	-	2,344,304
The group of companies UGMK	-	2,000,954	-	2,000,954
Other customers	484,225	2,437,497	2,032,730	4,954,452
Total IFRS revenue	**484,225**	**10,545,520**	**2,032,730**	**13,062,475**

7. Related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company is NF Holdings BV. No publicly available financial statements are produced by the Company's ultimate parent company.

(b) Transactions with key management personnel

Total directors' and key management's compensation is represented by contractual salary and discretionary bonus. It is recorded in general and administrative expenses in the consolidated statement of profit or loss in the amount of RUB 107,579 thousand and RUB 100,676 thousand for the years ended 31 December 2014 and 31 December 2013, respectively. There were 29 members of the directors and key management group for the year ended 31 December 2014 (2013: 30 members of the directors and key management group).

(c) Other related party transactions

The Group has entered into significant transactions during 2014 and 2013 and had significant balances outstanding as at 31 December 2014 and 31 December 2013 with related parties. Those related parties consisted of entities controlled by the shareholders with significant influence on the Group. Certain companies, which were disclosed as related parties before, ceased to be ones due to changes in the structure of the shareholders of the Group occurred during December 2014. Therefore, balances with those companies are not presented in this disclosure as at 31 December 2014. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Transactions and balances with related parties are presented below:

(i) Data from consolidated statement of financial position

'000 RUB	**Note**	**31 December 2014**	**31 December 2013**
Assets			
Accounts receivable	12	-	768,028
Advances issued	12	-	832
Advances for capital construction		-	8,247
Bank deposits		-	744,301
Loans issued		-	-
Total assets		**-**	**1,521,408**
Liabilities			
Accounts payable	18	(3,610)	(190,939)
Advances received	18	-	(30)
Liabilities for purchased property, plant and equipment		-	(13,015)
Total liabilities		**(3,610)**	**(203,984)**

(ii) Data from consolidated statement of profit or loss and other comprehensive income

'000 RUB	**Note**	**2014**	**2013**
Revenue			
Tolling fee	20	1,891,688	1,501,543
Sales of goods		480,325	621,807
Total revenue		**2,372,013**	**2,123,350**
Purchases			
Purchases of inventory		(423,035)	(1,842,328)
Purchases of electric power and gas		(1,198,116)	(1,210,576)
Total purchases		**(1,621,151)**	**(3,052,904)**
Operating expenses		**(60,107)**	**(71,504)**
Finance income		**12,484**	**62,777**

During 2014 the Group supplied 1,302 tonnes of zinc sulphate (2013: 1,981 tonnes), 1,327 tonnes of copper-bearing cake (2013: 1,392 tonnes) and 5,962 tonnes of lead cake (2013: 6,251 tonnes) to related parties.

During 2014 the Group purchased from related parties 4,008 tonnes of zinc concentrate for a total amount of RUB 94,459 thousand (2013: 75,185 tonnes for a total amount of RUB 1,526,015 thousand).

8. Property, plant and equipment

'000 RUB	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Mineral resources	Construction-in-progress	Total
Cost							
Balance at 1 January 2013	**45,419**	**3,384,668**	**6,172,079**	**1,037,351**	**2,951,998**	**868,760**	**14,460,275**
Additions and transfers of construction in progress	-	205,962	508,389	124,500	188,964	13,489	1,041,304
Disposals	-	(1,126)	(182,260)	(43,104)	(17,125)	(9,191)	(252,806)
Translation to presentation currency	-	29,576	55,393	26,506	163,280	4,947	279,702
Balance at 31 December 2013	**45,419**	**3,619,080**	**6,553,601**	**1,145,253**	**3,287,117**	**878,005**	**15,528,475**
Balance at 1 January 2014	**45,419**	**3,619,080**	**6,553,601**	**1,145,253**	**3,287,117**	**878,005**	**15,528,475**
Additions and transfers of construction in progress	-	213,970	969,825	102,688	211,546	415,603	1,913,633
Disposals	-	(24,133)	(249,296)	(116,899)	(11,816)	(26,635)	(428,779)
Translation to presentation currency	-	241,566	436,340	194,323	1,427,865	38,764	2,338,858
Balance at 31 December 2014	**45,419**	**4,050,483**	**7,710,470**	**1,325,365**	**4,914,712**	**1,305,737**	**19,352,186**
Depreciation and impairment losses							
Balance at 1 January 2013	**-**	**(1,518,172)**	**(4,108,290)**	**(627,877)**	**(2,657,183)**	**(93,494)**	**(9,005,016)**
Depreciation for the year		(193,080)	(632,423)	(104,390)	(79,866)	-	(1,009,759)
Impairment loss	-	(61,183)	(91,933)	(87,445)	(146,334)	1,464	(385,431)
Disposals		1,126	177,571	38,103	-	-	216,800
Translation to presentation currency	-	(20,348)	(41,238)	(15,891)	(148,175)	-	(225,652)
Balance at 31 December 2013	**-**	**(1,791,657)**	**(4,696,313)**	**(797,500)**	**(3,031,558)**	**(92,030)**	**(10,409,058)**
Balance at 1 January 2014	**-**	**(1,791,657)**	**(4,696,313)**	**(797,500)**	**(3,031,558)**	**(92,030)**	**(10,409,058)**
Depreciation for the year	-	(164,285)	(645,584)	(98,574)	(74,855)	-	(983,298)
Reversal of impairment	-	54,212	67,371	71,233	125,606	3,799	322,221
Disposals	-	8,236	231,903	99,395	-	-	339,534
Translation to presentation currency	-	(156,245)	(342,106)	(78,946)	(1,192,227)	-	(1,769,524)
Balance at 31 December 2014	**-**	**(2,049,739)**	**(5,384,729)**	**(804,392)**	**(4,173,034)**	**(88,231)**	**(12,500,125)**
Carrying amounts							
At 1 January 2013	**45,419**	**1,866,496**	**2,063,789**	**409,474**	**294,815**	**775,266**	**5,455,259**
At 31 December 2013	**45,419**	**1,827,423**	**1,857,288**	**347,753**	**255,559**	**785,975**	**5,119,417**
At 31 December 2014	**45,419**	**2,000,744**	**2,325,741**	**520,973**	**741,678**	**1,217,506**	**6,852,061**

Depreciation expense of RUB 861,374 thousand has been charged to cost of goods sold, RUB 6,969 thousand to commercial expenses and RUB 81,451 thousand to administrative expenses (2013: RUB 909,175 thousand, 6,969 thousand and 56,686 thousand, respectively). The total amount of depreciation charge for 2014, disclosed in the notes 8 and 9, of RUB 985,221 thousand (2013: RUB 1,011,595 thousand) exceeds depreciation charge recognized as expenses by the amount of depreciation charge on the fixed assets, used in the stripping activities, which was capitalized in mineral resources.

Reversal of impairment loss on property, plant and equipment

During 2014 the operating cash flows and profits of the Group increased significantly due to changes of currency exchange rates as well as relatively high zinc prices. Consequently, management of the Group revised the budget for the year 2015 and subsequent periods which was concerned as an indicator of possible reversal of the previously recognized impairment of the Group assets. The determined indicators are general to the Group, therefore the need to perform test for assessment of reversal of previously identified impairment is related to the main segments, the cash generating units of the Group, which possess significant non-current assets (Note 6).

