JSC CHELYABINSK ZINC PLANT
AND ITS SUBSIDIARIES

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2011

Note: This version of the consolidated financial statements is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Joint Stock Company Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 Group'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 provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

26 April 2012
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
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In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	9	5,426,146	5,069,733
Advances for capital construction		87,706	133,992
Intangible assets	10	58,585	50,172
Other non-current assets	11	2,267	101,098
Total non-current assets		**5,574,704**	**5,354,995**
Current assets			
Inventories	12	1,603,217	1,365,198
Trade and other receivables	13	1,934,939	1,515,462
Current income tax prepayments		84,130	36,353
Loans issued	14	985,311	1,474
Short-term financial assets		-	24,115
Bank deposits	15	481,000	1,057,300
Assets held for sale		-	20,000
Restricted cash		3,174	3,120
Cash and cash equivalents	16	539,897	748,718
Total current assets		**5,631,668**	**4,771,740**
TOTAL ASSETS		**11,206,372**	**10,126,735**
EQUITY			
Share capital	17	127,635	127,635
Share premium	17	1,375,231	1,375,231
Legal reserve	17	3,011	3,011
Cumulative currency translation reserve		(40,506)	(142,828)
Retained earnings		8,536,846	7,498,556
TOTAL EQUITY		**10,002,217**	**8,861,605**
LIABILITIES			
Non-current liabilities			
Financial lease liabilities	18	-	32,973
Provision for asset retirement obligations	19	96,288	60,761
Deferred income tax liability	25	196,886	291,114
Other non-current liabilities		49,418	55,042
Total non-current liabilities		**342,592**	**439,890**
Current liabilities			
Financial lease liabilities	18	-	18,087
Short-term financial liabilities		11,015	-
Accounts payable, accrued expenses and advances from customers	20	605,861	534,930
Current income tax payable		68,499	75,701
Other taxes payable	21	176,188	196,522
Total current liabilities		**861,563**	**825,240**
TOTAL LIABILITIES		**1,204,155**	**1,265,130**
TOTAL LIABILITIES AND EQUITY		**11,206,372**	**10,126,735**

Approved for issue and signed on behalf of the Board of Directors on 26 April 2012.

A.M. Panshin
General Director

S.B. Kondakov
Chief accountant

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housands of Russian Roubles	Note	2011	2010
Revenue	22	12,772,338	11,651,241
Cost of sales	23	(9,903,291)	(8,292,903)
Gross profit		**2,869,047**	**3,358,338**
Distribution costs	24	(522,786)	(548,382)
General and administrative expenses	24	(760,958)	(656,961)
Impairment of assets held for sale	15	-	(47,099)
Taxes other than on income		(119,520)	(111,412)
Other operating expenses and income, net		(142,638)	(91,316)
Operating profit		**1,323,145**	**1,903,168**
Finance income		113,175	62,697
Finance costs		(104,861)	(20,865)
Foreign exchange gains		204,442	108,925
Foreign exchange losses		(233,299)	(147,223)
Profit before income tax		**1,302,602**	**1,906,702**
Income tax expense	25	(264,312)	(493,134)
Profit for the year		**1,038,290**	**1,413,568**
Profit attributable to:			
Shareholders of the Company		1,038,290	1,413,568
Profit for the year		**1,038,290**	**1,413,568**
Earnings per share – basic and diluted (in RUB)	26	**19**	**26**

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Chief accountant

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In thousands of Russian Roubles	**2011**	**2010**
Profit for the year	1,038,290	1,413,568
Other comprehensive income after tax		
Effect of translation to presentation currency	102,322	40,448
Cash flow hedges, net of tax	-	51,780
Total other comprehensive income	*102,322*	*92,228*
Total comprehensive income for the year	**1,140,612**	**1,505,796**
Total comprehensive income attributable to:		
Shareholders of the Company	1,140,612	1,505,796

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Chief accountant

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In thousands of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		1,302,602	1,906,702
Adjustments for:			
Depreciation and amortization	9, 10	862,276	856,819
Net loss on disposal of property, plant and equipment		(53,094)	(60,310)
Impairment of loans issued and trade and other receivables		6,391	14,217
Write down/(reversal) of inventory write down to net realisable value	23	13,742	(5,122)
Finance income, net		(8,314)	(41,832)
Physical inventory count adjustment	23	(79,225)	(54,521)
Precious metals revaluation	23	(48,481)	(101,550)
Foreign exchange (gain)/loss, net		29,101	(5,163)
Impairment of property, plant and equipment	9	9,187	9,737
Impairment of assets held for sale		-	47,099
Other non-monetary operating expenses		70,510	15,394
Operating cash flows before changes in working capital		**2,104,695**	**2,581,470**
(Increase)/decrease in trade and other receivables		(420,613)	235,027
(Increase)/decrease in inventory		(45,777)	481,479
Increase/(decrease) in trade payables		56,026	(409,002)
Increase in taxes payable		20,802	116,992
(Increase)/decrease in restricted cash balance		(54)	1,106
Cash generated from operations		**1,715,079**	**3,007,072**
Interest paid		(5,815)	(3,705)
Income taxes paid		(454,656)	(503,896)
Net cash generated from operating activities		**1,254,608**	**2,499,471**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1,154,955)	(1,087,466)
Purchase of exploration and evaluation assets		(13,019)	(7,623)
Proceeds from sale of property, plant and equipment		1,199	-
Loans issued		(1,006,986)	(1,590)
Proceeds from repayment of loans		1,544	4,065
Interest income received		72,782	23,784
Decrease/(increase) in short-term bank deposits		576,300	(1,057,300)
Decrease/(increase) in long-term bank deposits		100,000	(100,000)
Net cash used in investing activities		**(1,423,135)**	**(2,226,130)**
Cash flows from financing activities			
Finance lease payments		(52,356)	(26,574)
Net cash used in financing activities		**(52,356)**	**(26,574)**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents		12,062	31,514
Net (decrease)/increase in cash and cash equivalents		**(208,821)**	**278,281**
Cash and cash equivalents at the beginning of the year	16	**748,718**	**470,437**
Cash and cash equivalents at the end of the year	16	**539,897**	**748,718**

Approved for issue and signed on behalf of the Board of Directors on 26 April 2012.

A.M. Panshin
General Director

S.B. Kondakov
Chief accountant

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In thousands of Russian Roubles	Share capital	Share premium	Legal reserve	Hedging reserve	Cumulative currency translation reserve	Retained earnings	Total equity
Balance at 31 December 2009	**127,635**	**1,375,231**	**3,011**	**(51,780)**	**(183,276)**	**6,084,988**	**7,355,809**
Comprehensive income							
Net profit for the period	-	-	-	-	-	1,413,568	1,413,568
Other comprehensive income							
Effect of translation to presentation currency	-	-	-	-	40,448	-	40,448
Cash flow hedges, net of tax	-	-	-	51,780	-	-	51,780
Total other comprehensive income	-	-	-	51,780	40,448	-	92,228
Total comprehensive income	**-**	**-**	**-**	**51,780**	**40,448**	**1,413,568**	**1,505,796**
Balance at 31 December 2010	**127,635**	**1,375,231**	**3,011**	**-**	**(142,828)**	**7,498,556**	**8,861,605**
Comprehensive income							
Net profit for the period	-	-	-	-	-	1,038,290	1,038,290
Other comprehensive income							
Effect of translation to presentation currency	-	-	-	-	102,322	-	102,322
Cash flow hedges, net of tax	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	*102,322*	-	102,322
Total comprehensive income	**-**	**-**	**-**	**-**	**102,322**	**1,038,290**	**1,140,612**
Balance at 31 December 2011	**127,635**	**1,375,231**	**3,011**	**-**	**(40,506)**	**8,536,846**	**10,002,217**

Approved for issue and signed on behalf of the Board of Directors on 26 April 2012.

A.M. Panshin
General Director

S.B. Kondakov
Chief accountant

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

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1 JSC Chelyabinsk Zinc Plant and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for JSC Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated under Russian legislation in May 1993 as an open joint stock company and is domiciled in the Russian Federation.

As of 31 December 2011, the Group's immediate and ultimate parent is NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares. In September 2009, 100% of the shares of NF Holdings BV were acquired by a new group of shareholders, none of whom controls individually or jointly NF Holding BV.

The Company is listed on Moscow Interbank Currency Exchange (MICEX) and the London Stock Exchange (LSE) 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). There are a number of subsidiaries in the Group. The major Group companies were set up under the legislation of the Russian Federation (JSC Chelyabinsk Zinc Plant), the Republic of Kazakhstan (Nova Zinc LLP) and the United Kingdom (Brock Metal Ltd). As of 31 December 2011 the Group employed approximately 3,280 employees (31 December 2010: 3,221).

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 and place of business. Russian Federation, 454008, Chelyabinsk, Sverdlovsky trakt, 24.

