Joint Stock Company
Chelyabinsk Pipe-Rolling Plant

Consolidated Financial Statements
for the Year Ended 31 December 2014
and Auditor's report

JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

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JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

CHELPIPE

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Joint Stock Company Chelyabinsk Pipe-Rolling Plant and its subsidiaries (the "Group") at 31 December 2014, and the consolidated results of its operations, cash flows and changes in equity for 2014, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2014 were approved by management on 24 April 2015:

Alexandr Grubman	**Sergey Lebedev**
Chief Executive Officer	Chief Financial Officer

Moscow, Russia
24 April 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Director's of Joint Stock Company Chelyabinsk Pipe-Rolling Plant:

We have audited the accompanying consolidated financial statements of Joint Stock Company Chelyabinsk Pipe-Rolling Plant and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2014, and the consolidated statements of comprehensive income, cash flows and changes in equity for 2014, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and 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 the 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 Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Deloitte + Touche

24 April 2015
Moscow, Russian Federation

Metelkin E.A., Partner
(certificate № 01-001012 dated 26 November 2012)

ZAO Deloitte & Touche CIS

The Entity: Joint Stock Company "Chelyabinsk Pipe-Rolling Plant"

Certificate of state registration: №27-31, issued by the Administration of Leninskiy district of Chelyabinsk on 21.10.1992.

Certificate of registration in the Unified State Register: 1027402694186, issued by Tax Inspection of Leninskiy District of Chelyabinsk of the Russian Ministry of Taxation on 19.07.2002.

Address: 21 Mashinostroiteley str., Chelyabinsk, Russia 454129.

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014
(thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2014	31 December 2013 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	9	57,316,057	60,027,401
Advances for capital construction		2,116,021	475,060
Intangible assets	10	1,211,840	1,222,495
Goodwill	11	7,780,584	6,326,643
Investments in associates		45,974	40,502
Derivatives	12	6,687,671	–
Other financial assets	13	3,212,875	3,212,875
Deferred tax assets	30	436,356	354,130
Other non-current assets		89,808	150,200
Total non-current assets		**78,897,186**	**71,809,306**
Current assets			
Inventory	14	18,825,276	17,678,699
Trade and other receivables	15	33,605,713	26,800,027
Current income tax prepayment		432,625	87,785
Loans receivable	16	751,026	837,079
Cash and cash equivalents	17	5,465,382	3,024,975
Total current assets		**59,080,022**	**48,428,565**
TOTAL ASSETS		**137,977,208**	**120,237,871**
EQUITY DEFICIT AND LIABILITIES			
Share capital	18	2,498,261	2,498,261
Legal reserve	18	70,857	70,857
Translation reserve		1,351,815	47,036
Treasury shares	18	(18,093,626)	(18,044,001)
Actuarial gains reserve		260,716	122,564
Retained earnings		9,995,307	4,026,287
Equity deficit attributable to owners of the Company		**(3,916,670)**	**(11,278,996)**
Non-controlling interests	11	1,373,535	460,500
Total equity deficit		**(2,543,135)**	**(10,818,496)**
Non-current liabilities			
Borrowings	19	86,628,404	73,062,280
Accounts payable and accrued expenses	22	2,388,234	1,334,930
Deferred revenue	23	197,583	–
Retirement benefit obligations	20	266,887	651,128
Deferred tax liabilities	30	2,247,472	3,205,400
Total non-current liabilities		**91,728,580**	**78,253,738**
Current liabilities			
Borrowings	19	12,800,554	27,407,412
Accounts payable and accrued expenses	22	29,757,946	20,904,405
Advances from customers		3,061,887	1,963,289
Income tax payable		22,311	170,332
Other taxes payable	21	3,149,065	2,357,191
Total current liabilities		**48,791,763**	**52,802,629**
Total liabilities		**140,520,343**	**131,056,367**
TOTAL EQUITY DEFICIT AND LIABILITIES		**137,977,208**	**120,237,871**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(thousands of Russian Roubles, unless otherwise stated)

	Notes	2014	2013
Revenue	24	128,122,844	112,427,681
Cost of sales	25	(92,115,168)	(85,036,087)
Gross profit		**36,007,676**	**27,391,594**
Distribution costs	26	(9,498,663)	(7,372,334)
General and administrative expenses	27	(10,225,530)	(8,750,883)
Loss on disposal of property, plant and equipment		(115,833)	(103,020)
Impairment of assets	28	(794,386)	(260,474)
Operating profit		**15,373,264**	**10,904,883**
Finance income	29	202,131	176,160
Finance costs	29	(12,671,669)	(12,302,837)
Dividend income		–	86,025
Foreign exchange loss, net		(3,676,579)	(989,217)
Share of gain of associates		5,472	1,549
Gain on disposal of subsidiary	7	–	65,270
Loss before income tax		**(767,381)**	**(2,058,167)**
Income tax (expense)/benefit	30	(448,633)	190,232
Loss for the year		**(1,216,014)**	**(1,867,935)**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains on retirement benefits	20	138,152	68,654
Items that may be reclassified subsequently to profit or loss:			
Exchange differences income on translating of foreign operations		1,304,779	52,347
Other comprehensive income for the year		**1,442,931**	**121,001**
Total comprehensive income/(loss) for the year		**226,917**	**(1,746,934)**
(Loss)/profit for the year attributable to:			
Owners of the Company		(1,234,926)	(1,837,032)
Non-controlling interests		18,912	(30,903)
		(1,216,014)	**(1,867,935)**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		208,005	(1,716,031)
Non-controlling interests		18,912	(30,903)
		226,917	**(1,746,934)**
Loss per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	31	**(3.98)**	**(5.89)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(thousands of Russian Roubles, unless otherwise stated)

	Notes	2014	2013
Operating activities			
Loss before income tax		(767,381)	(2,058,167)
Adjustments for:			
Depreciation and amortisation	25,26,27	7,361,877	7,180,706
Changes in pension and payroll accruals		(263,384)	31,590
Changes in allowance for inventory	25	89,136	(65,672)
Impairment of assets	28	794,386	260,474
Loss on disposals of property, plant and equipment		115,833	103,020
Share of gain of associates		(5,472)	(1,549)
Gain on disposal of subsidiary		–	(65,270)
Finance income	29	(202,131)	(176,160)
Finance costs	29	12,671,669	12,302,837
Dividend income		–	(86,025)
Foreign exchange differences on non-operating items		3,157,020	684,671
Other non-cash movements		169,748	15,301
Operating cash flows before working capital changes		**23,121,301**	**18,125,756**
Movements in working capital			
Increase in accounts receivable and prepayments		(6,735,285)	(3,486,883)
(Increase)/decrease in inventories		(958,005)	3,650,400
Increase/(decrease) in trade and other payables		9,778,083	(2,397,690)
Cash generated from operations		**25,206,094**	**15,891,583**
Income tax paid		(1,988,079)	(639,022)
Interest paid		(10,462,744)	(10,100,539)
Interest received		83,381	95,615
Net cash generated from operating activities		**12,838,652**	**5,247,637**
Investing activities			
Purchase of property, plant and equipment		(6,269,456)	(3,991,360)
Purchase of intangible assets		(317,952)	(289,766)
Proceeds from sale of other current assets		–	382,649
Purchase of other current assets		–	(157,987)
Proceeds from sale of property, plant and equipment		84,290	126,839
Loans given		(6,500)	(147,122)
Proceeds from loans repaid		4,484	65,461
Cash received with sale of subsidiary	7	–	127,081
Dividends received		–	86,025
Net cash used in investing activities		**(6,505,134)**	**(3,798,180)**
Financing activities			
Proceeds from borrowings		19,019,367	86,479,595
Repayment of borrowings		(23,623,207)	(90,068,546)
Payment of finance lease obligations		(376,766)	(283,162)
Cash paid to acquire treasury shares	18	(49,625)	(248,992)
Proceeds from government grant	23	152,954	–
Contribution of non-controlling interest shareholder in business combination	7	782,116	–
Net cash used in financing activities		**(4,095,161)**	**(4,121,105)**
Effect of exchange rate changes on cash and cash equivalents held in a foreign currency		202,050	110,649
Net increase/(decrease) in cash and cash equivalents		**2,440,407**	**(2,560,999)**
Cash and cash equivalents at the beginning of the year	17	3,024,975	5,585,974
Cash and cash equivalents at the end of the year	17	**5,465,382**	**3,024,975**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

(thousands of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company								
	Share capital	**Legal reserve**	**Retained earnings**	**Treasury shares**	**Translation reserve**	**Actuarial gains reserve**	**Total**	**Non-controlling interests**	**Total equity deficit**
Balance at 1 January 2013	**2,498,261**	**70,857**	**5,863,319**	**(17,795,009)**	**(5,311)**	**53,910**	**(9,313,973)**	**491,403**	**(8,822,570)**
Loss for the year	–	–	(1,837,032)	–	–	–	(1,837,032)	(30,903)	(1,867,935)
Other comprehensive income	–	–	–	–	52,347	68,654	121,001	–	121,001
Total comprehensive (loss)/income for the year	–	–	**(1,837,032)**	–	**52,347**	**68,654**	**(1,716,031)**	**(30,903)**	**(1,746,934)**
Additions of treasury shares	–	–	–	(248,992)	–	–	(248,992)	–	(248,992)
Balance at 31 December 2013	**2,498,261**	**70,857**	**4,026,287**	**(18,044,001)**	**47,036**	**122,564**	**(11,278,996)**	**460,500**	**(10,818,496)**
(Loss)/income for the year	–	–	(1,234,926)	–	–	–	(1,234,926)	18,912	(1,216,014)
Other comprehensive income	–	–	–	–	1,304,779	138,152	1,442,931	–	1,442,931
Total comprehensive (loss)/income for the year	–	–	**(1,234,926)**	–	**1,304,779**	**138,152**	**208,005**	**18,912**	**226,917**
Additions of treasury shares	–	–		(49,625)	–	–	(49,625)	–	(49,625)
Increase in non-controlling interest (Notes 6, 11)	–	–	(112,007)	–	–	–	(112,007)	894,123	782,116
Derivatives recognized (Note 12)	–	–	7,315,953	–	–	–	7,315,953	–	7,315,953
Balance at 31 December 2014	**2,498,261**	**70,857**	**9,995,307**	**(18,093,626)**	**1,351,815**	**260,716**	**(3,916,670)**	**1,373,535**	**(2,543,135)**

1. GENERAL INFORMATION

Joint Stock Company Chelyabinsk Pipe-Rolling Plant (the "Company" or "Chelpipe") was established as a state owned enterprise in 1942 and was incorporated as an open joint stock company on 21 October 1992 as part of and in accordance with the Russian government's privatisation programme. The Company's registered address is 21 Mashinostroiteley str., Chelyabinsk 454129, Russia. Hereinafter, the Company together with its subsidiaries are referred to as the Group.

The immediate parent of the Company is Mountrise Limited, a company incorporated under the laws of Cyprus, which owns 51.9969% of the Company's issued share capital. Mr. A.I. Komarov is the ultimate controlling party of the Group.

The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group has three reportable segments, namely steel pipe production ("SPP"), oilfield services ("OFS") and trunk pipeline systems ("TPS"). The Group is one of the largest pipe producers in Russia holding significant domestic market shares in welded large diameter pipes, oilfield tubular and stainless seamless pipes. The oilfield services segment manufactures and provides support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development. The Group's trunk pipeline systems segment produces highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

The Group's principal manufacturing facilities are based in the Ural and West Siberia regions of Russia and in the Czech Republic.

The Company's principal subsidiaries are disclosed in Note 6. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which include Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out below have been applied in preparing the consolidated financial statements for the year ended 31 December 2014, and the comparative information presented in these financial statements, except for the impact of the adoption of new standards, amendments to standards or interpretations as described in Note 4.

Financial condition and going concern

These consolidated financial statements have been prepared by management on the assumption that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realize its assets and discharge its liabilities in the normal course of business.

Sales volumes of the Group increased in the reporting period, however the Group's results were impacted by the weak global economy, higher metal prices and high volatility in the foreign exchange markets, which contributed to a loss for the year ended 31 December 2014 of 1,216,014 (loss for the year ended 31 December 2013: 1,867,935), of which foreign exchange loss comprised 3,676,579 (in 2013 loss: 989,217). Also in 2014 the Group generated positive operating net cash flows, which comprised 12,838,652 (in 2013: 5,247,637). The successful restructuring of the Group's borrowings has brought stability to its financial position so that at 31 December 2014 the Group's current assets exceeded its current liabilities in the amount of 10,288,259 (as at 31 December, 2013 current liabilities exceeded current assets in the amount of 4,374,064 restated).

In October 2012, the Group signed a syndicated loan agreement totaling 86,464,245 with a consortium of fourteen banks. In December 2012, the Ministry of Finance on behalf of the Russian Federation agreed to stand as guarantor of the Group's financial obligations in the event of a default in repayment of these obligations in the amount of 43,280,000 such guarantee to expire in January 2020. The Group received its first draw down on the syndicated loan in the amount of 70,310,399 in February 2013. The loan proceeds were fully utilized to re-finance existing loans of the banks participating in the syndicated loan facility. In 2014 the Group received in full the second draw down on the syndicated loan in the amount of 16,153,846, which was utilized to re-finance the loans of Gazprombank (Joint-stock Company) (Note 19).

For the last years the Group has had in place a recovery plan focused on returning the Group to profitability primarily through cost cutting and productivity gains. During 2015, the Group is considering the following actions to continue to improve its trading performance and financial position:

- Continued investment in technological modernization of its operating assets;
- Expanding the product range and services of its oilfield services and trunk pipeline systems divisions;
- Providing more tailored and bespoke products and services to improve customer satisfaction;
- Continued focus on cost optimization, in particular raw material costs and product mix, outside service, optimization of labour compensation costs and a reduction of investment in working capital;
- Forming a strategic alliance with a key raw material supplier with the objective of reducing raw material input costs;
- Optimisation of business processes by designing and implementing systems of risk management, project management and performance management on the basis of non-financial indicators. Reorganization of organizational structure and implementation of system of development and motivation of personnel.

