JSC CHELYABINSK ZINC PLANT AND ITS SUBSIDIARIES

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

31 December 2012

CONTENTS

Translation 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.

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 JSC Chelyabinsk Zinc Plant and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

ZAO PricewaterhouseCoopers Audit
White Square Office Center 10 Butyrsky Val Moscow, Russia, 125047
T: +7 (495) 967-6000, F:+7 (495) 967-6001, www.pwc.ru

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

18 April 2013

Moscow, Russian Federation

The section of the report with the signature of the firm and statutory auditor is not shown here, as this is an unsigned translation for the purposes of illustration only.

Audited entity: JSC Chelyabinsk Zinc Plant

State registration certificate № 208, issued by Kurchatov district administration of Chelyabinsk on 11 May 1993

Certificate of inclusion in the Unified State Register of Legal Entities issued on 16 December 2002 № 1027402551880

454008, Chelyabinsk, Sverdlovsky trakt, 24

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations.

Translation note: This version of our report 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 our report takes precedence over this translation.

Consolidated Statement of Financial Position

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	9	5, 311,993	5,426,146
Advances for capital construction		25,232	87,706
Intangible assets	10	74,591	58,585
Deferred income tax assets		11,991	-
Other non-current assets		577	2,267
Total non-current assets		**5,424,384**	**5,574,704**
Current assets			
Inventories	11	2,012,523	1,603,217
Trade and other receivables	12	1,917,416	1,934,939
Current income tax prepayment		48,277	84,130
Loans issued	13	354,480	985,311
Short-term financial assets		3,722	-
Bank deposits	14	1,489,345	481,000
Restricted cash		817	3,174
Cash and cash equivalents	15	425,386	539,897
Total current assets		**6,251,966**	**5,631,668**
TOTAL ASSETS		**11,676,350**	**11,206,372**
EQUITY			
Share capital	16	127,635	127,635
Share premium	16	1,375,231	1,375,231
Legal reserve	16	3,011	3,011
Cumulative currency translation reserve		(159,720)	(40,506)
Retained earnings		9,066,143	8,536,846
TOTAL EQUITY		**10,412,300**	**10,002,217**
LIABILITIES			
Non-current liabilities			
Provision for asset retirement obligations	17	107,272	96,288
Deferred income tax liabilities	23	184,981	196,886
Other non-current liabilities		53,783	49,418
Total non-current liabilities		**346,036**	**342,592**
Current liabilities			
Short-term financial liabilities		-	11,015
Accounts payable, accrued expenses and advances from customers	18	774,633	605,861
Current income tax payable		7,188	68,499
Other taxes payable	19	136,193	176,188
Total current liabilities		**918,014**	**861,563**
TOTAL LIABILITIES		**1,264,050**	**1,204,155**
TOTAL LIABILITIES AND EQUITY		**11,676,350**	**11,206,372**

Approved for issue and signed on behalf of the Board of Directors on 18 April 2013.

R.M. Shakirzyanov General Director	S.B. Kondakov Chief accountant

The accompanying notes on pages 6 to 37 are an integral part of these consolidated financial statements.

Translation 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.

Consolidated Statement of Income

In thousands of Russian Roubles	**Note**	**2012**	**2011**
Revenue	20	13,076,655	12,772,338
Cost of sales	21	(10,785,977)	(9,903,291)
Gross profit		**2,290,678**	**2,869,047**
Distribution costs	22	(563,570)	(522,786)
General and administrative expenses	22	(1,003,981)	(760,958)
Taxes other than income tax		(144,425)	(119,520)
Other operating expenses and income, net		(70,560)	(142,638)
Operating profit		**508,142**	**1,323,145**
Finance income		163,524	113,175
Finance costs		(38,892)	(104,861)
Foreign exchange gains		154,710	204,442
Foreign exchange losses		(132,193)	(233,299)
Profit before income tax		**655,291**	**1,302,602**
Income tax expense	23	(125,994)	(264,312)
Profit for the year		**529,297**	**1,038,290**
Profit attributable to:			
Shareholders of the Company		529,297	1,038,290
Profit for the year		**529,297**	**1,038,290**
Earnings per share – basic and diluted (in RUB)	24	**10**	**19**

Approved for issue and signed on behalf of the Board of Directors on 18 April 2013.

R.M. Shakirzyanov
General Director

S.B. Kondakov
Chief accountant

Translation 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.

In thousands of Russian Roubles	**2012**	**2011**
Profit for the year	529,297	1,038,290
Other comprehensive (loss)/income after tax		
Effect of translation to presentation currency	(119,214)	102,322
Total other comprehensive (loss)/income	*(119,214)*	*102,322*
Total comprehensive income for the year	**410,083**	**1,140,612**
Total comprehensive income attributable to:		
Shareholders of the Company	410,083	1,140,612

Approved for issue and signed on behalf of the Board of Directors on 18 April 2013.

R.M. Shakirzyanov
General Director

S.B. Kondakov
Chief accountant

Translation 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.