As at 31 December 2013 an impairment loss was recognized in the amount of RUB 386,895 thousands, related to the subsidiary LLP “Nova Zinc”. In addition to that, accumulated loss from impairment of property, plant and equipment for this subsidiary as at 31 December 2013 includes impairment recognised in 2008 in the amount of RUB 1,854,401 thousand.

As at 30 June 2014 the management performed an analysis of the carrying value and calculated the recoverable amount of the property, plant and equipment of LLP “Nova Zinc”, a separate CGU, to identify whether it is necessary to recognise reversal of impairment loss of property, plant and equipment. As a result of impairment test the reversal of impairment in the amount of RUB 318,422 thousand was recognized in other operating income in the consolidated statement of profit or loss and other comprehensive income for the reporting period.

As at 31 December 2014 the management performed an analysis of the carrying value and calculated the recoverable amount of the property, plant and equipment of LLP “Nova Zinc” to identify whether it is necessary to recognise additional reversal of impairment loss of property, plant and equipment, accrued in previous periods. Major assumptions used in impairment test of property, plant and equipment were consistent with those used in impairment test of property, plant and equipment as at 30 June 2014 and 31 December 2013.

Value in use of property, plant and equipment was determined based on projected discounted cash flows method. This method includes the future net cash flows which can be generated by property, plant and equipment as a result of operating activity until disposal, in order to determine the value in use of the assets.

The discounted cash flows were projected for the period of 6 years, from 2015 to 2020, when the mining on Akzhal ore deposit is expected to cease, based on actual operating results and the budget for the year 2015.

Currently, management of the Group is finalizing preparation of the project regarding the combined mining of Akzhal ore deposit. Due to the fact that the project is in the approval stage and the final decision on the start-up of combined or subsurface ore extraction has not been made yet, the main assumption used in the impairment model is that by the end of refining of open mine ore deposit the cash generating unit discontinues its operations and consequently the assets will be disposed at liquidation value.

For the purpose of impairment test the forecasted cash flows model was prepared by management of the Group in US dollars as sales revenue is linked to market prices on metals denominated in US dollars. Operating costs forecast was based on Kazakhstan inflation ratio and translated into US dollars using corresponding forecast exchange rate of tenge to US dollar.

Information on independent market analysts' forecasts on average annual zinc and lead prices on London Metal Exchange (LME) used by management in calculation of the recoverable amount of property, plant and equipment of LLP "Nova Zinc" as at 31 December 2014, 30 June 2014 and 31 December 2013 is provided below:

	2014	2015	2016	2017	2018	2019
As at 31 December 2014						
Average price of zinc metal, USD per ton	n/a	2 280	2 379	2 469	2 403	2 402
Average rate of Kazakh tenge to the USD	n/a	201,4	211,8	212,9	212,1	209,2
As at 30 June 2014						
Average price of zinc metal, USD per ton	2 087	2 242	2 424	2 515	2 555	2 606
Average rate of Kazakh tenge to the USD	179,1	182,7	182,9	182,0	181,1	180,2
As at 31 December 2013						
Average price of zinc metal, USD per ton	2 002	2 171	2 290	2 347	2 365	2 412
Average rate of Kazakh tenge to the USD	153,8	154,2	153,8	154,0	154,6	154,9

The remaining assumptions used in impairment test of property, plant and equipment are provided below:

- the forecast volume of ore extraction was calculated based on actual proven ore reserves and mining plan for the years 2012-2020 approved in 2012;
- management believes the assumption that the existing license for mineral resources production will be renewed in 2017 through the end of the forecast period without significant additional costs to be appropriate;
- the forecast growth of operating expenses was calculated based on the budget for 2015, and forecasted Kazakhstan inflation ratio for subsequent projected periods;
- exchange rates of Kazakhstan tenge to US dollar were projected based on independent market analysts' forecasts;
- pre-tax discount rate used was 16.75% (30 June 2014: 15.9%; 31 December 2013: 16.2%).

As a result of the impairment test performed the management of the Group calculated the recoverable amount of the property, plant and equipment that exceeds the carrying value, at the same time, considering amount of the excess and sensitivity of the results of impairment test the management of the Group decided not to recognise additional reversal of impairment of property, plant and equipment as at 31 December 2014.

The management of the Group performed a sensitivity analysis of the results of the impairment test to changes in the assumptions used, results of the analysis as at 31 December 2014 are shown below:

- A 10% weakening of the forecasted Kazakh tenge to USD exchange rate in all forecasted periods leads to the recoverable amount of property, plant and equipment exceeding their carrying amount by RUB 838,266 thousand. A 10% strengthening of the forecasted Kazakh tenge to USD exchange rate in all forecasted periods leads to the recoverable amount of property, plant and equipment exceeding their carrying amount by RUB 296,722 thousand;

- A 1% increase in discount rate leads to the recoverable amount of property, plant and equipment exceeding the carrying value by RUB 244,523 thousands. A 1% decrease in discount rate leads to the recoverable amount exceeding the carrying value of property, plant and equipment by RUB 414,354 thousand. If discount rate is 21%, the carrying value of assets will be equal to its recoverable amount;
- A 15% increase in the forecasted zinc prices leads to the recoverable amount of property, plant and equipment exceeding their carrying amount by RUB 1,466,653 thousand. A 15% decrease in the forecasted zinc prices leads to the carrying value of property, plant and equipment exceeding their recoverable amount by RUB 797,071 thousand.

For JSC CZP, a separate CGU, the management of the Group didn’t calculate the recoverable amount of the property, plant and equipment due to absence of indicators of possible impairment.

Property, plant and equipment under construction

Property, plant and equipment under construction mainly comprise expenditures on acquisition of equipment, construction and assembling works related to modernization and re-equipment of the main production workshops of JSC Chelyabinsk zinc plant, as well as construction of new production facilities. These expenditures should enable the Company to achieve new level of production capacity in the medium-term period.

9. Intangible assets

The carrying value of intangible assets as at 31 December 2014 amounted to RUB 148,351 thousands (31 December 2013: RIB 94,883 thousand) and include exploration and evaluation assets and other intangible assets

The carrying value of exploration and evaluation assets as at 31 December 2014 amounted to RUB 130,206 thousand (31 December 2013: RUB 76,195thousand) and mainly include expenses related to the combined and subsurface ore extraction project preparation on Akzhal deposit, and exploration and evaluation activities in the relevant area of interest. Currently, management of the Group considers the options on further mining of the ore deposit, and gather the required information. Consequently, the decision on start-up of the subsurface ore extraction was not yet made.

Other intangible assets comprise the expenses on obtaining CZP SHG (Chelyabinsk Zinc Plant Special High Grade) certificate. The carrying value of this asset at 31 December 2014 is RUB 15,783 thousand (31 December 2013: RUB 16,571 thousand). The product was formally registered with London Metal Exchange in December 2004.

The amortisation expense of RUB 1,923 thousand has been charged to administrative expenses (in 2013 – RUB 1,836 thousand).