The continued weakness of the Group's financial position reflecting a loss for the year ended 31 December 2014 and a shareholder's deficit at 31 December 2014 indicate the existence of an uncertainty which may cast doubt on the Group's ability to continue as a going concern. Were the Group unable to continue as a going concern, adjustments would have to be made to the classification and carrying value of assets and liabilities and accruals would be made for other liabilities that might arise. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Presentation and functional currency

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

The functional currency of the Company’s subsidiaries located in the Russian Federation is the Russian Rouble. The functional currency of ARKLEY (UK) LIMITED located in the United Kingdom is the US Dollar (“USD”). The functional currency of MSA a.s. located in Czech Republic is the Czech Koruna. At the reporting date, the assets and liabilities of the subsidiaries with a functional currency other than Russian Rouble are translated into the presentation currency at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) ruling at the reporting date, and their statements of comprehensive income are translated at the weighted average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. The exchange differences arising on translation are taken directly to a separate component of other comprehensive income and accumulated in equity. On disposal of a subsidiary with a functional currency other than Russian Rouble, the deferred cumulative amount recognised in other comprehensive income relating to that particular subsidiary is recognised in profit or loss.

Cash flows are translated using the exchange rates existing at the dates of the significant transactions or at the average rate for a period. Resulting differences are presented separately as effect of exchange rate changes on cash and cash equivalents.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor’s returns.

Income and expenses of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits” respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “Share-based Payment” at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that Standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets/liabilities. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests form a separate component of the Group's equity and may have a deficit balance.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Step acquisitions and changes in the Group's ownership interests in existing subsidiaries

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in retained earnings and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate.

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.

Oilfield service revenue represents amounts chargeable to clients for professional services provided during the year. Services provided to clients that at the reporting date have not been billed to clients, are recognised as revenue. Revenue recognised in this manner is based on an assessment of the cost of the services provided at the reporting date as a proportion of the total estimated cost of the engagement plus the Group's estimated margin on the specific contract. Revenue is only recognised where the Group has a contractual right to receive consideration for work undertaken.

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

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognised impairment loss. Cost for qualifying assets includes borrowing costs incurred to finance construction of property, plant and equipment in accordance with the Group's accounting policy. Depreciation commences when the assets are ready for their intended use.

Spare parts, backup equipment and auxiliary equipment are recognized in the financial statements as property, plant and equipment in accordance with par. 8 IAS 16 "Property, Plant and Equipment", if the recognition criteria are satisfied.

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

The Group defines capitalized costs spent on capital repairs as the Component of the item of property, plant and equipment (the «Component»). The component is repaired/replaced on a regular basis as part of property, plant and equipment, that is separated from the total amount of capital repairs on the basis of the following criteria:

- The interrepair cycle of the repair/replacement of the component should exceed 18 months. If the frequency of the repairs/replacement of the component is less than 18 months, the costs spent on these capital repairs are not capitalized;
- The total costs of repairs/replacement of the component should exceed 1,000 or the price of the separate replaced spare part should exceed 100.

The separated component is classified to the same group as the repaired item of property, plant and equipment. The costs spent on the replacement of the components and the costs of the component itself are recognized as fixed assets.

At each reporting date, the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, 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 consolidated statement of comprehensive income. 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount and are recognised in profit or loss.

Depreciation

Land is not depreciated. Other property, plant and equipment represent fixed assets such as equipment and vehicles. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or valuation less estimated residual value over their estimated useful lives.

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 was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Investments in associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for under the equity method of accounting and carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment. The carrying amount of investments includes goodwill identified on acquisition, which represents any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate acquired. The goodwill is assessed for impairment as part of the impairment test of the investment, which is performed at least annually. If the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is in excess of the cost of acquisition the difference, after reassessment, is recognised immediately in profit or loss.

The Group's share of the post-acquisition profits or losses of investments in associates is recorded in the consolidated statement of comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses.

Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (directly attributable to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Impairment of intangible assets (excluding goodwill)

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is estimated to be less than the carrying amount of the asset, an impairment loss is recognised immediately in profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Key measurement terms

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Valuation techniques such as discounted cash flows models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to estimate 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 of such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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. 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 which 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.

Initial recognition of financial instruments

Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus or minus 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 the 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 instruments 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 receive or deliver a financial instrument. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Derivatives

Derivatives are recognised at fair value at the date of corresponding agreement and subsequently are revaluated at fair value with recognition of change in fair value in finance income/expense. Derivatives are accounted for as financial assets if their fair value is positive, and as financial liability if their fair value is negative.

Options for non-controlling interests are accounted for as a financial liability at present value of execution of options. Subsequently options are accounted for in accordance with IAS 39 "Financial instruments: recognition and measurement".

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. The amount of the allowance 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 carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within 'impairment of assets' expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'impairment of assets' expenses in the consolidated statement of comprehensive income and loss. Receivables are tested for impairment at each reporting date.

The basis of allowance recognition is historical experience of irrecoverability and an analysis of the counterparty's current financial position. The Group recognizes an allowance for doubtful debts of 100% against all receivables over 180 days and an allowance of 50% for doubtful debts receivables between 90 days and 180 days.

The Group considers the following other principal criteria also used to determine whether there is objective evidence that an impairment loss has occurred:

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- The counterparty is considering bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Loans receivable

Loans receivable initially are recognised at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate.

An allowance for impairment of loans receivable 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 the loans receivable. The amount of the allowance 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 allowance is recognised in the consolidated statement of comprehensive income.

Available-for-sale equity instruments

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

The Group has investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such available-for-sale equity instruments are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognised in the consolidated statement of comprehensive income within 'financial income' heading when the Group's right to receive the dividends is established.

A significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Impairment losses are recognised in the consolidated statement of comprehensive income through profit or loss. Impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Derecognition of financial assets

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained 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.

Liabilities carried at amortised cost

When a financial liability is recognised initially, it is measured at its fair value. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. 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, is estimated based on expected cash flows discounted using the effective interest rate method. Refer to Note 34 for the estimated fair values of borrowings.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense only if they are not related to qualifying assets in accordance with IAS 23 "Borrowing costs" and calculated based on a time proportion using the effective interest method.

Trade and other payables

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

Equity instruments - 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.

Equity instruments – treasury shares

Where any Group company purchases the Company's shares, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Any difference between the price of treasury shares sold and the price at which they were purchased is recognised through retained earnings. Treasury shares are accounted for on a weighted average basis.

Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs if a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" at the reporting date.

Advances paid

Advances paid are carried at cost less allowance for impairment. An advance is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year from reporting date, or when the advance relates to an asset which itself will be classified as non-current upon initial recognition. Advances 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 advances are written off to profit or loss when the services relating to the advances are received. If there is an indication that the assets, goods or services relating to an advance will not be received, impairment loss is recognised in the consolidated statement of comprehensive income.

Income tax

Income tax has been provided in the consolidated financial statements in accordance with local legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date 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 sufficient future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at every reporting date. 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 reporting date and any known court or other rulings on such issues. Liabilities for penalties and interest are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution.

Value added tax

Value added taxes ("VAT") related to sales are payable to the tax authorities in the quarter in which the Group (a) receives an advance on sales or (b) records sales revenue. The VAT liability is paid in the quarter following accrual of the liability. VAT incurred for purchases may be reclaimed, subject to certain restrictions against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable as of the reporting date is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable are reviewed for impairment at each reporting date.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is a lessee in a lease which transferred 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 corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated statement of comprehensive income over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter of their useful life or of the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

On operating leases, the total lease payments, are charged to profit or loss on a straight-line basis over the period of the lease.

(thousands of Russian Roubles, unless otherwise stated)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency in which the company primarily operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities of Russian-based entities are translated into functional currency at the official exchange rate of the CBRF set at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated into Russian Roubles using the official exchange rate of the CBRF set at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Exchange rates for currency in which the Group had significant transactions are as follows:

	31 December 2014	31 December 2013
Closing exchange rates at the year end (Russian roubles)		
1 U.S. Dollar ("USD")	56.2584	32.7292
1 Euro	68.3427	44.9699
1 CZK	2.4731	1.6381

	2014	2013
Average exchange rates for the year (Russian roubles)		
1 U.S. Dollar	38.4216	31.8951
1 CZK	1.8233	1.6277

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 kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts represent an implicit cost of employing production workers and administrative workers and, accordingly, have been charged to the consolidated statement of comprehensive income as cost of sales, distribution expenses or general and administrative expenses depending on the nature of work performed by the employee.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

In addition, Group companies operate various pension schemes. The schemes are generally funded through payments to pension insurance plans. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are recognised as employee benefit expense when they are due.

A defined benefit plan is a pension plan under which the Group pays pension benefits to an employee on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the unfunded defined benefit obligation at the reporting date, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit for the period in the period in which they arise.

Pension plan liabilities under defined benefit plans are included in line “Retirement benefit obligations” in the consolidated statement of financial position. The Group did not have pension plan assets at the reporting date.

Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants relating to assets are included in non-current or current liabilities as deferred revenue.The Group recognizes government grants as income in the same periods as the corresponding costs if any associated with government grants. Grants related to depreciable assets are recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

Operating profit

Operating profit is stated after charging impairment of assets but before the share of results of associates, foreign exchange profit/loss on non-operating transactions, finance income and finance costs, dividend income, gain/loss on disposal of subsidiary, excess of the Group’s share in provisional value of net assets acquired over the cost of acquisition.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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. Actual results may differ from estimates. Management also makes certain judgments, apart from those involving estimates, 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 that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of goodwill

The Group tests goodwill for impairment at least annually, at the cash-generating units ("CGU") level using value-in-use calculations.

The value-in-use calculation is based on projections for expected discounted cash flows and takes into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term financial and economic forecasts.

Goodwill was allocated to the following CGUs: Pipe, Meta, OFS and TPS. All CGUs were tested for impairment at 31 December 2014. The tests carried out did not identify any impairment to the carrying value for goodwill (Note 11).

Impairment of tangible assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

At 31 December 2014, a number of property, plant and equipment and capital works-in-progress are shown net of an impairment provision in amount of 1,028,629 (31 December 2013: 964,521) as further specified in Note 9.

Deferred taxes

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on estimates, the Group recognised at December 31, 2014 a deferred tax asset in the amount of 2,211,853 in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits (Note 30).

(thousands of Russian Roubles, unless otherwise stated)

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgment is applied in determining which entities are related parties of the Group. In applying this judgment, management obtains listing of the majority shareholder's interests in other entities on a regular basis, it monitors the level of transactions with any individual entity, and commencing 2012 reports its identified related parties to those charged with governance for their review and approval on an annual basis.

Accounts receivable

When receivables are recognised initially the Group measures them at fair value. The fair value of long-term or short-term receivables from major customers that carries no interest is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. The difference between the fair value and the nominal amount of the consideration is recognised as a reduction of income. Subsequently receivables are measured at amortised cost using the effective interest method. Short-term receivables from other customers that carry no interest are measured at the original invoice amount if the effect of discounting is immaterial, less allowance for impairment.

The Group creates allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2014, the allowance for doubtful debts amounted to 1,565,550 (31 December 2013: 1,908,218) as further specified in Note 15. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in consolidated financial statements.

Inventory obsolescence

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, among other things, arm's length transactions in the period around the reporting date. At 31 December 2014, the allowance for inventory obsolescence amounted to 970,814 (31 December 2013: 784,350) as further specified in Note 14.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and equipment	10 to 30
Other	5 to 15

The factors that could affect the estimation of useful lives and residual values of the Group's assets include the following:

- Changes in asset utilisation rates;
- Changes in regulations and legislation;
- Changes in the Group's business plans; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Useful life of intangible assets

The Group's intangible assets are amortised using the straight-line method over their useful lives, as follows:

	Useful lives in years
Lease rights	not more than 50
Know-How	not more than 10
Software	1 to 5
Development cost capitalised	1 to 3
Customer lists	not more than 3
Other	1 to 3

Other intangible assets mainly represent licenses for production of tubes and engineering.

Employee benefits/pensions

The Group contributes to certain defined benefit plans. The liability recognised in the consolidated statement of financial position in respect of such plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, etc.). The most critical assumptions are the discount rate and future salary and benefits levels. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds or, if there is no active market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension liability and the annual pension cost. Deviations may arise from other assumptions such as actual inflation levels and salary adjustments deviating from the Group's assumptions. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (Note 20).

Control over LLC ETERNO

The Group's effective ownership interest in LLC ETERNO is 50.11%. Non-controlling interest of LLC ETERNO of 49.89% is attributable to the interest of the non-controlling shareholder. The constituent documents and shareholder agreement of the LLC ETERNO regulate the power and rights of management of the Group and of the second shareholder. These rights, in some cases, can be implemented by one shareholder only with the consent of the non-controlling interest shareholder. The Group's management assessed whether or not the Group has control over LLC ETERNO based on whether the Group has the practical ability to direct the relevant activities of LLC ETERNO unilaterally. In making the judgment, management considered the Group's effective ownership interest in LLC ETERNO and other factors such as the foundation documents of the entity. After assessment, the management concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of LLC ETERNO and therefore the Group has control over LLC ETERNO. As a result LLC ETERNO is recognized as a subsidiary of the Group (Note 6).