In thousands of Russian Roubles	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		655,291	1,302,602
Adjustments for:			
Depreciation and amortisation	9, 10	982,164	862,276
Net gain on disposal of property, plant and equipment		(41,599)	(53,094)
Impairment of loans issued, trade and other receivables		3,023	6,391
Increase in inventory provision	21	1,437	13,742
Finance income, net		(124,632)	(8,314)
Physical inventory count adjustment	21	-	(79,225)
Foreign exchange (gains) and losses, net		(739)	29,101
Impairment of assets under construction	9	4,760	9,187
Other non-monetary operating (income)/expenses, net		(67,075)	70,510
Operating cash flows before changes in working capital		**1,412,630**	**2,153,176**
Decrease/(increase) in trade and other receivables		35,227	(420,613)
Increase in inventories		(375,922)	(94,258)
Increase in trade payables		172,860	56,026
(Decrease)/increase in taxes payable		(5,341)	20,802
Decrease/(increase) in restricted cash balance		2,357	(54)
Cash generated from operations		**1,241,811**	**1,715,079**
Interest paid		(1,669)	(5,815)
Income tax paid		(180,657)	(454,656)
Net cash generated from operating activities		**1,059,485**	**1,254,608**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(897,971)	(1,154,955)
Purchase of exploration and evaluation assets		(21,090)	(13,019)
Proceeds from sale of property, plant and equipment		6,330	1,199
Loans issued		(422)	(1,006,986)
Proceeds from repayment of loans		703,390	1,544
Interest income received		54,455	72,782
(Increase)/decrease in short-term bank deposits		(1,018,612)	576,300
Decrease in long-term bank deposits		-	100,000
Net cash used in investing activities		**(1,173,920)**	**(1,423,135)**
Cash flows from financing activities			
Finance lease payments		-	(52,356)
Net cash used in financing activities		**-**	**(52,356)**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents		(76)	12,062
Net decrease in cash and cash equivalents		**(114,511)**	**(208,821)**
Cash and cash equivalents at the beginning of the year	15	**539,897**	**748,718**
Cash and cash equivalents at the end of the year	15	**425,386**	**539,897**

Approved for issue and signed on behalf of the Board of Directors on 18 April 2013.

R.M. Shakirzyanov
General Director

S.B. Kondakov
Chief accountant

Translation 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.

Consolidated Statement of Changes in Equity

In thousands of Russian Roubles	Share capital	Share premium	Legal reserve	Cumulative currency translation reserve	Retained earnings	Total equity
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
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**
Comprehensive income/(loss)						
Net profit for the period	-	-	-	-	529,297	529,297
Other comprehensive loss						
Effect of translation to presentation currency	-	-	-	(119,214)	-	(119,214)
Total other comprehensive loss	-	-	-	*(119,214)*	-	(119,214)
Total comprehensive income/(loss)	**-**	**-**	**-**	**(119,214)**	**529,297**	**410,083**
Balance at 31 December 2012	**127,635**	**1,375,231**	**3,011**	**(159,720)**	**9,066,143**	**10,412,300**

Approved for issue and signed on behalf of the Board of Directors on 18 April 2013.

R.M. Shakirzyanov
General Director

S.B. Kondakov
Chief accountant

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 2012 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 2012 and 31 December 2011, the Group's immediate parent is NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares. NF Holdings BV is also the company which has ultimate control over the Group. None of NF Holdings BV shareholders individually or jointly has control over it.

The Company's shares are listed on the Moscow Exchange and on the London Stock Exchange in the form of Global Depositary Receipts.

Principal activities. The Group's principal business activity is the extraction and integrated processing of ore with the purpose of producing zinc and lead concentrates, production and distribution of zinc, zinc alloys and by-products. The Group's manufacturing facilities are based in Chelyabinsk (the Russian Federation), Akzhal (the Republic of Kazakhstan) and Cannock (the United Kingdom). 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 2012 the Group employed approximately 3,221 employees (31 December 2011: 3,280).

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.

Company's legal address: 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 and can differ from current management's expectations.

Zinc 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 2012, the spot price of zinc on the London Metal Exchange varied in a range of USD 1,760 per tonne to USD 2,179 per tonne (2011: from USD 1,750 per tonne to USD 2,545 per tonne). The zinc price as of 31 December 2012 and 31 March 2013 was USD 2,035 and USD 1,870 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 current conditions.

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 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 is 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.

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.

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.

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortized cost. These measurement terms 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.

3. Summary of Significant Accounting Policies (continued)

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.

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 sales are recognised when the Group 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 2012 and 2011 the Group did not apply 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.

3. Summary of Significant Accounting Policies (continued)

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.

Gain or loss on disposal of property, plant and equipment is 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 30

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.

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 lease liabilities. 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.

Finance lease receivables. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins), using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

3. Summary of Significant Accounting Policies (continued)

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

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.

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.

3. Summary of Significant Accounting Policies (continued)

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 main 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 cost of sales for by-products. The cost of sales for by-products determines on the basis of standard cost and the expected margin. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

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;
- 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 in consolidated financial statements are carried at historical 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.

3. Summary of Significant Accounting Policies (continued)

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 consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

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 consolidated 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 expense.

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.

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”).

3. Summary of Significant Accounting Policies (continued)

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 2012 the official exchange rates established by the CBRF were: USD 1 = RUB 30.3727 (31 December 2011: USD 1 = RUB 32.1961), EUR 1 = RUB 40.2286 (31 December 2011: EUR 1 = RUB 41.6714) and GBP 1 = RUB 48.9638 (31 December 2011: GBP 1 = RUB 49.6335).

The official rates of exchange established by the KASE at 31 December 2012 were: RUB 1 = KZT 4.96 (31 December 2011: RUB 1 = KZT 4.61), USD 1 = KZT 150.74 (31 December 2011: USD 1 = KZT 148.40) and EUR 1 = KZT 199.22 (31 December 2011: EUR 1 = KZT 191.72).

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);

(iii) components of equity are translated at historical exchange rates; and

(iv) 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.

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

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.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and so on) are accrued in the reporting period in which the associated services are rendered by the employees of the Group.

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.

3. Summary of Significant Accounting Policies (continued)

Segment reporting. Operating segments are reported in the consolidated financial statements 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.

Amendment of the consolidated financial statements after issue. Any changes to these consolidated financial statements after issue require approval of the Group's management who authorised these consolidated financial statements for issue.

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 consolidated 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 2012, the carrying amount of the provision for asset retirement obligations was RUB 107,272 thousand (31 December 2011: RUB 96,288 thousand) (Note 17).

The Group management believes that the Group has no liabilities associated with significant retirement of assets located in the Russian Federation and 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 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 2012 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 367,035 thousand would be recognised as of 31 December 2012 respectively. As at 31 December 2011 decrease of zinc and lead prices by 5 percent could result in impairment of RUB 220,004 thousand.

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 approximate carrying value of RUB 37 million as of license maturity date.

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

As of 31 December 2012 and 31 December 2011, management did not identify any impairment indicators with regard to CGU located in the Russian Federation and United Kingdom.