10. Advances for acquisition of business

In December 2014 the Group concluded the contract with the company controlled by the minority shareholder of the Group for acquisition of the company which operates a mine on subsoil area of federal importance and extracts zinc concentrate. Cash under this contract in the amount of

RUB 3,400,000 thousand was paid in December 2014. Actual acquisition of the company will occur in 2015.

11. Inventories

'000 RUB	As at 31 December 2014	As at 31 December 2013
Raw materials and consumables	1,130,126	1,271,011
Work in progress	843,228	752,525
Finished goods and goods for resale	358,774	573,008
Other inventories	10,269	9,660
Inventory provision	(8,213)	(4,165)
Total inventory	**2,334,184**	**2,602,039**

In 2014 raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales amounted to RUB 6,873,010 thousand (2013: RUB 5,598,937 thousand). The reversal of obsolence provision on inventory amounted to RUB 1,602 thousand in 2014 (2013: write-down in amount of RUB 21,366 thousand). The reversal and write-down are included in cost of sales.

12. Trade and other receivables

'000 RUB	Note	As at 31 December 2014	As at 31 December 2013
Balances on operations with third parties			
Trade receivables denominated in RUB		1,202,408	681,007
Trade receivables denominated in GBP		470,669	277,881
Trade receivables denominated in EUR		451,873	138,239
Trade receivables denominated in USD		43,623	33,184
Trade receivables denominated in Tenge		9,939	13,985
Interest income in RUB		1,889	21,490
Other financial assets		56,548	53,812
Balances on operations with related parties			
Trade receivables denominated in RUB	7	-	768,028
Impairment provision		(1,549)	(1,681)
Total financial assets within trade and other receivables		**2,235,400**	**1,985,945**
VAT and other taxes recoverable		559,328	384,320
Advances given – third parties		374,862	78,611
Advances given – related parties	7	-	832
Other receivables – third parties		14,774	8,308
Impairment provision		(2,735)	(1,380)
Total trade and other receivables		**3,181,629**	**2,456,636**

Information about the fair value of accounts receivable as at 31 December 2014 is disclosed in note 26.

As at 31 December 2014 total prepayments include prepayments made to OJSC "MRSK Ural" in the amount of RUB 253,901 thousand. These prepayments represent prepayments for electricity transmission services that are subject to litigation proceedings (Note 27).

Tax receivables balance as at 31 December 2014 includes VAT recoverable balance in the amount of RUB 312,793 thousand, accounted by the subsidiary LLC "Nova Zinc" in respect to which tax authorities denied to perform timely refund. Based on the existing court practice and argumentation available, management believes that subsequent VAT refund is probable, despite the fact that the company is currently in the process of litigation, disputing the decision of tax authorities (Note 27).

In addition tax receivables balance as at 31 December 2014 includes VAT recoverable balance in the amount of RUB 38,127 thousand relating to electricity transmission services accrued applying tariffs of OJSC "FSK UES", which has not been yet submitted for recovery by management due to absence of signed primary documents between OJSC "FSK UES" and JSC "Chelyabinsk Zinc Plant". As at 31 December 2013 tax receivables balance included VAT recoverable balance in the amount of RUB 84,075 thousand relating to electricity transmission services accrued applying tariffs of OJSC "MRSK Ural", which has not been yet submitted for recovery by management due to absence of signed primary documents between OJSC "MRSK Ural" and JSC "Chelyabinsk Zinc Plant" (Note 27).

As at 31 December 2014, total amount of provision for accounts receivable possible impairment amounted to RUB 4,284 thousand (31 December 2013: RUB 3,061 thousand), including impairment provision for trade receivables in amount of RUB 1,549 thousand (31 December 2013: RUB 1,681 thousand). The individually impaired receivables mainly relate to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

The ageing of trade receivables included in provision per past due period is:

'000 RUB	**As at 31 December 2014**	**As at 31 December 2013**
Less than 3 months	-	-
3 to 6 months	274	-
Over 6 months	1,275	1,681
Total amount of impaired accounts receivable	**1,549**	**1,681**

As of 31 December 2014, trade receivables of RUB 169,239 thousand (31 December 2013: RUB 629,028 thousand) were past due but not impaired. These amounts relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables per past due periods is as follows:

'000 RUB	**As at 31 December 2014**	**As at 31 December 2013**
Less than 3 months	168,671	601,390
3 to 6 months	282	25,095
Over 6 months	286	2,543
Trade accounts receivable past due but not impaired	**169,239**	**629,028**

The management believes that the unimpaired past due amounts are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available.

Movements in the provision for impairment of trade and other receivables are as follows:

’000 RUB	**2014**	**2013**
As of 1 January	**3,061**	**2,628**
Provision accrued	2,884	1,391
Receivable write-offs	-	(860)
Reversal of unused amount	(2,984)	(229)
Foreign exchange differences	1,324	131
As of 31 December	**4,284**	**3,061**

Accrual and reversal of provision for impaired receivables were included in other income and expenses in the consolidated statement of profit or loss. Receivable balances included in the provision are normally written off against the provision as soon as management acknowledges that there is a remote possibility that these receivables will be collected from the counterparty. Other classes within receivables do not contain impaired assets.

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

13. Financial assets

’000 RUB	**As at 31 December 2014**	**As at 31 December 2013**
Long-term bank deposits	-	686,301
Total long-term financial assets	**-**	**686,301**
Short-term bank deposits	-	452,969
OJSC Sberbank Rossii (promissory note)	45,000	-
Short-terms loans issued	5,446	2,125
Other short-term financial assets	6,248	5,636
Total short-term financial assets	56,694	**460,730**
Total financial assets	**56,694**	**1,147,031**

14. Cash and cash equivalents, overdrafts

’000 RUB	**As at 31 December 2014**	**As at 31 December 2013**
RUB denominated bank balances payable on demand and petty cash	210,192	40,707
RUB denominated deposits	157,700	167,000
KZT denominated bank balances payable on demand and petty cash	40,048	4,274
USD denominated bank balances/(overdrafts)	22,100	(1,828)
EUR denominated bank balances/(overdrafts)	15,927	(127,133)
GBP denominated bank balances payable on demand	97	361,807
Total cash and cash equivalents	**446,064**	**444,827**
Restricted cash	1,686	959
Total cash and cash equivalents	**447,750**	**445,786**
GBP denominated bank balances	193,023	-
USD denominated bank balances	35,492	-
EUR denominated balances overdrafts	(323,803)	-
Total balance of overdrafts	**(95,288)**	**-**
Total balances of cash and cash equivalents within the Statement of cash flows	**350,776**	**444,827**

All deposits classified by the Group as cash and cash equivalents have original maturities of less than three months and option for early withdrawal.

As at 31 December 2013 the Group includes overdraft with the bank Lloyds TSB in the cash and cash equivalents based on the legally enforceable right and management intention to offset overdraft against cash balances denominated in other currencies placed with this bank. As at 31 December 2014 net amount of overdraft liabilities is presented separately in the consolidated financial statements due to total overdraft liabilities have exceeded the cash balances placed with this bank.