(thousands of Russian Roubles, unless otherwise stated)

Derivatives

The Group and the other shareholder in LLC ETERNO have entered into various option and conversion agreements with the first exercise date starting in 2020, which allow to carry out various schemes of cessation of the non-controlling interest shareholder from the LLC ETERNO's founders. The fair value of the options as at 31 December 2014 was determined by an independent appraiser, using Monte-Carlo simulation model (Note 12).

4. ADOPTION OF NEW OR REVISED STANDARDS, INTERPRETATIONS AND REVISED ACCOUNTING POLICY

The following new standards, amendments to standards or interpretations were adopted by the Group in these consolidated financial statements during the current period:

- Amendments to IFRS 10, IFRS 12 and IAS 27 – investment entities;
- Amendments to IAS 32 "Financial Instruments: Presentation" – offsetting financial assets and financial liabilities;
- Amendments to IAS 36 "Impairment of assets" – recoverable amount disclosures for non-financial assets;
- Amendments to IAS 39 "Financial instruments: recognition and measurement" – novation of derivatives and continuation of hedge accounting.

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2014 had no material effect on the consolidated financial statements of the Group.

Capitalization of costs spent on capital repairs

Under IAS 16 "Property, Plant and Equipment" parts of some items of property, plant and equipment that may require replacement at regular intervals should be recognized in the carrying amount of an item of property, plant and equipment when that cost is incurred. The carrying amount of those parts that are replaced is derecognized.

The Group defines capitalized costs spent on capital repairs as the Component of the item of property, plant and equipment, which requires replacement at regular intervals, and the repair interval should exceed 18 months.

In the reporting period spare parts intended to be used in capital repairs (with costs to be capitalized) were reclassified to construction in progress. Impact of the reclassification on the financial statements as at 31 December 2013 was as follows:

Statement of financial position line item	As previously reported	Capitalized spare parts Adjustment	As restated
Property, plant and equipment	59,600,447	426,954	60,027,401
Inventory	18,105,653	(426,954)	17,678,699

The Group estimated the effect of the application of changes in the capital repairs accounting policy on the Group's financial results in the comparative period for the year ended 31 December 2013 and believes that the effect is immaterial, so that the retrospective adjustments were not performed.

(thousands of Russian Roubles, unless otherwise stated)

5. NEW ACCOUNTING PRONOUNCEMENTS

At the date of approval of the Group's consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the reporting period:

	Effective for annual periods beginning on or after
Amendments to IAS 19 "Employee benefits" – amendments to defined benefit plans: how employee contributions should be attributed to periods of service	1 July 2014
Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
IFRS 14 "Regulatory Deferral Accounts"	1 January 2016
Amendments to IAS 16 and IAS 38 "*Clarification of Acceptable Methods of Depreciation and Amortisation"* - prohibition entities from using a revenue-based depreciation method for items of property, plant and equipment	1 January 2016
Amendments to IAS 27 "*Equity Method in Separate Financial Statements"* – allows entities to apply the equity method as one of the option for accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements	1 January 2016
Amendments to IAS 16 and IAS 41 "*Agriculture: Bearer Plants"* – define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as a property, plant and equipment in accordance with IAS 16, instead of IAS 41	1 January 2016
Amendments to IAS 1 "Presentation of Financial Statements" – disclosure initiative	1 January 2016
Amendments to IFRS 11 "*Accounting for Acquisition of Interests in Joint Operations"* – how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 *Business Combinations*	1 January 2016
Amendments to IFRS 10 and IAS 28 *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"* – amendments clarify that on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, the extent of any gain or loss recognized depends on whether the assets or subsidiary constitute a business, as defined in IFRS 3	1 January 2016
IFRS 15 "*Revenue from Contracts with Customers"* – establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers	1 January 2017
IFRS 9 "Financial Instruments" – new requirements for classifying and measuring financial assets revised requirements for the classification and measurement of financial liabilities	1 January 2018

IFRS 9 "Financial Instruments"

The Group's management anticipates that the applications of IFRS 9 may have an impact on amounts reported in respect of the Group's financial assets. The Group has equity investments in unlisted shares that do not have a quoted market price that are currently classified as available-for-sale. Equity investments are measured at their fair value at the end of subsequent accounting periods. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

The impact of the adoption of other Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by the Group's management, however, no material effect on the Group's financial position or results of its operations is anticipated.

(thousands of Russian Roubles, unless otherwise stated)

6. SUBSIDIARIES

The Company's effective ownership interest of principal subsidiaries, including the Company's ownership interest through its subsidiaries, is as follows:

Subsidiary	Country of incorporation	Activities	Operating segment	Effective ownership, % 31 December 2014	Effective ownership, % 31 December 2013
JSC Pervouralsk New Pipe Plant (PNTZ)	Russia	Pipe manufacturing	SPP	100.00%	100.00%
JSC Uraltrubostal Trade House (UTS)	Russia	Pipe distribution	SPP	100.00%	100.00%
ARKLEY (UK) LIMITED	United Kingdom	Pipe distribution	SPP	100.00%	100.00%
LLC Meta	Russia	Scrap procurement	SPP	100.00%	100.00%
OJSC Samaravtormet	Russia	Scrap procurement	SPP	98.05%	98.05%
OJSC UNP Vtorchermet	Russia	Scrap procurement	SPP	100.00%	100.00%
LLC Meta-Invest	Russia	Rent of property	SPP	100.00%	100.00%
JSC Pipeline Bends (SOT)	Russia	Manufacturing and distribution of trunk pipeline bends	TPS	100.00%	100.00%
MSA a.s.	Czech Republic	Manufacturing and distribution of pipeline valves	TPS	91.54%	100.00%
LLC ETERNO	Russia	Manufacturing and distribution of pressed and welded components of pipelines	TPS	50.11%	–
JSC RIMERA	Russia	Distribution of pipeline valves	TPS	100.00%	100.00%
OAO ALNAS (ALNAS)	Russia	Oilfield service	OFS	100.00%	100.00%
Uganskneftegazgeofizika Ltd. (UNGGF)	Russia	Oilfield service	OFS	100.00%	100.00%
JSC Izhneftemash (INM)	Russia	Oilfield service	OFS	73.14%	73.14%
LLC Noyabrskaya centralnaya trubnaya baza (NCTB) *	Russia	Oilfield service	OFS	–	100.00%
OOO RIMERA-Service*	Russia	Oilfield service	OFS	100.00%	100.00%

* In April 2014, the Group merged LLC Noyabrskaya centralnaya trubnaya baza with OOO RIMERA-Service.

Summarised financial information in respect of JSC Izhneftemash that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

INM	31 December 2014	31 December 2013
Current assets	803,719	657,310
Non-current assets	1,448,671	1,508,926
Current liabilities	481,027	461,059
Non-current liabilities	524,983	521,236
Equity attributable to owners of the Company	766,484	723,335
Non-controlling interests	**479,896**	**460,606**

(thousands of Russian Roubles, unless otherwise stated)

	2014	2013
Revenue	2,300,641	1,656,300
Costs	(2,210,599)	(1,756,465)
Profit/(loss) before income tax	**90,042**	**(100,165)**
Income tax	(28,054)	19,765
Profit/(loss) for the year	**61,988**	**(80,400)**
Profit/(loss) for the year attributable to owners of the Company	42,698	(50,566)
Profit/(loss) for the year attributable to the non-controlling interests	19,290	(29,834)
Profit/(loss) for the year	**61,988**	**(80,400)**
Net cash generated from operating activities	67,967	8,365
Net cash generated (used in)/generated from investing activities	(19,417)	9,773
Net cash used in financing activities	(28,716)	(17,047)
Net increase in cash and cash equivalents	**19,834**	**1,091**

Summarised financial information in respect of MSA a.s. that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

MSA a.s.	**31 December 2014**	**31 December 2013**
Current assets	1,833,455	1,377,912
Non-current assets	1,592,225	999,445
Current liabilities	1,741,830	1,316,766
Non-current liabilities	359,243	145,711
Equity attributable to owners of the Company	1,212,600	914,880
Non-controlling interests (Notes 7, 11)	**112,007**	**–**

	2014	2013
Revenue	2,602,612	3,183,211
Costs	(2,651,417)	(2,889,014)
(Loss)/profit before income tax	**(48,805)**	**294,197**
Income tax	7,033	(66,634)
(Loss)/profit for the year	**(41,772)**	**227,563**
(Loss)/profit for the years attributable to owners of the Company	(41,772)	227,563
(Loss)/profit for the year	**(41,772)**	**227,563**
Net cash generated from/(used in) operating activities	72,421	(35,843)
Net cash used in investing activities	(248,328)	(192,991)
Net cash generated from financing activities	190,391	195,153
Net increase/(decrease) in cash and cash equivalents	**14,484**	**(33,681)**

(thousands of Russian Roubles, unless otherwise stated)

Summarised financial information in respect of LLC ETERNO that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

LLC ETERNO	**31 December 2014**
Current assets	583,044
Non-current assets*	1,249,117
Current liabilities	265,438
Equity attributable to owners of the Company	785,064
Non-controlling interests (Notes 7,11)	**781,659**

	2014
Revenue	–
Costs	(1,627)
Loss before income tax	**(1,627)**
Income tax	341
Loss for the year	**(1,286)**
Loss for the year attributable to owners of the Company	(829)
Loss for the year attributable to the non-controlling interests	(457)
Loss for the year	**(1,286)**
Net cash used in operating activities	(894)
Net cash used in investing activities	(404,593)
Net cash generated from financing activities	886,018
Net increase in cash and cash equivalents	**480,531**

*Non-current assets are presented at a revalued amount with revaluation made at the contribution to the share capital of LLC ETERNO.

The residual non-controlling interest is in respect to OJSC Samaravtormet and is not material.

(thousands of Russian Roubles, unless otherwise stated)

7. BUSINESS COMBINATIONS AND DISPOSALS

2014 acquisitions

In November 2014 Chelpipe established the subsidiary LLC ETERNO with ownership interest of 50.11%. Non-controlling interest of LLC ETERNO of 49.89% is attributable to the non-controlling interest shareholder. LLC ETERNO's principal activity includes the production and distribution of pressed and welded components of pipelines. Chelpipe made contribution in the form of shares of its subsidiary MSA a.s., property, plant and equipment and cash. Non-controlling interest shareholder contributed cash in the amount of 782,116.

2013 disposals

Disposal of non-performing subsidiary of SPP operating segment

In March 2013, the Group finalised disposal to the third party of its full controlling interest in non-performing subsidiary of SPP operating segment – JSC Baza materialno-tehnicheskogo snabgeniya. The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Notes	Carrying value at the date of disposal
Property, plant and equipment	9	86,776
Deferred tax assets	30	8,078
Accounts receivable		3,718
Cash and cash equivalents		1,525
Inventories		560
Trade and other payables		(5,890)
Net assets disposed of		**94,767**
Consideration		(131,500)
Gain on disposal		**(36,733)**
Consideration received in cash		131,500
Less cash and cash equivalents of subsidiary disposed of		(1,525)
Net inflow of cash and cash equivalents on disposal		**129,975**

(thousands of Russian Roubles, unless otherwise stated)

Disposal of a number of non-performing subsidiaries of OFS operating segment

In July and December 2013, the Group finalised disposals to third parties of its full controlling interests in a number of non-performing subsidiaries of OFS operating segment, as follows: LLC MSA-KTS, LLC Ugansk-ALNAS-Service.

The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Note	Carrying value at the date of disposal
Property, plant and equipment	9	38,985
Accounts receivable		18,336
Cash and cash equivalents		2,914
Deferred tax assets	30	940
Intangible assets	10	485
Inventories		401
Loans receivable		55
Borrowings		(998,586)
Trade and other payables		(279,724)
Net liabilities disposed of		**(1,216,194)**
Impairment of receivables due to disposals	15	189,091
Impairment of loans receivable due to disposals	16	998,586
Consideration		(20)
Gain on disposals		**(28,537)**
Consideration received in cash		20
Less cash and cash equivalents of subsidiaries disposed of		(2,914)
Net outflow of cash and cash equivalents on disposals		**(2,894)**

8. SEGMENT REPORTING

The Group has identified the following segments based upon reports used by the chief operating decision maker (“CODM”):

- Steel pipe production (“SPP“) – representing manufacturing and distribution of pipes and other related products, including activities related to the procurement of scrap and its further utilisation as raw materials in manufacturing of steel billets used in seamless pipe production;
- Oilfield services (“OFS”) – representing equipment manufacturing and support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield’s development; and
- Trunk pipeline systems (“TPS”) – representing production of highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Impairment loss provisions relate only to those charges made against allocated assets.

The CODM assesses the performance of the operating segments based on a measure of segment earnings before finance income and costs, tax, depreciation and amortization, foreign exchange gain/loss, gain/loss on disposal of subsidiaries and excess of the Group’s share in provisional value of net assets acquired over the cost of acquisition (“Segment EBITDA”). Since this term is not defined in IFRS the Group’s definition of Segment EBITDA may differ from that of other companies.

(thousands of Russian Roubles, unless otherwise stated)

The segment information presented is based on information reviewed by the CODM, which differs from IFRS. Reconciliations are provided for the differences between this information and the information included in the consolidated financial statements. The adjustments between the information reviewed by the CODM and IFRS financial information (included in the Adjustment column in the following tables) include the following:

- Reclassifications – the CODM reviews information classified and presented in conformity with Russian statutory accounting which includes recording amounts gross versus net, and aggregating and reclassifying some line items for purpose of making decisions about resources allocation to a segment and assessing its performance; and
- Other adjustments – other adjustments arise due to differences between IFRS and statutory accounting and they are primarily related to adjustments for impairment of property, plant and equipment; intangible assets and promissory notes; discounting of borrowings; and recalculation of deferred taxes.