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

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 14.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

Amendment to IAS 12 "Income taxes", which introduces exception from the general principles of (IAS) 12 for investment property that is measured using the fair value model. For the purposes of measuring deferred tax changes introduce a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. The amendment to IAS 12 did not have an impact on the consolidated financial statements of the Group.

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 amendments to IFRS 1 did not have an impact on the consolidated financial statements of the Group.

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. The amendment to IFRS 7 did not have an impact on the consolidated financial statements of the Group.

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 2013 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015);

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013);

IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013);

IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013);

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013);

IAS 27, Consolidated and Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);

6 New Accounting Pronouncements (continued)

IAS 28, Investments in Associates (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013);

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012). The Group expects the amended standard to change presentation of its consolidated 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);

Disclosure of information – Offsetting Financial Assets and Financial Liabilities – Amendment to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013);

Financial instruments: representation of information – Amendment to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014);

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for the Group from 1 January 2013);

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning on or after 1 January 2013);

Amendments to IFRS 1**, **First-time adoption of International Financial Reporting Standards − Government loans (issued in March 2012 and effective for periods beginning on or after 1 January 2013). These amendments do not affect the consolidated financial statements of the Group;

Amendments to IFRS 10, IFRS 12 and IAS 27 − Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014);

Other revised standards and interpretations: IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, considers when and how to account for the benefits arising from the stripping activity in mining industry.

Management of the Group is currently assessing the impact of the new standards, amendments to the standards and interpretations on the consolidated financial statements of the Group, unless otherwise stated above.

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.

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 in accordance with IFRS due to the differences in accounting policies.

7 Segment Information (continued)

The segment revenue and EBITDA provided to the Board of Directors for the years ended 31 December 2012 and 31 December 2011, respectively, were as follows:

In thousands of Russian Roubles	Mining	Smelting	Alloying	Total
The year ended 31 December 2012				
Total segment revenue	1,676,577	10,804,905	1,966,394	**14,447,876**
Intersegment revenue	1,180,574	16,904	-	**1,197,478**
Revenue from external customers	496,003	10,788,001	1,966,394	**13,250,398**
Segment EBITDA	236,183	1,162,947	44,634	**1,443,764**
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**

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

In thousands of Russian Roubles	2012	2011
Revenue from external customers of reportable segments	**13,250,398**	**12,918,445**
Timing differences (iii)	(72,739)	(7,021)
Adjustments for other revenue	(22,865)	(36,841)
Revenue from precious metals primary processing (i)	(167,700)	(193,433)
Other business activities not in scope of the Board of Directors review	89,561	91,188
Revenue based on IFRS consolidated financial statements	**13,076,655**	**12,772,338**

In thousands of Russian Roubles	2012	2011
Segment EBITDA	**1,443,764**	**2,236,296**
Accounting policy differences:		
Inventory adjustments (ii)	28,364	(98,209)
Timing differences (iii)	(61,510)	(104,555)
Capitalisation of expenses (iv)	135,851	148,590
Elimination of intersegment operations	(20,696)	60,911
Employee benefits (v)	(1,611)	18,951
Mineral extraction tax	4,714	(20,981)
VAT provision reversal	29,345	-
Other business activities not in scope of the Board of Directors review	666	(3,989)
Other differences	(59,780)	(39,464)
Items excluded from segment EBITDA:		
Depreciation of property, plant and equipment and amortisation of intangible assets	(982,164)	(862,276)
Impairment and write-off of property, plant and equipment and research and development costs	(8,801)	(9,187)
Exploration and evaluation costs	-	(2,942)
Foreign exchange gain/loss, net	22,517	(28,857)
Finance income	163,524	113,175
Finance costs	(38,892)	(104,861)
Profit before tax based on IFRS consolidated financial statements	**655,291**	**1,302,602**

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

(iv) Expenses which, extend the remaining useful life of an asset, are required to be capitalised under IFRS;

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

7 Segment Information (continued)

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 2012:				
Inventories	-	864,285	-	864,285
Accounts receivable	536,503	1,526,111	318,635	2,381,249
Total segment assets	**536,503**	**2,390,396**	**318,635**	**3,245,534**
Accounts payable	160,073	898,163	45,667	1,103,903
Total segment liabilities	**160,073**	**898,163**	**45,667**	**1,103,903**
As of 31 December 2011:				
Inventories	-	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**

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

In thousands of Russian Roubles	31 December 2012	31 December 2011
Total segments' assets	**3,245,534**	**3,130,238**
Intersegment eliminations	(271,881)	(337,806)
Other inventories of Smelting segment, which are not in scope of the Board of Directors review	962,624	642,693
Inventories of mining and alloying segments, which are not in scope of the Board of Directors review	135,523	252,953
Netting of accounts receivable and accounts payable	(141,439)	(13,464)
Inventory adjustments	8,546	(2,783)
Timing differences	87,035	(46,226)
Other business activities not in scope of the Board of Directors review	11,875	14,713
Other differences	(59,601)	(18,032)
Total inventories, trade and other receivables and income tax prepayments based on IFRS consolidated financial statements	**3,978,216**	**3,622,286**

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

In thousands of Russian Roubles	31 December 2012	31 December 2011
Total segments' liabilities	**1,103,903**	**1,091,594**
Intersegment eliminations	(277,003)	(337,093)
Settlements with employees	36,213	41,980
Timing differences	201,561	(9,005)
Netting of accounts receivable and accounts payable	(141,439)	(26,598)
Taxes payable	26,667	101,747
Other business activities not in scope of the Board of Directors review	17,792	22,345
Other differences	(49,680)	(23,407)
Total current liabilities based on IFRS consolidated financial statements	**918,014**	**861,563**

7 Segment Information (continued)

Geographical information

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

In thousands of Russian Roubles	31 December 2012	31 December 2011
Russia	4,414,670	4,395,187
Kazakhstan	965,171	1,153,684
United Kingdom	26,098	20,002
Other non-current assets	6,454	5,831
Total non-current assets, other than deferred tax asset, based on IFRS consolidated financial statements	**5,412,393**	**5,574,704**

The analysis is based on the location of assets.