As at 31 December 2014, RUB denominated deposits included deposit with Chelindbank amounted to RUB 157,700 thousand at 15.0% p.a. (31 December 2013: deposit with Chelindbank amounted to RUB 109,000 thousand at 6.0% p.a. and deposit with LLC CB Koltso Urala amounted to RUB 58,000 thousand at 5,5% p.a.).

15. Equity

The total number of ordinary shares in issue comprises:

’000 RUB	Number of ordinary shares	Book value of ordinary shares	Share premium	Total
As at 31 December 2013	54,195,410	127,635	1,375,231	1,502,866
As at 31 December 2014	54,195,410	127,635	1,375,231	1,502,866

As at 31 December 2014, the authorized, issued and fully paid share capital of the Company consisted of 54,195,410 ordinary shares with a nominal value of RUB 1 each (31 December 2013: 54,195,410 ordinary shares). Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

During the years ended 31 December 2014 and 2013, the Company did not issue or repurchase its own shares.

Profit distribution is based on the statutory accounting data of the Group’s entities. Russian legislation states net profit as the basis of distribution. Net statutory profit of the Company for 2014 as reported in the published annual statutory financial statements is RUB 1,676,503 thousand (unaudited) (for 2013: RUB 64,846 thousand (unaudited)) and the closing balance of the accumulated profit including the current year net statutory profit as at 31 December 2014 totalled RUB 11,681,970 thousand (unaudited) (2013: RUB 10,000,926 thousand (unaudited)).

During 2014 and 2013, in accordance with the annual shareholders general meeting’s decisions, the Company did not accrue or pay dividends on placed ordinary shares. As at 31 December 2014 and 31 December 2013, the Group did not have liabilities related to unpaid dividends for prior periods.

Capital risk management

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

Consistent with others in the industry, the Group monitors capital using a ratio of adjusted net debt to equity. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including trade and other payables and other taxes payable, as shown in the consolidated statement of financial position) less bank deposits, cash and cash equivalents and restricted cash.

The adjusted net debt to equity ratio as of 31 December 2014 and 31 December 2013 were as follows:

’000 RUB	**Note**	**31 December 2014**	**31 December 2013**
Total liabilities		1,933,313	1,395,542
Less: short-term bank deposits and promissory notes	13	(45,000)	(452,969)
Less: cash and cash equivalents	14	(350,776)	(444,827)
Less: restricted cash		(1,686)	(959)
Net debt		**1,535,851**	**496,787**
Total equity		**14,107,141**	**10,463,356**
Net debt to equity ratio		**0.11**	**0.05**

There were no changes in the Group’s approach to capital management during the year.

16. Earnings/(loss) per share

Earnings/(loss) per share as at 31 December 2014 was calculated by dividing the profit attributable to the equity holders of the Company in the amount of RUB 2,352,543 thousand (2013: loss in the amount of RUB 208,231 thousand) by the weighted average number of ordinary shares outstanding of 54,195,410 shares (31 December 2013: 54,195,410 shares). The Company has no financial instruments that may entail dilution of equity.

17. Provision for asset retirement obligations

In accordance with the environmental legislation and contracts on subsurface use, the subsidiary LLP “Nova Zinc” in Kazakhstan has a legal obligation to rehabilitate damaged environments caused by its operating activity and decommission its mining properties and restore a landfill site after its closure. Provisions are made, based on net present value of site restoration costs as soon as the obligation arises from past operating activities.

The Group has an obligation to restore the landfill site resulting from the mining operations and to decommission its mining property after its expected closure in 2020. These obligations relate to the mineral property of the Group disclosed in Note 8.

The provision for mining asset retirement and landfill site restoration is estimated based on the management’s interpretation of the current environmental legislation in the Republic of Kazakhstan and related programme adopted by LLP “Nova Zinc” for restoration of the contracted territory after mining and other operating activities supported by the feasibility study and the engineering research performed in accordance with the existing rehabilitation standards and techniques. Rehabilitation cost estimates are subject to potential changes in environmental regulatory requirements and interpretations of the law.

The Group management believes that the Group has no liabilities associated with significant retirement of assets located in the Russian Federation and United Kingdom.

Movements in provisions for asset retirement obligations are as follows:

’000 RUB	
Carrying value as at 1 January 2013	**107,272**
Changes to the forecasts recognised in property, plant and equipment cost	(17,124)
Unwinding of accrued discount	4,922
Effect of presentation currency translation	5,623
Carrying value as at 31 December 2013	**100,693**
Changes in estimates recognised in property, plant and equipment cost	(11,816)
Unwinding of accrued discount	10,053
Effect of presentation currency translation	46,243
Carrying value as at 31 December 2014	**145,173**

The discount rate used to calculate the net present value of future costs of asset retirement obligations as of 31 December 2014 was 8,75% p.a. (31 December 2013: 9,25% p.a.).

18. Accounts payable, accrued expenses and advances from customers

’000 RUB	Note	As at 31 December 2014	As at 31 December 2013
Balances on operations with third parties			
Trade payables – RUB denominated		643,286	454,700
Trade payables – USD denominated		144,582	10,311
Trade payables – KZT denominated		102,133	72,761
Trade payables – GBP denominated		43,797	76,566
Trade payables – EUR denominated		4,546	17,320
Trade payables – Swiss francs denominated		844	581
Payables for purchased property, plant and equipment and intangible assets		198,295	122,319
Accrued liabilities and other payables		113,434	24,410
Balances on operations with related parties			
Trade payables – RUB denominated	7	-	189,611
Trade payables – KZT denominated	7	3,610	1,328
Total financial liabilities within trade and other payables		**1,254,527**	**969,907**
Advances received RUB denominated – third parties		15,165	11,744
Advances received RUB denominated – related parties	7	-	30
Advances received USD denominated – third parties		10,170	6,511
Advances received KZT denominated – third parties		2,105	304
Payroll and social tax payable		149,844	113,089
Unused vacation accrual		60,161	47,653
Total trade and other payables		**1,491,972**	**1,149,238**

Accrued liabilities and other payables as at 31 December 2014 include provision on ecological litigation in the amount of RUB 54,660 thousand (31 December 2013: 0) (Note 27).

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

19. Other taxes payable

’000 RUB	31 December 2014	31 December 2013
Value Added Tax	208,469	81,626
Mineral Extraction Tax	97,957	55,490
Land tax and other payments for land use	5,563	24,742
Property tax	15,737	23,405
Personal income tax	17,558	15,159
Withholding tax	6,114	3,602
Other taxes	51,764	36,772
Total other taxes payable	**403,162**	**240,796**

Other taxes payable balance as at 31 December 2014 and as at 31 December 2013 includes provision on repayment of previously refunded VAT in the amount of RUB 66,046 thousand and 45,649 thousand correspondingly (Note 27).