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2014 is as follows:

	Segment information as reviewed by CODM					Total as per IFRS
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	**Eliminations**	**consolidated financial statements**
Revenue from external customers	110,901,434	11,038,847	6,057,585	124,978	–	128,122,844
Inter-segment revenue	333,567	322,860	453,108	–	(1,109,535)	–
Cost of sales	(79,081,600)	(9,017,453)	(4,547,247)	(150,078)	681,210	(92,115,168)
Distribution costs	(8,099,671)	(309,500)	(1,000,874)	(156,733)	68,115	(9,498,663)
General and administrative expenses	(7,782,184)	(1,849,808)	(1,301,919)	348,171	360,210	(10,225,530)
(Impairment)/reversal of impairment of assets	(710,364)	15,999	(47,387)	(52,634)	–	(794,386)
(Loss)/gain on disposal of property, plant and equipment	(22,194)	13,855	72	(107,566)	–	(115,833)
Dividend income	170	–	–	(170)	–	–
Share of gain of associates	–	5,472	–	–	–	5,472
Less: depreciation and amortisation	5,429,913	1,680,115	243,949	7,900	–	7,361,877
Segment EBITDA	**20,969,071**	**1,900,387**	**(142,713)**	**13,868**	**–**	**22,740,613**
Depreciation and amortisation	(5,429,913)	(1,680,115)	(243,949)	(7,900)	–	(7,361,877)
Finance income	946,537	52,422	151,644	4,716	(953,188)	202,131
Finance costs	(12,458,681)	(566,400)	(654,753)	54,977	953,188	(12,671,669)
Foreign exchange (loss)/gain, net	(3,623,261)	61,450	(116,765)	1,997	–	(3,676,579)
Income tax (expense)/benefit	(258,148)	(136,262)	2,753	(56,976)	–	(448,633)
Profit/(loss) for the year	**145,605**	**(368,518)**	**(1,003,783)**	**10,682**	**–**	**(1,216,014)**

(thousands of Russian Roubles, unless otherwise stated)

Segment information related to the Group's consolidated statement of financial position at 31 December 2014:

	Segment information as reviewed by CODM				Total as per IFRS consolidated financial statements
	Steel pipe production	Oilfield services	Trunk pipeline systems	Adjustments	
Current assets	59,482,333	5,617,458	6,441,315	(12,461,084)	59,080,022
Non-current assets	78,489,623	7,811,701	6,938,096	(14,342,234)	78,897,186
Total assets	**137,971,956**	**13,429,159**	**13,379,411**	**(26,803,318)**	**137,977,208**
Current liabilities	38,345,047	5,623,924	8,053,320	(3,230,528)	48,791,763
Non-current liabilities	94,332,649	3,424,053	2,699,207	(8,727,329)	91,728,580
Total liabilities	**132,677,696**	**9,047,977**	**10,752,527**	**(11,957,857)**	**140,520,343**

The information analysed by the CODM is reconciled to the IFRS consolidated financial statements at 31 December 2014 as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As reviewed by CODM	**71,541,106**	**93,239,420**	**52,022,291**	**100,455,909**
Reclassifications	(12,896,812)	(2,607,505)	(6,180,590)	(9,323,727)
Other adjustments	435,728	(11,734,729)	2,950,062	596,398
As per IFRS consolidated financial statements	**59,080,022**	**78,897,186**	**48,791,763**	**91,728,580**

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2013 is as follows:

	Segment information as reviewed by CODM					Total as per IFRS consolidated financial statements
	Steel pipe production	Oilfield services	Trunk pipeline systems	Adjustments	Eliminations	
Revenue from external customers	94,771,458	9,735,153	7,674,242	246,828	–	112,427,681
Inter-segment revenue	372,756	14,932	464,165	–	(851,853)	–
Cost of sales	(71,785,070)	(8,207,423)	(5,453,571)	2,292	407,685	(85,036,087)
Distribution costs	(5,937,396)	(285,604)	(1,042,270)	(208,513)	101,449	(7,372,334)
General and administrative expenses	(6,729,541)	(1,578,616)	(578,613)	(206,832)	342,719	(8,750,883)
(Impairment)/reversal of impairment of assets	(425,121)	148,975	(164,720)	180,392	–	(260,474)
(Loss)/gain on disposal of property, plant and equipment	(169,168)	26,570	16,023	23,555	–	(103,020)
Dividend income	85,801	–	–	224	–	86,025
Share of gain of associates	–	1,549	–	–	–	1,549
Less: depreciation and amortisation	5,309,736	1,621,323	226,981	22,666	–	7,180,706
Segment EBITDA	**15,493,455**	**1,476,859**	**1,142,237**	**60,612**	–	**18,173,163**
Depreciation and amortisation	(5,309,736)	(1,621,323)	(226,981)	(22,666)	–	(7,180,706)
Finance income	607,037	32,486	319,497	2,500	(785,360)	176,160
Finance costs	(12,185,042)	(390,888)	(587,653)	75,386	785,360	(12,302,837)
Foreign exchange (loss)/gain, net	(1,008,523)	48,292	(31,227)	2,241	–	(989,217)
Gain on disposal of subsidiary	26,555	–	–	38,715	–	65,270
Income tax benefit/(expense)	62,088	28,578	(41,207)	140,773	–	190,232
(Loss)/profit for the year	**(2,314,166)**	**(425,996)**	**574,666**	**297,561**	–	**(1,867,935)**

(thousands of Russian Roubles, unless otherwise stated)

Restated segment information related to the Group's consolidated statement of financial position at 31 December 2013:

	Segment information as reviewed by the CODM				**Total as per IFRS consolidated financial statements**
	Steel pipe production	**Oilfield services**	**Trunk pipeline systems**	**Adjustments**	
Current assets	45,704,739	2,938,053	7,190,273	(7,404,500)	48,428,565
Non-current assets	83,698,988	7,900,498	4,121,383	(23,911,563)	71,809,306
Total assets	**129,403,727**	**10,838,551**	**11,311,656**	**(31,316,063)**	**120,237,871**
Current liabilities	43,199,109	2,352,286	6,113,935	1,137,299	52,802,629
Non-current liabilities	81,522,599	3,684,945	2,532,888	(9,486,694)	78,253,738
Total liabilities	**124,721,708**	**6,037,231**	**8,646,823**	**(8,349,395)**	**131,056,367**

The information analysed by the CODM is reconciled to the IFRS consolidated financial statements at 31 December 2013 as follows:

	Current assets	**Non-current assets**	**Current liabilities**	**Non-current liabilities**
As reviewed by the CODM	**55,833,065**	**95,720,869**	**51,665,330**	**87,740,432**
Reclassifications	(7,352,533)	(4,706,104)	(2,919,157)	(9,139,481)
Other adjustments	(51,967)	(19,205,459)	4,056,456	(347,213)
As per IFRS consolidated financial statements	**48,428,565**	**71,809,306**	**52,802,629**	**78,253,738**

Group's revenue: geographical segments

The Group operates in three main geographical areas. Sales are based on the country in which the customer is located, while total assets and capital expenditures are based on where the assets are located. Nearly all of the Group's assets and capital expenditures are located in Russia with the exception of those allocated to MSA, which is located in the Czech Republic.

The geographical distribution of the Group's sales is presented in the table below:

Revenue	**Russian Federation**	**Commonwealth of Independent States**	**Other foreign countries**	**Total**
2014	117,236,887	8,604,174	2,281,783	128,122,844
2013	97,894,606	13,056,020	1,477,055	112,427,681

Group revenue: major customers

The Group's sales to major customers for the years ended 31 December 2014 and 2013 are set out in the table below:

	2014	**2013**
Customer 1	32,225,863	15,880,271
Customer 2	12,244,374	11,610,773
Customer 3	12,223,046	10,183,422
Total revenue	**56,693,283**	**37,674,466**

(thousands of Russian Roubles, unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Notes	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 1 January 2013		489,997	29,336,376	4,371,630	55,318,331	4,440,179	6,158,044	100,114,557
Accumulated depreciation at 1 January 2013		–	(8,243,106)	(1,978,985)	(25,297,554)	(1,697,741)	–	(37,217,386)
Accumulated impairment at 1 January 2013		–	(144,000)	(68,525)	(506,856)	(4,090)	(171,723)	(895,194)
Carrying amount at 1 January 2013		**489,997**	**20,949,270**	**2,324,120**	**29,513,921**	**2,738,348**	**5,986,321**	**62,001,977**
Additions and transfers		915	1,435,183	91,758	3,416,627	514,442	(303,633)	5,155,292
Disposals (cost)		(470)	(359,363)	(151,660)	(2,064,034)	(62,908)	(45,817)	(2,684,252)
Effect of translating from functional to presentation currency (cost)		–	7,794	–	9,757	1,962	2,421	21,934
Disposals (accumulated depreciation)		–	264,468	4,012	1,949,579	39,115	–	2,257,174
Disposals (accumulated impairment)		–	49,302	2,051	142,376	675	2,810	197,214
Reclassification (cost)		(18,389)	544,652	(774,854)	651,143	(402,552)	–	–
Depreciation charge		–	(689,855)	(210,880)	(5,547,507)	(500,599)	–	(6,948,841)
Effect of translating from functional to presentation currency (depreciation)		–	(5,665)	–	(1,105)	(979)	–	(7,749)
Impairment recognised	28	–	(114,729)	(20)	(101,464)	(7)	(116,175)	(332,395)
Impairment reversed	28	–	44,753	728	10,362	1	10,010	65,854
Disposals of subsidiaries (cost)	7	(5,968)	(102,654)	(8,527)	(141,804)	(1,716)	(5,979)	(266,648)
Disposals of subsidiaries (accumulated depreciation)	7	–	33,946	6,535	98,952	1,454	–	140,887
Reclassification (depreciation)		–	(330,150)	122,751	176,077	31,322	–	–
Cost or valuation at 31 December 2013		466,085	30,861,988	3,528,347	57,190,020	4,489,407	5,805,036	102,340,883
Accumulated depreciation at 31 December 2013		–	(8,970,362)	(2,056,567)	(28,621,558)	(2,127,428)	–	(41,775,915)
Accumulated impairment at 31 December 2013		–	(164,674)	(65,766)	(455,582)	(3,421)	(275,078)	(964,521)
Carrying amount at 31 December 2013		**466,085**	**21,726,952**	**1,406,014**	**28,112,880**	**2,358,558**	**5,529,958**	**59,600,447**
Reclassification of inventories to construction in progress	4	–	–	–	–	–	426,954	426,954
Carrying amount at 31 December 2013 (restated)		**466,085**	**21,726,952**	**1,406,014**	**28,112,880**	**2,358,558**	**5,956,912**	**60,027,401**
Additions and transfers		41,333	532,363	56,562	2,932,665	394,550	401,452	4,358,925
Disposals (cost)		(103)	(49,815)	(24,755)	(839,229)	(71,030)	(219,092)	(1,204,024)
Effect of translating from functional to presentation currency (cost)		–	–	–	668,666	125	40,656	709,447
Disposals (accumulated depreciation)		–	25,855	18,914	738,110	52,894	–	835,773
Disposals (accumulated impairment)		–	–	–	3,135	–	12,473	15,608
Reclassification (cost)		–	–	(535)	(15)	–	550	–
Depreciation charge		–	(709,320)	(173,091)	(5,720,696)	(529,864)	–	(7,132,971)
Effect of translating from functional to presentation currency (depreciation)		–	–	–	(214,268)	(118)	–	(214,386)
Impairment recognised	28	–	(26,290)	(4,913)	(34,336)	–	(57,774)	(123,313)
Impairment reversed	28	–	–	–	14,744	–	28,853	43,597
Reclassification (depreciation)		–	–	(12)	12	–	–	–
Cost or valuation at 31 December 2014		507,315	31,344,536	3,559,619	59,952,107	4,813,052	6,455,556	106,632,185
Accumulated depreciation at 31 December 2014		–	(9,653,827)	(2,210,756)	(33,818,400)	(2,604,516)	–	(48,287,499)
Accumulated impairment at 31 December 2014		–	(190,964)	(70,679)	(472,039)	(3,421)	(291,526)	(1,028,629)
Carrying amount at 31 December 2014		**507,315**	**21,499,745**	**1,278,184**	**25,661,668**	**2,205,115**	**6,164,030**	**57,316,057**

At 31 December 2014 amount of construction in progress that in management's opinion will not be continued in the foreseeable future are shown net of an impairment provision in amount of 291,526 (31 December 2013: 275,078).

At 31 December 2014, bank borrowings were secured on property, plant and equipment with carrying value of 36,854,060 (31 December 2013: 39,286,554) (Note 33).

Additionally, at 31 December 2014, the Group has 1,142,677 of plant and equipment under finance leases (31 December 2013: 1,168,335). The entire amount guarantees the related finance lease obligation as discussed in Note 19.