Revenues for each individual country are reported separately as follows:

In thousands of Russian Roubles	2012	2011
Russia	10,419,796	10,063,981
United Kingdom	1,140,001	1,285,618
Switzerland	530,441	347,113
Germany	278,966	314,039
France	181,249	131,505
Kazakhstan	98,540	190,742
Other countries	427,662	439,340
Total revenue based on IFRS consolidated financial statements	**13,076,655**	**12,772,338**

The analysis is based on domicile of the customers.

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 2012				
The group of companies MMK	-	3,422,163	-	3,422,163
JSC Severstal	-	2,288,765	-	2,288,765
The group of companies UGMK	-	1,871,142	-	1,871,142
Other customers individually less than 10% of total revenue	431,244	3,094,181	1,969,160	5,494,585
Total revenue based on IFRS consolidated financial statements	**431,244**	**10,676,251**	**1,969,160**	**13,076,655**

In thousands of Russian Roubles	Mining	Smelting	Alloying	Total
For the year ended 31 December 2011				
The group of companies MMK	-	2,891,796	-	2,891,796
JSC Severstal	-	2,427,418	-	2,427,418
The group of companies 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 consolidated financial statements	**250,536**	**10,428,746**	**2,093,056**	**12,772,338**

8 Balances and Transactions with Related Parties

According to IAS 24 (revised in 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 2012 and 2011 and had significant balances outstanding as of 31 December 2012 and 31 December 2011 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.

8 Balances and Transactions with Related Parties (continued)

(i) Consolidated statement of financial position data

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
Assets			
Accounts receivable	12	300,686	438,062
Advances issued	12	-	1,564
Advances for capital construction		1,514	-
Bank deposits	14	688,978	-
Loans granted to key management personnel		2,339	5,202
Total assets		**993,517**	**444,828**
Liabilities			
Accounts payable	18	(54,022)	(71,962)
Advances received	18	(42,110)	(174)
Liabilities for purchased property, plant and equipment	18	-	(3,039)
Total liabilities		**(96,132)**	**(75,175)**

(ii) Consolidated statement of income data

In thousands of Russian Roubles	Note	2012	2011
Revenue			
Tolling fee	20	1,297,800	1,666,215
Sales of goods	20	573,342	882,964
Total revenue		**1,871,142**	**2,549,179**
Purchases			
Purchases of inventory		(491,535)	(741,110)
Purchases of electric power		(999,712)	-
Total purchases		**(1,491,247)**	**(741,110)**
Operating expenses			
Other expenses		(261,847)	(183,722)
Information services		(48)	(65)
Total operating expenses		**(261,895)**	**(183,787)**
Finance income/(costs)			
Interest on deposits		21,828	-
Interest on loans issued		152	224
Other finance costs		-	(393)
Total finance income/(costs)		**21,980**	**(169)**

During the year ended 31 December 2012 the Group supplied to related parties 474.3 tonnes of zinc sulphate (2011: 1,229 tonnes), 1,454 tonnes of copper-bearing cake (2011: 1,160 tonnes) and 6,759 tonnes of lead cake (2011: 5,172 tonnes).

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 2012 was RUB 1,297,800 thousand (year ended 31 December 2011: RUB 1,666,215 thousand).

In 2012 the Group purchased from related parties 19,290 tonnes of zinc concentrates for a total amount of RUB 342,059 thousand (2011: 34,089 tonnes for a total amount of RUB 484,971 thousand).

(iii) Sureties, held by the Group at the end of the year

At 31 December 2012 The Group held guarantee from Russian bank, which is related party of the Group. This guarantee secures repayment of the loan issued to CJSC Capital Invest, including accrued interests. As of 31 December 2012 this loan amounted to RUB 350,012 thousand (Note 13).

(iv) 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 85,940 thousand and RUB 84,281 thousand for the years ended 31 December 2012 and 2011, respectively. There were 29 directors and managers in the key management personnel of the Group in the year ended 31 December 2012 (2011: 29 people).

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 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)**
Cost as of 1 January 2012	**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)**
Carrying value as of 1 January 2012	**45,419**	**1,966,297**	**2,360,389**	**409,181**	**184,605**	**460,255**	**5,426,146**
Additions/Transfers of assets under construction	-	117,617	388,043	114,179	10,800	333,180	963,819
Impairment charge to profit or loss	-	-	-	-	-	(4,760)	(4,760)
Disposals	-	(228)	(5,188)	(10,514)	-	(6,147)	(22,077)
Depreciation charge	-	(200,527)	(658,531)	(88,673)	(31,913)	-	(979,644)
Translation to presentation currency	-	(16,663)	(20,924)	(14,699)	(11,943)	(7,262)	(71,491)
Carrying value as of 31 December 2012	**45,419**	**1,866,496**	**2,063,789**	**409,474**	**151,549**	**775,266**	**5,311,993**
Cost as of 31 December 2012	**45,419**	**3,384,645**	**6,172,079**	**1,048,255**	**2,779,529**	**868,760**	**14,298,687**
Accumulated depreciation and impairment	**-**	**(1,518,149)**	**(4,108,290)**	**(638,781)**	**(2,627,980)**	**(93,494)**	**(8,986,694)**

9 Property, Plant and Equipment (continued)

Test property, plant and equipment of Nova Zinc LLP 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 indicator 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 recognised 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.

At 31 December 2011 management performed a review of the carrying value and calculated the recoverable amount of the property, plant and equipment of Nova Zinc LLP to identify whether it is necessary to recognise additional impairment loss. Based on the review performed, management indentified that the recoverable amount of property, plant and equipment exceeds their carrying value by RUB 204,123 thousand. This is due to the change in 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.

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 of the Group as of 31 December 2011 no reversal of the previously recognised impairment loss in relation to the property, plant and equipment in Kazakhstan was made.