20. Revenue

’000 RUB	Note	2014	2013
Zinc and zinc alloys		11,869,036	9,468,790
Tolling fee	7	1,974,263	1,501,543
Lead concentrate		539,870	548,981
Precious metals		574,969	122,795
Other		1,549,714	1,420,366
Total revenue		**16,507,852**	**13,062,475**

21. Cost of sales

’000 RUB	2014	2013
Raw materials and consumables used in production	6,683,516	5,818,092
Utilities and fuel	1,593,512	2,325,547
Staff cost	1,038,398	901,470
Depreciation of property, plant and equipment	861,374	909,155
Repairs and maintenance	736,329	768,227
Mineral extraction tax	254,303	197,090
Other taxes	165,966	129,808
Production overheads	105,936	95,747
Inventory provision	1,602	(21,366)
Other cost of sales items	162,718	172,791
Change in finished goods	272,683	(286,644)
Change in work-in-progress	(83,189)	67,490
Total cost of sales	**11,793,148**	**11,077,407**

During 2014 utilities and fuel expenses decreased significantly due to decrease of expenses on electricity transmission services. In 2014 expenses for electricity transmission services were accrued applying tariffs of OJSC "FSK UES" while during 2013 applying tariffs of OJSC "MRSK-Ural". In addition, cost of sales for 2014 includes adjustment for the expense for electricity transmission services accrued for the period from 1 May 2013 till 31 December 2013 in the amount of RUB 358,647 thousand due to finalization of litigation proceedings between JSC "Chelyabinsk Zinc Plant" and OJSC "FSK UES" (Note 27).

22. Commercial, general and administrative expenses

(a) Commercial expenses

'000 RUB	**2014**	**2013**
Transportation and customs duties	743,723	668,690
Packing materials	42,287	40,497
Depreciation of property, plant and equipment	6,969	6,969
	796,979	**716,156**

(b) General and administrative expenses

'000 RUB	**2014**	**20132**
Wages and salaries	470,383	409,263
Depreciation and amortisation	83,374	58,521
Security costs	68,864	86,987
Audit, consulting, information and other professional services	53,951	56,379
Utilities and fuel	35,044	58,127
Repairs	34,609	24,424
Insurance costs	8,965	70,249
Other general and administrative expenses	261,470	219,971
Total general and administrative expenses	**1,016,660**	**983,921**

Total depreciation expenses and staff costs in the costs of sales, commercial, general and administrative expenses and other operating expenses amounted to RUB 951,717 thousand (2013: RUB 974,645 thousand) and RUB 1,508,781 thousand (2013: RUB 1,310,733 thousand), respectively.

23. Other operating income and expenses

’000 RUB	Note	2014	2013
Reversal of previously accrued impairment	8	322,221	-
Other operating income		71,236	66,615
Total other operating income		**393,457**	**66,615**
Impairment loss on property, plant and equipment and construction in progress	8	-	385,403
Social expenses		67,115	73,749
Expenses on liquidation of damage incurred as a result of meteorite		-	51,227
Penalties and tax provisions		5,031	81,975
Other operating expenses		27,126	42,228
Total other operating expenses and income, net		**99,272**	**634,582**

24. Foreign exchange (loss)/gain

Major part of foreign exchange gain in 2014 was caused by significant weakening of the Russian Rouble and Kazakhstani tenge exchange rate to US dollar and a significant inter-segment revenue of mining and smelting segments nominated in US dollars.

25. Income taxes

Pre-tax profit from operations in the Russian Federation and Kazakhstan Republic is taxed based on the effective rate of 20% (2013: 20%). In accordance with the tax legislation of the Great Britain the subsidiary Brock Metal Ltd with operating activities located on the territory of the United Kingdom used tax rate 23.3%.

’000 RUB	2014	2013
Current tax expenses	527,157	101,683
Deferred tax expenses – origination and reversal of timing differences	75,585	(107,411)
Income tax expense/(benefit) for the year	**602,742**	**(5,728)**

The expected tax charges are reconciled to the actual tax charges are as follows:

	2014		2013	
	’000 RUB	**%**	**’000 RUB**	**%**
Profit/(loss) before tax	2,955,285	100	(213,959)	(100)
Tax using the Company’s domestic tax rate	(591,057)	(20)	42,792	20
Effect of tax rates in foreign jurisdictions	(1,547)	(0,05)	(858)	(0,4)
Non-deductible expenses	(10,138)	(0,3)	(36,206)	(16,9)
	(602,742)	**(20,4)**	**5,728**	**2,7**

Deferred tax assets and liabilities are attributable to the following:

’000 RUB	**Assets**		**Liabilities**		**Net**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	-	5,938	(265,344)	(133,532)	(265,344)	(127,594)
Inventories	-	-	(5,738)	(84,806)	(5,738)	(84,806)
Trade and other receivables	857	612	(13,313)	(6,067)	(12,456)	(5,455)
Provision for asset retirement obligation	29,034	20,139	-	-	29,034	20,139
Trade and other payables	71,065	103,942	-	-	71,065	103,942
Other	165	2,163	-	-	165	2,163
Tax assets/(liabilities)	101,121	132,794	(284,395)	(224,405)	(183,274)	(91,611)
Set off of tax	(101,121)	(86,421)	101,121	86,421	-	-
Net tax assets/(liabilities)	-	46,373	(183,274)	(137,984)	(183,274)	(91,611)

Differences between IFRS and statutory taxation regulations of the countries where the Group companies are located give rise to temporary differences between the carrying amount of assets and liabilities for consolidated financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is calculated at current rates of income tax in respective countries.

'000 RUB	31 December 2012	Charged to profit and loss	Translation difference, restated	31 December 2013	Charged to profit and loss	Translation difference	31 December 2014
Property, plant and equipment	(215,872)	92,801	(2,523)	(127,594)	(100,233)	(37,517)	(265,344)
Inventories	(45,301)	(41,474)	1,969	(84,806)	79,068	-	(5,738)
Trade and other receivables	11,535	(17,013)	23	(5,455)	(7,368)	367	(12,456)
Provision for asset retirement obligation	21,454	(2,440)	1,125	20,139	(354)	9,249	29,034
Trade and other payables	29,595	73,221	1,126	103,942	44,700	11,823	71,065
Other	(2,153)	4,316	-	2,163	(1,998)	-	165
Total net deferred tax assets/(liabilities)	**(200,742)**	**107,411**	**1,720**	**(91,611)**	**(75,585)**	**(16,078)**	**(183,274)**

As at 31 December 2014 the Group has not recognized a deferred tax liability in respect of taxable temporary differences and a deferred tax asset in respect of deductible temporary differences of RUB 565,935 thousand and 755,332 thousand, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the realisation of those temporary differences and does not intend to realise them in the foreseeable future (31 December 2013: RUB 177,851 thousand and 2,368,583 thousand, respectively). Significant increase of taxable temporary differences and decrease of deductible temporary differences relate to the significant exchange differences on translation to presentation currency and significant profit gained by the Group's foreign subsidiaries.

26. Fair values and risk management

(a) Accounting classifications and fair values

Assets and liabilities not measured at fair values with fair value disclosed in accordance with the requirements of IFRS

Type	Valuation technique	Note
Short-term financial assets	Discounted cash flows	13
Trade and other receivables	Discounted cash flows	12
Trade and other payables	Discounted cash flows	18

The management of the Group consider that the carrying amount of the mentioned above assets not measured at fair value is a reasonable approximation of its fair value.

(b) Financial risk management

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

- market risk (see note 26(b)(ii));
- credit risk (see note 26(b)(iii));
- liquidity risk (see note 26(b)(iv)).

