OJSC “Corporation VSMPO-AVISMA”

Consolidated Financial Statements
for 2013
and auditors’ Report

Contents

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Auditors' Report

To the Shareholder and Board of Directors of

Open Joint Stock Company "Corporation VSMPO-AVISMA"

We have audited the accompanying consolidated financial statements of OJSC "Corporation VSMPO-AVISMA" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: OJSC "Corporation VSMPO-AVISMA".

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

Registered in the Unified State Register of Legal Entities on 11 July 2002 by Sverdlovsk Region Interregion Inspection of Ministry of Russian Federation on taxation No.3, Registration No. 1026600784011, Certificate series 66 No. 002624661.

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

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

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

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

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Koryakina K. V.

Deputy Director, (power of attorney dated 12 October No. 41/12)

ZAO KPMG

29 April 2014

Ekaterinburg, Russian Federation

	Note	2013 '000 USD	2012, restated '000 USD	2013 '000 RUB	2012, restated '000 RUB
Revenue	6	1 612 240	1 414 926	51 346 606	43 994 310
Cost of sales	7	(952 271)	(824 672)	(30 327 912)	(25 641 560)
Gross profit		**659 969**	**590 254**	**21 018 694**	**18 352 750**
Distribution expenses	7	(41 027)	(40 344)	(1 306 613)	(1 254 407)
General and administrative expenses	7	(230 238)	(253 662)	(7 332 604)	(7 887 109)
Operating profit		**388 704**	**296 248**	**12 379 477**	**9 211 234**
Impairment loss on intangible assets	14, 15	(18 839)	(34 338)	(600 000)	(1 067 667)
Finance income	8	21 417	25 982	682 129	807 866
Share in (loss)/profit of equity accounted investees		(3 173)	2 845	(101 067)	88 465
Finance costs	8	(40 287)	(24 947)	(1 283 044)	(775 643)
Profit before income tax		**347 822**	**265 790**	**11 077 495**	**8 264 255**
Income tax expense	12	(68 126)	(65 078)	(2 169 698)	(2 023 466)
Profit for the year		**279 696**	**200 712**	**8 907 797**	**6 240 789**
Other comprehensive income / (loss)					
items that will never be reclassified to profit or loss					
Foreign currency translation differences		(97 115)	67 067	-	-
Remeasurement of defined benefit obligations		(5 206)	(6 776)	(165 779)	(210 716)
		(102 321)	**60 291**	**(165 779)**	**(210 716)**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences		(10 239)	4 088	123 837	(123 909)
Net change in fair value of available-for-sale financial assets		126	215	3 997	6 695
Related tax		(25)	(43)	(799)	(1 339)
		(10 138)	**4 260**	**127 035**	**(118 553)**
Other comprehensive income / (loss) for the year, net of income tax		**(112 459)**	**64 551**	**(38 744)**	**(329 269)**
Total comprehensive income for the year		**167 237**	**265 263**	**8 869 053**	**5 911 520**
Profit attributable to:					
Shareholders of the Company		280 471	201 357	8 932 474	6 260 830
Non-controlling interests		(775)	(645)	(24 677)	(20 041)
Profit for the year		**279 696**	**200 712**	**8 907 797**	**6 240 789**
Total comprehensive income attributable to:					
Shareholders of the Company		169 308	266 904	8 938 440	5 962 538
Non-controlling interests		(2 071)	(1 641)	(69 387)	(51 018)
Total comprehensive income for the year		**167 237**	**265 263**	**8 869 053**	**5 911 520**
Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD/RUB per share)	9	24.326	17.464	774.747	543.025

These consolidated financial statements were approved by management on 29 April 2014 and were signed on its behalf by:

Voevodin M. V.
General Director

Sannikov D. Yu.
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

’000 USD	**Note**	**2013**	**2012, restated**	**2011, restated**
ASSETS				
Non-current assets				
Property, plant and equipment	13	1 006 303	1 009 734	875 609
Goodwill	15	61 163	65 908	49 725
Other intangible assets	14	50 438	70 858	46 591
Equity-accounted investees	16	40 028	50 855	46 568
Other investments and loans receivable	17	5 060	20 957	20 250
Other non-current assets		8 910	3 677	3 596
Total non-current assets		**1 171 902**	**1 221 989**	**1 042 339**
Current assets				
Inventories	18	834 251	771 448	534 477
Other investments and loans receivable	17	29 344	100 731	85 271
Trade and other receivables	19	347 170	360 436	336 326
Income tax receivable		4 901	26 874	5 691
Cash and cash equivalents	20	498 791	209 233	217 776
Other current assets		4 255	5 070	3 029
Total current assets		**1 718 712**	**1 473 792**	**1 182 570**
Total assets		**2 890 614**	**2 695 781**	**2 224 909**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

’000 USD	Note	2013	2012, restated	2011, restated
EQUITY AND LIABILITIES	21			
Equity				
Share capital		22 785	22 785	22 785
Share premium		158 054	158 054	158 054
Retained earnings		1 567 465	1 385 631	1 193 556
Reserves		(12 674)	(7 569)	(965)
Cumulative currency translation difference		(232 901)	(126 843)	(198 994)
Total equity attributable to shareholders of the Company		**1 502 729**	**1 432 058**	**1 174 436**
Non-controlling interest		7 630	9 701	-
Total equity		**1 510 359**	**1 441 759**	**1 174 436**
Non-current liabilities				
Long-term borrowings	23	778 057	432 352	456 769
Defined benefit pension plan	10	57 487	54 363	42 967
Other long-term liabilities		7 651	10 806	7 725
Deferred tax liabilities	12	40 632	36 931	24 618
Total non-current liabilities		**883 827**	**534 452**	**532 079**
Current liabilities				
Trade and other payables	24	100 752	120 468	141 864
Current income tax payable		2 292	3 019	3 878
Other taxes payable		8 235	9 654	5 302
Short-term borrowings	23	224 722	422 676	266 278
Advances received from customers		144 710	157 871	99 925
Dividends payable		15 717	5 882	1 147
Total current liabilities		**496 428**	**719 570**	**518 394**
Total liabilities		**1 380 255**	**1 254 022**	**1 050 473**
Total equity and liabilities		**2 890 614**	**2 695 781**	**2 224 909**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

’000 RUB	Note	2013	2012, restated	2011, restated
ASSETS				
Non-current assets				
Property, plant and equipment	13	32 935 497	30 668 347	28 191 191
Goodwill	15	2 001 817	2 001 817	1 600 942
Other intangible assets	14	1 650 791	2 152 136	1 500 042
Equity-accounted investees	16	1 310 087	1 544 616	1 499 266
Other investments and loans receivable	17	165 593	636 544	651 952
Other non-current assets		291 632	111 695	115 793
Total non-current assets		**38 355 417**	**37 115 155**	**33 559 186**
Current assets				
Inventories	18	27 304 381	23 430 958	17 208 103
Other investments and loans receivable	17	960 400	3 059 462	2 745 382
Trade and other receivables	19	11 362 599	10 947 395	10 828 365
Income tax receivable		160 417	816 248	183 244
Cash and cash equivalents	20	16 325 038	6 354 983	7 011 460
Other current assets		139 259	153 988	97 537
Total current assets		**56 252 094**	**44 763 034**	**38 074 091**
Total assets		**94 607 511**	**81 878 189**	**71 633 277**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

'000 RUB	Note	2013	2012, restated	2011, restated
EQUITY AND LIABILITIES	21			
Equity				
Share capital		596 313	596 313	596 313
Share premium		4 800 527	4 800 527	4 800 527
Retained earnings		44 108 735	38 402 572	32 447 505
Reserves		(400 106)	(237 525)	(32 165)
Cumulative currency translation difference		75 615	(92 932)	-
Total equity attributable to shareholders of the Company		**49 181 084**	**43 468 955**	**37 812 180**
Non-controlling interest		251 795	321 182	-
Total equity		**49 432 879**	**43 790 137**	**37 812 180**
Non-current liabilities				
Long-term borrowings	23	25 465 192	13 131 696	14 706 185
Defined benefit pension plan	10	1 881 504	1 651 156	1 383 349
Other long-term liabilities		250 398	328 245	248 702
Deferred tax liabilities	12	1 329 857	1 121 696	792 623
Total non-current liabilities		**28 926 951**	**16 232 793**	**17 130 859**
Current liabilities				
Trade and other payables	24	3 297 502	3 658 924	4 567 488
Current income tax payable		75 001	91 699	124 872
Other taxes payable		269 571	293 218	170 694
Short-term borrowings	23	7 354 964	12 837 822	8 573 091
Advances received from customers		4 736 233	4 794 953	3 217 159
Dividends payable		514 410	178 643	36 934
Total current liabilities		**16 247 681**	**21 855 259**	**16 690 238**
Total liabilities		**45 174 632**	**38 088 052**	**33 821 097**
Total equity and liabilities		**94 607 511**	**81 878 189**	**71 633 277**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

'000 USD	Attributable to equity holders of the Company							
	Share capital	**Share premium**	**Retained earnings**	**Reserves**	**Cumulative translation reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2012	**22 785**	**158 054**	**1 203 151**	**715**	**(198 994)**	**1 185 711**	**-**	**1 185 711**
Impact of changes in accounting policy	**-**	**-**	**(9 595)**	**(1 680)**	**-**	**(11 275)**	**-**	**(11 275)**
Restated balance at 1 January 2012	**22 785**	**158 054**	**1 193 556**	**(965)**	**(198 994)**	**1 174 436**	**-**	**1 174 436**
Total comprehensive income for the year								
Profit for the year	-	-	201 357	-	-	201 357	(645)	200 712
Other comprehensive income/(loss)								
Foreign currency translation difference	-	-	-	-	72 151	72 151	(996)	71 155
Net change in fair value of available-for-sale financial assets	-	-	-	215	-	215	-	215
Defined benefit plan actuarial gains (losses)	-	-	-	(6 776)	-	(6 776)	-	(6 776)
Income tax on other comprehensive income	-	-	-	(43)	-	(43)	-	(43)
Total other comprehensive income/(loss)	-	-	-	(6 604)	72 151	65 547	(996)	64 551
Total comprehensive income for the year	**-**	**-**	**201 357**	**(6 604)**	**72 151**	**266 904**	**(1 641)**	**265 263**
Dividends declared	-	-	(9 282)	-	-	(9 282)	-	(9 282)
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	11 342	11 342
Total transactions with owners	-	-	(9 282)	-	-	(9 282)	11 342	2 060
Restated balance at 31 December 2012	**22 785**	**158 054**	**1 385 631**	**(7 569)**	**(126 843)**	**1 432 058**	**9 701**	**1 441 759**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

’000 USD	Attributable to equity holders of the Company							
	Share capital	Share premium	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	**22 785**	**158 054**	**1 385 631**	**(7 569)**	**(126 843)**	**1 432 058**	**9 701**	**1 441 759**
Total comprehensive income for the year								
Profit for the year	-	-	280 471	-	-	280 471	(775)	279 696
Other comprehensive income/(loss)								
Foreign currency translation difference	-	-	-	-	(106 058)	(106 058)	(1 296)	(107 354)
Net change in fair value of available-for-sale financial assets	-	-	-	126	-	126	-	126
Defined benefit plan actuarial gains (losses)	-	-	-	(5 206)	-	(5 206)	-	(5 206)
Income tax on other comprehensive income	-	-	-	(25)	-	(25)	-	(25)
Total other comprehensive income/(loss)	-	-		(5 105)	(106 058)	(111 163)	(1 296)	(112 459)
Total comprehensive income for the year	**-**	**-**	**280 471**	**(5 105)**	**(106 058)**	**169 308**	**(2 071)**	**167 237**
Dividends declared	-	-	(98 637)	-	-	(98 637)	-	(98 637)
Total transactions with owners	-	-	(98 637)	-	-	(98 637)	-	(98 637)
Balance at 31 December 2013	**22 785**	**158 054**	**1 567 465**	**(12 674)**	**(232 901)**	**1 502 729**	**7 630**	**1 510 359**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