During year ended 31 December 2012, the zinc and lead prices were subject to considerable fluctuations. Therefore management performed a review of the carrying value and calculated recoverable amount of the property, plant and equipment of Nova Zinc LLP, a subsidiary of the Group, as of 31 December 2012 to identify whether it is necessary to recognise additional impairment loss or to reverse previously recognised impairment loss either fully or partially. Based on the review the 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.

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 2012 and 31 December 2011 based on the average prices published by independent market analysts are provided below:

	2012	2013	2014	2015	2016	2017
At 31 December 2012						
Average price of zinc metal, USD per tone	n/a	2,164	2,229	2,429	2,500	2,558
Average price of lead metal, USD per tone	n/a	2,297	2,346	2,535	2,500	2,558
At 31 December 2011						
Average price of zinc metal, USD per tone	2,208	2,394	2,463	2,502	2,557	2,587
Average price of lead metal, USD per tone	2,387	2,511	2,559	2,588	2,645	2,466

The remaining assumptions are provided below:

- 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 in USD will be 2.2% to 2.3% in the long-term (31 December 2011: 2.1% to 2.3%);
- after-tax discount rate will be 14.96% (31 December 2011: 16.12%).

10 Intangible Assets

In thousands of Russian Roubles	Exploration and evaluation assets	Other intangible assets	Total
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 1 January 2012	35,028	65,831	**100,859**
Accumulated amortisation	-	(42,274)	**(42,274)**
Carrying value as of 1 January 2012	**35,028**	**23,557**	**58,585**
Additions	21,783	-	**21,783**
Amortisation	-	(2,520)	**(2,520)**
Translation to presentation currency	(3,031)	(226)	**(3,257)**
Carrying value as of 31 December 2012	**53,780**	**20,811**	**74,591**
Cost as of 31 December 2012	53,780	64,909	**118,689**
Accumulated amortisation	-	(44,098)	**(44,098)**

Other intangible assets comprise the cost of obtaining CZP SHG (Chelyabinsk Zinc Plant Special High Grade) certification. The carrying value of this asset at 31 December 2012 is RUB 17,359 thousand (31 December 2011: RUB 18,147 thousand). The product was formally registered with London Metal Exchange in December 2004.

11 Inventories

In thousands of Russian Roubles	31 December 2012	31 December 2011
Raw materials and consumables	930,849	803,884
Work in process	820,744	510,265
Finished goods	176,703	234,927
Precious metals	101,782	67,499
Goods for resale	9,037	12,592
Inventory provision	(26,592)	(25,950)
Total inventory, net	**2,012,523**	**1,603,217**

12 Trade and Other Receivables

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
Balances in operations with third parties			
Trade receivables denominated in RUB		879,210	727,637
Trade receivables denominated in GBP		193,162	197,740
Trade receivables denominated in EUR		87,498	127,757
Trade receivables denominated in USD		43,363	34,407
Interest income in RUB		20,289	496
Other financial assets		38,860	32,048
Balances in operations with related parties			
Trade receivables denominated in RUB	8	300,686	438,062
Impairment provision		(2,575)	(1,996)
Total financial assets within trade and other receivables		**1,560,493**	**1,556,151**
VAT and other taxes recoverable		211,064	205,456
Other prepayments – third parties		143,204	168,524
Other prepayments – related parties	8	-	1,564
Other receivables – third parties		2,708	4,235
Impairment provision		(53)	(991)
Total trade and other receivables		**1,917,416**	**1,934,939**

12 Trade and Other Receivables (continued)

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 2012 and 31 December 2011.

As of 31 December 2012, total amount of provision for accounts receivable possible impairment amounted to RUB 2,628 thousand (31 December 2011: RUB 2,987 thousand), including impairment provision of trade receivables in amount of RUB 2,575 thousand (31 December 2011: RUB 1,996 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 trade receivables from past due date is:

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Less than 3 months	-	70
3 to 6 months	832	436
Over 6 months	1,743	1,490
Total amount of impaired accounts receivable	**2,575**	**1,996**

As of 31 December 2012, trade receivables of RUB 410,423 thousand (31 December 2011: RUB 323,333 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 2012**	**31 December 2011**
Less than 3 months	385,016	245,807
3 to 6 months	23,789	57,157
Over 6 months	1,618	20,369
Trade accounts receivable past due but not impaired	**410,423**	**323,333**

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

In thousands of Russian Roubles	**2012**	**2011**
As of 1 January	**2,987**	**17,420**
Provision accrued	1,387	2,307
Receivable write-offs	(99)	(15,780)
Reversal of unused amount	(1,489)	(1,060)
Foreign exchange differences	(158)	100
As of 31 December	**2,628**	**2,987**

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 as soon as management acknowledges that there is a remote possibility that these receivables will be collected from the counterparty.

Other classes within receivables do not contain impaired assets.

The 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.

13 Loans Issued

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Loans issued in RUB	350,012	979,565
Loans issued in USD	2,339	3,932
Loans issued in KZT	2,129	1,814
Total loans issued	**354,480**	**985,311**

13 Loans Issued (continued)

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 Sverdlovsk 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.

In June 2012 the loan was partly redeemed in amount of RUB 700,000 thousand.

In December 2012 the Group signed a supplement to the loan agreement, whereby duration of the agreement was extended through 1 June 2013.

For the year ended 31 December 2012, interest income on that loan amounted to RUB 52,944 thousand (2011: RUB 72,917 thousand).

In April 2012, the Group received a guarantee from a Russian bank which is the related party of the Group. This guarantee secures settlement of the loan principal and interest accrued thereon. The guarantee is effective till the end of the loan agreement. Management performed analysis of the bank's financial position and its ability 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.

14 Bank Deposits

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
Deposits with CB Koltso Urala, RUB denominated, at 3.0% – 3.5% p.a.	8	688,978	1,000
Deposits with Gazprombank, RUB denominated, at 7.7%– 8.45% p.a.		400,000	-
Deposits with Sberbank, RUB denominated, at 6.39%– 8.7% p.a.		250,000	480,000
Deposit with Sberbank Kazakhstan, RUB denominated, at 6.50% p.a.		150,367	-
Deposit with Tyumenenergobank, RUB denominated, at 11.75% p.a.		37,579	37,579
Provision for deposit with Tyumenenergobank		(37,579)	(37,579)
Total bank deposits		**1,489,345**	**481,000**

Deposits outstanding as of 31 December 2012 will mature in January-September 2013.