2 Operating Environment of the Group

Russian Federation and Republic of Kazakhstan

The Russian Federation and the Republic of Kazakhstan display certain characteristics of an emerging market. Russian and Kazakhstani tax, currency and customs legislation is subject to varying interpretations and contribute to challenges faced by entities operating in the Russian Federation and Kazakhstan.

The international sovereign debt crisis, volatility of the stock markets and other risks may have a negative effect on the financial and corporate sectors of the Russian Federation and the Republic of Kazakhstan. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation and the Republic of Kazakhstan is largely dependent upon external factors and effectiveness of economic, financial and monetary measures undertaken by the Governments of these countries along with tax, legal, regulatory, and political developments.

Zinc commodity price

The results of Group's operations are significantly dependent on zinc prices. Due to the volatility on the global market, zinc prices are subject to considerable fluctuations. In 2011, the spot price of zinc on the London Metal Exchange changed in a range of USD 1,750 per tonne to USD 2,545 per tonne (2010: from USD 1,595 per tonne to USD 2,634 per tonne). The zinc price as of 31 December 2011 and 31 March 2012 was USD 1,828 and USD 1,986 per tonne respectively.

Management is unable to predict all developments in the economic environment which could have an impact on the metals industry and the economy as a whole and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all measures necessary to support the sustainability and development of the Group's business in the current business and economic environment.

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3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except for certain financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles ("RUB thousands"), unless otherwise stated.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose vehicles) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Company and all its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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3. Summary of Significant Accounting Policies (continued)

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets, less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount that reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; and (b) financial assets at fair value through profit or loss.

Derivative financial instruments are carried at their fair value. Derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss, except derivatives which are designated and qualify as effective cash flow hedges.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument, or by a valuation technique whose inputs include only data from observable markets.

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3 Summary of Significant Accounting Policies (continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derivatives and hedge accounting. The Group uses derivatives to mitigate risks arising from zinc price volatility. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. During 2011 Group did not use hedge accounting in relation to its derivatives.

The group classifies a derivative as a short-term asset or liability if the maturity of a derivative is expected within 12 months; otherwise a derivative is classified as a long-term asset or liability.

Property, plant and equipment. Property, plant and equipment are stated at historical acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Construction in progress includes not only construction projects, but also equipment for installation until a date it is put into operation.

Costs of minor repairs and maintenance are expensed when incurred. Costs for replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals of property, plant and equipment are measured by comparing proceeds with carrying amount and recognised in profit or loss.

Depreciation. Land is not depreciated. Assets under construction are not depreciated until they are put into operation. Depreciation on other items of property, plant and equipment, except for mining assets, is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful life, years
Buildings and infrastructure	10 to 50
Plant, machinery and equipment	5 to 30
Other	2 to 20

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 or sales transaction points on the surface.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Stripping costs incurred subsequently during the production stage of its operations are expensed.

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3 Summary of Significant Accounting Policies (continued)

Operating leases. Where the Group is a lessee under a lease contract that does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessee in a lease that transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to profit and loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Intangible assets. All of the Group's intangible assets have definite useful lives and include the capitalised cost of obtaining "CZP SHG" (Chelyabinsk Zinc Plant Special High Grade) certification, computer software and licenses. The cost of obtaining CZP SHG certification and acquired computer software and licenses are capitalised based on the costs incurred to obtain or acquire these intangible assets and bring them to use.

Intangible assets are amortised on a straight-line basis over their useful lives:

	Useful life, years
Cost of obtaining CZP SHG certification	30
Computer software and licenses	3 to 5

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down to the higher of value in use and fair value less costs to sell.

Exploration and evaluation costs

(i) Recognition and subsequent measurement

Exploration and evaluation assets are 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. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest. 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 demonstrable. 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) Impairment of exploration and evaluation assets

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 that are located in the same geographical region.

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3 Summary of Significant Accounting Policies (continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation, the Republic of Kazakhstan and the United Kingdom enacted or substantively enacted by the reporting date. The income tax charge and credit comprise current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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 finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Precious metals are stated at net realisable value, which is determined by reference to the quotations of the Central Bank of the Russian Federation. The change in the net realizable value of the precious metals balance for the period is included within cost of sales.

Trade and other receivables. Trade and other receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in expenses for the period. The primary factors that the Group considers when deciding whether a receivable is impaired is its overdue status and the realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty is considering bankruptcy or a financial reorganisation;

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3 Summary of Significant Accounting Policies (continued)

- there is adverse change in the counterparty's payment status as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months and possibility of their withdrawal before maturity date. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. 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.

Bank overdrafts are only included within cash and cash equivalents if the Group has a legal capability and plans to offset overdraft debt against cash balances maintained with the same bank.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Value added taxes. Output value-added tax is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit VAT settlement on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT on transactions of Nova Zinc LLP which is reported net in accordance with legislation of the Republic of Kazakhstan. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Trade and other payables. Trade payables are accrued once the counterparty has performed its contract obligations and are carried at amortised cost using the effective interest method.

Asset retirement obligations. Asset retirement costs include landfill site restoration and closure (dismantling and demolition of infrastructure and 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.

Landfill site restoration and closure costs are a normal consequence of mining, and the majority of landfill site restoration and closure expenditure is incurred during the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

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. The amortisation of the discount is shown as a financing cost rather than as an operating cost.

Where landfill site restoration is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is recognized in profit and loss.

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3 Summary of Significant Accounting Policies (continued)

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RUB"). The functional currency of Nova Zinc LLP is the Kazakhstani Tenge ("KZT"), and the functional currency of Brock Metal Ltd is the pound sterling ("GBP").

Monetary assets and liabilities of the Company are translated into the functional currency at the official exchange rate established on the respective balance sheet dates by the Central Bank of the Russian Federation ("CBRF"), of Nova Zinc LLP by the Kazakhstan Stock Exchange ("KASE") and of Brock Metal Ltd – by the foreign exchange market. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded in profit and loss as part of the fair value gain or loss.

At 31 December 2011 the official exchange rates established by the CBRF were: USD 1 = RUB 32.1961 (31 December 2010: USD 1 = RUB 30.4769), EUR 1 = RUB 41.6714 (31 December 2010: EUR 1 = RUB 40.3331) and GBP 1 = RUB 49.6335 (31 December 2010: GBP 1 = RUB 47.2605).

The official rates of exchange established by the KASE at 31 December 2011 were: RUB 1 = KZT 4.61 (31 December 2010: RUB 1 = KZT 4.84), USD 1 = KZT 148.40 (31 December 2010: USD 1 = KZT 147.40) and EUR 1 = KZT 191.72 (31 December 2010: EUR 1 = KZT 195.23).

Translation from functional to presentation currency. The results and financial position of each Group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates of the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the related part of the exchange differences deferred in equity is reclassified to profit or loss.

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues are measured at the fair value of the consideration received or receivable. Sales are shown net of VAT and discounts.

Interest income is recognised on a time-proportion basis using the effective interest method.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the period adjusted for events other than a conversion of potential ordinary shares that changes the number of ordinary shares outstanding without a corresponding change in resources.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. Corresponding figures have been adjusted in consolidated Statement of Income, consolidated Statement of Cash flows and appropriate notes to consolidated Financial Statements to conform to the presentation of the current year amounts.

3 Summary of Significant Accounting Policies (continued)

The effect of reclassifications for presentation purposes was as follows on amounts for 2010:

In thousands of Russian Roubles	As originally presented	Reclassification	As reclassified
Revenue	11,809,662	(158,421)	11,651,241
Cost of sales	(8,497,733)	204,830	(8,292,903)
Gross profit	**3,311,929**	**46,409**	**3,358,338**
Distribution costs	(501,973)	(46,409)	(548,382)
General and administrative expenses	(633,484)	(23,477)	(656,961)
Other operating (expenses) and income, net	(125,359)	34,043	(91,316)
Exploration and evaluation costs	(4,122)	4,122	-
Operating profit	**1,888,480**	**14,688**	**1,903,168**
Finance income	77,385	(14,688)	62,697

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates, and that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Provision for asset retirement obligations. In accordance with the environmental legislation and contracts on subsurface use, the subsidiary Nova Zinc LLP 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, for site restoration costs as soon as the obligation arises from past operating activities.

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 Nova Zinc LLP 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. Obligations to decommission mining assets and restore landfill sites are recognised if they are likely to arise and it is possible to measure the amounts reliably.

As of 31 December 2011, the carrying amount of the provision for asset retirement obligations was RUB 96,288 thousand (31 December 2010: RUB 60,761 thousand) (Note 19).

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

Impairment of property, plant and equipment. The application of IAS 36 requires extensive judgment on the part of management regarding the assumptions and estimates related to future cash flows and the discount rate.