’000 RUB	Attributable to equity holders of the Company							
	Share capital	Share premium	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interest	Total equity
Balance at 1 January 2012 as previously reported	**596 313**	**4 800 527**	**32 756 442**	**21 916**	**-**	**38 175 198**	**-**	**38 175 198**
Impact of changes in accounting policy	**-**	**-**	**(308 937)**	**(54 081)**	**-**	**(363 018)**	**-**	**(363 018)**
Restated balance at 1 January 2012	**596 313**	**4 800 527**	**32 447 505**	**(32 165)**	**-**	**37 812 180**	**-**	**37 812 180**
Total comprehensive income for the year								
Profit for the year	-	-	6 260 830	-	-	6 260 830	(20 041)	6 240 789
Other comprehensive income/(loss)								
Foreign currency translation difference	-	-	-	-	(92 932)	(92 932)	(30 977)	(123 909)
Net change in fair value of available-for-sale financial assets	-	-	-	6 695	-	6 695	-	6 695
Defined benefit plan actuarial gains (losses)	-	-	-	(210 716)	-	(210 716)	-	(210 716)
Income tax on other comprehensive income	-	-	-	(1 339)	-	(1 339)	-	(1 339)
Total other comprehensive income/(loss)	-	-	-	(205 360)	(92 932)	(298 292)	(30 977)	(329 269)
Total comprehensive income for the year	**-**	**-**	**6 260 830**	**(205 360)**	**(92 932)**	**5 962 538**	**(51 018)**	**5 911 520**
Dividends declared	-	-	(305 763)	-	-	(305 763)	-	(305 763)
Acquisition of subsidiary with non-controlling interest	-	-	-	-	-	-	372 200	372 200
Total transactions with owners	-	-	(305 763)	-	-	(305 763)	372 200	66 437
Restated balance at 31 December 2012	**596 313**	**4 800 527**	**38 402 572**	**(237 525)**	**(92 932)**	**43 468 955**	**321 182**	**43 790 137**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

'000 RUB	Attributable to equity holders of the Company							
	Share capital	Share premium	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	**596 313**	**4 800 527**	**38 402 572**	**(237 525)**	**(92 932)**	**43 468 955**	**321 182**	**43 790 137**
Total comprehensive income for the year								
Profit for the year	-	-	8 932 474	-	-	8 932 474	(24 677)	8 907 797
Other comprehensive income/(loss)								
Foreign currency translation difference	-	-	-	-	168 547	168 547	(44 710)	123 837
Net change in fair value of available-for-sale financial assets	-	-	-	3 997	-	3 997	-	3 997
Defined benefit plan actuarial gains (losses)	-	-	-	(165 779)	-	(165 779)	-	(165 779)
Income tax on other comprehensive income	-	-	-	(799)	-	(799)	-	(799)
Total other comprehensive income/(loss)	-	-	-	(162 581)	168 547	5 966	(44 710)	(38 744)
Total comprehensive income for the year	**-**	**-**	**8 932 474**	**(162 581)**	**168 547**	**8 938 440**	**(69 387)**	**8 869 053**
Dividends declared	-	-	(3 226 311)	-	-	(3 226 311)	-	(3 226 311)
Total transactions with owners	-	-	(3 226 311)	-	-	(3 226 311)	-	(3 226 311)
Balance at 31 December 2013	**596 313**	**4 800 527**	**44 108 735**	**(400 106)**	**75 615**	**49 181 084**	**251 795**	**49 432 879**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

		2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Cash flows from operating activities					
Profit before income tax		347 822	265 790	11 077 495	8 264 255
Adjustments for:					
Depreciation and amortization	7(a)(c)	125 137	113 525	3 985 325	3 529 840
(Reversal)/impairment of accounts receivable		(7 104)	8 721	(233 043)	259 358
Impairment loss on intangible assets		18 839	34 338	600 000	1 067 667
Share of loss/(profit) in equity accounted investees		3 173	(2 845)	101 067	(88 465)
Interest income	8	(21 417)	(5 613)	(682 129)	(174 550)
Unrealized foreign currency translation loss / (gain)		34 199	(27 544)	249 221	(951 124)
Interest expenses	8	32 461	24 947	1 033 823	775 643
Provision for inventory obsolescence	7(a)	1 304	15 152	116 294	471 128
Loss / (gain) on disposal of property, plant and equipment	7(c)	944	(4)	30 082	(122)
Pension obligations	7(a)	5 481	4 978	174 559	154 777
Operating profit before changes in working capital and provisions		**540 839**	**431 445**	**16 452 694**	**13 308 407**
Change in trade receivables		8 449	(27 523)	227 026	(822 595)
Change in advances to suppliers		11 926	19 982	390 328	606 920
Change in inventories		(121 901)	(217 236)	(3 989 709)	(6 599 323)
Change in trade and other payables, advances received and other taxes payable		(16 996)	15 872	(553 177)	468 596
Change in other current assets		450	(1 859)	14 730	(56 433)
Change in other long-term liabilities		(2 378)	2 618	(77 845)	79 543
Cash flows from operations before income taxes and interest paid		**420 389**	**223 299**	**12 464 047**	**6 985 115**
Income taxes paid		(48 524)	(83 849)	(1 528 209)	(2 587 805)
Interest paid		(28 164)	(24 047)	(891 351)	(747 690)
Net cash from operating activities		**343 701**	**115 403**	**10 044 487**	**3 649 620**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

		2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Cash flows from investing activities					
Purchases of property, plant and equipment, including advances	13	(206 020)	(191 664)	(6 561 280)	(5 902 091)
Purchases of intangible assets	14	(794)	(64)	(25 275)	(2 004)
Proceeds from disposal of property, plant and equipment		11 588	5 981	368 988	179 220
Acquisition of subsidiaries net of cash acquired		-	(56 553)	-	(1 855 898)
Loans provided and acquisition of other investments		(3 770)	(113 523)	(120 057)	(3 529 777)
Proceeds from disposal of investments		58 467	87 428	1 862 057	2 718 400
Dividends from equity-accounted investees		5 809	-	185 020	-
Interest received		21 254	13 243	676 897	411 754
Net cash used in investing activities		**(113 466)**	**(255 152)**	**(3 613 650)**	**(7 980 396)**
Cash flows from financing activities					
Dividends paid to shareholders		(90 800)	(5 277)	(2 891 807)	(164 054)
Proceeds from borrowings		1 687 554	654 332	54 600 913	20 345 157
Repayment of borrowings		(1 522 366)	(519 517)	(47 712 330)	(16 153 944)
Net cash from financing activities		**74 388**	**129 538**	**3 996 776**	**4 027 159**
Effect of exchange rate changes on cash and cash equivalents		(15 065)	1 668	(457 558)	(352 860)
Net increase / (decrease) in cash and cash equivalents		**289 558**	**(8 543)**	**9 970 055**	**(656 477)**
Cash and cash equivalents at the beginning of the year	20	**209 233**	**217 776**	**6 354 983**	**7 011 460**
Cash and cash equivalents at the end of the year	20	**498 791**	**209 233**	**16 325 038**	**6 354 983**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 16 to 77.

1. Reporting entity

(a) Organisation and operations

Open Joint Stock Company “Corporation VSMPO-AVISMA” (“VSMPO-AVISMA” or the “Company”) and its subsidiaries (together referred to as the “Group”) comprise Russian open joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation and companies located abroad. The Group is one of the world’s leading titanium producers. The Company was originally established as a state owned enterprise in 1933 in the Moscow region and moved to Verkhnyaya Salda (Sverdlovsk region) in 1941. The Company was privatized in the form of a joint stock company in 1992 and registered as an open joint stock company “Verkhnesaldinskoye Metallurgicheskoe Proizvodstvennoe Obyedinenie” (“VSMPO”) in accordance with the Law on Joint Stock Companies of the Russian Federation.

In 1998 VSMPO acquired a controlling interest in open joint stock company “AVISMA” (“AVISMA”). In January 2005 VSMPO was renamed to open joint stock company “Corporation VSMPO-AVISMA”. In July 2005 following the acquisition of the outstanding non-controlling interest AVISMA was reorganized in the form of a merger into the Company.

The Company’s main operations are based on two production sites located in Verkhnaya Salda (Sverdlovsk region) and in Berezniki (Perm region) in the Russian Federation. The production site at Berezniki (referred to as AVISMA) produces titanium sponge and primary magnesium. Titanium sponge is then used in the production of titanium products at the Verkhnaya Salda site. The Company’s final products are titanium melted and mill products; as well as forgings and press forming for aerospace, industrial and other applications. It also produces ferrotitanium, aluminium extrusions and specialty steel mill products and forgings. These products are sold both in the Russian Federation and abroad.

VSMPO-AVISMA and its subsidiaries form a vertically integrated operation.

As at 31 December 2012 the Government of the Russian Federation was the ultimate controlling party of the Company and has a controlling interest via indirect ownership of over 50% of the shares issued. The Russian Technologies State Corporation was the Company’s intermediate controlling party.

As at 31 December 2013 the ultimate parent of the Group CJSC “Expotrade” controls 50% + 1 share of the Company. CJSC “Expotrade” is controlled by the management of the Group, in particular majority shares of CJSC “Expotrade” is controlled by Shelkov M. E., who is the ultimate beneficiary of the Group.

The Company’s registered address is: Parkovaya St. 1, Verkhnyaya Salda, Sverdlovsk Region, Russia, 624760.

(b) Business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. Basis of accounting

(a) Statement of compliance

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

3. Functional and presentation currency

The functional currency of the Company and the majority of its subsidiaries is considered to be the Russian Rouble (“RUB”). The functional currency of Cyprus based company “Limpieza” Ltd and Ukrainian based LLC “Demurinsky Ore-dressing Plant” is the Ukrainian Hryvna.

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated into presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

The accompanying consolidated financial statements have been prepared using the US Dollar (“USD”) and Russian Ruble (“RUB”) as the Group’s presentation currencies. All amounts in the consolidated financial statements are presented in thousands of USD and thousands of RUB, unless otherwise stated.

4. Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 14 – Intangible assets;
- Note 15 – Goodwill;
- Note 16 – Classification of joint arrangement;
- Note 25(c) – Credit risk.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 14 – Intangible assets;
- Note 15 – Goodwill;
- Note 29 – Contingencies.

Measurement of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using a valuation technique. Valuation techniques employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(b) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(c) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5. Segment reporting

The Group has one primary reportable segment: the manufacturing and sale of titanium products. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole. Sales are based on the geographical area in which the customer is located. Production assets and the majority of assets and liabilities of the Group are located in the Russian Federation.

Revenue	2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Russia	670 807	575 687	21 363 851	17 899 828
North America	380 151	346 596	12 107 037	10 776 699
Europe	406 692	338 845	12 952 326	10 535 721
Asia	98 190	95 174	3 127 151	2 959 237
Other CIS countries	56 400	58 624	1 796 241	1 822 825
	1 612 240	**1 414 926**	**51 346 606**	**43 994 310**

The Group has revenue from one customer amounting to 10% or more of total revenue in the amount of approximately USD 167 million or RUB 5 318 million (2012: USD 185 million or RUB 5 677 million). Furthermore, revenue to parties under Government control is disclosed in note 30.

Revenue from certain European customers has been pledged as security for certain bank loans, see note 23.