In June 2012 the Group placed short-term RUB denominated deposits with CB Koltso Urala, the Group's related party since 26 July 2012, in the amount of RUB 700,000 thousand at 3.5% p.a. As a result of measuring the deposits upon recognition at fair value, the Group recognised finance costs of RUB 25,834 thousand in the profit and loss. When measuring fair value the Group estimated future cash flows at a rate of 7.5% p.a.

These deposits with CB Koltso Urala guarantee obligations under credit provided by the bank to third party in the same amount and for the same period, for the purpose of granting a loan to the Group related party, which has a significant influence on its activities.

Management believes that fair value of all bank deposits does not differ significantly from their carrying value, except of the deposit with Tyumenenergobank. In December 2008 the Central Bank of the Russian Federation revoked the license for banking activities of Tyumenenergobank. As a result, management of the Group was formed by the provision for impairment for the full amount of the deposit with this bank.

15 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
RUB denominated bank balances payable on demand and cash on hand	107,932	42,788
USD denominated bank balances payable on demand	(34,147)	(47,179)
EUR denominated bank balances payable on demand	(103,164)	-
GBP denominated bank balances payable on demand	400,528	242,086
Swiss francs denominated bank balances payable on demand	152	64
KZT denominated bank balances payable on demand and cash on hand	14,085	20,138
RUB denominated term deposits	40,000	282,000
Total cash and cash equivalents	**425,386**	**539,897**

All deposits classified by the Group as cash and cash equivalents have original maturities of less than three months and option 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 2012, RUB denominated term deposits included deposit with Chelindbank amounted to RUB 40,000 thousand at 6.2% p.a. (31 December 2011: deposits with Chelindbank amounted to RUB 282,000 thousand at 5.2%– 6.4% p.a.).

No bank balances are past due or considered impaired.

16 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 2011	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**
As at 31 December 2012	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**

As of 31 December 2012, 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 2011: 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 2012 and 2011, 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 2012, net statutory profit of the Company for the current year as reported in the published annual statutory reporting forms was RUB 534,997 thousand (for the year ended 31 December 2011: RUB 1,166,212 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totaled RUB 9,934,989 thousand (2011: RUB 9,396,033 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 statutory 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 2012 (31 December 2011: 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 2012 and 2011, under the annual shareholders general meeting's decision, the Company did not accrue or pay dividends for outstanding ordinary shares. As of 31 December 2012 and 31 December 2011, the Group's liabilities related to unpaid dividends for prior periods were nil.

17 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 2011	**60,761**
Changes to the forecasts 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**
Changes in estimates adjusted for property, plant and equipment cost	10,800
Unwinding of accrued discount	7,277
Effect of presentation currency translation	(7,093)
Carrying value as of 31 December 2012	**107,272**

The discount rate used to calculate the net present value of future costs of asset retirement obligations as of 31 December 2012 was 5,75% p.a. (31 December 2011: 7,87% p.a.).

18 Accounts Payable, Accrued Expenses and Advances from Customers

In thousands of Russian Roubles	**Note**	**31 December 2012**	**31 December 2011**
Balances in operations with third parties			
Trade payables – RUB denominated		230,155	227,368
Trade payables – USD denominated		122,802	17,706
Trade payables – KZT denominated		54,312	15,973
Liabilities for purchased property, plant and equipment and intangible assets		54,315	55,138
Trade payables – GBP denominated		14,102	16,379
Trade payables – EUR denominated		6,855	1,737
Trade payables – Swiss francs denominated		1,701	1,932
Accrued liabilities and other payables		24,306	44,477
Balances in operations with related parties			
Trade payables – RUB denominated	8	51,040	63,826
Trade payables – KZT denominated	8	2,982	466
Trade payables – USD denominated	8	-	7,670
Liabilities for purchased property, plant and equipment and intangible assets	8	-	3,039
Total financial payables within accounts payable		**562,570**	**455,711**
Advances from customers RUB denominated – third parties		16,813	9,761
Advances from customers RUB denominated – related parties	8	42,110	174
Advances from customers USD denominated – third parties		44	1,463
Advances from customers KZT denominated – third parties		282	531
Payroll and social tax payable		104,268	97,071
Unused vacation accrual		48,546	38,784
Other accrued liabilities		-	2,366
Accounts payable, accrued expenses and advances from customers		**774,633**	**605,861**

19 Other Taxes Payable

In thousands of Russian Roubles	31 December 2012	31 December 2011
Property tax	23,706	21,091
Withholding tax	3,417	3,666
Personal income tax	12,930	6,997
Land tax and other payments for land use	19,733	4,783
Value Added Tax	9,136	35,153
Mineral Extraction Tax	53,600	70,601
Provision for uncertain tax positions	-	29,345
Other taxes	13,671	4,552
Total other taxes payable	**136,193**	**176,188**

20 Revenue

In thousands of Russian Roubles	Note	2012	2011
Zinc and zinc alloys – third parties		9,427,698	9,039,971
Lead concentrate – third parties		417,352	336,475
Lead concentrate – related parties	8	173,975	143,543
Zinc tolling – related parties	8	1,297,800	1,666,215
Other revenue – third parties		1,360,463	846,713
Other revenue – related parties	8	399,367	739,421
Total revenue		**13,076,655**	**12,772,338**