As a result of an impairment test performed by management for subsidiary Nova Zinc LLP, which is a separate cash-generating unit (CGU), impairment of property, plant and equipment was identified as of 31 December 2008. As of 31 December 2010 and 31 December 2011, the Group performed an analysis of future cash flows of this CGU and did not identify further impairment or need for reversal of previously recognized impairment loss in relation to property, plant and equipment of Nova Zinc LLP. The calculation of the recoverable amount of this CGU is highly sensitive to the level of future prices for lead and zinc. Should the forecasted prices for zinc and lead be lower by 5 percent with all other variables held constant, an additional impairment loss of RUB 220,004 thousand would be recognised as of 31 December 2011 respectively. As at 31 December 2010 decrease of zinc and lead prices by 5 percent could result in impairment of RUB 371,558 thousand.

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4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

In the process of impairment testing Group's management assessed the remaining useful life of property, plant and equipment in accordance with the estimated period during which these assets will be bringing economic benefits to the Group through their use. The aforementioned estimated period of using the assets exceeds the life of license for mineral resource production. Management believes that the license will be renewed in accordance with the established procedure without significant additional costs. If license will not be prolonged in 2017, Group's management should perform testing for impairment of property, plant and equipment with book value RUB 40,000 thousand approximately as of license maturity date.

As of 31 December 2011, management did not identify any impairment indicators with regard to CGU located in Russia.

Details of the estimates used in the value-in-use calculation are presented in Note 9.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The amendments did not have a material impact on these consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 1 was amended to present an analysis of other comprehensive income for each component of equity; IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The amendments did not have a material impact on these consolidated financial statements.

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

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6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, Joint Arrangements*,* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

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6. New Accounting Pronouncements (continued)

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

7 Segment Information

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

- Mining segment – it is represented by Nova Zinc LLP, an operator of lead zinc mine "Akzhal" in the Republic of Kazakhstan, which produces zinc and lead concentrate.
- Smelting segment – it is represented by JSC Chelyabinsk Zinc Plant, which produces Special High Grade zinc of 99.995% metal purity and zinc-based alloys.
- Alloying segment – it is represented by The Brock Metal Company Limited, 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 amortization, adjusted for impairment, interest and foreign exchange differences on borrowings and deposits (segment EBITDA) as a key measure of profitability. Since this term is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies. Sales between segments are carried out on an arm's length basis.

In prior year assets and liabilities information on the reportable operating segments provided to the Board of Directors was limited to accounts receivable and payable balances for all segments and to finished goods balance for the Smelting segment only. Starting 1 January 2011 certain changes have been made by the Group to the presentation of information, specifically:

- Assets and liabilities of the smelting segment, related to the same contract are analysed as netted off;
- Assets in the mining and alloying production segments are analysed together with the income tax prepayment, other taxes balances and other receivables;
- Liabilities in the mining and alloying production include payroll, taxes balanced and other accounts payable;
- Assets and liabilities of the mining segment include settlements with the smelting segment.

Where necessary, corresponding figures have been adjusted.

The financial information reported on operating segments is based on management accounts which are derived from accounts prepared in accordance with national standards of accounting applied in the country of residence of a corresponding segment. There are differences between the management accounts used as a basis for segment disclosure and amounts presented in these consolidated financial statements due to the differences in accounting policies.

The segment revenue and EBITDA provided to the board of directors for the years ended 31 December 2011 and 31 December 2010, respectively, were as follows:

In thousands of Russian Roubles	**Mining**	**Smelting**	**Alloying**	**Total**
The year ended 31 December 2011				
Total segment revenue	1,357,912	10,610,694	2,091,302	**14,059,908**
Intersegment revenue	1,090,306	51,157	-	**1,141,463**
Revenue from external customers	267,606	10,559,537	2,091,302	**12,918,445**
Segment EBITDA	256,921	1,930,799	48,576	**2,236,296**
Depreciation and amortization	184,658	454,595	6,220	**645,473**
The year ended 31 December 2010				
Total segment revenue	1,396,232	9,370,935	2,040,830	**12,807,997**
Intersegment revenue	1,074,588	124,343	-	**1,198,931**
Revenue from external customers	321,644	9,246,592	2,040,830	**11,609,066**
Segment EBITDA	279,682	2,135,133	38,667	**2,453,482**
Depreciation and amortization	145,210	421,844	7,649	**574,703**

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7 Segment Information (continued)

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

In thousands of Russian Roubles	2011	2010
Revenue from external customers of reportable segments	**12,918,445**	**11,609,066**
Adjustments relating to hedge accounting	-	(67,940)
Timing differences	(7,021)	158,946
Adjustments for other revenue	(36,841)	33,904
Revenue from precious metals primary processing (i)	(193,433)	(158,421)
Other business activities not reviewed by the board of directors	91,188	75,686
Revenue based on IFRS financial statements	**12,772,338**	**11,651,241**

In thousands of Russian Roubles	2011	2010
Segment EBITDA	**2,236,296**	**2,453,482**
Accounting policy differences:		
Inventory adjustments (ii)	(98,209)	(4,384)
Hedging (iii)	-	(52,622)
Timing differences (iv)	(104,555)	156,102
Capitalization of expenses (v)	136,844	200,981
Elimination of intersegment operations	60,911	(35,687)
Employee benefits (vi)	18,951	(58,407)
Mineral extraction tax	(20,981)	53,036
Other business activities not reviewed by the board of directors	(3,989)	(1,912)
Other reconciling items	(27,718)	74,406
Items excluded from segment EBITDA:	-	-
Depreciation of property, plant and equipment and amortization of intangible assets (vii)	(862,276)	(856,819)
Additional impairment of assets held for sale	-	(11,149)
Impairment of property, plant and equipment	(9,187)	(9,737)
Exploration and evaluation costs	(2,942)	(4,122)
Foreign exchange loss on borrowings and deposits, net	(28,857)	(38,298)
Finance income	113,175	62,697
Finance costs	(104,861)	(20,865)
Profit before tax based on IFRS financial statements	**1,302,602**	**1,906,702**

The reconciling items are attributable to the following:

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

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

(iii) Hedging: under IFRS, the Group used hedge accounting in 2010. In the management accounts gains and losses on derivative financial instruments are recognised when realised;

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

(v) Capitalisation of expenses: certain costs and expenses in the management accounts which, because they extend the remaining useful life of an asset, are required to be capitalised under IFRS;

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

(vii) Accounting policy differences on depreciation of property, plant and equipment include: differences in capitalization principles, useful life periods and initial valuation upon transition to IFRS.

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7 Segment Information (continued)

In thousands of Russian Roubles	2011	2010
Depreciation of property, plant and equipment and amortization of intangible assets	**645,473**	**574,703**
Accounting policy differences	216,803	282,116
Depreciation of property, plant and equipment and amortisation of intangible assets based on IFRS financial statements	**862,276**	**856,819**

Segment assets and liabilities

Total segment assets and liabilities were as follows:

In thousand of Russian Roubles	Mining	Smelting	Alloying	Total
As of 31 December 2011:				
Inventory	-	714,629	-	714,629
Accounts receivable	582,848	1,448,940	383,821	2,415,609
Total segment assets	**582,848**	**2,163,569**	**383,821**	**3,130,238**
Accounts payable	119,132	928,038	44,424	1,091,594
Total segment liabilities	**119,132**	**928,038**	**44,424**	**1,091,594**
As of 31 December 2010:				
Inventory	-	684,770	-	684,770
Accounts receivable	587,633	925,548	390,723	1,903,904
Total segment assets	**587,633**	**1,610,318**	**390,723**	**2,588,674**
Accounts payable	110,352	898,909	96,063	1,105,324
Total segment liabilities	**110,352**	**898,909**	**96,063**	**1,105,324**

Reportable segment assets are reconciled to consolidated inventory and trade and other receivable balances in the financial statements as follows:

In thousands of Russian roubles	31 December 2011	31 December 2010
Total segments' assets	**3,130,238**	**2,588,674**
Intersegment eliminations	(337,806)	(421,305)
Other inventories of Smelting segment	642,693	504,250
Inventories of mining and alloying segments	252,953	109,784
Netting of accounts receivable and accounts payable	(13,464)	(12,529)
Inventory adjustments	(2,783)	23,899
Timing differences	(41,565)	43,075
Other business activities not reviewed by the Board of Directors	14,713	12,963
Other reconciling items	(22,693)	68,202
Total inventories, trade and other receivables and income tax prepayments based on IFRS financial statements	**3,622,286**	**2,917,013**

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

In thousands of Russian roubles	31 December 2011	31 December 2010
Total segments' liabilities	**1,091,594**	**1,105,324**
Intersegment eliminations	(337,093)	(420,443)
Settlements with employees, taxes payable	143,727	31,624
Timing differences	(22,266)	(66,580)
Netting of accounts receivable and accounts payable	(26,598)	(12,529)
Other business activities not reviewed by the Board of Directors	22,345	44,400
Other reconciling items	(10,146)	143,444
Total current liabilities based on IFRS financial statements	**861,563**	**825,240**

7 Segment Information (continued)

Geographical information

Non-current assets for each individual country are reported separately as follows:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Russia	4,395,187	4,325,721
Kazakhstan	1,153,684	1,004,693
Great Britain	20,002	18,384
Other unallocated non-current assets	5,831	6,197
Total non-current assets based on IFRS financial statements	**5,574,704**	**5,354,995**

The analysis is based on the location of assets.