6. Revenue

	2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Revenue from sales of goods	1 579 877	1 381 623	50 315 897	42 958 796
Revenue from services provided	24 229	24 556	771 636	763 512
Other revenue	8 134	8 747	259 073	272 002
Total revenues	**1 612 240**	**1 414 926**	**51 346 606**	**43 994 310**

7. Income and expenses

(a) Cost of sales

	2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Materials and consumables used	(343 499)	(282 375)	(10 939 751)	(8 779 905)
Personnel cost	(194 296)	(175 750)	(6 187 936)	(5 464 584)
Utilities	(182 589)	(155 938)	(5 815 092)	(4 848 588)
Depreciation	(121 397)	(103 795)	(3 866 237)	(3 227 301)
Contributions to State pension fund	(60 423)	(54 270)	(1 924 351)	(1 687 426)
Repairs and maintenance	(22 188)	(13 649)	(706 643)	(424 377)
Pension cost	(5 481)	(4 978)	(174 559)	(154 777)
Provision for inventory obsolescence	(1 304)	(15 152)	(116 294)	(471 128)
Other costs	(21 094)	(18 765)	(597 049)	(583 474)
	(952 271)	**(824 672)**	**(30 327 912)**	**(25 641 560)**

(b) Distribution expenses

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Transport	(10 191)	(10 839)	(324 563)	(337 005)
Personnel cost	(7 057)	(6 948)	(224 751)	(216 026)
Materials	(7 002)	(7 170)	(223 000)	(222 934)
Customs	(5 414)	(6 749)	(172 425)	(209 848)
Certification expenses	(5 068)	(4 233)	(161 406)	(131 610)
Contributions to State pension fund	(910)	(835)	(28 982)	(25 977)
Advertising expenses	(757)	(1 375)	(24 109)	(42 748)
Other	(4 628)	(2 196)	(147 377)	(68 259)
	(41 027)	**(40 344)**	**(1 306 613)**	**(1 254 407)**

(c) General and administrative expenses

	2013 '000 USD	2012, restated '000 USD	2013 '000 RUB	2012, restated '000 RUB
Personnel cost	(91 061)	(86 466)	(2 900 109)	(2 688 481)
Insurance	(22 872)	(27 079)	(728 427)	(841 980)
Contributions to State pension fund	(21 752)	(19 830)	(692 757)	(616 589)
Charity expenses	(16 548)	(17 741)	(527 020)	(551 611)
Repair and maintenance	(14 971)	(8 125)	(476 796)	(252 644)
Taxes other than income tax	(12 873)	(17 223)	(409 979)	(535 525)
Consulting expenses	(5 725)	(5 510)	(182 330)	(171 324)
Materials	(3 754)	(11 900)	(119 557)	(370 015)
Depreciation	(3 604)	(9 575)	(114 766)	(297 711)
(Loss)/gain on disposal of property, plant and equipment	(944)	4	(30 082)	122
Other expenses	(36 134)	(50 217)	(1 150 781)	(1 561 351)
	(230 238)	**(253 662)**	**(7 332 604)**	**(7 887 109)**

8. Net finance (costs)/income

Finance income	2013 '000 USD	2012, restated '000 USD	2013 '000 RUB	2012, restated '000 RUB
Interest income	21 417	5 613	682 129	174 550
Foreign currency exchange gain, net	-	20 369	-	633 316
Finance income	**21 417**	**25 982**	**682 129**	**807 866**
Finance costs				
Interest expenses	(32 461)	(24 947)	(1 033 823)	(775 643)
Foreign currency exchange loss, net	(7 826)	-	(249 221)	-
Finance costs	**(40 287)**	**(24 947)**	**(1 283 044)**	**(775 643)**

9. Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares, thus diluted earning per share is equal to base earning per share.

'000 USD	**2013**	**2012, restated**
Weighted average number of shares for the year ended 31 December	11 529 538	11 529 538
Profit attributable to the equity holders of the Company ('000 USD)	280 471	201 357
Basic earnings per share (USD per 1 share)	24.326	17.464

'000 RUB	**2013**	**2012, restated**
Weighted average number of shares for the year ended 31 December	11 529 538	11 529 538
Profit attributable to the equity holders of the Company ('000 RUB)	8 932 474	6 260 830
Basic earnings per share (RUB per 1 share)	774.747	543.025

10. Employee benefits

The post employment and post retirement program of the Company consists of lump-sum benefits upon death and retirement, an occupational pension plan and additional support provided by the Company to its retired employees. The defined benefit plan is not funded and it does not have any pension assets. The pension benefits are dependent on participants' past service. The lump sum benefits upon retirement are based on the monthly base wage and are further dependent on a participant's past service at retirement.

The defined benefit pension plan provides an old age retirement pension and disability pension.

Such post employment, post retirement and pension plans are not tax deductible under Russian tax rules and the Company does not recognize any deferred tax assets related to Defined benefit obligation.

The last independent actuarial valuation of pension and other post employment and post retirement benefits for the purpose of IFRS was performed in March 2014 with a valuation date of 31 December 2013. For the purposes of that valuation, census data as at the valuation date was collected for the Company.

(a) Movement in net defined benefit (asset) liability

The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components.

	Defined benefit obligation	
'000 USD	**2013**	**2012, restated**
Balance at 1 January	**54 363**	**42 966**
Included in profit or loss		
Current service cost	1 748	1 419
Interest cost	3 733	3 559
	5 481	**4 978**
Included in OCI		
Remeasurements loss :		
- Actuarial loss	5 206	6 776
	5 206	**6 776**
Other		
Benefits paid	(3 454)	(3 142)
Cumulative translation adjustment	(4 109)	2 785
	(7 563)	**(357)**
Balance at 31 December	**57 487**	**54 363**

	Defined benefit obligation	
’000 RUB	**2013**	**2012, restated**
Balance at 1 January	**1 651 156**	**1 383 349**
Included in profit or loss		
Current service cost	55 675	44 109
Interest cost	118 884	110 668
	174 559	**154 777**
Included in OCI		
Remeasurements loss:		
- Actuarial loss	165 779	210 716
	165 779	**210 716**
Other		
Benefits paid	(109 990)	(97 686)
	(109 990)	**(97 686)**
Balance at 31 December	**1 881 504**	**1 651 156**

(b) Defined benefit obligation

(i) Actuarial assumptions

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

	2013	**2012**
Discount rate	7,50%	7,20%
Future salary growth	5,00%	5,00%
Future pension growth	5,00%	5,00%
Staff turnover	up to age 49: 5% p.a. from age 50: 0% p.a.	up to age 49: 5% p.a. from age 50: 0% p.a.
Mortality	Sverdlovsk region population 2012	Sverdlovsk region population 2010

Assumptions regarding future mortality have been based on published statistics and mortality tables.

(ii) Sensitivity analysis

31 December 2013	**Defined benefit obligation**	
’000 USD	**Increase**	**Decrease**
Discount rate (1% movement)	(4 638)	5 599
Future salary growth (1% movement)	5 687	(4 780)

31 December 2013	**Defined benefit obligation**	
’000 RUB	**Increase**	**Decrease**
Discount rate (1% movement)	(151 797)	183 264
Future salary growth (1% movement)	186 125	(156 446)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above.

11. Employee benefit expenses

	2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Payroll and Contributions to State pension fund	(375 499)	(344 099)	(11 958 886)	(10 699 083)
Pension cost	(5 481)	(4 978)	(174 559)	(154 777)
	(380 980)	**(349 077)**	**(12 133 445)**	**(10 853 860)**

12. Income taxes

The Group’s applicable tax rate is the income tax rate of 20% (2012: 20%) for Russian companies.

(a) Amounts recognised in profit or loss

	2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Current tax expense				
Current year	(62 698)	(61 321)	(1 996 797)	(1 908 235)
(Under)/over provided in prior years	699	(544)	22 236	(16 896)
	(61 999)	**(61 865)**	**(1 974 561)**	**(1 925 131)**
Deferred tax expense				
Origination and reversal of temporary differences	(6 127)	(3 213)	(195 137)	(98 335)
	(68 126)	**(65 078)**	**(2 169 698)**	**(2 023 466)**

(b) Amounts recognised in other comprehensive income

’000 USD	**2013**			**2012**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	126	(25)	101	215	(43)	172
Remeasurement of defined benefit liability/asset	(5 206)	-	(5 206)	(6 776)	-	(6 776)
	(5 080)	**(25)**	**(5 105)**	**(6 561)**	**(43)**	**(6 604)**

’000 RUB	**2013**			**2012**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	3 997	(799)	3 198	6 695	(1 339)	5 356
Remeasurement of defined benefit liability/asset	(165 779)	-	(165 779)	(210 716)	-	(210 716)
	(161 782)	**(799)**	**(162 581)**	**(204 021)**	**(1 339)**	**(205 360)**

Reconciliation of effective tax rate:

	2013 ’000 USD	2012, restated ’000 USD	2013 ’000 RUB	2012, restated ’000 RUB
Profit before income tax	347 822	265 790	11 077 495	8 264 255
Income tax at applicable tax rate	(69 565)	(53 157)	(2 215 499)	(1 652 850)
Effect of income taxed at different rates	6 068	(1 719)	193 293	(53 054)
Non-deductible expenses	(5 328)	(9 658)	(169 728)	(300 666)
(Under)/over provided in prior years	699	(544)	22 236	(16 896)
	(68 126)	**(65 078)**	**(2 169 698)**	**(2 023 466)**

(c) Movement in deferred tax balances

’000 USD	1 January 2013	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2013
Property, plant and equipment	(50 958)	(5 620)	-	3 550	(53 028)
Intangible assets	(2 513)	3 154	-	(247)	394
Inventories	14 525	(940)	-	(889)	12 696
Trade and other receivables	1 528	929	-	(102)	2 355
Trade and other payables	6 676	335	-	(445)	6 566
Investments	(407)	(35)	(25)	8	(459)
Tax loss carry-forwards	2 568	637	-	(137)	3 068
Borrowings	(1 684)	206	-	115	(1 363)
Other long-term liabilities	215	(13)	-	(202)	-
Unremitted earnings of subsidiaries	(1 205)	1 149	-	56	-
Other items	(5 676)	(5 929)	-	744	(10 861)
Total deferred tax liability	**(36 931)**	**(6 127)**	**(25)**	**2 451**	**(40 632)**

’000 USD	1 January 2012	Recognized in profit or loss, restated	Acquired in business combinations	Recognized in other comprehensive income, restated	Translation difference	31 December 2012
Property, plant and equipment	(37 920)	(10 279)	(467)	-	(2 292)	(50 958)
Intangible assets	-	4 466	(7 086)	-	107	(2 513)
Inventories	14 590	(932)	-	-	867	14 525
Trade and other receivables	1 809	219	-	-	(500)	1 528
Trade and other payables	4 195	1 720	-	-	761	6 676
Investments	28	(320)	-	(43)	(72)	(407)
Tax loss carry-forwards	1 740	803	-	-	25	2 568
Borrowings	(1 212)	(390)	-	-	(82)	(1 684)
Other long-term liabilities	31	21	-	-	163	215
Unremitted earnings of subsidiaries	-	(1 177)	-	-	(28)	(1 205)
Other items	(7 879)	2 656	-	-	(453)	(5 676)
Total deferred tax liability	**(24 618)**	**(3 213)**	**(7 553)**	**(43)**	**(1 504)**	**(36 931)**

’000 RUB	1 January 2013	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	31 December 2013
Property, plant and equipment	(1 547 746)	(187 142)	-	(683)	(1 735 571)
Intangible assets	(76 317)	100 768	-	(11 542)	12 909
Inventories	441 153	(25 621)	-	-	415 532
Trade and other receivables	46 413	30 671	-	-	77 084
Trade and other payables	202 775	12 136	-	-	214 911
Investments	(12 359)	(1 869)	(799)	-	(15 027)
Tax loss carry-forwards	77 999	22 404	-	-	100 403
Borrowings	(51 155)	6 561	-	-	(44 594)
Other long-term liabilities	6 532	(6 532)	-	-	-
Unremitted earnings of subsidiaries	(36 603)	36 603	-	-	-
Other items	(172 388)	(183 116)	-	-	(355 504)
Total deferred tax liability	**(1 121 696)**	**(195 137)**	**(799)**	**(12 225)**	**(1 329 857)**

'000 RUB	**1 January 2012**	**Recognized in profit or loss, restated**	**Acquired in business combinations**	**Recognized in other comprehensive income, restated**	**Translation difference**	**31 December 2012**
Property, plant and equipment	(1 220 871)	(312 656)	(15 339)	-	1 120	(1 547 746)
Intangible assets	-	138 863	(232 540)	-	17 360	(76 317)
Inventories	469 751	(28 598)	-	-	-	441 153
Trade and other receivables	58 259	(11 846)	-	-	-	46 413
Trade and other payables	135 051	67 724	-	-	-	202 775
Investments	903	(11 923)	-	(1 339)	-	(12 359)
Tax loss carry-forwards	56 033	21 966	-	-	-	77 999
Borrowings	(39 022)	(12 133)	-	-	-	(51 155)
Other long-term liabilities	1 005	5 527	-	-	-	6 532
Unremitted earnings of subsidiaries	-	(36 603)	-	-	-	(36 603)
Other items	(253 732)	81 344	-	-	-	(172 388)
Total deferred tax liability	**(792 623)**	**(98 335)**	**(247 879)**	**(1 339)**	**18 480**	**(1 121 696)**