(thousands of Russian Roubles, unless otherwise stated)

10. INTANGIBLE ASSETS

	Notes	Software	Know-how	Lease rights	Customer lists	Development cost capitalised	Other	Total
Cost at 1 January 2013		640,081	39,261	121,283	281,873	457,213	487,849	2,027,560
Accumulated amortisation at 1 January 2013		(214,456)	(31,065)	(10,005)	(218,237)	–	(261,850)	(735,613)
Accumulated impairment at 1 January 2013		(8,247)	–	(78,485)	–	–	–	(86,732)
Carrying amount at 1 January 2013		**417,378**	**8,196**	**32,793**	**63,636**	**457,213**	**225,999**	**1,205,215**
Additions and transfers		57,565	–	–	–	171,799	59,915	289,279
Disposals (cost)		(23,965)	(39,261)	–	–	(22,234)	(6,192)	(91,652)
Reclassification (cost)		14,517	–	–	–	(1,553)	(12,964)	–
Effect of translating from functional to presentation currency (cost)		230	–	–	–	–	–	230
Effect of translating from functional to presentation currency (amortisation)		(108)	–	–	–	–	–	(108)
Disposals (accumulated amortisation)		21,818	34,991	–	–	–	19,986	76,795
Amortisation charge		(111,214)	(3,926)	(637)	(62,561)	–	(78,441)	(256,779)
Reclassification (amortisation)		(4,397)	–	–	–	–	4,397	–
Disposals in business combination (cost)	7	(1,254)	–	–	–	–	(13)	(1,267)
Disposals in business combination (accumulated amortisation)	7	769	–	–	–	–	13	782
Cost at 31 December 2013		687,174	–	121,283	281,873	605,225	528,595	2,224,150
Accumulated amortisation at 31 December 2013		(307,588)	–	(10,642)	(280,798)	–	(315,895)	(914,923)
Accumulated impairment at 31 December 2013		(8,247)	–	(78,485)	–	–	–	(86,732)
Carrying amount at 31 December 2013		**371,339**	**–**	**32,156**	**1,075**	**605,225**	**212,700**	**1,222,495**
Additions and transfers		73,535	–	–	–	133,112	115,542	322,189
Disposals (cost)		(27,058)	–	–	(281,873)	(84,475)	(31,128)	(424,534)
Reclassification (cost)		–	7,193	–	–	–	(7,193)	–
Effect of translating from functional to presentation currency (cost)		9,381	–	–	–	–	–	9,381
Effect of translating from functional to presentation currency (amortisation)		(3,697)	–	–	–	–	–	(3,697)
Disposals (accumulated amortisation)		27,059	–	–	281,873	–	29,473	338,405
Amortisation charge		(94,870)	(843)	(637)	(1,075)	–	(154,974)	(252,399)
Reclassification (amortisation)		–	(658)	–	–	–	658	–
Cost at 31 December 2014		743,032	7,193	121,283	–	653,862	605,816	2,131,186
Accumulated amortisation at 31 December 2014		(379,096)	(1,501)	(11,279)	–	–	(440,738)	(832,614)
Accumulated impairment at 31 December 2014		(8,247)	–	(78,485)	–	–	–	(86,732)
Carrying amount at 31 December 2014		**355,689**	**5,692**	**31,519**	**–**	**653,862**	**165,078**	**1,211,840**

(thousands of Russian Roubles, unless otherwise stated)

11. GOODWILL AND NON-CONTROLLING INTERESTS

Movements of goodwill allocated by CGUs and non-controlling interests in 2014 and 2013 are presented in the table below:

	2014		2013	
	Goodwill	**Non-controlling interests**	**Goodwill**	**Non-controlling interests**
At 1 January	**6,326,643**	**(460,500)**	**6,293,263**	**(491,403)**
Cost	16,348,368	(460,500)	16,416,966	(491,403)
Accumulated impairment	(10,021,725)	–	(10,123,703)	–
(Gain)/loss attributable to non-controlling interests	–	**(18,912)**	–	**30,903**
Acquired in business combination (Notes 7, 12)				
LLC ETERNO (CGU TPS)	628,282*	(782,116)	–	–
MSA (CGU TPS)	–	(112,007)	–	–
Decrease due to disposal				
JSC Baza materialno-tehnicheskogo snabgeniya (CGU Pipe)				
Cost	–	–	(101,978)	–
Accumulated impairment	–	–	101,978	–
Effect of translating from functional to presentation currency (cost)				
MSA (CGU TPS)	825,659**	–	33,380	–
At 31 December	**7,780,584**	**(1,373,535)**	**6,326,643**	**(460,500)**
Cost	17,802,309	(1,373,535)	16,348,368	(460,500)
Accumulated impairment	(10,021,725)	–	(10,021,725)	–

* Increase due to acquisition of control over LLC ETERNO, with no effect on loss for the year (Note 12).
** Exchange differences income on translating of foreign operations to presentation currency recognized in other comprehensive income in the line "Translation reserve" with no effect on loss for the year.

Goodwill acquired is allocated to the Group's cash-generating units, which are Pipe, Meta, OFS and TPS.

The goodwill allocation to the Group's cash generating units is presented in the table below:

	31 December 2014	**31 December 2013**
TPS	6,322,388	4,868,447
Meta	732,557	732,557
OFS	725,639	725,639
Total carrying value of goodwill	**7,780,584**	**6,326,643**

(thousands of Russian Roubles, unless otherwise stated)

Goodwill impairment test

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to CGU.

At 31 December 2014, the Group tested goodwill for impairment using following key assumptions for value-in-use calculations:

	OFS	TPS	Meta
Excess of recoverable amounts over carrying values of CGU	1,583,910	1,348,915	1,551,741
Used key assumptions			
EBITDA margin	15%-23%	8%-15%	5%
Discount rate	15.77%	13.91%	12.18%
Terminal growth rate	2.50%	2.50%	2.00%

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decreased by 4.5 percentage points or applicable discount rate increased by 6.2 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the TPS CGU would be equal to its carrying value if the EBITDA margin decreased by 1.3 percentage points or applicable discount rate increased by 4.1 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the Meta CGU would be equal to its carrying value if the EBITDA margin decreased by 3.0 percentage points or applicable discount rate increased by 13.3 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

12. DERIVATIVES

When establishing LLC ETERNO the Group and the other shareholder entered into option agreements, the fair value of which was determined by an independent appraiser and as at 31 December 2014 was as follows:

	31 December 2014
Call option 1	257,596
Call option 2	3,539
Call option 3	6,426,536
Total call options	**6,687,671**
Conversion financial instrument	(6,005,883)
Total conversion financial instruments	**(6,005,883)**
Put option 1	(247,694)
Put option 2	(1,062,376)
Total put options	**(1,310,070)**
Total	**(628,282)**

Call option 1 is a right of the Group that allows to purchase the share of LLC ETERNO from the non-controlling interest shareholder starting from the 1st of December 2020.

Call option 2 is a right of the Group that allows to purchase the share of LLC ETERNO from the non-controlling interest shareholder starting from the 1st of January 2023.

Call option 3 is a right of the Group that allows to purchase shares of Chelpipe that were bought earlier by the non-controlling interest shareholder or exchanged under the execution of the conversion financial instrument, starting from the 1st of January 2023.

Conversion financial instrument is right/ obligation of non-controlling interest shareholder that allows to exchange the share of LLC ETERNO into the Chelpipe's shares, with the period of execution during the six months after the delivery of the consolidated financial statements for the year ended 31 December 2019.

Put option 1 is a right of non-controlling interest shareholder that allows to sell shares of LLC ETERNO to the Group starting from the 1st of October 2020.

Put option 2 is a right of non-controlling interest shareholder that allows to sell Chelpipe's shares, which it owns, starting from the 1st of October 2020, but not earlier than the expiry date of the conversion financial instrument.

Call options have been recognized at fair value in non-current assets in the amount of 6,687,671. Conversion financial instrument and call options have been recognized at fair value in retained earnings in the amount of 7,315,953.

13. OTHER FINANCIAL ASSETS

In 2011, the Group acquired 30% of the ordinary share capital of CJSC TechnoInvest Aliance (hereinafter, "TechnoInvest") from a third party for a cash consideration of 3,212,875. The entity is not considered to be an associate as no operating activity exists. The company owns the only significant asset – the mineral resource license. The Group classified such investment as a financial asset available for sale and included it in the separate line "Other financial assets" in the consolidated statement of financial position.

TechnoInvest conducted exploration and evaluation of mineral resources, pilot testing of complex ore processing and developed the technology for production of rare earth metals. Currently design and survey work are being conducted. Achievement of plans depends on future events, including the usage of a license permitting the extraction of mineral resources. To date TechnoInvest has been reliant on borrowings and equity provided by related parties. To continue its planned exploration and development activities TechnoInvest will continue to be reliant on funding provided by related parties or successfully raise alternative sources of equity or debt finance.

The Group performed impairment test estimating recoverable amount based on the discounted cash flow model updated in 2014. Model includes some assumptions that are not supportable by observable market prices or rates. In determining the recoverable amount, risk adjusted real discount rate of 16.3% (2013: 9.4%) is used. When assessing the planning outputs the Group used mineral resources and ore reserves estimates report conducted in 2014 in accordance with JORC Code by independent professional appraiser.

At 31 December 2014 recoverable amount of 30% of the ordinary share capital of TechnoInvest comprised 4,962,160 (31 December 2013: 4,773,544) which is 1,749,285 (31 December 2013: 1,560,669) higher than its carrying amount. Management believes this financial asset to be fully recoverable and unimpaired. The recoverable amount at 31 December 2014 would be equal to its carrying value if the risk adjusted real discount rate increased by 6.3 (31 December 2013: 6.0) percentage point.

(thousands of Russian Roubles, unless otherwise stated)

14. INVENTORY

	31 December 2014	31 December 2013
Raw materials (restated)*	11,359,013	11,808,311
Finished goods and goods for resale	4,676,414	3,692,944
Work in progress	3,760,663	2,961,794
Allowance for inventory	(970,814)	(784,350)
Total inventory (restated)	**18,825,276**	**17,678,699**

* According to the changes in the accounting policy of property, plant and equipment, raw materials as at 31 December 2014 were partially reclassified to construction in progress. For detailed description see Note 4.

At 31 December 2014, bank borrowings were secured on inventory with carrying value of 310,265 (31 December 2013: nil) (Note 33).

15. TRADE AND OTHER RECEIVABLES

	31 December 2014	31 December 2013
Trade receivables	30,099,525	24,224,109
Interest receivable	542,294	574,848
Other receivables	1,017,647	1,196,175
Allowance for impairment of trade, interest and other receivables	(1,331,765)	(1,764,464)
Total financial assets	**30,327,701**	**24,230,668**
VAT and other taxes recoverable	1,520,011	1,328,196
Allowance for impairment of VAT and other taxes receivable	(40,540)	(40,545)
Advances and prepayments	2,032,326	1,425,462
Allowance for impairment of advances and prepayments	(233,785)	(143,754)
Total non-financial assets	**3,278,012**	**2,569,359**
Total trade and other receivables	**33,605,713**	**26,800,027**

No maturity postponements of accounts receivable were renegotiated during 2014 and 2013. The Group's receivables denominated in foreign currencies are disclosed in Note 34.

The Group usually provides customers with an average of 25-60 days credit. For major customers the Group can provide an average credit of 90-120 days. The ageing analysis of unimpaired trade, interest and other receivables (except advances and prepayments), based on maturity date, is as follows:

	31 December 2014	31 December 2013
Less than 3 months	30,050,125	24,000,784
3-6 months	94,317	136,354
More than 6 months	93,979	52,006
Total trade, interest and other receivables not impaired	**30,238,421**	**24,189,144**

The Group identified trade, interest and other receivables of 1,421,045 (31 December 2013: 1,805,988) that were subject to individual impairment reviews. Of this amount, the Group has recognised allowance of 1,331,765 at 31 December 2014 (31 December 2013: 1,764,464).

(thousands of Russian Roubles, unless otherwise stated)

Individually analyzed for impairment receivables are identified for customers that are in unexpected difficult economic situations or to balances with long periods of settlement. The ageing of these receivables identified for individual impairment, based on maturity date is as follows:

	31 December 2014	**31 December 2013**
3-6 months	178,560	46,993
More than 6 months	1,242,485	1,758,995
Total gross amount of impaired trade, interest and other receivables	**1,421,045**	**1,805,988**

Movements in the allowance for impairment of trade, interest and other receivables and advances are as follows:

	Trade, interest and other receivables		**Advances and prepayments**	
	2014	**2013**	**2014**	**2013**
At 1 January	**(1,764,464)**	**(1,881,724)**	**(143,754)**	**(173,669)**
Allowance recorded (Note 28)	(761,259)	(481,643)	(216,318)	(19,741)
Allowance reversed (Note 28)	337,179	492,234	37,022	33,260
Effect of translating from functional to presentation currency	(9,347)	36,607	–	–
Impairment of receivables due to disposals (Note 7)	–	(189,091)	–	–
Receivables written-off during the year as uncollectible	866,126	148,469	89,265	2,569
Disposal of subsidiaries	–	110,684	–	13,827
At 31 December	**(1,331,765)**	**(1,764,464)**	**(233,785)**	**(143,754)**

The accrual and reversal of allowance for impaired receivables was included in the consolidated statement of comprehensive income (Note 28). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

At 31 December 2014, bank borrowings were secured on accounts receivable with carrying value of 296,360 (31 December 2013: nil) (Note 33).

(thousands of Russian Roubles, unless otherwise stated)

16. LOANS RECEIVABLE

	31 December 2014	31 December 2013
Loans receivable from related parties at interest rates as follows		
- Interest free	31,005	31,005
- 2% p.a.	–	47,458
- 12% to 13% p.a.	104,302	111,722
Loans receivable from third parties at interest rates as follows		
- Interest free	66,227	59,729
- 0.01 % p.a. (bank deposit)	115,296	76,477
- Mosprime 1M + 5.7% p.a.	359,335	359,335
- 3% to 6% p.a.	122,339	83,581
- 7.5% to 10% p.a.	38,924	596,380
- 12% to 14.5 % p.a.	317,270	1,150,072
- 18% p.a.	3,600	3,600
Allowance for impairment of loans receivable	(407,272)	(1,682,280)
Total loans receivable	**751,026**	**837,079**

Movements in the allowance for impairment of loans receivable are as follows:

	2014	2013
At 1 January	**(1,682,280)**	**(708,191)**
Allowance recorded (Note 28)	(111,294)	(13,039)
Allowance reversed (Note 28)	–	3,851
Impairment of loans receivable disposed in a subsidiary (Note 7)	–	(998,586)
Loans receivable written-off during the year as uncollectible	1,386,302	33,685
At 31 December	**(407,272)**	**(1,682,280)**

The accrual and reversal of allowance for impaired loans receivable were included in the consolidated statement of comprehensive income (Note 28). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

17. CASH AND CASH EQUIVALENTS

Balances with banks can be withdrawn on demand and are not interest-bearing. Term deposits have an original maturity of three months or less, and are interest-bearing.