Revenues for each individual country are reported separately as follows:

In thousands of Russian Roubles	2011	2010
Russia	10,063,981	8,550,973
Great Britain	1,285,618	1,189,538
Switzerland	347,113	379,784
Kazakhstan	190,742	444,826
Germany	314,039	318,491
France	131,505	190,992
Other	439,340	576,637
Total revenue based on IFRS financial statements	**12,772,338**	**11,651,241**

The analysis is based on domicile of the customer.

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

In thousands of Russian Roubles	Mining	Smelting	Alloying	Total
For the year ended 31 December 2011				
OJSC MMK	-	2,891,796	-	2,891,796
OJSC Severstal	-	2,427,418	-	2,427,418
UGMK	-	2,232,765	-	2,232,765
Other customers individually less than 10% of total revenue	250,536	2,876,767	2,093,056	5,220,359
Total revenue based on IFRS financial statements	**250,536**	**10,428,746**	**2,093,056**	**12,772,338**

In thousands of Russian Roubles	Mining	Smelting	Alloying	Total
For the year ended 31 December 2010				
OJSC MMK	-	2,833,231	-	2,833,231
OJSC Severstal	-	1,871,204	-	1,871,204
UGMK	-	2,108,033	-	2,108,033
Other customers individually less than 10% of total revenue	340,946	2,454,780	2,043,047	4,838,773
Total revenue based on IFRS financial statements	**340,946**	**9,267,248**	**2,043,047**	**11,651,241**

8 Balances and Transactions with Related Parties

According to IAS 24 (revised 2009) Related Party Disclosures, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Group has entered into significant transactions during the years ended 31 December 2011 and 2010 and had significant balances outstanding as of 31 December 2011 and 31 December 2010 with related parties. Those related parties consisted of entities under the control of indirect shareholders of the Group with significant influence. The details of those transactions and outstanding balances are disclosed below. 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.

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8 Balances and Transactions with Related Parties (continued)

(i) Consolidated statement of financial position data

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
Assets			
Accounts receivable	13	438,062	171,609
Advances issued	13	1,564	20
Advances for capital construction		-	4,419
Total accounts receivable and advances issued		439,626	176,048
Loans granted to key management personnel		5,202	-
Total assets		**444,828**	**176,048**
Liabilities			
Accounts payable	20	(71,962)	(68,251)
Advances received	20	(174)	-
Liabilities for purchased property, plant and equipment	20	(3,039)	(11,061)
Total liabilities		**(75,175)**	**(79,312)**

(ii) Consolidated income statement data

In thousands of Russian Roubles	Note	2011	2010
Revenue			
Tolling fee	22	1,666,215	1,766,815
Sales of goods	22	882,964	602,726
Total revenue		**2,549,179**	**2,369,541**
Purchases			
Purchases of inventory		(741,110)	(973,614)
Total purchases		**(741,110)**	**(973,614)**
Operating expenses			
Other expenses		(183,722)	(63,969)
Information services		(65)	-
Total operating expenses		**(183,787)**	**(63,969)**
Finance income/(costs)			
Interest on loan issued		224	93
Other finance costs		(393)	(69)
Total finance (costs)/income		**(169)**	**24**

During the year ended 31 December 2011 the Group supplied to related parties 1,229 tonnes of zinc sulphate (year ended 31 December 2010: 2,352 tonnes), 1,160 tonnes of copper-bearing cake (year ended 31 December 2010: 876 tonnes) and 5,172 tonnes of lead cake (year ended 31 December 2010: nil).

During the reporting period the Group extracted zinc from the zinc concentrate provided by its related parties under tolling arrangements. The respective revenue generated for the year ended 31 December 2011 was RUB 1,666,215 thousand (year ended 31 December 2010: RUB 1,766,815 thousand).

During the year ended 31 December 2011 the Group purchased from related parties 34,089 tonnes of zinc concentrates for a total amount of RUB 484,971 thousand (year ended 31 December 2010: 50,217 tonnes for a total amount of RUB 864,819 thousand).

(iii) Directors' and key management's compensation

Total directors and key managements' compensation is represented by contractual salary and discretionary bonus. It is recorded in general and administrative expenses in the consolidated statement of income in the amount of RUB 84,281 thousand and RUB 77,026 thousand for the years ended 31 December 2011 and 2010, respectively. There were 29 directors and managers in the key management personnel of the Group in the year ended 31 December 2011 (year ended 31 December 2010: 35 people).

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9 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

In thousands of Russian Roubles	Land	Buildings and infrastructure	Property, machinery and equipment	Other	Mining assets	Construction-in-progress	Total
Cost as of 1 January 2010	**45,419**	**2,958,600**	**4,565,569**	**768,455**	**2,786,157**	**700,118**	**11,824,318**
Accumulated depreciation and impairment	**-**	**(1,039,947)**	**(2,765,845)**	**(424,560)**	**(2,555,051)**	**(69,810)**	**(6,855,213)**
Carrying value as of 1 January 2010	**45,419**	**1,918,653**	**1,799,724**	**343,895**	**231,106**	**630,308**	**4,969,105**
Additions/Transfers of assets under construction	-	205,502	859,566	113,484	(17,911)	(116,876)	1,043,765
Impairment charge to profit or loss	-	-	-	-	-	(9,737)	(9,737)
Disposals	-	(9,506)	(11,828)	(54,033)	-	(18,963)	(94,330)
Depreciation charge	-	(174,803)	(528,972)	(110,642)	(37,303)	-	(851,720)
Translation to presentation currency	-	3,853	2,230	2,072	3,161	1,334	12,650
Carrying value as of 31 December 2010	**45,419**	**1,943,699**	**2,120,720**	**294,776**	**179,053**	**486,066**	**5,069,733**
Cost as of 31 December 2010	**45,419**	**3,141,957**	**5,271,756**	**814,468**	**2,808,291**	**565,613**	**12,647,504**
Accumulated depreciation and impairment	**-**	**(1,198,258)**	**(3,151,036)**	**(519,692)**	**(2,629,238)**	**(79,547)**	**(7,577,771)**
Carrying value as of 1 January 2011	**45,419**	**3,141,957**	**5,271,756**	**814,468**	**2,808,291**	**565,613**	**12,647,504**
Accumulated depreciation and impairment	**-**	**(1,198,258)**	**(3,151,036)**	**(519,692)**	**(2,629,238)**	**(79,547)**	**(7,577,771)**
Carrying value as of 1 January 2011	**45,419**	**1,943,699**	**2,120,720**	**294,776**	**179,053**	**486,066**	**5,069,733**
Additions/Transfers of assets under construction	**-**	191,872	796,969	196,182	24,163	(8,468)	1,200,718
Impairment charge to profit or loss	**-**	-	-	-	-	(9,187)	(9,187)
Disposals	**-**	(1,112)	(10,070)	(2,601)	-	(13,981)	(27,764)
Depreciation charge	**-**	(180,476)	(560,521)	(90,337)	(27,100)	-	(858,434)
Translation to presentation currency	**-**	12,314	13,291	11,161	8,489	5,825	51,080
Carrying value as of 31 December 2011	**45,419**	**1,966,297**	**2,360,389**	**409,181**	**184,605**	**460,255**	**5,426,146**
Cost as of 31 December 2011	**45,419**	**3,331,550**	**5,951,827**	**1,003,009**	**2,971,371**	**548,989**	**13,852,165**
Accumulated depreciation and impairment	**-**	**(1,365,253)**	**(3,591,438)**	**(593,828)**	**(2,786,766)**	**(88,734)**	**(8,426,019)**

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9 Property, Plant and Equipment (continued)

Test property, plant and equipment of TOO “Nova Zinc” for impairment

As a result of the global economic downturn and falling demand for mineral resources, zinc and lead prices as of 31 December 2008 dropped by more than 50% since the beginning of 2007 to USD 1,120 per tonne of zinc and USD 950 per tonne of lead. Such decrease in zinc and lead prices coupled with the global liquidity crisis was considered by management as indicators of impairment in value of non-financial assets. Accordingly, as of 31 December 2008 a review of the carrying values and estimated recoverable amounts of the Group entities’ property, plant and equipment was performed. As a result of this review, an impairment loss was recognized in the amount of RUB 1,973,442 thousand related to property, plant and equipment of Nova Zinc LLP.

The recoverable amount was calculated based on the value in use of the CGU assets which was based on management estimates of future commodity prices, market supply and demand, product margins, and, in case of mining properties, the expected future production volumes and discount rates reflecting the time value of money and risks inherent in CGU.

During 2010, the zinc and lead prices were subject to considerable fluctuations. Therefore management performed a review of the carrying value and calculated the recoverable amount of the property, plant and equipment of Nova Zinc LLP, a subsidiary of the Group, as of 31 December 2010 to identify whether it is necessary to reverse previously recognized impairment loss either fully or partially. Based on their review management identified that the value in use of the property, plant and equipment approximated their carrying value. Therefore this review showed that there was no need to recognise additional impairment loss or to reverse the impairment loss previously recognised for the Group’s property, plant and equipment in Kazakhstan.