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

Year of expiration	**Tax base, 2013 '000 USD**	**Tax base, 2013 '000 RUB**	**Tax base, 2012 '000 USD**	**Tax base, 2012 '000 RUB**
2018	2 663	87 148	2 856	86 751
2019	1 853	60 636	328	9 968
2020	1 172	38 373	1 263	38 373
2021	2 896	94 768	3 120	94 768
2022	2 370	77 578	2 554	77 578
2023	299	9 779	-	-
2028	1 234	40 420	1 306	39 664
Total	**12 487**	**408 702**	**11 427**	**347 102**

As at 31 December 2013 a deferred tax liability for temporary differences (before calculating tax effect) of USD 274 811 thousand or RUB 8 994 349 thousand (2012: USD 255 340 thousand or RUB 7 775 370 thousand) related to investments in subsidiaries was not recognized because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

13. Property, plant and equipment

’000 USD	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construc-tion	Total
Cost							
Balance at 1 January 2012	336 194	812 537	25 167	67 895	87 370	274 004	1 603 167
Acquisitions through business combinations	2 764	3 646	595	-	84	777	7 866
Additions	5 247	45 483	556	2 059	14 520	125 097	192 962
Transfers	1 183	93 199	2 118	4 078	2 354	(102 932)	-
Disposals	(2 716)	(9 250)	(771)	(186)	(10 208)	(3 137)	(26 268)
Translation to presentation currency	19 764	50 071	1 529	4 598	5 117	16 720	97 799
Balance at 31 December 2012	**362 436**	**995 686**	**29 194**	**78 444**	**99 237**	**310 529**	**1 875 526**
Accumulated depreciation							
Balance at 1 January 2012	(147 767)	(485 835)	(13 586)	(30 423)	(49 947)	-	(727 558)
Depreciation charge	(13 727)	(75 990)	(2 934)	(3 330)	(17 389)	-	(113 370)
Disposals	220	9 109	746	118	10 098	-	20 291
Translation to presentation currency	(9 127)	(30 325)	(861)	(1 902)	(2 940)	-	(45 155)
Balance at 31 December 2012	**(170 401)**	**(583 041)**	**(16 635)**	**(35 537)**	**(60 178)**	**-**	**(865 792)**
Net book value							
Balance at 1 January 2012	**188 427**	**326 702**	**11 581**	**37 472**	**37 423**	**274 004**	**875 609**
Balance at 31 December 2012	**192 035**	**412 645**	**12 559**	**42 907**	**39 059**	**310 529**	**1 009 734**
Cost							
Balance at 1 January 2013	362 436	995 686	29 194	78 444	99 237	310 529	1 875 526
Additions	2 013	52 824	426	2 109	2 814	148 103	208 289
Transfers	11 862	83 589	3 966	1 013	2 680	(103 110)	-
Disposals	(1 684)	(23 433)	(1 580)	(257)	(14 316)	(5 690)	(46 960)
Translation to presentation currency	(26 216)	(74 471)	(2 141)	(5 723)	(6 897)	(23 399)	(138 847)
Balance at 31 December 2013	**348 411**	**1 034 195**	**29 865**	**75 586**	**83 518**	**326 433**	**1 898 008**
Accumulated depreciation							
Balance at 1 January 2013	(170 401)	(583 041)	(16 635)	(35 537)	(60 178)	-	(865 792)
Depreciation charge	(11 100)	(91 089)	(3 516)	(3 873)	(15 423)	-	(125 001)
Disposals	267	19 146	1 514	61	13 440	-	34 428
Translation to presentation currency	12 543	43 824	1 247	2 661	4 385	-	64 660
Balance at 31 December 2013	**(168 691)**	**(611 160)**	**(17 390)**	**(36 688)**	**(57 776)**	**-**	**(891 705)**
Net book value							
Balance at 1 January 2013	**192 035**	**412 645**	**12 559**	**42 907**	**39 059**	**310 529**	**1 009 734**
Balance at 31 December 2013	**179 720**	**423 035**	**12 475**	**38 898**	**25 742**	**326 433**	**1 006 303**

'000 RUB	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construc-tion	Total
Cost							
Balance at 1 January 2012	**10 824 125**	**26 160 502**	**810 259**	**2 185 951**	**2 812 983**	**8 821 848**	**51 615 668**
Acquisitions through business combinations	90 711	119 666	19 514	-	2 748	25 506	258 145
Additions	147 869	1 371 018	16 532	75 580	447 840	3 883 612	5 942 451
Transfers	36 782	2 897 843	65 858	126 805	73 196	(3 200 484)	-
Disposals	(84 453)	(297 606)	(23 979)	(5 777)	(322 385)	(97 533)	(831 733)
Translation to presentation currency	(6 865)	(9 763)	(1 482)	-	(308)	(1 280)	(19 698)
Balance at 31 December 2012	**11 008 169**	**30 241 660**	**886 702**	**2 382 559**	**3 014 074**	**9 431 669**	**56 964 833**
Accumulated depreciation							
Balance at 1 January 2012	**(4 757 500)**	**(15 641 941)**	**(437 387)**	**(979 481)**	**(1 608 168)**	**-**	**(23 424 477)**
Depreciation charge	(426 800)	(2 362 761)	(91 236)	(103 531)	(540 684)	-	(3 525 012)
Disposals	8 557	296 157	23 317	3 663	320 941	-	652 635
Translation to presentation currency	198	61	54		55	-	368
Balance at 31 December 2012	**(5 175 545)**	**(17 708 484)**	**(505 252)**	**(1 079 349)**	**(1 827 856)**	**-**	**(26 296 486)**
Net book value							
Balance at 1 January 2012	**6 066 625**	**10 518 561**	**372 872**	**1 206 470**	**1 204 815**	**8 821 848**	**28 191 191**
Balance at 31 December 2012	**5 832 624**	**12 533 176**	**381 450**	**1 303 210**	**1 186 218**	**9 431 669**	**30 668 347**
Cost							
Balance at 1 January 2013	11 008 169	30 241 660	886 702	2 382 559	3 014 074	9 431 669	56 964 833
Additions	64 095	1 682 345	13 559	67 174	89 611	4 716 778	6 633 562
Transfers	377 776	2 662 171	126 298	32 270	85 343	(3 283 858)	-
Disposals	(53 624)	(746 281)	(50 322)	(8 140)	(455 930)	(181 205)	(1 495 502)
Translation to presentation currency	6 784	8 478	1 206	-	434	496	17 398
Balance at 31 December 2013	**11 403 200**	**33 848 373**	**977 443**	**2 473 863**	**2 733 532**	**10 683 880**	**62 120 291**
Accumulated depreciation							
Balance at 1 January 2013	(5 175 545)	(17 708 484)	(505 252)	(1 079 349)	(1 827 856)	-	(26 296 486)
Depreciation charge	(353 511)	(2 901 035)	(111 976)	(123 333)	(491 148)	-	(3 981 003)
Disposals	8 507	609 753	48 212	1 919	428 041	-	1 096 432
Translation to presentation currency	(565)	(2 998)	(155)	-	(19)	-	(3 737)
Balance at 31 December 2013	**(5 521 114)**	**(20 002 764)**	**(569 171)**	**(1 200 763)**	**(1 890 982)**	**-**	**(29 184 794)**
Net book value							
Balance at 1 January 2013	**5 832 624**	**12 533 176**	**381 450**	**1 303 210**	**1 186218**	**9 431 669**	**30 668 347**
Balance at 31 December 2013	**5 882 086**	**13 845 609**	**408 272**	**1 273 100**	**842 550**	**10 683 880**	**32 935 497**

Depreciation expense of USD 121 397 thousand or RUB 3 866 237 thousand (2012: USD 103 795 thousand or RUB 3 227 301 thousand) has been charged to cost of goods sold and USD 3 604 thousand or RUB 114 766 thousand (2012: USD 9 575 thousand or RUB 297 711 thousand) to administrative expenses.

Advances given to suppliers for capital construction in the amount of USD 51 183 thousand or RUB 1 675 184 thousand (31 December 2012: USD 28 971 thousand or RUB 879 927 thousand) are included in the balance of assets under construction.

In 2013 capitalized borrowing costs related to the construction of new property, plant and equipment amounted to USD 2 269 thousand or RUB 72 282 thousand (2012: USD 1 298 thousand or RUB 40 360 thousand) with an average capitalization rate of 3% (2012: 3%).

Properties with a net book value of USD 10 244 thousand or RUB 335 277 thousand (2012: USD 9 149 thousand or RUB 277 880 thousand) are pledged to secure bank loans, see note 23.

14. Intangible assets

’000 USD	**Mining rights**	**Other**	**Total**
Cost			
Balance at 1 January 2012	45 761	2 259	48 020
Acquisitions	-	64	64
Acquisitions through business combinations	44 380	-	44 380
Disposal	-	(704)	(704)
Effect of the movement of exchange rates	2 734	(12)	2 722
Balance at 31 December 2012	**92 875**	**1 607**	**94 482**
Accumulated amortization and impairment losses			
Balance at 1 January 2012	-	(1 429)	(1 429)
Amortization for the year	-	(155)	(155)
Impairment losses	(22 330)	-	(22 330)
Disposals	-	805	805
Effect of the movement of exchange rates	(530)	15	(515)
Balance at 31 December 2012	**(22 860)**	**(764)**	**(23 624)**
Carrying amounts			
As at 1 January 2012	**45 761**	**830**	**46 591**
As at 31 December 2012	**70 015**	**843**	**70 858**
Cost			
Balance at 1 January 2013	92 875	1 607	94 482
Acquisitions	703	91	794
Effect of the movement of exchange rates	(3 493)	(11)	(3 504)
Balance at 31 December 2013	**90 085**	**1 687**	**91 772**
Accumulated amortization and impairment losses			
Balance at 1 January 2013	(22 860)	(764)	(23 624)
Amortization for the year	-	(136)	(136)
Impairment losses	(18 839)	-	(18 839)
Effect of the movement of exchange rates	1 279	(14)	1 265
Balance at 31 December 2013	**(40 420)**	**(914)**	**(41 334)**
Carrying amounts			
As at 1 January 2013	**70 015**	**843**	**70 858**
As at 31 December 2013	**49 665**	**773**	**50 438**

’000 RUB

	Mining rights	Other	Total
Cost			
Balance at 1 January 2012	1 473 317	71 604	1 544 921
Acquisitions	-	2 004	2 004
Acquisitions through business combinations	1 456 420	-	1 456 420
Disposal	-	(23 330)	(23 330)
Effect of the movement of exchange rates	(108 883)	-	(108 883)
Balance at 31 December 2012	**2 820 854**	**50 278**	**2 871 132**
Accumulated amortization and impairment losses			
Balance at 1 January 2012	-	(44 879)	(44 879)
Amortization for the year	-	(4 828)	(4 828)
Impairment losses	(694 317)	-	(694 317)
Disposals	-	25 028	25 028
Balance at 31 December 2012	**(694 317)**	**(24 679)**	**(718 996)**
Carrying amounts			
As at 1 January 2012	**1 473 317**	**26 725**	**1 500 042**
As at 31 December 2012	**2 126 537**	**25 599**	**2 152 136**
Cost			
Balance at 1 January 2013	2 820 854	50 278	2 871 132
Acquisitions	22 404	2 871	25 275
Effect of the movement of exchange rates	77 702	-	77 702
Balance at 31 December 2013	**2 920 960**	**53 149**	**2 974 109**
Accumulated amortization and impairment losses			
Balance at 1 January 2013	(694 317)	(24 679)	(718 996)
Amortization for the year	-	(4 322)	(4 322)
Impairment losses	(600 000)	-	(600 000)
Balance at 31 December 2013	**(1 294 317)**	**(29 001)**	**(1 323 318)**
Carrying amounts			
As at 1 January 2013	**2 126 537**	**25 599**	**2 152 136**
As at 31 December 2013	**1 626 643**	**24 148**	**1 650 791**

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

Amortization expense for other intangible assets of USD 136 thousand or RUB 4 322 thousand (2012: USD 155 thousand or RUB 4 828 thousand) has been charged to administrative expenses.