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

21 Cost of Sales

In thousands of Russian Roubles	2012	2011
Raw materials, consumables used in production and semi-finished goods	6,178,332	5,508,945
Utilities and fuel	2,069,862	2,011,005
Depreciation of property, plant and equipment and amortisation of intangible assets	923,793	806,148
Staff cost	847,985	755,466
Repairs and maintenance	651,905	652,333
Mineral extraction tax	186,449	204,338
Cost of goods and materials for resale	117,776	109,201
Production overheads	98,853	99,009
Change in finished goods	17,491	(41,813)
Impairment of property, plant and equipment	4,760	9,187
Inventory provision	1,437	13,742
Physical inventory count adjustment	-	(79,225)
Change in work-in-progress	(312,666)	(145,045)
Total cost of sales	**10,785,977**	**9,903,291**

22 Distribution, General and Administrative Expenses

In thousands of Russian Roubles	2012	2011
Transportation and customs duties	513,474	471,197
Packing materials	43,127	41,002
Depreciation and amortisation	6,969	10,587
Total distribution costs	**563,570**	**522,786**
Wages and salaries	393,397	347,845
Insurance costs	139,725	3,225
Security costs	74,245	88,966
Audit, consulting, information and other professional services	72,915	45,647
Depreciation and amortization	51,402	45,541
Repairs	44,365	40,878
Utilities and fuel	33,103	30,068
Other general and administrative expenses	194,829	158,788
Total general and administrative expenses	**1,003,981**	**760,958**

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 982,164 thousand (2011: RUB 862,276 thousand) and RUB 1,348,192 thousand (2011: RUB 1,191,989 thousand), respectively.

23 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2012	2011
Current tax expense	149,765	359,952
Deferred tax credits	(23,771)	(95,640)
Income tax expense for the year	**125,994**	**264,312**

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

In thousands of Russian Roubles	2012	2011
Profit before taxation under IFRS	**655,291**	**1,302,602**
Theoretical tax charge at statutory rate of 20% (2011 – 20%)	131,058	260,520
Tax effect of items which are not deductible or assessable for taxation purposes:		
Reversal of income tax provision (Note 25)	(58,384)	-
Additional income tax liability related to prior periods	10,883	-
Social costs	16,058	13,900
Effect of tax rates different to 20%	3,357	(6,343)
Other non-deductible expenses/(income)	23,022	(3,765)
Income tax expense for the year	**125,994**	**264,312**

Pre-tax profit from operations in the Russian Federation is taxed based on the effective rate of 20% (2011: 20%).

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

23 Income Taxes (continued)

Differences between IFRS and statutory taxation regulations in Russia and other countries 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:

In thousands of Russian Roubles	31 December 2010	Charged to profit and loss	Translation difference	31 December 2011	Charged to profit and loss	Translation difference	31 December 2012
Tax effects of taxable/(deductible) temporary differences:							
Accounts receivable	(2,318)	13,370	138	11,190	753	(408)	11,535
Accounts payable and accrued liabilities	14,704	(1,538)	1,720	14,886	16,314	(1,605)	29,595
Exploration and evaluation costs	196	(162)	-	34	(34)	-	-
Provisions for asset retirement obligations	12,153	6,019	1,086	19,258	3,615	(1,419)	21,454
Property, plant and equipment	(279,477)	56,672	(1,838)	(224,643)	32,876	3,648	(188,119)
Inventory	(29,621)	8,918	31	(20,672)	(25,508)	879	(45,301)
Other	(6,752)	12,361	(2,548)	3,061	(4,245)	(970)	(2,154)
Total net deferred tax assets/(liabilities)	**(291,115)**	**95,640**	**(1,411)**	**(196,886)**	**23,771**	**125**	**(172,990)**
Deferred tax assets	**27,053**	**97,340**	**2,975**	**48,429**	**53,558**	**4,527**	**62,584**
Deferred tax liabilities	**(318,168)**	**(1,700)**	**(4,386)**	**(245,315)**	**(29,787)**	**(4,402)**	**(235,574)**

As of 31 December 2012 the Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 115,696 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 2011: RUB 79,637 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, except of liabilities in the amount of RUB 45,301 thousand (31 December 2011: RUB 20,672 thousand), which will be realised in short term.

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 21,454 thousand (31 December 2011: RUB 19,258 thousand) which will be realised in the longer term.

24 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 529,297 thousand (31 December 2011: RUB 1,038,290 thousand) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2012, which was 54,195,410 shares (31 December 2011: 54,195,410 shares).

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

25 Contingencies and Commitments

Legal proceedings. During the year ended 31 December 2012 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) that arose in the ordinary course of business. On the basis of management's opinion, there are no current legal proceedings or other claims outstanding, 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 Kazakhstan tax, currency and customs legislation is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities.

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

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

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

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

The transfer pricing legislation that is applicable to transactions prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose 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 included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed 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 that transfer pricing legislation in practice.

Given that the practice of implementation of the new transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

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

25 Contingencies and Commitments (continued)

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 Group.

In the course of its activity, the Group interacts with numerous third party suppliers. The Group's management took reasonable steps to be sure they comply with the tax legislation. However, in accordance with the practice that has 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.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties. As a result the authority examination of the Group for a number of prior years, at 31 December 2011 management 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 as at 31 December 2011. As at 31 December 2012, the Group management won in the litigation with tax authorities at three court instances, as prescribed by Russian legislation, and decided to fully reverse the above-mentioned provisions.

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 242,592 thousand as at 31 December 2012 (31 December 2011: RUB 231,135 thousand). These exposures primarily relate to corporate income tax.

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

There are a number of commitments that are required to be met by Nova Zinc LLP, the Group’s subsidiary, in accordance with the provisions set forth in the subsoil use contract:

- 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.

25 Contingencies and Commitments (continued)

In 2012 Nova Zinc LLP signed an addendum to the existing subsoil use contract. The addendum established requirements for the content of goods, work and services to be purchased from Kazakh companies in the total amount of purchased goods and services (the required ratio for Kazakh goods is no less than 25% and for services no less than 95% of the total amount of purchased goods and services, respectively). Non-compliance with the requirements of the subsoil use contract could lead to penalties or contract cancellation by government authorities. In 2012 requirements to the content of local goods and services in Kazakhstan have not been met.