In the second half of 2011, zinc and lead prices dropped comparing to the prices as of 31 December 2010. Therefore management performed a review of the carrying value and calculated the recoverable amount of the property, plant and equipment of Nova Zinc LLP as of 31 December 2011 to identify whether it is necessary to recognize additional impairment loss. Based on the review performed, management indentified that the recoverable amount of property, plant and equipment exceeds their carrying value by 204,123 thousand. This is due to the change in other assumptions, used by management in calculation of the recoverable amount of the property, plant and equipment, mainly the increase in ore reserves and corresponding increase in volumes of zinc concentrate production in forecasted period.

Yearly average zinc and lead prices used by management in calculation of the recoverable amount of property, plant and equipment of Nova Zinc LLP as of 31 December 2011 and 31 December 2010 based on the average prices published by independent market analysts are provided below:

	2011	2012	2013	2014	2015	2016
At 31 December 2011						
Average price of zinc metal, USD per tone	-	2,208	2,394	2,463	2,502	2,557
Average price of lead metal, USD per tone	-	2,387	2,511	2,559	2,588	2,645
At 31 December 2010						
Average price of zinc metal, USD per tone	2,430	2,493	2,477	2,448	2,517	2,587
Average price of lead metal, USD per tone	2,397	2,585	2,352	2,333	2,399	2,466

The remaining assumptions are provided below:

- management considers it appropriate to use ore reserves increase by 2,190 thousand tonnes which are available for open pit mining in the impairment model as of 31 December 2011 and corresponding extension of forecasted period till 2020 (forecasted period as of 31 December 2010 was till 2017);
- management believe that the assumption of having the existing license for mineral resources production renewed through the end of the forecast period without significant additional costs is justifiable and appropriate;
- annual inflation rate will be 2.1% to 2.3% in the long-term (31 December 2010: 1% to 2.8%);
- after-tax discount rate will be 16.1% (31 December 2010: 14.2%).

Due to the volatility on the global market, zinc prices are subject to considerable fluctuations. Accordingly, as a result of performed analysis, in the consolidated financial statements as of 31 December 2011 no reversal of the previously recognised impairment loss in relation to the property, plant and equipment in Kazakhstan was recognised.

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10 Intangible Assets

In thousands of Russian Roubles	Exploration and evaluation assets	Other intangible assets	Total
Cost as of 1 January 2010	14,231	62,408	**76,639**
Accumulated amortisation	-	(31,367)	**(31,367)**
Carrying value as of 1 January 2010	**14,231**	**31,041**	**45,272**
Additions	8,540	1,278	**9,818**
Amortisation	-	(5,099)	**(5,099)**
Translation to presentation currency	230	(49)	181
Carrying value as of 31 December 2010	**23,001**	**27,171**	**50,172**
Cost as of 1 January 2011	23,001	63,327	**86,328**
Accumulated amortisation	-	(36,156)	**(36,156)**
Carrying value as of 1 January 2011	**23,001**	**27,171**	**50,172**
Additions	10,077	58	**10,135**
Amortisation	-	(3,842)	**(3,842)**
Translation to presentation currency	1,950	170	2,120
Carrying value as of 31 December 2011	**35,028**	**23,557**	**58,585**
Cost as of 31 December 2011	35,028	65,831	**100,859**
Accumulated amortisation	-	(42,274)	(42,274)

Other intangible assets comprise the cost of obtaining CZP SHG (Chelyabinsk Zinc Plant Special High Grade) certification. The carrying value of this asset is RUB 18,147 thousand (31 December 2010: RUB 18,935 thousand). The product was formally registered with London Metal Exchange in December 2004.

11 Other Non-current Assets

In thousands of Russian Roubles	31 December 2011	31 December 2010
Long-term deposit	-	100,000
Other non-current assets	2,267	1,098
Total other non-current assets	**2,267**	**101,098**

12 Inventories

In thousands of Russian Roubles	31 December 2011	31 December 2010
Raw materials and consumables	803,884	750,294
Work in process	510,265	365,477
Finished goods	234,927	166,531
Precious metals	67,499	85,458
Goods for resale	12,592	9,121
Inventory provision	(25,950)	(11,683)
Total inventory, net	**1,603,217**	**1,365,198**

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13 Trade and Other Receivables

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
Trade receivables denominated in RUB – third parties		727,637	558,368
Trade receivables denominated in RUB – related parties	8	438,062	171,609
Trade receivables denominated in USD – third parties		34,407	84,479
Trade receivables denominated in EUR – third parties		127,757	140,647
Trade receivables denominated in GBP – third parties		197,740	183,985
Interest income – third parties		496	38,778
Trade receivables denominated in KZT – third parties		-	36,707
Other financial assets		32,048	27,857
Impairment provision		(1,996)	(16,048)
Total financial assets within trade and other receivables		**1,556,104**	**1,226,050**
VAT and other taxes recoverable		205,456	147,800
Property insurance prepayments		-	37,295
Other prepayments – third parties		168,524	98,989
Other prepayments – related parties	8	1,564	20
Other receivables – third parties		4,235	6,348
Impairment provision		(991)	(1,372)
Total trade and other receivables		**1,934,939**	**1,515,462**

Management believes that the fair value of accounts receivable as of the end of the reporting periods does not differ significantly from their carrying amounts. No accounts receivable were renegotiated as of 31 December 2011 and 31 December 2010.

As of 31 December 2011, total trade and other receivables of RUB 2,987 thousand (31 December 2010: RUB 17,420 thousand) were individually impaired, including impairment provision per trade receivables in amount of RUB 1,996 thousand (31 December 2010: RUB 16,048 thousand). The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations. Management of the Group expects that a portion of accounts receivable included in the provision will be collected.

The ageing of these impaired receivables is as follows:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Less than 3 months	70	-
3 to 6 months	436	22
Beyond 6 months	1,490	16,026
Total gross amount of impaired accounts receivable	**1,996**	**16,048**

As of 31 December 2011, trade receivables of RUB 323,333 thousand (31 December 2010: RUB 135,600 thousand) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables from past due date is as follows:

In thousands of Russian Roubles	31 December 2011	31 December 2010
Less than 3 months	245,807	125,853
3 to 6 months	57,157	9,742
Beyond 6 months	20,369	5
Trade accounts receivable past due but not impaired	**323,333**	**135,600**

13 Trade and Other Receivables (continued)

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

In thousands of Russian Roubles	2011	2010
As of 1 January	**17,420**	**17,696**
Provision accrued	2,307	3,147
Receivable write-offs	(15,780)	(114)
Reversal of unused amount	(1,060)	(3,404)
Foreign exchange differences	100	95
As of 31 December	**2,987**	**17,420**

The creation and recovery of provision for impaired receivables were included in general and administrative expenses in the consolidated statement of income. Receivable balances included in the provision are normally written off against the provision when management believes that there is a remote possibility that these receivables will be collected from the counterparty.

Other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above plus the amount of loans receivable, cash and cash equivalents, bank deposits, restricted cash and other non-current assets. The Group does not hold any collateral as security on accounts receivable.

14 Loans Issued

In thousands of Russian Roubles	31 December 2011	31 December 2010
Loans issued in RUB	979,565	-
Loans issued in KZT	1,814	1,474
Loans issued in USD	3,932	-
Total loans issued	**985,311**	**1,474**

In February 2011 the Group issued a loan to CJSC Capital Invest in the amount of RUB 1,000,000 thousand at 5% p.a. with a maturity at 31 December 2011. As collateral, the Group received in pledge 100% of CJSC CLAAS-STROY's stock, an investor and developer of large real estate assets in Sverdlovskaya region. As a result of measuring the loan upon recognition, the Group recognised finance costs of RUB 34,755 thousand in profit and loss. When measuring fair value upon recognition the Group estimated future cash flows at a rate of 9.5%.

In December 2011 the Group signed a supplement to the loan agreement, whereby duration of the agreement was extended through 31 December 2012 and the interest rate changed to 3% per annum. Also, carrying amount of the loan was adjusted to reflect revised estimates of cash flows using the original effective interest rate and recognising an additional expense of RUB 58,597 thousand in profit and loss.

For the year ended 31 December 2011, interest income on that loan amounted to RR 72,917 thousand.

In April 2012, the Group received a guarantee from a Russian bank securing full settlement of the loan principal and interest accrued thereon. The aforementioned guarantee is effective through the end of the loan agreement. Management has performed analysis of the bank's financial position and its ability, if need be, to fulfil obligations under the guarantee. Based on the analysis performed management believes that there is no objective evidence of any impairment of the loan.

At 31 December 2011 and 31 December 2010, fair value of the loans issued was not materially different from their carrying amounts.