(a) Tsentralnoe deposit mining rights

In July 2011 the Group acquired mining rights for the development of the Northern part of the Eastern field of the Tsentralnoe deposit located in the Tambov region of Russia for the amount of USD 50 134 thousand or RUB 1 473 317 thousand. Impairment loss of USD 22 330 thousand or RUB 694 317 thousand was recognized in 2012. The impairment has occurred due to the overall decrease in prices for titanium raw materials, the lower than expected quality of titanium sands of the deposit as well as delays in realization of the project.

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

Development of the deposit will require additional investment and the Group plans to commence extraction not earlier than 2016. The Group has extended the current mining rights for the Northern part of the Eastern field of the Tsentralnoe deposit until 2029.

Based on last year’s impairment test and recognition of impairment management has not identified additional significant impairment indicators during 2013.

(b) Volchanskoe deposit mining rights

In July 2012 the Group acquired 75% share in Limpieza Group, which holds a license on extraction of ilmenite-zircon sands in Volchanskoe field Dnepropetrovsk region of Ukraine. The total amount of the field’s reserves are assessed at the level of 5 million tonnes of ilmenite, rutil, zircon and other minerals. At the time of purchase the Group estimated fair value of the rights in the amount of USD 44 380 thousand or RUB 1 456 420 thousand.

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

The Group performed an assessment of the recoverable amount of the mining rights for development of the Volchanskoe deposit in the Dnepropetrovsk region. The recoverable amount was determined based on value in use calculations as determined by discounting the future cash flows generated from the continuing use of the assets. The following key assumptions were used in determining the recoverable amount:

- Cash flows were projected based on management plans to start production of ilmenite concentrate in 2016 and reach planned capacity of 50 thousand tons in 2018. The production will remain stable for the rest of the projection period till 2033 when management expects to complete exploration of the deposit.
- A pre-tax discount rate of 22.1% was applied in determining the recoverable amount. The discount rate was estimated based on an industry weighted average cost of capital, which applied a possible long-term debt leveraging of 3% at a market borrowing rate of 10.3%.

The carrying amount of the mining rights was determined to be higher than its recoverable amount and an impairment loss of USD 18 839 thousand or RUB 600 000 thousand was recognised in 2013. The impairment loss occurred due to the delay in project realisation and increase of discount rate due to increased country risks.

The management has performed sensitivity analysis and identified that a decrease in sales prices of 10% and increase in discount rate of 1%-point lead to additional impairment in amount of approximately USD 7 million or RUB 230 million. An increase in sales prices of 10% and decrease in discount rate of 1%-point lead to a decrease in impairment in amount of approximately USD 9 million or RUB 300 million.

15. Goodwill

	Limpieza and DGOK	AVISMA	Total
	’000 USD	’000 USD	’000 USD
Balance as at 1 January 2012	**-**	**49 725**	**49 725**
Acquired as a result of business combination	23 592	-	23 592
Goodwill impairment	(12 008)	-	(12 008)
Cumulative translation adjustment	1 615	2 984	4 599
Balance as at 31 December 2012	**13 199**	**52 709**	**65 908**
Balance as at 1 January 2013	**13 199**	**52 709**	**65 908**
Cumulative translation adjustment	(951)	(3 794)	(4 745)
Balance as at 31 December 2013	**12 248**	**48 915**	**61 163**

	Limpieza and DGOK	AVISMA	Total
	’000 RUB	’000 RUB	’000 RUB
Balance as at 1 January 2012	**-**	**1 600 942**	**1 600 942**
Acquired as a result of business combination	774 225	-	774 225
Goodwill impairment	(373 350)	-	(373 350)
Balance as at 31 December 2012	**400 875**	**1 600 942**	**2 001 817**
Balance as at 1 January 2013	**400 875**	**1 600 942**	**2 001 817**
Goodwill impairment	-	-	-
Balance as at 31 December 2013	**400 875**	**1 600 942**	**2 001 817**

Impairment testing of goodwill

(a) Goodwill on acquisition of AVISMA and Limpieza Group

Goodwill was originally determined as a result of VSMPO’s acquisition of AVISMA.VSMPO’s main objectives when acquiring AVISMA were to further expand vertically as well as to ensure full control over its main provider of raw materials. The goodwill relates not only to the specifics of the business of AVISMA but largely to the synergies VSMPO, and the Group as a whole, would benefit from as a result of the business combination. Correspondingly, the goodwill is allocated to VSMPO-AVISMA, as this represents the lowest level within the Group at which the goodwill is monitored by management.

Goodwill related to acquisition of Limpieza Group was initially recognized in July 2012. The goodwill relates to the developed production technology of DGOK, high quality of the ilmenite-zircon sands extracted by DGOK. The Group as a whole is expected to benefit from this vertical integration and the synergies of the business combination. Correspondingly, the goodwill is allocated to VSMPO-AVISMA, as this represents the lowest level within the Group at which the goodwill is monitored by management.

The recoverable amount was determined based on value in use calculations as determined by discounting the future cash flows generated from the continuing use of the plants.

The following key assumptions were used in determining the recoverable amount:

- Cash flows were projected based on actual operating results for 2012-2013 and budgets for 2014-2018. This period represents the period in which management expects to gradually achieve its target levels of output of 35 thousand tons from actual levels in 2013 of approximately 29.3 thousand tons (2012: 30 thousand tons). The projections of target production levels are supported with past experience of the Group.
- A pre-tax discount rate of 21.35% was applied in determining the recoverable amount. The discount rate was estimated based on an industry weighted average cost of capital, which applied a possible long-term debt leveraging of 33% at a market borrowing rate of 6.4%.
- A terminal rate of 2.3% was considered in estimating the terminal value.

The values assigned to the key assumptions represent management’s assessment of future trends in the industry and are based on both external sources and internal sources.

No impairment loss was recognised in respect of goodwill. Management considers that based on their assessment of the key fundamentals of the industry in which the Group operates, the estimates are not particularly sensitive to any of the individual key assumptions to result in a reasonably possible reduction of the recoverable amount below its carrying amount.

16. Equity-accounted investees

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

		2013			**2012**		
	Country	**Carrying value ’000 USD**	**Carrying value ’000 RUB**	**Interest**	**Carrying value ’000 USD**	**Carrying value ’000 RUB**	**Interest**
“Uniti” LLC	USA	16 046	525 182	50%	25 255	767 063	50%
“UralRedMet” OJSC	Russia	23 982	784 905	25%	25 600	777 553	25%
		40 028	**1 310 087**		**50 855**	**1 544 616**	

(a) Joint venture

“Uniti” LLC

On 29 April 2003, the Group entered into an joint arrangement with Allegheny Technologies Incorporated (“ATI”) to form a joint venture to engage in the marketing and sale of titanium products and conversion services. The joint venture is organized in the form of “Uniti” LLC (“Uniti”), a company registered in the United States of America. The Group’s share in net assets 2013 – 44,5% (2012 – 41,5%).

In accordance with the agreement, income or losses are allocated based on the percentage interest in the goods and services provided by the partners that were included in Uniti’s sales. Percentage interest is defined as the ratio of each partner’s transfer price charged for all goods and services included in Uniti’s cost of goods sold for any given period. The Group was allocated 31.3% and 38.6% of the net loss (income) of Uniti in 2013 and 2012, respectively.

The following is summarised financial information of "Uniti" as at and for the years ended 31 December 2013 and 2012:

	2013 '000 USD	2012 '000 USD	2013 '000 RUB	2012 '000 RUB
Non-current assets	121	166	3 960	5 042
Current assets	44 842	67 294	1 467 054	2 043 900
Current liabilities	(8 951)	(6 595)	(292 370)	(200 308)
Net assets (100%)	**36 012**	**60 865**	**1 178 644**	**1 848 634**
Group's share of net assets	16 025	25 259	524 497	767 183
Revenue	149 022	152 304	4 746 053	4 735 588
(Loss) / profit and total comprehensive income for the year (100%)	**(10 854)**	**5 905**	**(345 678)**	**183 604**
Group's share of (loss) / profit for the year	(3 400)	2 279	(108 283)	70 871
Dividends received by the Group	**(5 809)**	**-**	**(185 020)**	**-**

The Group had sales to "Uniti" LLC of USD 43 751 thousand or RUB 1 393 382 thousand and USD 41 237 thousand or RUB 1 284 980 thousand during 2013 and 2012, respectively.

(b) Associates

"UralRedMet" OJSC

In September 2010 VSMPO-AVISMA acquired 18.98% of shares in the company "UralRedMet" OJSC, which is one of the key suppliers of alloys to the Group. In April 2011 the Group acquired a further 6.03% of shares in "UralRedMet" OJSC for USD 6 168 thousand or RUB 181 261 thousand. After this acquisition the Group's share in "UralRedMet" increased to 25% + 1 share and resulted in obtaining significant influence over the operating and financial activities of the company. Investments in "UralRedMet" were made by the Group to secure supplies of one of the key raw materials used in production of titanium products.

The following is summarized financial information of "UralRedMet" OJSC as at and for the year ended 31 December 2013 and 31 December 2012:

	2013 '000 USD	2012 '000 USD	2013 '000 RUB	2012 '000 RUB
Revenue	82 390	97 127	2 623 944	3 019 973
Profit for the year (100%)	**923**	**2 253**	**29 397**	**70 042**
Group's share of profit for the year	231	563	7 352	17 510
Non-current assets	50 023	56 692	1 637 204	1 721 902
Current assets	26 926	32 005	881 280	972 074
Non-current liabilities	(7 566)	(8 816)	(247 619)	(267 758)
Current liabilities	(5 017)	(11 489)	(164 213)	(348 978)
Net assets (100%)	**64 366**	**68 392**	**2 106 652**	**2 077 240**
Group's share of net assets (25%)	16 092	17 098	526 663	519 310

Purchases of the Group for the year ended 31 December 2013 were USD 74 857 thousand or RUB 2 384 056 thousand (2012: USD 88 699 thousand or RUB 2 757 910 thousand).

(c) Joint operation

The Group is a 50% partner in "Ural Boeing Manufacturing" CJSC (located in V.Salda, Russia) a joint arrangement formed with the Boeing Company to perform titanium forgings machining services. “Ural Boeing Manufacturing” CJSC is separated from the parties in a legal entity. The activity of the arrangement is designed to provide the parties with substantially all output of the joint arrangement. In 2013 the Group classified the joint arrangement as a joint operation and consolidated 50% of assets and liabilities of the arrangement. Related changes in accounting policies are disclosed in Note 33.

17. Other investments and loans receivable

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Non-current				
Loans receivable	2 698	2 073	88 311	62 971
Bank deposits	-	16 651	-	505 746
Investments available-for-sale measured at fair value	1 507	1 492	49 307	45 311
Other investments	855	741	27 975	22 516
	5 060	**20 957**	**165 593**	**636 544**
Current				
Loans receivable	21 546	50 726	705 188	1 540 653
Bank deposits	140	41 863	4 572	1 271 501
Investments held-to-maturity	7 658	8 142	250 640	247 308
	29 344	**100 731**	**960 400**	**3 059 462**

In 2013 the Group reclassified loans receivable from related party in the amount of USD 24 443 thousand or RUB 800 000 thousand to other receivables from related party. Balance is expected to be settled in 2014, no interest will be charged on the outstanding balance.

18. Inventories

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Raw materials and consumables	316 782	290 254	10 368 008	8 815 784
Work in progress	241 294	239 719	7 897 368	7 280 900
Finished goods and goods for resale	276 175	241 475	9 039 005	7 334 274
	834 251	**771 448**	**27 304 381**	**23 430 958**

Inventories are shown net of provision of USD 32 537 thousand or RUB 1 064 918 thousand (31 December 2012: USD 31 233 thousand or RUB 948 624 thousand).