Information disclosed in this note comprise the information on exposure of the Group to each of the above mentioned risks, the purposes of the Group and its policy, procedures of assessment and management of risks, and capital management policy. Additional quantitive information is disclosed accordingly in this consolidated financial statements.

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The internal audit department is responsible for developing and monitoring the Group's risk management policies. This department reports regularly to the Board of Directors on its activities.

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

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Although the Group lacks a formalised risk management programme its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by treasury departments of each of the Group companies under general guidance of the treasury department of the Company. Treasury departments of the entities of the Group identify, evaluate and take measures to minimise financial risks in close co-operation with the Company's treasury department.

(ii) 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.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Committee. The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group companies are primarily the Russian Rouble (RUB), but also Kazakhstan Tenge (KZT) and Sterling (GBP). The currencies in which these transactions primarily are primarily denominated are EUR and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

'000 RUB	**USD-nominated 2014**	**EUR-denominated 2014**	**USD-denominated 2013**	**EUR-denominated 2013**
Trade and other receivables	43,623	451,873	33,184	138,239
Cash and cash equivalents	57,592	15,927	21,859	584
Bank overdrafts	-	(323,803)	(23,687)	(127,717)
Trade and other payables	(144,582)	(4,546)	(10,311)	(17,320)
Net risk exposure	**(43,367)**	**139,451**	**21,045**	**(6,214)**

The following exchange rates have been applied during the year which had significant influence on the Group's operating results:

	Average rate		**Reporting date spot rate**	
	2014	**2013**	**2014**	**2013**
Russian rouble				
USD 1	38.60	31.91	56.26	32.73
EUR 1	68.34	42.40	68.34	44.97
GB sterling				
EUR1	1.24	1.18	1.27	1.20
USD 1	1.65	1.56	1.56	1.65
Kazakh tenge				
USD 1	179.12	152.14	182.35	153.61

Sensitivity analysis

As at 31 December 2014, if the RUB had weakened/strengthened by 40% against USD with all other variables held constant, the net profit for the year would have been RUB 37,914 thousand lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated trade payables. As at 31 December 2014 if the GBR had weakened/strengthened by 5% against EUR with all other variables held constant, the net profit for the year would have been RUB 4,931 thousand higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated trade receivables and overdraft liability.

As at 31 December 2013, if the RUB had weakened/strengthened by 10% against USD with all other variables held constant, the net profit for the year would have been RUB 1,695 thousand higher/lower.

Since the Group does not hold any financial instruments revalued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

Price risk

The Group is exposed to commodity price risk because prices for zinc and zinc concentrate are determined based on London Metal Exchange (“LME”) quotations for zinc Special High Grade (“SHG”). To manage its price risk, the Group determines a price mechanism in its zinc concentrate purchase agreements so that the price is fixed as the LME quotation in approximately one month period after the shipment date. In it sales contracts the prices for zinc are normally based on spot LME quotations. Due to this pricing mechanism similar prices are used to determine both sale and purchase prices, which minimises the price risk for the Group.

In addition as at 31 December 2014, the Group had forward contracts totalling 625 tonnes of zinc (31 December 2013: forward contracts totalling 975 tonnes of zinc) that were not recognised in accordance with hedging rules and have been accounted for at fair value through profit and loss. The profit on such contracts in the amount of RUB 6,248 thousand for the year ended 31 December 2014 (2013: profit of RUB 1,499 thousand) was recognised in other operating income and expenses in the consolidated statement of profit or loss and other comprehensive income.

If the LME quotations for SHG zinc had been 15% higher/lower during the year ended 31 December 2014, the net profit of the Group would have been RUB 824,909 thousand higher/lower. If the LME quotations for SHG zinc had been 5% higher/lower during the year ended 31 December 2013, the net profit of the Group would have been RUB 222,321 thousand higher/lower.

Interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group’s profit and operating cash flows are substantially independent of changes in market interest rates. Management considers that the risk is insignificant for the Group’s business.

The financial assets with fixed interest rate comprise bank deposits and promissory note in the amount of RUB 45,000 thousand as at 31 December 2014 (as at 31 December 2013: RUB 1,139,270 thousand), and loans issued in the amount of RUB 5,446 thousand as at 31 December 2014 (as at 31 December 2013: 2,125 thousand).

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for bank deposits and loans issued with fixed interest rates at fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(iii) 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, loans issued and bank deposits. The carrying amount of financial assets represents the maximum credit risk exposure.

The Group's maximum exposure to credit risk by class of assets is as follows:

'000 RUB	**Note**	**31 December 2014**	**31 December 2013**
Trade and other receivables	12	2,235,400	1,985,945
Less trade receivables covered by credit insurance		(18,358)	(85,118)
Total unsecured trade and other receivables		2,217,042	1,900,827
Bank deposits and promissory note	13	45,000	1,139,270
Cash and cash equivalents	14	447,750	445,786
Other financial assets	13	11,694	7,761
Total maximum exposure to credit risk		**2,721,486**	**3,493,644**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, , particularly in the currently deteriorating economic circumstances. Approximately 54% (2013: 70%) of the Group's revenue is attributable to sales transactions with three major customers. At 31 December 2013, accounts receivable from these customers amounts to 31% (2013: 71%) of the total trade and other receivables outstanding.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

In relation to Alloying segment's trade receivables which comprise RUB 966,165 thousand as at 31 December 2014 (31 December 2013: RUB 449,303 thousand) the management of the Group applies a policy which requires an appropriate credit check on potential customers prior to sales. Moreover, as a matter of additional credit risk mitigation, management also provided credit insurance of accounts receivable. The amount of insured trade receivables as at 31 December 2014 is RUB 26,014 thousand (31 December 2013: 118,958 thousand), the maximum insurance coverage as at 31 December 2014 is RUB 18,358 thousand (31 December 2013: RUB 85,118 thousand).

Bank deposits and loans issued

The Group limits its exposure to credit risk by only providing loans to and placing deposits with those counterparties that management believes have a minimal default risk at the moment of loans issuance or deposits placement.

Bank deposits and cash equivalents are issued and placed with the same counterparties for a number of years and losses have occurred infrequently:

’000 RUB	Credit rating	Rating agency	Bank deposits and cash equivalents as at 31 December 2014	Bank deposits and cash equivalents as at 31 December 2013
DB SC «Sberbank» (Kazakhstan)	BB+	Fitch ratings	215,308	49,969
OJSC «Chelindbank»	B	Fitch ratings	186,882	109,000
OJSC «Sberbank Rossii»	BBB	Fitch ratings	45,125	301,000
SC «Nurbank» (Kazakhstan)	BB+	S&P	39,631	-
OJSC «Gasprombank»	BB+	Fitch ratings	40	102,000
LLC «CB Kotso Urala»	B-	S&P	26	744,301
Lloyds Bank Plc	A	Fitch ratings	-	232,846
Total			**487,012**	**1,539,116**

(iv) 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 uses reasonable liquidity risk management which assists it in monitoring cash flow requirements and optimising its cash return on investments. The Group aims to maintain the level of cash and cash equivalents and other highly liquid instruments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 30 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The Group maintains controls on liquidity within the budgeting process.