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15 Bank Deposits

In thousands of Russian Roubles	31 December 2011	31 December 2010
Deposits with CB Koltso Urala, RUB denominated, at 10.75% p.a.	-	250,000
Deposits with CB Koltso Urala, RUB denominated, at 10.00% p.a.	-	172,000
Deposits with CB Koltso Urala, RUB denominated, at 9.75% p.a.	-	111,000
Deposit with Alfa Bank, RUB denominated, at 7.00% p.a.	-	250,000
Deposits with CB Koltso Urala, USD denominated, at 6.00% p.a.	-	91,431
Deposits with CB Koltso Urala, USD denominated, at 6.25% p.a.	-	91,431
Deposit with Gazprombank, USD denominated, at 4.25% p.a.	-	30,476
Deposit with Sberbank, USD denominated, at 4.60% p.a.	-	60,962
Deposit with Tiumenenergobank, RUB denominated, at 11.75% p.a.	37,579	37,579
Provision for deposit with Tiumenenergobank	(37,579)	(37,579)
Deposit with CB Koltso Urala, RUB denominated, at 3.00% p.a.	1,000	-
Deposits with Sberbank, RUB denominated, at 6.39-7.51% p.a.	480,000	-
Total bank deposits	**481,000**	**1,057,300**

Deposits outstanding as of 31 December 2011 will mature in January-April 2012 and can't be repaid before maturity date.

In December 2008, the Central Bank of the Russian Federation revoked Tiumenenergobank's banking licence. As a result the Group made provision for the deposit of RUB 127,500 thousand with this bank as of 31 December 2008.

In 2009 the Group signed several agreements relating to its claims for recovery of the bank deposit with Tiumenenergobank. The assignee under these agreements transferred to the Group property valued at RUB 90,637 thousand, which was recognized as assets held for sale in the consolidated statement of financial position. As a result, as of 31 December 2009 the amount of the bank deposit and the related provision were decreased to RUB 37,579 thousand. In 2010 the Group partially sold assets with a historical cost of RUB 59,488 thousand and recognised loss of RUB 35,950 thousand on those transactions. As of 31 December 2010, management recognised an impairment loss on the remaining asset of RUB 11,149 thousand.

In November 2011, the Group sold that asset at a price equivalent to its carrying value.

Management believes that the effective interest rates do not differ significantly from the nominal interest rates disclosed above. Management believes that fair value of the bank deposits does not differ significantly from their carrying value.

16 Cash and Cash Equivalents

In thousands of Russian Roubles	31 December 2011	31 December 2010
RUB denominated bank balances payable on demand and cash on hand	42,788	53,955
USD denominated bank balances payable on demand	(47,179)	(6,958)
GBP denominated bank balances payable on demand	242,086	207,888
bank balances payable on demand in Swiss francs	64	61
KZT denominated bank balances payable on demand and cash on hand	20,138	27,329
RUB denominated term deposits	282,000	375,000
USD denominated term deposits	-	91,443
Total cash and cash equivalents	**539,897**	**748,718**

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

The Group includes overdraft with the bank Lloyds TSB in the cash and cash equivalents based on the legally enforceable right and management intent to offset overdraft against cash balances denominated in other currencies placed with this bank.

As of 31 December 2011, RUB denominated term deposits include two deposits with Chelindbank for an amount of RUB 150,000 thousand at 6.4% p.a. and RUB 132,000 thousand at 5.2% p.a. As of 31 December 2010, RUB denominated term deposits include two deposits with CB Koltso Urala for a total of RUB 100,000 thousand at 10.75% p.a., four deposits with CB Koltso Urala for a total of RUB 250,000 thousand at 11.25% p.a. and one deposit with CB Uralliga for an amount of RUB 25,000 thousand at 5% p.a.

No bank balances are past due or considered impaired.

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17 Share Capital

The total number of ordinary shares in issue comprises:

In thousands of Russian Roubles	Number of ordinary shares	Book value of ordinary shares	Share premium	Total
As at 31 December 2010	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**
As at 31 December 2011	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**

As of 31 December 2011, 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 2010: 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 2011 and 2010, the Company did not issue or repurchase its own shares.

The statutory accounting reports of the Group's entities are used as the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2011, net statutory profit of the Company for the current year as reported in the published annual statutory reporting forms was RUB 1,166,212 thousand (for the year ended 31 December 2010: RUB 1,394,906 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totaled RUB 9,396,033 thousand (2010: RUB 8,077,114 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The formation of the legal reserve in the RAR accounting reports is stipulated by the Law of the Russian Federation "On Joint Stock Companies" and equals 5% of the declared share capital. The legal reserve of RUB 2,710 thousand recorded in the statutory reporting forms as of 31 December 2011 (31 December 2010: RUB 2,710 thousand) is different from the relevant reserve shown in these consolidated financial statements due to the effect of inflation calculated in accordance with IAS 29 which had been applied to the economy of the Russian Federation till 2002.

During the years 2011 and 2010, under the annual shareholders general meeting's decision, the Company did not accrue or pay dividends for outstanding ordinary shares. As at 31 December 2011 and 31 December 2010, the Group's liabilities related to unpaid dividends for prior periods were nil.

18 Finance Lease Liabilities

In thousands of Russian Roubles	31 December 2011	31 December 2010
Finance lease liabilities	-	51,060
1 to 2 years	-	14,589
2 to 3 years	-	12,906
3 to 4 years	-	5,478
Total long-term portion of finance lease liabilities	**-**	**32,973**

In the first half of the 2011, the Group settled its contractual obligations and bought out assets leased in under finance lease ahead of the schedule using its own funds, thereby discharging its lease liabilities in full.

19 Provisions for Asset Retirement Obligations

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 9. Movements in provisions for asset retirement obligations are as follows:

In thousands of Russian Roubles	**Restoration costs**
Carrying value as of 1 January 2010	**72,377**
Changes to the forecasts adjusted for property, plant and equipment cost	(17,911)
Unwinding of accrued discount	5,292
Effect of presentation currency translation	1,003
Carrying value as of 31 December 2010	**60,761**
Changes in estimates adjusted for property, plant and equipment cost	24,163
Unwinding of accrued discount	5,928
Effect of presentation currency translation	5,436
Carrying value as of 31 December 2011	**96,288**

The discount rate used to calculate the net present value of future costs of asset retirement obligations as of 31 December 2011 was 7,87% p.a. (31 December 2010: 10,07% p.a.).

20 Accounts Payable, Accrued Expenses and Advances from Customers

In thousands of Russian Roubles	**Note**	**31 December 2011**	**31 December 2010**
Trade payables RUB denominated – third parties		227,368	143,436
Trade payables RUB denominated – related parties	8	63,826	67,700
Trade payables USD denominated – third parties		17,706	402
Trade payables USD denominated – related parties	8	7,670	-
Trade payables EUR denominated – third parties		1,737	45,087
Trade payables GBP denominated – third parties		16,379	35,823
Trade payables in Swiss francs – third parties		1,932	1,250
Trade payables KZT denominated – third parties		15,973	15,803
Trade payables KZT denominated – related parties	8	466	551
Liabilities for purchased property, plant and equipment and intangible assets- third parties		58,138	47,583
Liabilities for purchased property, plant and equipment and intangible assets- related parties	8	3,039	11,061
Accrued liabilities and other payables		44,477	50,151
Total financial payables within accounts payable		**455,711**	**418,847**
Advances from customers RUB denominated – third parties		9,761	5,117
Advances from customers RUB denominated – related parties	8	174	-
Advances from customers USD denominated – third parties		1,463	6,366
Advances from customers KZT denominated – third parties		531	204
Payroll and social tax payable		97,071	64,488
Other accrued liabilities		2,366	-
Unused vacation accrual		38,784	39,908
Accounts payable, accrued expenses and advances from customers		**605,861**	**534,930**

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21 Other Taxes Payable

In thousands of Russian Roubles	31 December 2011	31 December 2010
Property tax	21,091	19,692
Withholding tax	3,666	4,863
Personal income tax	6,997	8,261
Land tax	4,783	4,243
VAT	35,153	75,574
Mineral Extraction Tax	70,601	49,584
Provision for uncertain tax positions	29,345	29,345
Other taxes	4,552	4,960
Total other taxes payable	**176,188**	**196,522**

22 Revenue

In thousands of Russian Roubles	Note	2011	2010
Zinc and zinc alloys – third parties		9,039,971	7,816,323
Lead concentrate – third parties		336,475	696,058
Lead concentrate – related parties	8	143,543	14,201
Zinc tolling – related parties	8	1,666,215	1,766,815
Other – transactions with third parties		846,713	769,319
Other – transactions with related parties	8	739,421	588,525
Total revenue		**12,772,338**	**11,651,241**

Other revenue was generated from sales of by-products of zinc production including indium, cadmium, sulphuric acid and other products.