At 31 December 2013 inventory with a net book value of USD 57 748 thousand or RUB 1 890 046 thousand (31 December 2012: USD 144 747 thousand or RUB 4 396 364 thousand) had been pledged as security for certain bank loans of the Group, see note 23.

19. Trade and other receivables

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Trade accounts receivable	215 487	200 284	7 052 726	6 083 155
Other accounts receivable	61 480	38 615	2 012 192	1 172 847
Less: provision	(24 517)	(34 992)	(802 412)	(1 062 801)
	252 450	**203 907**	**8 262 506**	**6 193 201**
Advances to suppliers	39 495	55 410	1 292 624	1 682 952
Less: provision	(1 685)	(1 800)	(55 148)	(54 664)
Value-added tax recoverable	28 720	30 043	939 977	912 463
Other taxes receivable	28 190	72 876	922 640	2 213 443
	347 170	**360 436**	**11 362 599**	**10 947 395**

At 31 December 2013 receivables with a carrying amount of USD 58 787 thousand or RUB 1 924 042 thousand (2012: USD 75 501 thousand or RUB 2 293 167 thousand) had been pledged as security for certain bank loans of the Group, see note 23.

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

20. Cash and cash equivalents

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Petty cash	89	129	2 903	3 904
Bank balances	43 232	171 574	1 414 957	5 211 147
Call deposits	454 711	37 286	14 882 340	1 132 473
Other cash and cash equivalents	759	244	24 838	7 459
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**498 791**	**209 233**	**16 325 038**	**6 354 983**

Short-term bank deposits were classified as cash equivalents based on their maturities not exceeding 3 months from the date of origination.

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Cash on hand and bank balances denominated in RUB	10 072	3 119	329 635	94 718
Cash on hand and bank balances denominated in USD	28 689	163 096	938 954	4 953 647
Cash on hand and bank balances denominated in other currencies	4 560	5 488	149 271	166 686
Short-term bank deposits, denominated in RUB	32 425	26 112	1 061 255	793 093
Short-term bank deposits, denominated in USD	421 800	10 520	13 805 165	319 549
Short-term bank deposits, denominated in other currencies	486	654	15 920	19 831

Other cash equivalents	759	244	24 838	7 459
	498 791	**209 233**	**16 325 038**	**6 354 983**

The fair value of cash and cash equivalents is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of the Group’s cash and cash equivalents is as follows:

	2013 ’000 USD	**2012 ’000 USD**	**2013 ’000 RUB**	**2012 ’000 RUB**
Cash on hand	89	129	2 903	3 904
Rated Ba2 and above*	78 189	70 253	2 559 048	2 133 761
Rated Caa1*	-	129 598	-	3 936 227
Rated Caa2*	420 460	-	13 761 326	-
Unrated	53	9 253	1 761	281 091
	498 791	**209 233**	**16 325 038**	**6 354 983**

* Based on the credit ratings of independent rating agency Moody’s.

Obligations rated Caa2* are judged to be speculative of poor standing and are subject to very high credit risk.

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

21. Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated	**Ordinary shares 2013**	**Ordinary shares 2012**
Authorised shares	11 529 538	11 529 538
Par value	1 RUB.	1 RUB.
On issue at beginning of year	11 529 538	11 529 538
On issue at end of year, fully paid	**11 529 538**	**11 529 538**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends were declared in 2013 in respect of 2012 to the holders of ordinary shares in the amount of RUB 279.83 per ordinary share (equivalent to USD 8.56 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 98 637 thousand or RUB 3 226 311 thousand and in 2012 in respect of 2011 to holders of ordinary shares of RUB 26.52 per ordinary share (equivalent to USD 0.81 per share translated at exchange rate prevailing at the date of declaration), for the total amount of USD 9 282 thousand or RUB 305 763 thousand.

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles. For 2013 the net statutory profit of the Company as reported in the published annual statutory reporting forms was RUB 7 451 million (equivalent to USD 233 961 thousand translated at the average exchange rate for 2013) (2012: RUB 7 333 million (equivalent to USD 235 827 thousand translated at the average exchange rate for 2012)) and the closing balance of the accumulated profit including the current year net statutory profit totalled RUB 37 318 million (equivalent to USD 1 140 205 thousand translated at the closing exchange rate for 2013) (2012: RUB 33 079 million (equivalent to USD 1 010 673 thousand translated at the closing exchange rate for 2012). However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amounts disclosed.

22. Capital management

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total capital under management divided by total liabilities. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position according to IFRS. In 2013, the Group's strategy was to maintain the gearing ratio at the levels from 1 to 1.5. As at 31 December 2013 total capital to total liabilities ratio equalled to 1.09 (2012: 1.15 calculated in RUB thousand and 1.15 calculated in USD thousand).

There have been no changes in the Group's approach to capital management during the year.

The Group's capital management includes compliance with externally imposed minimum capital requirements arising from the Group's borrowings (see note 23) and imposed by the statutory legislation of the Russian Federation.

	2013	**2012, restated**	**2013**	**2012, restated**
	'000 USD	**'000 USD**	**'000 RUB**	**'000 RUB**
Total liabilities	1 380 255	1 254 022	45 174 632	38 088 052
Net debt	1 380 255	1 254 022	45 174 632	38 088 052
Total equity	1 510 359	1 441 759	49 432 879	43 790 137
Net total equity to total liabilities ratio at 31 December	1.09	1.15	1.09	1.15

23. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 25.

	2013 '000 USD	**2012 '000 USD**	**2013 '000 RUB**	**2012 '000 RUB**
Non-current liabilities				
Secured bank loans	16 000	164 657	523 667	5 001 083
Unsecured bank loans	762 057	267 695	24 941 525	8 130 613
	778 057	**432 352**	**25 465 192**	**13 131 696**
Current liabilities				
Secured bank loans	5 028	126 499	164 562	3 842 104
Unsecured bank loans	219 694	296 177	7 190 402	8 995 718
	224 722	**422 676**	**7 354 964**	**12 837 822**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

’000 USD			**2013**		**2012**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Short-term loans						
Secured bank loans						
Credit Agricole	USD	2013	-	-	83 333	82 315
Bank of America-Merrill Lynch	USD	2013	-	-	44 139	44 139
ING Lease Bank	USD	2013	-	-	45	45
Bank of America-Merrill Lynch	USD	2014	5 000	5 000	-	-
ING Lease Bank	USD	2014	28	28	-	-
			5 028	***5 028***	***127 517***	***126 499***
Unsecured bank loans						
UniCreditBank	USD	2013	-	-	105 648	104 074
Raiffeisen bank	USD	2013	-	-	62 500	61 726
Nordea Bank	USD	2013	-	-	50 000	49 750
Swedbank	USD	2013	-	-	37 238	37 238
Commertzbank	USD	2013	-	-	18 750	18 564
SberBank	USD	2013	-	-	17 500	17 355
UniCreditBank AG	EUR	2013	-	-	7 470	7 470
SberBank	USD	2014	100 000	99 985	-	-
Raiffeisen bank	USD	2014	50 000	49 625	-	-
UniCreditBank	USD	2014	47 034	46 460	-	-
Rosbank	USD	2014	10 000	10 000	-	-
UniCreditBank AG	EUR	2014	8 109	8 109	-	-
ING Lease Bank	USD	2014	5 556	5 515	-	-
			220 699	***219 694***	***299 106***	***296 177***
			225 727	**224 722**	**426 623**	**422 676**

’000 RUB			**2013**		**2012**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Short-term loans						
Secured bank loans						
Credit Agricole	USD	2013	-	-	2 531 058	2 500 116
Bank of America-Merrill Lynch	USD	2013	-	-	1 340 621	1 340 621
ING Lease Bank	USD	2013	-	-	1 367	1 367
Bank of America-Merrill Lynch	USD	2014	163 646	163 646	-	-
ING Lease Bank	USD	2014	916	916	-	-
			164 562	***164 562***	***3 873 046***	***3 842 104***
Unsecured bank loans						
UniCreditBank	USD	2013	-	-	3 208 808	3 161 077
Raiffeisen bank	USD	2013	-	-	1 898 294	1 874 800
Nordea Bank	USD	2013	-	-	1 518 635	1 511 042
Swedbank	USD	2013	-	-	1 131 019	1 131 019
Commertzbank	USD	2013	-	-	569 488	563 793
SberBank	USD	2013	-	-	531 522	527 092
UniCreditBank AG	EUR	2013	-	-	226 895	226 895
SberBank	USD	2014	3 272 920	3 272 443	-	-
Raiffeisen bank	USD	2014	1 636 460	1 624 187	-	-
UniCreditBank	USD	2014	1 539 400	1 520 614	-	-
Rosbank	USD	2014	327 292	327 292	-	-
UniCreditBank AG	EUR	2014	265 402	265 402	-	-
ING Lease Bank	USD	2014	181 829	180 464	-	-
			7 223 303	***7 190 402***	***9 084 661***	***8 995 718***
			7 387 865	**7 354 964**	**12 957 707**	**12 837 822**

’000 USD			2013		2012	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Secured bank loans						
Credit Agricole	USD	2015	-	-	166 667	164 629
ING Lease Bank	USD	2014	-	-	28	28
Nordea Bank	USD	2018	16 000	16 000	-	-
			16 000	***16 000***	***166 695***	***164 657***
Unsecured bank loans						
UniCreditBank	USD	2013-2016	-	-	149 778	148 034
UniCredit Bank AG	EUR	2014-2017	-	-	16 881	16 881
Raiffeisenbank	USD	2014	-	-	34 722	34 296
Commertzbank	USD	2014	-	-	6 250	6 187
SberBank	USD	2014-2015	-	-	62 500	62 297
UniCreditBank	USD	2015-2016	247 600	245 049	-	-
SberBank	USD	2015-2018	237 500	236 777	-	-
Nordea Bank	USD	2018	175 000	173 250	-	-
Raiffeisenbank	USD	2015-2016	50 000	49 550	-	-
ING Lease Bank	USD	2016	44 444	44 111	-	-
UniCredit Bank AG	EUR	2015-2017	13 320	13 320	-	-
			767 864	***762 057***	***270 131***	***267 695***
			783 864	**778 057**	**436 826**	**432 352**

’000 RUB			2013		2012	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Secured bank loans						
Credit Agricole	USD	2015	-	-	5 062 117	5 000 233
ING Lease Bank	USD	2014	-	-	850	850
Nordea Bank	USD	2018	523 667	523 667	-	-
			523 667	***523 667***	***5 062 967***	***5 001 083***
Unsecured bank loans						
UniCreditBank	USD	2013-2016	-	-	4 549 156	4 496 201
UniCredit Bank AG	EUR	2014-2017	-	-	512 734	512 734
Raiffeisenbank	USD	2014	-	-	1 054 608	1 041 655
Commertzbank	USD	2014	-	-	189 829	187 931
SberBank	USD	2014-2015	-	-	1 898 294	1 892 092
UniCreditBank	USD	2015-2016	8 103 750	8 020 258	-	-
SberBank	USD	2015-2018	7 773 185	7 749 525	-	-
Nordea Bank	USD	2018	5 727 610	5 670 334	-	-
Raiffeisenbank	USD	2015-2016	1 636 460	1 621 732	-	-
ING Lease Bank	USD	2016	1 454 631	1 443 721	-	-
UniCredit Bank AG	EUR	2015-2017	435 955	435 955	-	-
			25 131 591	***24 941 525***	***8 204 621***	***8 130 613***
			25 655 258	**25 465 192**	**13 267 588**	**13 131 696**

Bank loans are secured by following:

- Property, plant and equipment with a carrying amount of USD 10 244 thousand or RUB 335 277 thousand (2012: USD 9 149 thousand or RUB 277 880 thousand), see note 13;
- Inventory with a carrying amount of USD 57 748 thousand or RUB 1 890 046 thousand (2012: USD 144 747 thousand or RUB 4 396 364 thousand), see note 18;
- Trade and other accounts receivable with a carrying amount of USD 58 787 thousand or RUB 1 924 042 thousand (2012: USD 75 501 thousand or RUB 2 293 167 thousand), see note 19;

As at 31 December 2013 the Group had an outstanding loan from Bank of America-Merrill Lynch, which is secured with total assets of the Group's subsidiary – Tirus US, except investment in Uniti. As at 31 December 2013 the assets of Tirus US amounted to USD 140 387 thousand or RUB 4 594 760 thousand (2012: USD 138 176 thousand or RUB 4 196 778 thousand), excluding Uniti.