Exposure to liquidity risk

The exposure to liquidity risk is connected with the financial liabilities of the Group which represented by short-term trade payables. As at 31 December 2014 the carrying amount of short-term trade and other payables with the maturity of less than 12 months is RUB 1,254,527 thousand (31 December 2013: RUB 969,907 thousand). The balances of trade payables are the contractual undiscounted cash flows at spot rates.

The Group manages the liquidity risk inherent in its financial liabilities by matching their maturity with cash resources, projected cash flows from operating activities.

(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 RUB	Cash and cash equivalents	Overdrafts	Trade and other receivables	Trade and other payables
31 December 2014				
Gross amounts	228,515	323,803	69,026	188,332
Amounts offset in accordance with IAS 32 offsetting criteria	(323,803)	(323,803)	-	-
Net amounts presented in the statement of financial position	**(95,288)**	**-**	**69,026**	**188,332**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-	(69,026)	(69,026)
Amounts related to financial collateral (including cash collateral)	-	-	-	-
Net amount	**(95,288)**	**-**	**-**	**119,307**

’000 RUB	Cash and cash equivalents	Overdrafts	Trade and other receivables	Trade and other payables
31 December 2013				
Gross amounts	384,250	151,404	616,514	105,975
Amounts offset in accordance with IAS 32 offsetting criteria	(151,404)	(151,404)	-	-
Net amounts presented in the statement of financial position	**232,846**	**-**	**616,514**	**105,975**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-	(105,975)	(105,975)
Amounts related to financial collateral (including cash collateral)	-	-	-	-
Net amount	**232,846**	**-**	**510,539**	**-**

27. Contingencies and commitments

(a) Legal proceedings

During the year ended 31 December 2014 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) that arose in the ordinary course of business. On the basis of management's opinion, there are no current legal proceedings or other claims outstanding, except for described below, that could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Legal proceedings with OJSC FSK EES and OJSC MRSK Ural

During the year ended 31 December 2014 JSC "Chelyabinsk Zinc Plant" won legal proceeding against OJSC "FSC-UES" compelling to conclude the contract on electricity and energy power transmission for the period from 1 May 2013 to 31 December 2013 in the courts of Appeal and Cassation. According to the terms of the draft contract contractual obligations should be extended for each subsequent year under the same conditions if before the end of the term neither of the parties declares termination, modification or conclusion of a new contract.

Based on the decisions of courts management of JSC "Chelyabinsk Zinc Plant" accrued electricity and energy power transmission services applying tariffs of OJSC "FSC-UES" for the year ended 31 December 2014, as well as adjusted cost of sales for the amount of expenses on the transmission of electricity services for the period from 1 May 2013 to 31 December 2013 for the amount of RUB 358,647 thousands (Note 21).

Due to absence of primary documents confirming the provision of these services between JSC "Chelyabinsk Zinc Plant" and OJSC "FSC-UES" the Group management has not yet accounted for these expenses for income tax purposes (Note 25) and VAT reimbursement (Note 11).

Currently, JSC "Chelyabinsk Zinc Plant" is involved in legal proceedings with OJSC "MRSK-Ural", as part of which OJSC "MRSK-Ural" submitted the claim to the court on collection from JSC "Chelyabinsk Zinc Plant" debt in the amount of RUB 552,403 thousand for the services on electricity and energy power transmission provided for the period from May to December 2013.

Management of JSC "Chelyabinsk Zinc Plant" considers that no electricity and energy power transmission services were provided by OJSC "MRSK-Ural" to JSC "Chelyabinsk Zinc Plant" during the period starting from 1 May 2013 till 31 December 2013 and therefore excess payments in the amount of RUB 251,302 thousand made by JSC "Chelyabinsk Zinc Plant" in favor of OJSC "MRSK-Ural" should be treated as unjust enrichment of OJSC "MRSK Ural".

On 17 November 2014, claim of JSC "Chelyabinsk Zinc Plant" was partially upheld by the Court of arbitration and OJSC "MRSK Ural" was enforced to pay amount of RUB 234,209 thousand as unjust enrichment. OJSC "MRSK Ural" appeal this decision in the Court of Arbitration. On 17 February 2015 previously made court decision was upheld by the Court of Appeal. OJSC "MRSK Ural" appealed previously made decisions to the Court of Arbitration of Urals region. These legal proceedings are expected to be finalized in the court not earlier than May 2015.

As at 31 December 2014 the Group management has not provided for the amount of prepayments made to OJSC "MRSK-Ural" for electricity transmission services (Note 12), as it estimates the possibility of court decision in favor of JSC "Chelyabinsk Zinc Plant" and thus recovery of the debt from OJSC "MRSK-Ural" as high based on previous decisions on related legal proceedings with OJSC "FSC-UES".

(b) Tax legislation

Both Russian and Kazakhstan tax, currency and customs legislation is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities.

The tax authorities may be taking a more assertive position in interpretation of the legislation and assessments, and it is possible that some transactions and activities, which earlier weren't contested, can be challenged. As a result, significant additional taxes, penalties and interest can be accrued.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review in accordance with the Russian legislation and five years in accordance with the Kazakhstan legislation. Under certain circumstances, reviews may cover longer periods.

From 1 January 2009 the new law on transfer pricing was introduced in Kazakhstan which replaces the previous one. This law provides for government control of cross-border transactions. This law prescribes Kazakhstani companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in cross-border transactions, including documentation supporting the prices and differentials. Additionally, differentials could not be applied to the cross-border transactions with companies registered in off-shore jurisdictions. If the transaction price differs from the market price, the tax authorities have the right to adjust taxable items and to assess additional taxes, penalties and interest.

New 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.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily 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. 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).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

In addition, during the 4 quarter of 2014 number of new laws were issued which are introducing amendments into tax legislation of the Russian Federation. These laws are effective since 1 January 2015. In particular, amendments refer to regulations of offshore companies operations and transactions with them. Potentially, this amendments could affect the Group's tax positions.

These circumstances may create tax risks in the Russian Federation and Kazakhstan 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 and Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group's management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. The management believes that they will be able to sustain their transfer pricing policy and provide all documents to support their pricing policy to the government authorities of Kazakhstan and Russian Federation, if necessary. Therefore, no additional tax liability was recorded in these consolidated financial statements of the Group.

In the course of its activity, the Group interacts with numerous third party suppliers. The Group's management took reasonable steps to be sure they comply with the tax legislation. However, in accordance with the practice that has been developed in Russia, if tax authorities find out that the Group's suppliers are not fully compliant with the current tax requirements, tax claims may be brought against the Group. As a result, additional taxes, penalties and interest may be assessed which amounts cannot be reliably estimated by management.

During 2014 tax authorities examined the Company's tax compliance with respect to major taxes for a number of prior years. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties.

As at 31 December 2014 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Management believes that there is a risk of tax obligations of RUB 92,751 thousand as at 31 December 2014 (31 December 2013: RUB 279,820 thousand) related mostly to the income tax with the probability assessed as remote.