23 Cost of Sales

In thousands of Russian Roubles	2011	2010
Raw materials and consumables used in production	5,506,146	4,255,559
Utilities and fuel	2,011,005	1,681,331
Depreciation of property, plant and equipment and amortization of intangible assets	806,148	780,976
Staff cost	755,466	711,163
Repairs and maintenance	652,333	584,088
Mineral extraction tax	204,338	161,551
Cost of goods and materials for resale	160,481	146,441
Production overheads	99,009	90,546
Inventory provision	13,742	(5,122)
Impairment of property, plant and equipment	9,187	9,737
Change in finished goods	(41,813)	51,402
Precious metals revaluation	(48,481)	(101,550)
Physical inventory count adjustment	(79,225)	(54,521)
Change in work-in-progress	(145,045)	(18,698)
Total cost of sales	**9,903,291**	**8,292,903**

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24 Distribution, General and Administrative Expenses

In thousands of Russian Roubles	2011	2010
Transportation and customs duties	471,197	480,932
Packing materials	41,002	37,667
Depreciation and amortization	10,587	29,783
Total distribution costs	**522,786**	**548,382**
Wages and salaries	347,845	305,118
Security costs	88,966	69,865
Audit, consulting, information and other professional services	45,647	44,570
Depreciation and amortization	45,541	46,060
Repairs	40,878	39,698
Utilities and fuel	30,068	25,991
Other general and administrative expenses	162,013	125,659
Total general and administrative expenses	**760,958**	**656,961**

Total depreciation expenses and staff costs (including social expenditures) in the costs of sales, distribution, general and administrative expenses and other operating expenses amounted to RUB 862,276 thousand (2010: RUB 856,819 thousand) and RUB 1,191,989 thousand (2010: RUB 1,092,084 thousand), respectively.

25 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2011	2010
Current tax expense	359,952	508,413
Deferred tax credit	(95,640)	(15,279)
Income tax expense for the year	**264,312**	**493,134**

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

In thousands of Russian Roubles	2011	2010
Profit before taxation under IFRS	**1,302,602**	**1,906,702**
Theoretical tax charge at statutory rate of 20% (2010 – 20%)	260,520	379,531
Tax effect of items which are not deductible or assessable for taxation purposes		
Additional income tax liability related to prior periods	-	58,385
Social costs	13,900	14,865
Impairment of property, plant and equipment and intangible assets	-	3,374
Other non-deductible expenses	(3,765)	24,341
Effect of tax rates different to 20%	(6,343)	3,398
Effect of change in current income tax rates	-	9,240
Income tax expense for the year	**264,312**	**493,134**

Pre-tax profit from operations in the Russian Federation is taxed based on the effective rate of 20% (2010: 20%).

Effective from 1 April 2011 the Great Britain Government reduced the corporate income tax rate from 28% to 26%.

In 2010 the legislation of the Republic of Kazakhstan was amended in respect of the applicable corporate income tax rate (Note 27). As at 31 December 2011and 2010 the deferred tax assets and liabilities of Nova Zinc LLP were assessed using the income tax rate 20% which is expected to be applied at the time when the respective tax differences realise.

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 financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the aforementioned effective rates.

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25 Income Taxes (continued)

In thousands of Russian Roubles	31 December 2009	Charged to profit and loss	Charged to capital	Translation difference	31 December 2010	Charged to profit and loss	Translation difference	31 December 2011
Tax effects of taxable/(deductible) temporary differences:								
Accounts receivable	19,688	(22,010)	-	4	(2,318)	13,370	138	11,190
Financial instruments	12,945	-	(12,945)	-	-	-	-	-
Accounts payable and accrued liabilities	41,332	(26,744)	-	116	14,704	(1,538)	1,720	14,886
Exploration and evaluation costs	357	(161)	-	-	196	(162)	-	34
Provisions for asset retirement obligations	10,857	1,136	-	160	12,153	6,019	1,086	19,258
Property, plant and equipment	(311,934)	33,852	-	(1,395)	(279,477)	56,672	(1,838)	(224,643)
Inventory	(42,066)	14,817	-	(2,372)	(29,621)	8,918	31	(20,672)
Other	(13,613)	14,389	(7,089)	(439)	(6,752)	12,361	(2,548)	3,061
Total net deferred tax assets/(liabilities)	**(282,434)**	**15,279**	**(20,034)**	**(3,926)**	**(291,115)**	**95,640**	**(1,411)**	**(196,886)**
Deferred tax assets	**85,179**	**64,194**	**-**	**280**	**27,053**	**97,340**	**2,975**	**48,429**
Deferred tax liabilities	**(367 613)**	**(48,915)**	**(20,034)**	**(4,206)**	**(318,168)**	**(1,700)**	**(4,386)**	**(245,315)**

As of 31 December 2011 the Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 79,637 thousand 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 2010: RUB 52,859 thousand).

Substantially all deferred tax liabilities presented in the consolidated statement of financial position are expected to be realised within a period exceeding 12 months from the reporting date.

Substantially all deferred tax assets presented in the consolidated statement of financial position are expected to be realised within a 12 months period from the reporting date, except for an asset of RUB 19,258 thousand which will be realised in the longer term.

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26 Earnings per Share

Earnings per share was calculated by dividing the profit attributable to the equity holders of the Company in the amount of RUB 1,038,290 thousand (31 December 2010: RUB 1,413,568 thousand) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2011, which was 54,195,410 shares (31 December 2010: 54,195,410 shares).

The Company has no financial instruments that may entail dilution of equity; therefore, the diluted earnings per share equals the basic earnings per share.

27 Contingencies and Commitments

Legal proceedings. During the year ended 31 December 2011, 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.

In the first six months 2010, the Federal Antimonopoly Service initiated proceedings against the Company based on the indications that the Company breached the Federal Law on Protection of Competition by setting economically, technically or otherwise unreasonable various contractual coefficients in entering into contracts with Russian and foreign consumers for the delivery of zinc and by creating a discriminatory environment for the Russian consumers of zinc as compared to its foreign customers. On 17 February 2011, the Federal Antimonopoly Service decided to dismiss these proceedings.

On the basis of its own estimates and both internal and external professional advice, management is of the opinion that there are no current legal proceedings or other claims outstanding, 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.

Tax legislation. Both Russian and Kazakhstani 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. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties.

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.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. Russia's transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to assess additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between group companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

On 5 July 2008, the new law on transfer pricing was introduced in Kazakhstan which replaces the previous one with effect from 1 January 2009. 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.

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27 Contingencies and commitments (continued)

The Group's 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, if necessary. Therefore no additional tax liability was recorded in these consolidated financial statements of the Group.

The contract for subsoil use concluded by Nova Zinc LLP with the State Investments Committee of the Republic of Kazakhstan envisions a stable tax regime, which means that the tax regime existing as of the date of signing the agreement for subsoil use is in force throughout the whole period of the contract.

1 January 2009 the President of Kazakhstan signed a new Tax Code cancelling the stable tax treatment for all subsurface use contracts, except for the product sharing agreements and subsurface use contracts that are currently in force and have been ratified by the Parliament of Kazakhstan. According to the new tax legislation, all subsurface users' taxation, apart from those noted exceptions, are regulated by the New Tax Code rather than by subsurface use contracts that were signed previously. The key changes include: replacement of the royalty with the mineral extraction tax; change in the methodology of excess profit tax, VAT and property tax calculation; introduction of a fixed unified social tax rate and some other changes. On 26 November 2010, President of the Republic of Kazakhstan signed a law on amendments to the Tax Code which came into effect starting from 1 January 2011. Key changes include repealing reduction in the rates of the corporate income tax starting from 2013 and fixing it at 20%. The repeal of reduction in the rates of the corporate income tax starting from 2013 has affected the deferred income tax assets and liabilities recorded by Nova Zinc LLP as of 31 December 2010 (Note 25).

Both Russian and Kazakhstan tax legislation do not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity. 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 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 whose amounts cannot be reliably estimated by management.

During 2010 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 in court, if challenged by the tax authorities, the Group has, in these consolidated financial statements, recorded provisions for related taxes, in particular for corporate income taxes, VAT and penalties in respect of its transactions with suppliers in the amount of RUB 87,730 thousand. (31 December 2010: RUB 87,730 thousand).

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RUB 231,135 thousand as at 31 December 2011 (31 December 2010: RUB 123,721 thousand). These exposures primarily relate to calculation of taxable income for corporate income tax purposes.

Capital expenditure commitments. As of 31 December 2011 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 312,243 thousand (31 December 2010: RUB 110,311 thousand).

Exploration and evaluation commitments.