As at 31 December 2013 the Group had undrawn credit line facilities for the total amount of USD 358 595 thousand or RUB 11 736 515 thousand (2012: USD 92 106 thousand or RUB 2 797 507 thousand).

A number of loans outstanding at year end contain certain restrictive covenants in relation to unauthorized use of credit facilities, sales and purchases of assets, total amount of borrowings, change of controlling shareholders and management, defaults on liabilities, including tax liabilities, bankruptcy initiation, commencement of significant court proceedings, deterioration of financial position of the Group, improper execution of obligations and certain financial ratios. As at 31 December 2013 and as at 31 December 2012 the Group was in compliance with these covenants.

24. Trade and other payables

	2013 '000 USD	**2012, restated '000 USD**	**2013 '000 RUB**	**2012, restated '000 RUB**
Trade accounts payable	43 480	57 043	1 423 064	1 732 560
Accrued liabilities and other creditors	36 681	42 459	1 200 534	1 289 562
Payroll and social tax payable	20 591	20 966	673 904	636 802
Total accounts payable and accrued expenses	**100 752**	**120 468**	**3 297 502**	**3 658 924**

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

25. Fair values and Risk management

(a) Fair value

The carrying amount of financial assets and liabilities approximates their fair value.

(b) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

’000 USD	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2013				
Financial assets available-for-sale	1 507	-	-	1 507
	1 507	**-**	**-**	**1 507**
31 December 2012				
Financial assets available-for-sale	1 492	-	-	1 492
	1 492	**-**	**-**	**1 492**

’000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2013				
Financial assets available-for-sale	49 307	-	-	49 307
	49 307	**-**	**-**	**49 307**
31 December 2012				
Financial assets available-for-sale	45 311	-	-	45 311
	45 311	**-**	**-**	**45 311**

(c) Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management procedures seek to minimize potential adverse effects on the financial performance of the Group.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and investments.

Credit risk management is aimed at preventing losses of liquid assets placed on deposit or invested into financial institutions or decreasing value of accounts receivable.

The maximum exposure to credit risk related to the financial assets equals the carrying value of the Group's financial assets including loans receivable. The Group’s most significant customer represents 10% (2012: 11%) of trade accounts receivable at respective reporting dates.

The treasury department of the Group monitors and controls credit risk.

The credit quality of customers and borrowers is measured taking into account their financial position, prior experience and other factors. The Group deals with new customers and clients that do not meet creditworthiness criteria only on the basis of prepayment. Standard terms of delivery of goods may be changed where there is a good history with the customer.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded, see note 19.

None of the loans receivable are impaired as at 31 December 2013.

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each individual customer. The concentration of credit risk geographically relates to the USA and Europe where the most significant customers are located.

The Group provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Credit losses, when realized, have been within the range of the Group’s expectations and, historically, have not been significant.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit at the reporting date was:

	Carrying amount		**Carrying amount**	
	2013 ’000 USD	**2012 ’000 USD**	**2013 ’000 RUB**	**2012 ’000 RUB**
Loans receivable	24 244	52 799	793 499	1 603 624
Investments held-to-maturity	7 658	8 142	250 640	247 308
Bank deposits, non-current	-	16 651	-	505 746
Bank deposits, current	140	41 863	4 572	1 271 501
Trade accounts receivable	196 203	179 404	6 421 578	5 448 964
Other account receivable	56 247	24 503	1 840 927	744 237
Cash and cash equivalents	498 791	209 233	16 325 038	6 354 983
	783 283	**532 595**	**25 636 254**	**16 176 363**

Impairment losses

The ageing of trade receivables that were not impaired at the reporting date was as follows:

	2013		**2012**	
’000 USD	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Less than 3 months	178 136	(270)	160 828	(267)
From 3 to 6 months	16 474	-	13 535	-
From 6 to 12 months	938	(201)	4 941	-
Over 12 months	19 939	(18 813)	20 980	(20 613)
	215 487	**(19 284)**	**200 284**	**(20 880)**

	2013		**2012**	
’000 RUB	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Less than 3 months	5 830 260	(8 837)	4 884 791	(8 110)
From 3 to 6 months	539 186	-	411 086	-
From 6 to 12 months	30 684	(6 564)	150 062	-
Over 12 months	652 596	(615 746)	637 216	(626 081)
	7 052 726	**(631 147)**	**6 083 155**	**(634 191)**

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

	2013		2012	
’000 USD	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**20 880**	**14 112**	**19 647**	**5 317**
Impairment loss recognised	305	1 267	2 092	9 051
Provision reversed	(405)	(8 271)	(2 422)	-
Provision used	-	(859)	(10)	-
Cumulative translation adjustment	(1 496)	(1 016)	1 573	(256)
Provision for impairment as at 31 December	**19 284**	**5 233**	**20 880**	**14 112**

	2013		2012	
’000 RUB	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**634 191**	**428 610**	**632 556**	**171 187**
Impairment loss recognised	9 840	40 336	65 039	281 430
Provision reversed	(12 884)	(270 335)	(63 104)	(24 007)
Provision used	-	(27 346)	(300)	-
Provision for impairment as at 31 December	**631 147**	**171 265**	**634 191**	**428 610**

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group Treasury conducts liquidity planning on a weekly basis and reports to the management. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available, see note 23.

The management ensures that sufficient liquidity is available to the Group to meet its short-term payment obligations. Such cash balances include current balances in bank accounts and bank deposits. The Group’s policy as regards working capital funding is aimed at maximum utilisation of the Group’s operating cash flows including obtaining short-term bank loans, borrowings and other external funding sources to maintain adequate level of liquidity.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements.

’000 USD	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2013						
Unsecured loans and borrowings	981 751	1 082 648	250 062	370 765	298 921	162 900
Secured loans and borrowings	21 028	23 329	5 539	3 178	5 845	8 767
Trade and other accounts payable	100 752	100 752	100 752	-	-	-
Total current and non-current liabilities	**1 103 531**	**1 206 729**	**356 353**	**373 943**	**304 766**	**171 667**
As at 31 December 2012						
Unsecured loans and borrowings	563 872	604 719	320 870	197 844	71 746	14 259
Secured loans and borrowings	291 156	307 548	134 846	87 807	84 895	-
Trade and other accounts payable	120 468	120 468	120 468	-	-	-
Total current and non-current liabilities	**975 496**	**1 032 735**	**576 184**	**285 651**	**156 641**	**14 259**

’000 RUB	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2013						
Unsecured loans and borrowings	32 131 927	35 434 222	8 184 336	12 134 844	9 783 440	5 331 602
Secured loans and borrowings	688 229	763 555	181 301	104 017	191 295	286 942
Trade and other accounts payable	3 297 502	3 297 502	3 297 502	-	-	-
Total current and non-current liabilities	**36 117 658**	**39 945 279**	**11 663 139**	**12 238 861**	**9 974 735**	**5 618 544**
As at 31 December 2012						
Unsecured loans and borrowings	17 126 331	18 366 948	9 745 688	6 009 056	2 179 120	433 084
Secured loans and borrowings	8 843 187	9 340 766	4 095 637	2 666 639	2 578 490	-
Trade and other accounts payable	3 658 924	3 658 924	3 658 924	-	-	-
Total current and non-current liabilities	**29 628 442**	**31 366 638**	**17 500 249**	**8 675 695**	**4 757 610**	**433 084**

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group companies.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities. The Group does not currently hedge foreign exchange exposure using financial instruments. Group entities are prohibited from borrowing and investing in foreign currencies on a speculative basis.

The Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian rouble. Funds borrowed are mainly nominated in USD, being the currency of general export trade contracts.

The Group relies on export sales to generate foreign currency earnings. As the Group's sales outside the Russian Federation form a significant portion of its production, it is exposed to foreign currency risk arising primarily on the volatility of the US dollar rate, in which major export sales are denominated.

The tables below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date:

Exposure to currency risk

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

At 31 December 2013 **'000 USD**	**USD**	**EURO**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	450 489	906	4 140
Accounts receivable	171 238	203	353
Bank deposits	-	-	140
Other investments	1 700	-	-
Loans receivable	5 103	-	-
	628 530	**1 109**	**4 633**
Monetary financial liabilities:			
Accounts payable and other liabilities	(7 807)	(599)	(1 619)
Loans and borrowings	(981 350)	(21 429)	-
	(989 157)	**(22 028)**	**(1 619)**
Net exposure	**(360 627)**	**(20 919)**	**3 014**

At 31 December 2012 **'000 USD**	**USD**	**EURO**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	173 616	601	5 541
Accounts receivable	129 505	525	9 391
Bank deposits	58 392	-	122
Other investments	1 722	-	-
Loans receivable	4 587	-	9
	367 822	**1 126**	**15 063**
Monetary financial liabilities:			
Accounts payable and other liabilities	(14 017)	(5 930)	(1 507)
Loans and borrowings	(830 677)	(24 351)	-
	(844 694)	**(30 281)**	**(1 507)**
Net exposure	**(476 872)**	**(29 155)**	**13 556**

At 31 December 2013 **’000 RUB**	**USD**	**EURO**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	14 744 119	29 656	135 535
Accounts receivable	5 604 499	6 644	11 582
Bank deposits	-	-	4 572
Other investments	55 640	-	-
Loans receivable	167 022	-	-
	20 571 280	**36 300**	**151 689**
Monetary financial liabilities:			
Accounts payable and other liabilities	(255 505)	(19 595)	(52 982)
Loans and borrowings	(32 118 799)	(701 357)	-
	(32 374 304)	**(720 952)**	**(52 982)**
Net exposure	**(11 803 024)**	**(684 652)**	**98 707**

At 31 December 2012 **’000 RUB**	**USD**	**EURO**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	5 273 196	18 267	168 250
Accounts receivable	3 933 426	15 945	285 243
Bank deposits	1 773 512	-	3 735
Other investments	52 308	-	-
Loans receivable	139 330	-	285
	11 171 772	**34 212**	**457 513**
Monetary financial liabilities:			
Accounts payable and other liabilities	(425 720)	(180 104)	(45 761)
Loans and borrowings	(25 229 889)	(739 629)	-
	(25 655 609)	**(919 733)**	**(45 761)**
Net exposure	**(14 483 837)**	**(885 521)**	**411 752**

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

	31 December 2013	**Average for 12 months 2013**	**31 December 2012**	**Average for 12 months 2012**
USD	32.7292	31.8480	30.3727	31.0930
EURO	44.9699	42.3018	40.2286	39.9524

Sensitivity analysis

A 10% weakening of the RUB against the following currencies at 31 December 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

Sensitivity analysis

2013	**Equity ’000 USD**	**Profit or loss ’000 USD**
USD strengthening 10%	(36 060)	(36 060)
Euro strengthening 10%	(2 088)	(2 088)
2012		
USD strengthening 10%	(47 687)	(47 687)
Euro strengthening 10%	(2 916)	(2 916)

2013	**Equity ’000 RUB**	**Profit or loss ’000 RUB**
USD strengthening 10%	(1 180 214)	(1 180 214)
Euro strengthening 10%	(68 465)	(68 465)
2012		
USD strengthening 10%	(1 448 384)	(1 448 384)
Euro strengthening 10%	(88 552)	(88 552)

(iv) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group’s financial results or the value of the Group’s equity. A change in interest rates may cause variations in interest income and expense.

The Group's objective when managing interest rate risk is to protect net results as regards interest. Interest rate risk management function is performed by the finance and treasury department of the Group.