Management of the Group is taking all necessary measures to ensure that all contractual and statutory requirements are met. As at 31 December 2012, management together with AO National Agency on Development of Local Content "NADLOC" prepared mid-term procurement plan of Nova Zinc LLP and applied with the Kazakhstan Ministry of Industry and New Technologies for reducing the requirements for purchasing goods and services made by Kazakh companies in the total amount of goods, work and services bought by Nova Zinc LLP.

The Group Management believes that the probability is high that the Kazakhstan Ministry of Industry and New Technologies will take into consideration the Group's arguments and change the requirements for TOO Nova Zinc, which are prescribed in the addendum to the contract so that the company will be able to comply with them in the future.

Capital expenditure commitments. As of 31 December 2012 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 102,024 thousand (31 December 2011: RUB 312,243 thousand).

Exploration and evaluation commitments

In 2010 and 2011 Group management conducted assessment of feasibility/appropriateness of underground mining on Akzhal minefield. In 2012 an independent appraiser was involved to prepare valuation of underground ore reserves according to JORC code. In 2013 appraisal work will be continued. Consequently as of 31 December 2012 management took a decision not to write off capitalised exploration costs in amount of RUB 53,780 thousand attributable to the reconstruction of the Central open-cast for the purposes of starting production under the combined method (31 December 2011: RUB 35,028 thousand).

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

In thousands of Russian Roubles	**31 December 2012**	**31 December 2011**
Less than 1 year	10,639	2,376
1 to 5 years	39,813	7,968
Over 5 years	38,733	8,128
Total operating lease commitments	**89,185**	**18,472**

Insurance. At 31 December 2012 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 380,393 thousand (31 December 2011: RUB 97,495 thousand). The insurance premium is RUB 3,455 thousand (31 December 2011: RUB 115 thousand). The contracts expire during 2013.

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

26 Financial Risk Management

26.1 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.

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 part of the Group's revenue and expenses are denominated in USD.

As of 31 December 2012, 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 2,056 thousand lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables and cash in banks. 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.

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 as at 31 December 2012, the Group had forward contracts totalling 1,375 tonnes of zinc (31 December 2011: forward contracts totalling 3,050 tonnes of zinc) that were not recognised in accordance with hedging rules and have been accounted for at fair value through profit and loss. The profit on such contracts in the amount of RUB 14,640 thousand for the year ended 31 December 2012 (2011: loss of RUB 36,328 thousand) was recognised in other operating income and expenses line in the consolidated statement of income.

If the LME quotations for SHG zinc had been 11% higher/lower during the year ended 31 December 2012, the net profit of the Group would have been RUB 510,801 thousand higher/lower. 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.

(iii) 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.

26 Financial Risk Management (continued)

26.1 Financial risk factors (continued)

(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 2012	Rating	31 December 2011
Banks					
Chelindbank	RBC	109*	126,462	105*	338,322
Sberbank	RBC	1*	250,065	1*	480,031
CB Koltso Urala	RBC	107*	691,094	132*	1,094
Gazprombank	RBC	3*	400,290	3*	69
Sberbank Kazakhstan	Fitchratings	BBB-	168,520	BBB-	3,267
ABN AMRO Bank Kazakhstan (Royal bank of Scotland)	Moody's	A-	1,034	A2	702
Narodny Bank Kazakhstana	Fitchratings	BB-	12,290	BB-	17,545
Lloyds TSB	Fitchratings	A/F1	258,872	A/F1	170,441
Total			**1,908,627**		**1,011,471**
Trade accounts receivable					
RoRes (Transal)**	-	-	-	-	416,301
UGMK Holding**	-	-	200,020	-	311,658
MMK**	Fitchratings	BB+	238,346	BB+	112,937
Severstal**	Fitchratings	BB	420,979	-	-
Total			**859,345**		**840,896**

* Position in Rosbusinessconsulting (RBC) rating of banks by net assets as of 31 December 2012 and 31 December 2011, respectively.

** These companies are significant customers, with which the Group has a history of positive 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 2012, the Group management also classified RUB 311,459 thousand of Brock Metal Ltd's receivables (31 December 2011: RUB 355,475 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.

26 Financial Risk Management (continued)

26.1 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 2012	31 December 2011
Loans issued (Note 13)	**354,480**	**985,311**
Other non-current assets	**577**	**2,267**
Trade and other receivables (Note 12)	**1,560,493**	**1,556,151**
Cash and cash equivalents (Note 15)	**425,386**	**539,897**
- Bank balances payable on demand	385,386	257,897
- Term deposits with original maturity of less than three months and possibility of withdrawal before maturity date	40,000	282,000
Bank deposits (Note 14)	**1,489,345**	**481,000**
Restricted cash	**817**	**3,174**
Short-term financial assets	**3,722**	**-**
Total maximum exposure to credit risk	**3,834,820**	**3,567,800**

(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 2012				
Trade and other payables	18	562,570	-	-
At 31 December 2011				
Trade and other payables	18	455,711	-	-
Finance liabilities		11,015	-	-

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

26.2 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 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.

26 Financial Risk Management (continued)

26.2 Capital risk management (continued)

The gearing ratios as of 31 December 2012 and 31 December 2011 were as follows:

In thousands of Russian Roubles	Note	31 December 2012	31 December 2011
Total debt		774,633	605,861
Less: bank deposits	14	(1,489,345)	(481,000)
Less: cash and cash equivalents	15	(425,386)	(539,897)
Less: restricted cash		(817)	(3,174)
Net debt		(1,140,915)	(418,210)
Total equity		10,412,300	10,002,217
Total capital		9,271,385	9,584,007
Gearing ratio		**n/a**	**n/a**

As of 31 December 2012 and 31 December 2011 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.

27 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 which are carried at fair value.

Under the amendments to IFRS 7 for financial instruments recognised at fair value in the consolidated 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 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 amount of receivables from customers, 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.

28 Subsequent Events

In February 2013 as a result of meteorite explosion concentrates warehouse situated at JSC Chelyabinsk Zinc Plant's territory was damaged. Management believes that this accident hasn't influenced significantly on the Group's activity.