	31 December 2014	31 December 2013
Cash on hand and balances with banks, RUB	3,852,005	1,134,788
Term deposits in RUB (interest rate: 4.19% to 10.0% p.a.)	990,975	1,487,850
Term deposits in EUR (interest rate: 0.15% to 1.0% p.a.)	405,909	–
Term deposits in USD (interest rate: 0.001% p.a.)	94,570	–
Cash balances with banks, USD	76,837	361,416
Cash balances with banks, Euro, CZK, GBP	44,774	38,338
Term promissory notes	312	2,583
Total cash and cash equivalents	**5,465,382**	**3,024,975**

(thousands of Russian Roubles, unless otherwise stated)

18. EQUITY

At 31 December 2014, the total authorised number of ordinary shares is 472,382,880 shares with a par value of RUB 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote.

At 31 December 2013 the Group held 161,142,251 treasury shares for a total amount of 18,044,001.

In April and May 2014, the Company repurchased 1,098,151 treasury shares from minority shareholders at a fixed price of 45.19 Russian Roubles per share totaling 49,625. The minority shareholders exercised their right under Russian legislation enabling them to sell their shares to the Company because of a proposal to enter into a materially significant financing facility made at extraordinary general meeting.

At 31 December 2014, the Group held 162,240,402 treasury shares for a total amount of 18,093,626.

According to the Company’s charter, the Company is required to establish a legal reserve through the allocation of 5 percent of net profit as computed under Russian accounting regulations. The total amount of the reserve is limited to 15 percent of the nominal registered amount of the Company’s issued share capital. The legal reserve may only be used to offset losses of the Company and cannot be distributed to shareholders. At 31 December 2014 and 2013, the legal reserve is 70,857.

In 2014 and 2013, the Company did not declare or pay dividends.

19. BORROWINGS

	31 December 2014	31 December 2013
Non-current		
Syndicated loan	84,459,280	68,304,334
Credit lines with floating rates	1,303,548	–
Loans with fixed rates	185,059	160,233
Promissory notes issued	5,618	5,100
Bonds payable	–	3,726,922
Finance lease liabilities	674,899	865,691
Total non-current borrowings	**86,628,404**	**73,062,280**
Current		
Loans with floating rates	6,408,636	4,918,423
Bonds payable	3,727,508	3,497,136
Credit lines with floating rates	863,696	1,996,454
Credit lines with fixed rates	848,000	16,250,752
Loans with fixed rates	345,991	313,047
Finance lease liabilities	606,723	431,600
Total current borrowings	**12,800,554**	**27,407,412**
Total borrowings	**99,428,958**	**100,469,692**

(thousands of Russian Roubles, unless otherwise stated)

Bonds payable

The bonds payable represent bonds issued by the Company at various times, as described below.

In April 2008, the Company issued 8,000,000 bonds at par value of 1 per bond (“Bond 03”). The bonds are repayable beginning 21 April 2015, the 2,548-th day following the date of placement. The interest yield on the bonds amounts to 8.0% p.a. As a result of various buy-back transactions involving “Bond 03” during the period from 2008 to 2012 the Company repurchased 7,996,851 bonds. The carrying value of “Bond 03” at 31 December 2014 was 3,149 (31 December 2013: 3,149).

In February 2013, the Company issued 8,225,000 bonds: BO 02, BO 03 and BO 04, at par value, the proceeds of which were used entirely to repay the borrowings of the following banks: Promsvyazbank PJSC, Joint Stock Commercial bank SOYUZ, Otkrytie FC, OJSC Chelindbank and UBRD PJSC. The bonds were issued under the following conditions:

	BO 02	**BO 03**	**BO 04**
Quantity, units	2,000,000	5,000,000	1,225,000
Bonds par value	1	1	1
Total amount	**2,000,000**	**5,000,000**	**1,225,000**
Bonds expiry date	50% of par value at 182-th day from the date of placement, 50% of par value at 364-th day from the date of placement	50% of par value at 546-th day from the date of placement, 50% of par value at 728-th day from the date of placement	100% of par value at 910-th day from the date of placement
Coupon rate, % per annum	6	8	10
Coupon yield payment period	quarterly	quarterly	quarterly

In August 2013 the Company partially redeemed 50% of par value of bonds BO 02, which took place on the 182-th day following the date of placement. As at 31 December 2013 the carrying value of 2,000,000 bonds BO 02 was 1,000,000. In February 2014 the Company redeemed the remaining 50% of par value of bonds BO 02 in the amount of 1,000,000.

In August 2014 the Group redeemed 50% of par value of bonds BO 03 in the amount of 2,500,000, which took place on the 546-th day following the date of placement.

The carrying value of the BO 03 at 31 December 2014 was 2,499,739 (31 December 2013: 4,996,874).

The carrying value of the BO 04 at 31 December 2014 was 1,224,620 (31 December 2013: 1,224,035).

Loans and credit lines

The Group has various borrowing agreements with lenders including loans, revolving credit facilities and letter of credit facilities.

During the period, the Group entered into additional borrowing facilities totaling 2,624,573 which comprised credit lines of 2,600,000 and loans of 24,573, including the following:

- Various credit lines totaling 2,600,000 expiring in October 2015. The loans bear interest at rates varying between 13.98%-14.50% p.a.;
- Loans from various banks denominated in CZK and Euro totaling 24,573 repayable on dates from April 2014 to May 2019. The loans bear interest at rates varying between 3.20% and 4.03% p.a.

(thousands of Russian Roubles, unless otherwise stated)

At 31 December 2014, the Group had available undrawn amounts under credit lines totaling 1,752,000 denominated in Russian Roubles.

The nominal interest rates at 31 December 2014 were as follows:

	Currency	Rates
Loans with fixed rates (including syndicated loan)	RUB	11.0%-15.0%
Loans with fixed rates	EUR	3.2%-5.35%
Loans with fixed rates	Other	3.2%-5.0%
Loans with floating rates	EUR	EURIBOR 6M + 1.0%
Credit lines with fixed rates	RUB	13.98%-14.50%
Credit lines with floating rates	EUR	EURIBOR +1.0%
Bonds payable	RUB	8.0%-10.0%

The nominal interest rates at 31 December 2013 were as follows:

	Currency	Rates
Loans with fixed rates (including syndicated loan)	RUB	9.5%-15.0%
Loans with fixed rates	EUR	3.7%-5.35%
Loans with fixed rates	Other	2.8%-5.25%
Loans with floating rates	EUR	EURIBOR 6M + 1.0%
Credit lines with fixed rates	RUB	9.5%-15.0%
Credit lines with floating rates	EUR	EURIBOR + 1.0%
Bonds payable	RUB	6.0%-10.0%

The non-current borrowings maturity schedule, excluding the present value of minimum lease payments, is as follows:

	31 December 2014	31 December 2013
1 to 2 years	9,734,167	3,811,705
2 to 3 years	9,026,025	5,957,494
3 to 4 years	10,999,086	5,745,739
4 to 5 years	56,188,609	8,949,480
More than 5 years	5,618	47,732,171
Total non-current borrowings	**85,953,505**	**72,196,589**

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilised, disposal of assets, incurring of additional liabilities, issuance of loans or guarantees, obligations under any future reorganisation procedures or bankruptcy of borrowers and also require that the respective Group entities maintain pledged assets. In addition, these agreements contain financial covenants which include compliance with several financial ratios and clauses regarding the acceleration of payment upon default, including cross-default provisions.

At 31 December 2014, the Group was not in compliance with financial covenants contained in lending agreements with BNP Paribas Fortis SA/NV. Such breaches took place in respect of non-current borrowings in the amount of 6,408,636 at 31 December 2014, as a result the long term portion of these borrowings in the amount of 5,345,173 has been reclassified as a current obligation at 31 December 2014. Prior to the date of authorisation of the consolidated financial statements for issue, the lenders have agreed to revise the financial covenant on debt / EBITDA ratio and to waive the violations. Management monitors compliance with the debt covenants on an ongoing basis.

(thousands of Russian Roubles, unless otherwise stated)

The original maturity of the portion of breached long-term borrowings recorded as current is as follows:

	31 December 2014	31 December 2013
1 to 2 years	1,065,291	1,270,342
2 to 3 years	1,067,177	1,273,361
3 to 4 years	1,069,036	989,655
4 to 5 years	1,070,906	703,790
More than 5 years	1,072,763	1,410,872
Total non-current borrowings	**5,345,173**	**5,648,020**

Syndicated loan

In October 2012 JSC Chelyabinsk Pipe-Rolling Plant and JSC Pervouralsk New Pipe Plant signed a syndicated loan agreement (the "Syndicated loan") in the total amount of 86,464,245 with a syndicate of fourteen banks: Gazprombank (Joint - stock Company), OJSC Bank of Moscow, AO Raiffeisenbank, Otkritie FC, AO UniCredit Bank, JSC Alfa-Bank, OJSC URALSIB, OJSC Interregional commercial bank of development of communication and informatics, PJSC MTS Bank, OJSC Transkreditbank, OJSC Chelindbank, OJSC AK BARS Bank, ZAO Surgutneftegasbank and Sberbank of Russia acting as a facility agent and a security trustee on behalf of the lenders. In August 2013 OJSC Transkreditbank transferred its participation in the syndicated loan to OJSC Bank of Moscow. The syndicated loan bears an effective interest rate of 13.0% payable quarterly according to the schedule, and principal payable in semi-annual installments from June 2015 to October 2019. The Group received its first draw down on the syndicated loan in the amount of 70,310,399 in February 2013. The loan proceeds were fully utilized to re-finance existing loans of the banks participating in the syndicated loan facility. In November 2013 the Group prepaid 2,000,000 of the syndicated loan ahead of schedule, which was due for payment in the full amount in 2015. In 2014 the Group received the full sum of its second draw down on the syndicated loan in the amount of 16,153,846, which was utilized to re-finance the loans of Gazprombank (Joint - stock Company). As at 31 December 2013 the Group has obtained waivers confirming an amendment to the financial covenants in the loan agreement.

The syndicated loan is secured by state guarantee of the Russian Federation in the event of a default in the total amount of 43,280,000 expiring in January 2020. In addition, the syndicated loan facility is secured by the pledge of controlling interests in the Company, controlling interests in its subsidiaries as well as fixed assets (Note 33).

Finance leases

Minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Due in 1 year	787,512	590,945	606,723	431,600
Due between 1 and 5 years	811,487	961,552	674,899	865,691
Total	**1,598,999**	**1,552,497**	**1,281,622**	**1,297,291**

All finance lease liabilities are effectively collateralised by the leased equipment as the right to the asset reverts to the lessor if the Group defaults on the lease.

(thousands of Russian Roubles, unless otherwise stated)

20. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations consist of the following:

	2014	2013
At 1 January	**651,128**	**669,335**
Current service cost	29,585	35,158
Interest cost (Note 29)	48,813	44,124
Past service cost	(306,611)	–
Actuarial gains	(138,152)	(68,654)
Settlements	(17,876)	(28,835)
At 31 December	**266,887**	**651,128**

(Income)/expense recognised in the consolidated statement of comprehensive income:

	2014	2013
Current service cost	29,585	35,158
Interest cost (Note 29)	48,813	44,124
Past service cost	(306,611)	–
Total (profit)/loss	**(228,213)**	**79,282**
Actuarial gains on retirement benefits	(138,152)	(68,654)
Total other comprehensive income	**(138,152)**	**(68,654)**
Total comprehensive (income)/loss	**(366,365)**	**10,628**

Pension plan liabilities are estimated using actuarial techniques and the following assumptions:

	31 December 2014	31 December 2013
Discount rate	10.0-13.5%	7.5-7.7%
Inflation rate	5.0-8.0%	5.0-7.5%
Future salary increases	5.0-6.0%	5.0-5.5%
Future pension increases	5.0%	5.0%
Labour turnover	Depending on years of service	Depending on years of service
Mortality rates for ALNAS	Mortality table for Russian Federation in 2012	Mortality table for Russian Federation in 1986-1987
Mortality rates for Chelpipe, PNTZ	Mortality table for Chelyabinsk region in 2013	Mortality table for Chelyabinsk region in 2006

Actuarial results may differ from estimates, and may be revised in the future.

(thousands of Russian Roubles, unless otherwise stated)

Sensitivity analysis for pension plan obligations is as follows:

	31 December	Discount rate		Salary rate		Labour turnover	
	2014	**0.75%**	**-0.75%**	**0.75%**	**-0.75%**	**1.5%**	**-1.5%**
Chelpipe	56,599	54,808	58,562	58,713	54,657	52,134	60,662
PNTZ	107,480	104,866	110,313	110,530	104,644	100,739	114,374
Alnas	102,808	97,079	109,110	102,809	102,809	101,828	103,845
Total	**266,887**	**256,753**	**277,985**	**272,052**	**262,110**	**254,701**	**278,881**

21. OTHER TAXES PAYABLE

Other taxes payable consist of the following:

	31 December 2014	31 December 2013
Value added tax	2,222,840	1,547,596
Social contributions	537,931	475,252
Property tax	233,465	153,857
Personal income tax	118,875	111,616
Other taxes	35,954	68,870
Total taxes payable	**3,149,065**	**2,357,191**

22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2014	31 December 2013
Non-current		
Interest payable	2,388,234	1,334,930
Total non-current accounts payable and accrued expenses	**2,388,234**	**1,334,930**
Current		
Trade payables	25,922,101	18,151,885
Interest payable	1,844,015	803,614
Wages and salaries payable*	1,523,704	1,366,322
Accrued liabilities and other creditors	468,126	582,584
Total current accounts payable and accrued expenses	**29,757,946**	**20,904,405**

*Non-financial liabilities

The major part of interest payable represents interest payable by the Group according to the terms of the syndicated loan agreement (Note 19).