In addition as at 31 December 2014 LLC "Nova Zinc" disputes a number of tax authorities' decisions relating to refuses of VAT refund:

- The decision of the tax authorities on return of previously refunded VAT for the period from 2008 to 2010 in the amount of RUB 66,046 thousand as at 31 December 2014. In October 2013 and April 2014 decisions of the Court of first instance and the Court of Appeals were made in favor of the company, however the Court of Cassation returned the case back for further consideration by the Court of Appeal. In September 2014 the Court of Appeal made a decision in favor of the company. Having considered the ambiguous court practice and complexity of the case management believes that there is a risk of cash outflows on the dispute with the tax authorities, therefore as at 31 December 2014 and 31 December 2013 accrued provision in the amount of RUB 66,046 thousand and RUB 45,649 thousand correspondingly (Note 19).

- The decision of the tax authorities on the refusal to refund VAT for the period from October 2011 to June 2012 in the amount of RUB 121,211 thousand as at 31 December 2014. During 2014 the decisions of the Court of first instance and the Court of Appeals were made in favor of the company. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 12).

- The decision of the tax authorities, issued in August 2014, on the refusal to refund VAT for the period from April 2012 to March 2014 in the amount of RUB 164,211 thousand as at 31 December 2014. In November 2014 the Court of first instance made a decision in favor of the company, in February 2015 the Court of Appeal made a decision in favor of the company as well. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 12).

- The decision of the tax authorities, issued in November 2014, on the refusal to refund VAT for the 4 quarter of 2014 in the amount of RUB 27,371 thousand as at 31 December 2014. In December 2014 the company filed the claim into the Court. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 12).

In addition, as at 31 December 2014 LLP "Nova Zinc" did not file a VAT return for the amount of RUB 96,405 thousand for the period from 1 January 2014 to 31 December 2014. Based on the existing practice of VAT refund, management believes that the probability of refusal in VAT refund is possible.

(c) Commitments under the Contract of Akzhal minefield subsoil use

In accordance with Law of Kazakhstan Republic No. 291-IV of 24 June 2010 "On Subsoil and Subsoil Management", when a mineral developer conducts subsoil use operations in the Republic of Kazakhstan, the developer is vested with obligations to buy goods, work and services from Kazakh companies.

LLP "Nova Zinc", the Group's subsidiary in accordance with the provisions set forth in the subsoil use contract is required to meet a number of commitments connected with application of technologies, safeguarding during mining process, usage of goods, works and services manufactured and rendered by companies operating in Kazakhstan and remediation of contractual territories.

In 2012 LLP "Nova Zinc" signed an addendum to the existing subsoil use contract. The addendum established requirements for the content of goods, work and services to be purchased from Kazakh companies in the total amount of purchased goods and services (the required ratio for Kazakh goods is no less than 25% and for services no less than 95% of the total amount of purchased goods and services, respectively). Non-compliance with the requirements of the subsoil use contract could lead to penalties or contract cancellation by government authorities.

In August 2013 LLP "Nova Zinc" signed an addendum the contract in which the requirement to the share of purchased goods and services reduced from 25% to 18%. During the year 2013 the share of purchased goods was 11%. In addition, in accordance with the signed addendum the Group accepted obligations to finance the research and development expenditure of 1% from the total income of the company under contractual activities.

During 2014 LLP "Nova Zinc" met the requirements of subsoil contract in terms of share of purchased goods and services, but did not reach necessary level of financing of the research and development expenditures.

Management of the Group is taking all necessary measures to ensure that all contractual and statutory requirements are met. The management of the Group believes that the controlling and executive authorities of the Republic of Kazakhstan will take into account the changes in share of goods and services purchased by LLP "Nova Zinc", as well as the accepted obligations to finance the research and development expenditures.

(d) Capital expenditure commitments

Capital expenditure commitments. As of 31 December 2014 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 198,775 thousand (31 December 2013: RUB 571,396 thousand). Capital commitments mainly comprise commitments on purchases of equipment and, construction, assembling and project works related to re-equipment of production facilities of the plant, and the project on increase in the production capacity of JSC "Chelyabinsk Zinc Plant".

(e) Operating lease commitments

Where the Group is a lessee in a lease, future minimal lease payments under contracts for operating lease of land and other assets with no early termination option are as follows:

'000 RUB	**31 December 2014**	**31 December 2013**
Less than 1 year	8,786	6,453
1 to 5 years	35,676	26,108
Over 5 years	75,230	56,474
Total operating lease commitments	**119,692**	**89,035**

(f) Insurance

The insurance industry in the Russian Federation and the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. At 31 December 2014 the Company had entered into civil liability insurance contracts covering an entity operating hazardous production facilities against any damage to life, health or property of third parties resulting from an industrial accident at the hazardous production facility. The insurance amount is RUB 481,901 thousand (31 December 2013: RUB 356,511 thousand). The insurance premium is RUB 9,349 thousand (31 December 2013: RUB 3,141 thousand).

(g) Environmental matters

The enforcement of environmental legislation in the Russian Federation and the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately in the consolidated financial statements. Potential liabilities, which might arise as a result of changes in existing regulations, litigation or legislation, cannot be estimated precisely but could be material. Management believes that in the conditions of the existing system of control over the compliance with environmental legislation, the Group does not have significant liabilities related to environmental damages, besides stated below:

Compliance with environmental norms in the Republic of Kazakhstan.

In March 2014, the Committee for ecological regulation and control of the Ministry of Environmental Protection of the Republic of Kazakhstan issued an act based on the audit of compliance of LLP "Nova Zinc" with the requirements of environmental norms in the Kazakhstan for the period from 1 January 2013 to 29 November 2013. As a result of the audit, breach of the requirements of the Environmental Code of the Republic of Kazakhstan was revealed relating to the late obtaining of the emission and waste disposal permissions, which expired on 8 July 2013. These permissions were not received in time due to the non-compliance of applications filed by management of the company with new requirements of the Environmental Code of the Republic of Kazakhstan.

According to the issued act the company should have paid a fine of RUB 127,662 thousand as at 31 December 2014 for conducting emission and waste disposal without appropriate permissions, as well as tax and administrative fines and penalties in the amount of RUB 58,102 thousand.

Amount of tax and administrative fines and penalties was paid out by the company during 2014.

During 2014 management failed to justify its position in the Courts of first, appeal and cassation instances. However, on 29 December 2014 the Government of the Republic of Kazakhstan issued amendments to several laws, including amendments to the Environmental Code, which were putted into forces retrospectively starting form 2011. Considering this fact the Supreme Court of the Republic of Kazakhstan upheld position of the company.

In addition, the company filed a claim into the Court of Appeal which partially upheld the claim of LLP “Nova Zinc” and reduced the amount of the fine for conducting emission and waste disposal without appropriate permissions to RUB 54,660 thousand.

The risk of accrual of these liabilities was estimated by management as high, therefore the Group management accrued the provision for the amount of RUB 54,660 thousand (Note 18) as at 31 December 2014.

28. Subsequent events

On 3 February 2015 UCP Recourses Ltd acquired 2,455,476 ordinary shares of the JSC “ChZP” and as at 3 February 2015 it owned 14,607,635 ordinary shares of the JSC “ChZP”. Acquisition of the shares took place on the open market and therefore, share of the major shareholder of the JSC “ChZP” (NF Holdings BF) has not changed.

Numbered, bound and sealed 58 (fifty eight) sheets.

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Director of Ekaterinburg branch of
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