In 2010 and 2011 Group management conducted assessment of feasibility/appropriateness of underground mining on Akzhal minefield. In 2012 management has a plan to involve an independent appraiser to prepare valuation of underground ore reserves according to JORC code. Consequently as of 31 December 2011 management took a decision not to write off capitalised exploration costs in amount of RUB 35,028 thousand attributable to the reconstruction of the Central open-cast for the purposes of starting production under the combined method (31 December 2011: RUB 23,001 thousand)

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27 Contingencies and commitments (continued)

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

In thousands of Russian Roubles	**31 December 2011**	**31 December 2010**
Less than 1 year	2,376	770
1 to 5 years	7,968	3,444
Over 5 years	8,128	1,462
Total operating lease commitments	**18,472**	**5,676**

Commitments under contract and licenses for zinc and lead extraction

There are a number of commitments that are required to be met by Nova Zinc LLP in accordance with the provisions set forth in the License and the Contract for zinc and lead extraction:

- Meet the working schedule and the work program requirements;
- Apply corresponding modern technologies and business management knowledge during mining operations according to the field development standards;
- Comply with agreed upon technological plans and mining projects that provide for the ensuring health and safety of both staff and local population;
- Use, in the first place, equipment, materials and finished products manufactured in Kazakhstan, provided that they are competitive, in Group's opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Engage, in the first place, local companies operating in Kazakhstan to perform certain assignments during mining operations, provided that they are competitive, in Group's opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Employ Kazakh citizens in the first place;
- Prepare and apply professional training programmes for citizens and professionals of Kazakhstan, employed under the Contract;
- Remediate the Contractual territory that was damaged due to the mining operations or other activity of the subsidiary to the condition necessary for its further use according to Kazakhstan legislation.

In June 2011, the Geology and Subsoil Use Committee at the Kazakhstan Ministry of Industry and Innovative Technologies conducted examination of compliance by Nova Zinc LLP with licensing obligations under a contract for production of zinc and lead. Based on findings from the examination, the Committee has identified schedule delay in stripping operations. The Group does not expect the findings from the aforementioned examination to significantly affect its consolidated financial statements.

Insurance. At 31 December 2011 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 97,495 thousand (31 December 2010: RUB 234,685 thousand). The insurance premium is RUB 115 thousand (31 December 2010: RUB 118 thousand). The contracts expire during 2012.

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 recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, litigation or legislation, cannot be estimated precisely but could be material. In the current enforcement climate under existing legislation, management believes that the Group has no significant liabilities for environmental damage.

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28 Financial Risk Management

28.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk and liquidity risk. 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. Also, the companies of the Group use derivative financial instruments to hedge their risk exposures.

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.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is thereby exposed to foreign exchange risk arising from various currency transactions, primarily with respect to the USD and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group. The Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. However, management of the Group believes that the exposure to the foreign exchange risk is partially mitigated by the fact that most of the Group's export revenue proceeds are denominated in USD.

As of 31 December 2011, if the RUB had weakened/strengthened by 2% against USD with all other variables held constant, the net profit for the year would have been RUB 590 thousand lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables, cash in bank and deposits. As of 31 December 2010 if the RUB had weakened/strengthened by 4% against USD with all other variables held constant, the net profit for the year would have been RUB 14,172 thousand lower/higher.

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.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is exposed to commodity price risk because prices for zinc and zinc concentrate are determined basing 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, the Group has forward contracts totalling 3,050 tonnes of zinc that are not designated for hedge accounting and are accounted for at fair value through profit and loss. The loss on such contracts in the amount of RUB 36,328 thousand for the year ended 31 December 2011 (year ended 31 December 2010: profit of RUB 14,792 thousand) is recognised in other operating income and expenses line in the consolidated statement of income.

If the LME quotations for SHG zinc had been 3% higher/lower during the year ended 31 December 2011, the net profit of the Group would have been RUB 127,926 thousand higher/lower. If the LME quotations for SHG zinc had been 13% higher/lower during the year ended 31 December 2010, the net profit of the Group would have been RUB 496,369 thousand higher/lower.

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28 Financial Risk Management (continued)

28.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value 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.

(b) Credit risk

Credit risk is managed by the individual companies of the Group. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and from exposures to customers, including outstanding receivables and committed transactions.

Most of the domestic customers are large metallurgical plants that have independent ratings, which are used in the course of credit risk assessment. In transactions with key customers the Group aims to collect accounts receivable within one month from the invoice issue date. Any delays in payment are thouroughly investigated.

The table below shows the balances of the major counterparties on the balance sheet date.

In thousands of Russian Roubles	**Agency**	**Rating**	**31 December 2011**	**Rating**	**31 December 2010**
Banks					
Chelindbank	RBC	105*	338,322	100*	69,857
Sberbank	RBC	1*	480,031	-	-
CB Koltso Urala	RBC	132*	1,094	142*	1,065,862
Gazprombank	RBC	3*	69	3*	130,561
Alfa Bank	RBC	-	-	7*	250,000
CB Uralliga	RBC	424*	-	455*	25,000
Sberbank Kazakhstan	Fitch ratings	BBB-	3,267	BBB-	155,470
ABN AMRO Bank Kazakhstan (Royal bank of Scotland)	Moody's	A2	702	A1	28,025
Narodny Bank Kazakhstana	Fitch ratings	BB-	17,545	B+	14,736
Lloyds TSB	Fitch ratings	A/F1	170,441	AA-/ F1+	163,805
Total			**1,011,471**		**1,903,316**
Trade accounts receivable					
RoRes (Transal)**	-	-	416,301	-	332,932
UGMK Holding**	-	-	311,658	-	135,033
MMK**	Fitch ratings	BB+	112,937	BB	129,851
Kazzinc**	-	-	-	-	36,707
Total			**840,896**		**634,523**

*Position in Rosbusinessconsulting rating of banks by net assets as of 31 December 2011 and 31 December 2010 respectively.
** These companies are significant customers, with which the Group has a history of relationships.

The remaining portion of accounts receivable is being analysed by Group management who believe that these receivables have good quality due to the established relations with the customers. The Group monitors credit risk on a client-by-client basis.

As of 31 December 2011, the Group management also classified RUB 355,475 thousand of Brock Metal Ltd's receivables (31 December 2010: RUB 357,242 thousand) into a separate category. There is a policy in place for these receivables which requires an appropriate credit check on potential customers prior to sales. As a matter of additional credit risk mitigation, management also provided credit insurance of accounts receivable where possible.

Cash was collected according to contractual terms during the reporting period, and management does not expect any losses from non-performance by these counterparties.

28 Financial Risk Management (continued)

28.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

In thousands of Russian Roubles	31 December 2011	31 December 2010
Loans issued (Note 14)	**985,311**	**1,474**
Other non-current assets (Note 11)	**2,267**	**101,098**
Trade and other receivables (Note 13)	**1,556,104**	**1,226,050**
Cash and cash equivalents (Note 16)	**539,897**	**748,718**
- Bank balances payable on demand	257,897	282,275
- Term deposits with original maturity of less than three months and possibility of withdrawal before maturity date	282,000	466,443
Bank deposits with original maturity of less than twelve months (Note 15)	**481,000**	**1,057,300**
Restricted cash	**3,174**	**3,120**
Forward contracts accounted for at fair value through profit and loss	**-**	**24,115**
Total maximum exposure to credit risk	**3,567,753**	**3,161,875**

(c) Liquidity risk

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates. Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

In thousands of Russian Rubles	Note	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
At 31 December 2011				
Trade and other payables	20	455,711	-	-
Finance liabilities		11,051	-	-
At 31 December 2010				
Trade and other payables	20	418,847	-	-
Finance leasing		24,799	18,426	20,454

In 2011, the Group bought out assets leased in under finance lease ahead of the schedule using its own funds. The details are disclosed in Note 18.

The Group manages the liquidity risk inherent in its financial liabilities by matching their maturity with cash resources, projected cash flows from operations and arranging additional borrowings.

28.2 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 on a gearing ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including borrowings and trade and other payables, as shown in the consolidated statement of financial position) less other non-current assets, loans, bank deposits, cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

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28 Financial Risk Management (continued)

28.2 Capital risk management (continued)

The gearing ratios as of 31 December 2011 and 31 December 2010 were as follows:

In thousands of Russian Roubles	Note	31 December 2011	31 December 2010
Total debts		605,861	585,990
Less: bank deposits	15	(481,000)	(1,158,398)
Less: cash and cash equivalents	16	(539,897)	(748,718)
Less: restricted cash		(3,174)	(3,120)
Net debt		(418,210)	(1,324,246)
Total equity		10,002,217	8,861,605
Total capital		8,598,695	7,535,885
Gearing ratio		**n/a**	**n/a**

As of 31 December 2011 and 31 December 2010 management did not set any specific target gearing ratio as management believes that its current level is significantly below the safe level or level typical for the industry. The management does not have plans to significantly increase the gearing ratio in the foreseeable future.

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of a financial instrument have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation and the Republic of Kazakhstan continue to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. The Group uses forward contracts held for trading in zinc alloys which are carried at fair value.

Under the amendments to IFRS 7 for financial instruments recognised at fair value in the statement of financial position, entities need to disclose the measurement method for each instrument of that category by attributing them to one of the three levels. Fair values of the derivative financial assets and liabilities were determined by market prices for zinc and attributed to level 2.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Which discount rates are used depends on the credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

Cash and cash equivalents, deposits and loans issued are carried at amortised cost which approximates their current fair value.

Financial liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

30 Subsequent Events

In April 2012, the Group obtained a guarantee of the obligations under a loan agreement with CJSC Capital Invest. The details are disclosed in Note 14.

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