The Group's payables denominated in foreign currencies are disclosed in Note 34.

(thousands of Russian Roubles, unless otherwise stated)

23. DEFERRED REVENUE

	2014	2013
Non-current deferred revenue arising from government grant	197,583	–
	197,583	**–**

In 2014, the Group received government grants in the amount of 97,954 denominated in CZK, for the purposes of renovating of the property, plant and equipment of the company and in the amount of 55,000 for partial reimbursement of expenses for research and development activities. In 2014, government grant in the amount of 2,652 was recognised in profit or loss as a reduced depreciation expense. The difference between the carrying value of the government grants and the amount received is attributable to the effect of foreign currency exchange differences.

24. REVENUE

	2014	2013
Domestic sales of pipes	94,682,699	76,122,192
Domestic sales of oilfield services	16,268,261	16,704,308
Domestic sales of scrap	5,804,236	4,751,705
Domestic sales of other goods	481,692	316,401
Export of pipes	10,198,485	13,933,775
Export of oilfield services	687,471	599,300
Total revenue	**128,122,844**	**112,427,681**

25. COST OF SALES

	2014	2013
Raw materials	63,539,386	52,442,399
Salaries and salary taxes	10,401,330	10,344,110
Depreciation and amortisation	6,778,554	6,541,454
Production overheads and repairs	6,709,994	6,242,729
Energy and utilities	4,971,883	4,091,824
Cost of goods for resale	1,270,997	4,059,034
Changes in allowance for inventory	89,136	(65,672)
Changes in balances of work in progress and finished goods	(1,646,112)	1,380,209
Total cost of sales	**92,115,168**	**85,036,087**

26. DISTRIBUTION COSTS

	2014	2013
Transportation, surveyor and customs expenses	5,691,411	3,670,515
Salaries and salary taxes	1,284,967	1,212,867
Packing, storage and handling	891,771	730,069
Advertising and marketing expenses	830,906	1,037,241
Commission	353,791	276,688
Office expenditure	147,439	155,032
Depreciation and amortisation	72,085	85,430
Operating lease expenses	70,175	53,621
Other	156,118	150,871
Total distribution expenses	**9,498,663**	**7,372,334**

(thousands of Russian Roubles, unless otherwise stated)

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Salaries and salary taxes	3,676,784	3,186,797
Non-production overheads and repairs	3,169,290	2,477,628
Taxes other than income tax	1,209,809	1,326,973
Depreciation and amortisation	511,238	553,822
Consultancy, audit and legal services	425,154	386,521
Operating lease expenses	91,477	90,765
Auxiliary materials	63,417	106,198
Insurance	46,434	57,573
Other	1,031,927	564,606
Total general and administrative expenses	**10,225,530**	**8,750,883**

In 2014, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to 15,363,081 (2013: 14,743,774).

28. IMPAIRMENT OF ASSETS

	2014	2013
Trade and other receivables (Note 15)	603,376	(24,110)
Loans receivable (Note 16)	111,294	9,188
Property, plant and equipment (Note 9)	79,716	266,541
VAT recoverable allowance	–	8,855
Total impairment of assets	**794,386**	**260,474**

29. FINANCE INCOME AND COST

	2014	2013
Interest income on loans receivable	202,131	176,160
Total finance income	**202,131**	**176,160**
Interest cost on borrowings	12,399,192	12,165,789
Finance charges under finance lease	223,664	92,924
Interest cost on employee benefits liabilities	48,813	44,124
Total finance costs	**12,671,669**	**12,302,837**

30. INCOME TAX

Income taxes comprise the following:

	2014	2013
Current tax	1,495,218	546,016
Deferred tax	(1,046,585)	(736,248)
Income tax expense	**448,633**	**(190,232)**

(thousands of Russian Roubles, unless otherwise stated)

Reconciliation between the statutory rate and actual income tax charge is provided below:

	2014	**2013**
Loss before income tax	767,381	2,058,167
Theoretical tax income at statutory rate	(152,988)	(414,575)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Social costs	124,578	137,720
- Other non-deductible expenses/(gains)	118,437	(67,090)
- Change in measurement of inventory balances	71,193	31,615
- Receivables and loans written-off during the year as uncollectible	45,396	1,891
- Non-deductible employee benefits	42,854	57,410
- Interest expenses/(income)	28,163	(39)
- Taxes, fines and penalties	6,239	2,020
- Loss on disposal of property, plant and equipment	4,543	6,268
- Gain on disposal of subsidiaries	–	(250,585)
- Dividends received	–	(17,205)
- Unrecognised deferred tax assets	160,218	322,338
Income tax expense/(benefit)	**448,633**	**(190,232)**

Differences between IFRS and Russian and Czech Republic tax principles give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% for Russia and 19% for Czech Republic:

(thousands of Russian Roubles, unless otherwise stated)

	1 January 2013	Credited/ (charged) to profit or loss	Disposal of subsidiaries (Note 7)	Effect of translating from functional to presentation currency	31 December 2013	(Charged)/ credited to profit and loss	Effect of translating from functional to presentation currency	31 December 2014
Tax effects of deductible temporary differences:								
Accounts and loans receivable	250,209	61,422	(9)	1	311,623	(39,599)	417	272,441
Accounts payable and accruals	96,853	207,991	–	(23)	304,821	123,241	–	428,062
Other deductible temporary differences	46,147	17,744	(1,416)	–	62,475	(11,167)	69	51,377
Losses carried forward	1,389,626	144,635	(6,941)	–	1,527,320	684,533	–	2,211,853
Deferred revenue	–	–	–	–	–	11,000	–	11,000
Total deductible temporary differences	**1,782,835**	**431,792**	**(8,366)**	**(22)**	**2,206,239**	**768,008**	**486**	**2,974,733**
Set off of tax	(1,514,190)				(1,852,109)			(2,538,377)
Deferred tax assets	**268,645**				**354,130**			**436,356**
Tax effects of taxable temporary differences:								
Property, plant and equipment and intangible asset	(5,396,614)	475,442	(667)	(728)	(4,922,567)	416,160	(16,712)	(4,523,119)
Inventories	98,054	(219,718)	15	154	(121,495)	(127,146)	8,407	(240,234)
Borrowings and loans	(62,243)	48,732	–	64	(13,447)	(10,437)	1,388	(22,496)
Other taxable differences	–	–	–	–	–	–	–	–
Total taxable temporary differences	**(5,360,803)**	**304,456**	**(652)**	**(510)**	**(5,057,509)**	**278,577**	**(6,917)**	**(4,785,849)**
Set off of tax	1,514,190				1,852,109			2,538,377
Deferred tax liability	**(3,846,613)**				**(3,205,400)**			**(2,247,472)**

The amount of unrecognized deferred tax assets on unused tax losses carried forward for the year ended 31 December 2014 is 1,474,978 (year ended 31 December 2013: 1,306,936).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so and intends to settle on a net basis.

(thousands of Russian Roubles, unless otherwise stated)

31. LOSS PER SHARE

For the year ended 31 December 2014, basic loss per share is calculated by dividing the loss attributable to shareholders of the Company in the amount of 1,234,926 (year ended 31 December 2013: loss 1,837,032) by the weighted average number of ordinary shares outstanding for the year ended 31 December 2014, excluding treasury shares, which comprised 310,521,356 shares (year ended 31 December 2013: 311,721,358 shares).

Changes in the Group's accounting policies during the period are described in Note 4. To the same extent that those changes have an impact on the financial results of the Group for the year ended 31 December 2014, they have an impact on the amounts of loss per share for the respective period.

The total effect of the changes in the accounting policies on basic loss per share was as follows:

	Decrease in	
	Loss attributable to owners of the Company	**Basic loss per share, RUB per 1 share**
Changes in accounting policies relating to:		
Capitalization of capital repairs	481,104	1.55
	481,104	**1.55**

The Company has no potentially dilutive ordinary shares; accordingly diluted loss per share is the same as the basic loss per share.

32. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Generally, parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over, or is under significant influence of the other party in making financial and operational decisions. In considering each possible related party relationship attention is directed to the substance of the relationship, not merely the legal form.

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. Related parties of the Group predominantly comprise parties under the control of the Group's controlling shareholders.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2014 are detailed below:

	Associates	**Entities controlled by the Group's controlling shareholder**	**Entities under significant influence of the Group's controlling shareholder**
Gross amount of trade and other receivables	–	188,981	156,809
Loans receivable	–	31,307	104,000
Trade and other payables	–	(371,032)	(1,737)

For the year ended 31 December 2014, the Group transferred debts of third parties to related parties at fair value of 50,186 under cession agreements (year ended 31 December 2013: 2,416).

(thousands of Russian Roubles, unless otherwise stated)

Income and expense items with related parties as well as purchases for the year ended 31 December 2014 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	91	7,775	42
Purchases	–	(478,472)	(102)
Distribution expenses	–	(16,192)	–
General and administrative expenses	–	(948,320)	–
Finance income, net	–	77,710	13,520

At 31 December 2014, no guarantees were issued/received by the Group on behalf of related parties.

Transactional cash flows with related parties for the year ended 31 December 2014 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	107	(1,451,863)	(70,192)
Financing activities	–	–	–
Investing activities	–	–	–

At 31 December 2013, significant transactions and balances with related parties were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Gross amount of trade and other receivables	–	238,676	73,289
Loans receivable	–	86,185	104,000
Trade and other payables	–	(397,386)	(1,858)

Income and expense items with related parties for the year ended 31 December 2013 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	89	12,731	42
Purchases	–	(423,603)	(214)
Distribution expenses	–	(30,383)	–
General and administrative expenses	–	(541,455)	13,520
Finance income, net	–	1,590	–

(thousands of Russian Roubles, unless otherwise stated)

Transactional cash flows with related parties for the year ended 31 December 2013 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	106	(1,192,309)	(202)
Financing activities	–	(23)	–
Investing activities	–	3,311	–

Directors' and key management remuneration

At 31 December 2014, the Board of Directors comprised 7 directors (31 December 2013: 7 directors). For the year ended 31 December 2014, compensation to the members of the Board of Directors amounted to 24,878 and was included in general and administrative expenses (year ended 31 December 2013: 25,763). For the year ended 31 December 2014, aggregate remuneration of executives amounted to 205,287 and was included in general and administrative expenses (year ended 31 December 2013: 150,667).

Non-controlling interest

At 31 December 2014, 28,726 of a non-controlling interest of 2.27% of the net assets of OJSC Izhneftemash or 5,599 ordinary shares was attributable to an entity controlled by the Group's key management personnel (31 December 2013: 27,547, non-controlling interest of 2.27% or 5,599 ordinary shares).

33. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

The Group is involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of submission of tax declaration. Under certain circumstances reviews may cover longer periods.

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

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations in such areas that may impact the overall tax rate of the Group and such interpretations may be subject to challenge by the tax authorities.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks related to recovery of input VAT. The impact of any challenge by the tax authorities cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of 2,518,669 at 31 December 2014 (31 December 2013: 285,709) which relate primarily to corporate profit tax and VAT. There is no liability recorded for this exposure as management does not believe payment is probable.

Transfer pricing risk

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length.

As of the date of approval of the consolidated financial statements, the Group was in the process of preparing transfer pricing documentation for operations with related parties (transactions with entities under common control) for the fiscal year 2014.

The impact of potential challenge of the Group’s transfer pricing positions by the tax authorities cannot be reliably estimated due to the lack of clarity of some clauses of the transfer pricing rules and lack of tax practice regarding compliance with the new rules.

Operating environment

Emerging markets such as the Russian Federation are subject to different risks more than developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group’s financial position.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In April 2014, an international credit agency Standard & Poor’s downgraded Russia’s long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Fitch credit agency has also revised Russia’s creditworthiness outlook from stable to negative. These developments, particularly if sanctions are further extended, may result in reduced access of Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

Capital expenditure commitments

At 31 December 2014, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totaling 2,178,173 (31 December 2013: 1,547,199).

(thousands of Russian Roubles, unless otherwise stated)

Assets pledged and restricted

At 31 December 2014 and 31 December 2013, the Group has the following assets pledged as collateral:

		31 December 2014		31 December 2013	
	Notes	**Asset pledged, carrying value**	**Related liability**	**Asset pledged, carrying value**	**Related liability**
Sberbank*	19	27,883,976	77,083,332	24,743,611	53,112,200
BNP Paribas Fortis SA/NV		3,578,870	6,408,636	4,508,269	4,918,423
Gazprombank (Joint - stock Company)		–	–	5,054,562	16,123,292
UniCredit Bank AG (Munich)		4,200,353	2,167,244	4,950,925	1,996,454
Ceskoslovenska obchodni banka		1,024,743	227,138	–	–
OJSC Akibank		29,105	17,672	29,187	40,800
VB Leasing CZ, spol. s.r.o.		125,029	121,840	–	–
ČSOB Leasing		11,984	18,021	–	–
Property, plant and equipment	**9**	**36,854,060**	**86,043,883**	**39,286,554**	**76,191,169**
Ceskoslovenska obchodni banka		310,265	68,771	–	–
Inventory	**14**	**310,265**	**68,771**	**–**	**–**
Ceskoslovenska obchodni banka		296,360	65,689	–	–
Accounts receivable	**15**	**296,360**	**65,689**	**–**	**–**
Sberbank*	19	2,015,349	7,375,948	3,908,362	15,192,134
Intra-group loans receivable		**2,015,349**	**7,375,948**	**3,908,362**	**15,192,134**
Total		**39,476,034**	**93,554,291**	**43,194,916**	**91,383,303**

Sberbank* is the syndicated loan agent that acts on behalf of itself and following banks: Gazprombank (Joint – stock Company), OJSC Bank of Moscow, JSC Raiffeisenbank, Otkrytie FC, JSC UniCredit Bank, JSC Alfa-Bank, OJSC URALSIB, OJSC Interregional commercial bank of development of communication and informatics, PJSC MTS Bank, OJSC Transkreditbank, OJSC Chelindbank, OJSC AK BARS Bank, ZAO Surgutneftegasbank (Note 19).

At 31 December 2014, the Group has no loan indebtedness secured by a pledge of future revenue proceeds (31 December 2013: total loan indebtedness due to OJSC Bank Saint Petersburg in the amount of 275,000 is secured by a pledge of UNGGF future revenue proceeds in the amount of 971,945).

At 31 December 2014, there are no guarantees that were secured by pledge of property, plant and equipment (31 December 2013: guarantees, provided by OJSC Bank of Moscow to pipeline construction companies on behalf of the Group, were secured by pledge of property, plant and equipment in the amount of 43,921).

(thousands of Russian Roubles, unless otherwise stated)

Shares pledged and restricted

At 31 December 2014, the following Group's shares were pledged as collateral:

Pledger	Company	Pledgee	Year	Percent of share capital
Group's shareholders	Chelpipe	Sberbank*	2013	50% + 1 share
Group's shareholders	Chelpipe	Sberbank*	2012	2.00%
Poweredge Holdings Ltd	Chelpipe	Sberbank*	2012	4.30%
The Group	Chelpipe	Sberbank*	2012	32.94%
The Group	PNTZ	Sberbank*	2012	100.00%
The Group	SOT	Sberbank*	2012	100.00%
The Group	JSC RIMERA	Sberbank*	2012	99.99%
The Group	ALNAS ordinary shares	Sberbank*	2012	100.00%
The Group	ALNAS preferred shares	Sberbank*	2012	100.00%
The Group	INM ordinary shares	Sberbank*	2012	73.14%
The Group	INM preferred shares	Sberbank*	2012	1.36%
The Group	UNGGF	Sberbank*	2012	100.00%
The Group	LLC Rimera-service	Sberbank*	2013	100.00%
The Group	LLC Meta-Invest	Sberbank*	2012	100.00%
The Group	LLC Meta	Sberbank*	2012	100.00%

Insurance policies

Under bank loan covenants the Group is to insure its assets during the loan period. The Group has insured its pledged manufacturing property, plant and equipment during the year ended 31 December 2014 for a cover amount of 46,224,153 (deductible of 1,000) (2013: for a cover amount of 47,001,887 (deductible of 2,970)). However, the insurance does not cover the risks of damage to third parties and losses from temporary suspension in the production process. Management does not believe exposure to those risks is significant.

34. FINANCIAL RISK MANAGEMENT

34.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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

In 2014 the management has identified and assessed the most significant corporate level risks (including financial risks). The Group's 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 and exposures.

The Group does not use derivative financial instruments to hedge its risk exposures.

(thousands of Russian Roubles, unless otherwise stated)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and USD.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency. The companies of the Group do not have a formal policy to manage their foreign exchange risk against their functional currency. Management of the Group minimises cash held in banks to reduce or eliminate foreign exchange risk exposure on its cash balances.

Analysis of the financial instruments by currency is as follows:

	31 December 2014			31 December 2013		
	RUB	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Derivatives	6,687,671	–	–	–	–	–
Trade receivables	27,237,060	929,099	778,494	20,087,883	2,345,420	485,351
Other receivables	831,556	3,518	5,680	84,928	9,857	642,381
Loans receivable	639,731	111,295	–	717,085	119,994	–
Interests receivable	534,707	7,587	–	569,799	5,049	–
Cash	4,843,292	171,407	450,683	2,633,400	361,416	30,159
Monetary financial assets	**40,774,017**	**1,222,906**	**1,234,857**	**24,093,095**	**2,841,736**	**1,157,891**
Loans, credit lines and bonds payable	(89,179,444)	–	(8,962,274)	(91,996,660)	–	(7,170,641)
Promissory notes and loans payable	(5,618)	–	–	(5,100)	–	–
Trade payables	(20,765,484)	(1,450,044)	(3,706,573)	(15,064,028)	(1,918,461)	(1,169,396)
Other payables	(316,730)	(9,205)	(142,191)	(147,930)	(2,397)	(432,257)
Finance lease liabilities	(1,261,898)	–	(19,724)	(1,278,512)	–	(18,779)
Interests payable	(4,230,599)	–	(1,650)	(2,137,040)	–	(1,504)
Monetary financial liabilities	**(115,759,773)**	**(1,459,249)**	**(12,832,412)**	**(110,629,270)**	**(1,920,858)**	**(8,792,577)**
Total, net	**(74,985,756)**	**(236,343)**	**(11,597,555)**	**(86,536,175)**	**920,878**	**(7,634,686)**

At 31 December 2014, if the Russian Rouble had weakened/strengthened by 20% (31 December 2013: 20%) against the USD with all other variables held constant, the Group's post-tax loss for the year would have been 37,815 higher/lower (31 December 2013: post-tax loss for the year would have been 147,341 lower/higher), mainly as a result of foreign exchange losses/gains on translation of USD-denominated receivables and borrowings.

At 31 December 2014, if the Russian Rouble had weakened/strengthened by 20% (31 December 2013: 20%) against the Euro with all other variables held constant, the Group's post-tax loss for the year would have been 1,855,609 higher/lower (31 December 2013 post-tax loss for the year would have been 1,221,550 higher/lower), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings and accounts payable.

(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 not exposed to commodity price risk because its finished products and raw materials are not traded on a public market.

(thousands of Russian Roubles, unless otherwise stated)

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing its exposure to interest rate risk. In 2014 and 2013, the Group's borrowings at floating rate were denominated in Euro.

At 31 December 2014 the Group's borrowings comprised mostly fixed interest rate loans, the significant amount of which is represented by the syndicated loan (Note 19). Floating interest rate loans account for only 8,6% of the total amount of the Group's borrowings (at 31 December 2013: 6.9%).

Group analyzes the risks associated with changes in interest rates on an ongoing basis. Various scenarios are simulated taking into account refinancing, renewal of credit, current positions and alternative financing. On the basis of these scenarios, the Group calculates the impact on profit and loss of a defined interest rate change. In each model for all currencies used the same interest rate change. The Group performed an analysis of sensitivity to changes in interest rates for liabilities that represent the major interest-bearing positions and include all types of loan agreements with floating rates. The risk of changes in fixed interest rates on existing agreements management estimates as low. According to the analysis of sensitivity performed for the year ended 31 December 2014, the impact of a 100 basis points shift in interest rate on post-tax loss would be an increase/decrease of 59,660 (2013: the impact on post-tax loss would have been an increase/decrease of 70,829).

(iv) Fair value measurements

The carrying amounts of financial instruments such as trade and other receivables, cash and cash equivalents, derivatives, syndicated loan, promissory notes issued, bonds payable, accounts payable and accrued expenses, finance lease liabilities approximate their fair values.

The Group's financial instruments which carrying values differ from their fair values are disclosed in the table below:

	Level of the fair value hierarchy	**Notes**	**31 December 2014**		**31 December 2013**	
			Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets						
Loans receivable	Level 3	16	751,026	744,326	837,079	828,721
Financial liabilities						
Loans and credit lines	Level 3	19	9,954,930	9,558,728	23,638,909	23,065,844

The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. See Note 2, Basis of preparation.

The fair values of Level 3 financial assets and liabilities were calculated based on the present value of future principal and interest cash flows, discounted at market discount rate that reflects the credit risk of counterparties.

(thousands of Russian Roubles, unless otherwise stated)

(b) Credit risk

Credit risk is managed at the level of individual Group companies. The carrying value of financial assets represents the maximum credit exposure. The carrying value of financial assets at 31 December 2014 was 43,231,780 (31 December 2013: 28,092,722).

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors. Credit risk exposure mainly depends on the individual characteristics of customers.

The Group's major clients are represented by final customers, i.e. large oil and gas or pipeline construction companies. Limits of the accounts receivable are established on quarterly basis and monitored by the management of the Group.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The table below shows the major balances with banks at the reporting date.

	Agency	**Rating**	**31 December 2014**	**31 December 2013**
Sberbank	Moody's	Baa3	2,517,854	1,612,178
Otkrytie FC	Moody's	Ba3	627,366	331,103
JSC Alfa-Bank	Moody's	Ba1	608,933	–
NOTA-Bank	Moody's	Baa1	515,000	–
JSC Raiffeisenbank	Moody's	Ba1	–	487,432
Gazprombank (Joint - stock Company)	Moody's	Ba1	–	31,526
Total risk concentrations within cash balances with banks			**4,269,153**	**2,462,239**

The table below shows the balances of the three major counteragents for trade receivables:

	31 December 2014	**31 December 2013**
Counteragent 1	6,566,096	3,111,716
Counteragent 2	5,834,899	2,651,595
Counteragent 3	2,405,329	2,102,446
Total risk concentrations within trade receivables	**14,806,324**	**7,865,757**

The table below shows the balances of the three major counteragents for loans receivable at the reporting date:

	31 December 2014	**31 December 2013**
Counteragent 1	422,437	422,436
Counteragent 2	115,297	104,000
Counteragent 3	109,899	47,458
Total risk concentrations within loans receivable	**647,633**	**573,894**

(thousands of Russian Roubles, unless otherwise stated)

At 31 December 2014, cash and cash equivalents (Note 17) comprise 5,465,382 (31 December 2013: 3,024,975). Out of this amount cash on hand and balances with banks are 3,973,616 (31 December 2013: 1,534,542) and term deposits and bank promissory notes account for 1,491,766 (31 December 2013: 1,490,433). All deposits were withdrawn shortly after the reporting date. For banks and financial institutions, only the top 20 Russian banks by capital are used by the Group. The Group does not hold any collateral as security for these financial assets.

At 31 December 2014, trade and other receivables (Note 15) comprise 29,785,407 (31 December 2013: 23,655,820). Balances due from third parties account for 29,439,617 and from related parties account (Note 32) for 345,790 of this amount (31 December 2013: 23,343,855 and 311,965 respectively). Management of the Group believes that credit risks on trade and other receivables balances are limited to specific customers because a majority of their customers have good payment history due to their long business relationships with the Group.

At 31 December 2014, balances due from overseas customers comprise 2,257,007 (31 December 2013: 3,921,043).

Key customers of the Group are mainly represented by state-owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business.

At 31 December 2014, balances of promissory notes, loans and interest receivable comprise 1,293,320 (31 December 2013: 1,411,927) and include balances due from related parties of 135,307 (31 December 2013: 190,185).

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

(c) Liquidity risk

The Group believes prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. As disclosed in Note 2, the Group was significantly impacted by the economic downturn and has been taking steps to improve its liquidity. Management is actively focused on obtaining additional financing, managing its available working capital and as needed, modifying its debt agreements in respect to covenants.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Borrowings are presented without effect of reclassification due to breach of covenants. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2014				
Trade and other payables	27,901,017	–	–	–
Promissory notes payable	–	–	–	31,495
Borrowings	18,397,573	22,324,100	49,145,801	62,022,896
Finance lease liabilities	787,512	522,540	288,947	–
Total	**47,086,102**	**22,846,640**	**49,434,748**	**62,054,391**
At 31 December 2013				
Trade and other payables	20,092,455	–	–	–
Promissory notes payable	–	–	–	31,495
Borrowings	30,345,234	14,157,830	57,021,361	47,851,367
Finance lease liabilities	590,945	663,483	298,069	–
Total	**51,028,634**	**14,821,313**	**57,319,430**	**47,882,862**

(thousands of Russian Roubles, unless otherwise stated)

34.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management understands the term 'capital' as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with other companies in the industry, the Group monitors capital on the basis of portion of net debt in total net equity and net debt. This measure is calculated as net debt divided by total capital.

Net debt is calculated as total debt (including long- and short-term borrowings (Note 19), as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as net equity plus net debt. Net equity is calculated as equity (as shown in the consolidated statement of financial position) less treasury shares.

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is not limited by debt covenants but is subject to approval from banks.

Measures of net debt to total equity and debt at 31 December 2014 and at 31 December 2013 were as follows:

	31 December 2014	**31 December 2013**
Total debt, less	99,428,958	100,469,692
cash and cash equivalents	(5,465,382)	(3,024,975)
Net debt	**93,963,576**	**97,444,717**
Total equity deficit, less	(2,543,135)	(10,818,496)
treasury shares	18,093,626	18,044,001
Net equity	**15,550,491**	**7,225,505**
Total net equity and net debt	109,514,067	104,670,222
Net debt to net equity and net debt ratio	**86%**	**93%**

35. EVENTS AFTER THE REPORTING PERIOD

In January and March 2015, the Company repaid the credit line indebtedness to JSC Alfa-Bank in the amount of 848,000.

In February 2015 the Group redeemed 50% of par value of bonds BO 03 in the amount of 2,500,000, which took place on the 728-th day following the date of placement.

In the beginning of 2015 the share capital of LLC ETERNO was increased by contribution of Chelpipe in January 2015 in the form of shares of its subsidiary MSA a.s. (the contribution comprised 43.57% of the share capital of MSA a.s.), and by contribution of non-controlling interest shareholder in March 2015 in the form of cash in the amount of 1,538,186. Effective ownership in the LLC ETERNO has not been changed.

In April 2015 the Group redeemed the bonds "Bond 03" in the remaining amount of 3,149 at par value.