Market interest rates are monitored and the Group's positions as regards interest bearing borrowings are analysed by the treasury and finance departments of the Group under the interest rate risk management framework. The monitoring is performed taking into account current terms of refinancing, renewal of existing positions and alternative funding. The Group does not apply interest hedging.

The Group’s interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group’s cash flow to interest rate risk.

Exposure to interest rate risk

At the reporting date the interest rate profile of the Group’s interest-bearing financial instruments was as follows:

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Fixed rate instruments				
Loans receivable	19 657	48 212	643 359	1 464 294
Bank deposits classified as cash equivalents	454 711	37 286	14 882 340	1 132 473
Bank deposits	140	58 514	4 572	1 777 247
Current loans and borrowings	-	(30 000)	-	(911 181)
	474 508	**114 012**	**15 530 271**	**3 462 833**
Variable rate instruments				
Loans receivable	4 587	4 587	150 140	139 330
Current loans and borrowings	(224 722)	(392 676)	(7 354 964)	(11 926 641)
Non-current loans and borrowings	(778 057)	(432 352)	(25 465 192)	(13 131 696)
	(998 192)	**(850 441)**	**(32 670 016)**	**(25 830 188)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant:

	Profit ’000 USD	Equity ’000 USD	Profit ’000 RUB	Equity ’000 RUB
2013				
100 bp parallel fall	9 982	9 982	326 700	326 700
100 bp parallel rise	(9 982)	(9 982)	(326 700)	(326 700)
2012				
100 bp parallel fall	8 504	8 504	258 302	258 302
100 bp parallel rise	(8 504)	(8 504)	(258 302)	(258 302)

(d) Master netting or similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. In particular, in accordance with the Russian civil law an obligation can be settled by offsetting against a similar claim if it is due, has no maturity or is payable on demand.

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

'000 USD	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	16 507	6 707
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	16 507	6 707
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(587)	(979)
Net amount	**15 920**	**5 728**

'000 USD	Trade and other receivables	Trade and other payables
31 December 2012		
Gross amounts	14 648	9 459
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	14 648	9 459
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(268)	(2 185)
Net amount	**14 380**	**7 274**

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	540 252	219 508
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	540 252	219 508
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(19 209)	(32 033)
Net amount	**521 043**	**187 475**

'000 RUB	Trade and other receivables	Trade and other payables
31 December 2012		
Gross amounts	444 912	287 309
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	444 912	287 309
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(8 149)	(66 366)
Net amount	**436 763**	**220 943**

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

26. Significant subsidiaries

	Country of incorporation	2013 Ownership/ voting	2012 Ownership/ voting
VSMPO-TIRUS US	USA	100%	100%
VSMPO-TIRUS GmbH	Germany	100%	100%
Tirus International SA	Switzerland	100%	100%
Grifoldo Ltd	Cyprus	100%	100%
VSMPO Tirus Ltd	Gibraltar	100%	100%
VSMPO Titan Scandinavia AB	Sweden	100%	100%
VSMPO-TIRUS Limited	UK	100%	100%
VSMPO-Tirus (Bejing)	China	100%	100%
Limpieza Ltd	Cyprus	75%	75%
VSMPO Titan Ukraine	Ukraine	100%	100%
DK Titan Dnepr	Ukraine	100%	100%
LLC “Demurinskiy gorno-obogatitelny kombinat”	Ukraine	75%	75%

27. Operating leases

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows:

	2013 ’000 USD	2012 ’000 USD	2013 ’000 RUB	2012 ’000 RUB
Less than 1 year	3 872	3 464	126 720	105 215
1 to 5 years	11 274	11 078	368 998	336 464
Over 5 years	4 680	5 618	153 165	170 629
	19 826	**20 160**	**648 883**	**612 308**

The Group leases a number of land plots, warehouse and factory facilities under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the current year USD 4 255 thousand or RUB 135 510 thousand (2012: USD 5 185 thousand or RUB 161 210 thousand) was recognised in the consolidated statement of comprehensive income in respect of operating leases.

28. Commitments

(a) Capital commitments

As at 31 December 2013 the Group has entered into contracts to purchase plant and equipment for USD 228 082 thousand or RUB 7 464 961 thousand (2012: USD 140 486 thousand or RUB 4 266 927 thousand).

(b) Long term sales contracts

In the normal course of business group companies enter into long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

29. Contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

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

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30. Related parties

Government

The Government of the Russian Federation controls the Russian Technologies State Corporation, which has significant influence over the Company. The Government does not prepare financial statements for public use. Governmental economic and social policies affect the Group’s financial position, results of operations and cash flows.

Parties under control of the Government

In the normal course of business, the Group enters into transactions with other entities under Government control. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation. The following turnovers and balances arise from transactions with related parties:

Transactions with related parties

Profit or loss caption	Relationship	2013 ’000 USD	2012 ’000 USD
Revenue	Parties under Government control	228 936	263 867
Revenue	Entities under common control	182 291	119 924
Revenue	Joint venture	43 826	20 883
Revenue	Associates	2 212	1 575
Purchases	Parties under Government control	169 904	37 827
Purchases	Entities under common control	7 893	132 288
Purchases	Joint venture	4 001	3 991
Purchases	Associates	74 857	88 699
Current income tax	Government	(52 753)	(53 067)
Property and other taxes	Government	(12 873)	(17 223)
Contributions to State pension fund	Government	(80 105)	(71 885)
Custom duties	Government	(5 410)	(6 740)
Interest expenses	Parties under Government control	(6 862)	(2 124)
Interest income	Entities under common control	3 231	1 849
Interest income	Parties under Government control	-	219

Profit or loss caption	Relationship	2013 ’000 RUB	2012 ’000 RUB
Revenue	Parties under Government control	7 291 167	8 204 414
Revenue	Entities under common control	5 805 610	3 728 797
Revenue	Joint venture	1 395 768	649 321
Revenue	Associates	70 435	48 982
Purchases	Parties under Government control	5 411 114	1 176 149
Purchases	Entities under common control	251 389	4 113 240
Purchases	Joint venture	127 410	124 093
Purchases	Associates	2 384 056	2 757 910
Current income tax	Government	(1 680 083)	(1 650 011)
Property and other taxes	Government	(409 979)	(535 525)
Contributions to State pension fund	Government	(2 551 199)	(2 235 106)
Custom duties	Government	(172 283)	(209 566)
Interest expenses	Parties under Government control	(218 527)	(66 042)
Interest income	Entities under common control	102 916	57 502
Interest income	Parties under Government control	-	6 809

Revenue from related parties refers to sales of titanium products under usual short term contracts. The Group does not have significant sales (over 5% from total group sales) to any individual related party.

Related party purchases mainly refer to electricity and gas which are made under standard short term agreements.

Balances with related parties:

Statement of financial position	Relationship	2013 ’000 USD	2012 ’000 USD
Bank balances	Parties under Government control	1 485	136 372
Trade receivables	Parties under Government control	4 298	5 145
Trade receivables	Entities under common control	35 183	8 007
Trade receivables	Joint ventures	3 615	20
Trade receivables	Associates	366	296
Advances to suppliers	Parties under Government control	7 729	5 750
Advances to suppliers	Entities under common control	135	6 195
Bank deposits, classified as investments	Parties under Government control	-	58 392
Bank deposits, classified as cash and cash equivalents	Parties under Government control	424 360	4 663
Investments available-for-sale measured at fair value	Parties under Government control	1 507	1 492
Loans receivable	Entities under common control	14 207	41 649
Loans receivable	Key management	1 051	1 634
Other investments	Entities under common control	7 658	8 142
Loans and borrowings	Parties under Government control	(337 500)	(80 374)
Trade payables	Parties under Government control	(1577)	(1 214)
Trade payables	Entities under common control	(1 242)	(1 687)
Trade payables	Joint ventures	(691)	(6 809)
Trade payables	Associates	(2 498)	(5 111)
Advances received	Parties under Government control	(68 834)	(78 038)
Advances received	Entities under common control	(29 231)	(34 173)
Advances received	Joint ventures	(1 729)	-
Advances received	Associates	-	(5)
Customs duties prepaid	Government	2 288	598
Current income tax prepayments	Government	4 901	26 874
VAT Recoverable	Government	28 720	29 915
Current income tax payable	Government	(2 292)	(3 019)
Property and other taxes receivable	Government	22 672	66 668
Contributions to State pension fund (payable) / receivable	Government	(7 530)	(7 243)
VAT Payable	Government	(2 718)	(3 446)

Statement of financial position	Relationship	2013 ’000 RUB	2012 ’000 RUB
Bank balances	Parties under Government control	48 614	4 141 981
Trade receivables	Parties under Government control	140 686	156 254
Trade receivables	Entities under common control	1 151 498	243 208
Trade receivables	Joint ventures	118 322	601
Trade receivables	Associates	11 969	9 002
Advances to suppliers	Parties under Government control	252 951	174 636
Advances to suppliers	Entities under common control	4 415	188 166
Bank deposits, classified as investments	Parties under Government control	-	1 773 512
Bank deposits, classified as cash and cash equivalents	Parties under Government control	13 888 971	141 623
Investments available-for-sale measured at fair value	Parties under Government control	49 307	45 311
Loans receivable	Entities under common control	465 000	1 265 000
Loans receivable	Key management	34 396	49 638
Other investments	Entities under common control	250 640	247 308
Loans and borrowings	Parties under Government control	(11 046 105)	(2 441 168)
Trade payables	Parties under Government control	(51 623)	(36 879)
Trade payables	Entities under common control	(40 653)	(51 224)
Trade payables	Joint ventures	(22 632)	(206 795)
Trade payables	Associates	(81 753)	(155 238)
Advances received	Parties under Government control	(2 252 872)	(2 370 221)
Advances received	Entities under common control	(956 706)	(1 037 912)
Advances received	Joint ventures	(56 601)	(4)
Advances received	Associates	(6)	(161)
Customs duties prepaid	Government	74 890	18 173
Current income tax prepayments	Government	160 417	816 248
VAT Recoverable	Government	939 977	908 606
Current income tax payable	Government	(75 001)	(91 699)
Property and other taxes receivable	Government	742 037	2 024 880
Contributions to State pension fund (payable) / receivable	Government	(246 440)	(220 000)
VAT Payable	Government	(88 969)	(104 655)

All outstanding balances with related parties are expected to be settled within twelve months of the reporting date except for loans. Loans issued to entities under common control are not past due and were granted with the interest rate of 8.25%. None of the balances are secured.

Loans and borrowing obtained from related parties under Government control are nominated in USD and were received with the interest rate of LIBOR 3M + variable margin of 2.75% to 3.1%.

Key management personnel compensation

Compensation of key management personnel consists of remuneration paid to the members of the Management Boards of the Group’s main subsidiaries and to members of Boards of Directors of the Company and its main subsidiaries. Compensation is made up of an annual remuneration and a performance bonus depending on operating results.

Total key management personnel short-term benefits included in general and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013 amounted to USD 9 423 thousand or RUB 300 104 thousand (2012: USD 5 831 thousand or RUB 181 303 thousand). Related state pension and social security costs for the year ended 31 December 2013 amounted to USD 1 947 thousand or RUB 62 009 thousand (2012: USD 1 125 thousand or RUB 34 980 thousand). There were no significant post-employment or other long-term benefits.

31. Subsequent events

(a) Restructuring

In March 2014 management of the Group completed a buy-out of additional shares in OJSC “Corporation VSMPO-AVISMA”. As a result of the transactions Shelkov M. E. and management of the Group controls 99% of shares in ZAO “Business Alliance Company” through the ultimate parent company OJSC “Expotrade”. Shares of OJSC “Corporation VSMPO-AVISMA” controlled by ZAO “Business Alliance Company” increased to 65,27%.

(b) Ukraine events

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business located in Ukraine in the current circumstances, a continuation of the current unstable business environment could negatively affect the financial results of the Group's Ukrainian assets and related financial position in a manner not currently determinable. These consolidated financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment. These consolidated financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date.

The following is summarised financial information of Ukrainian subsidiaries as at and for the years ended 31 December 2013 and 2012:

	2013 '000 USD	2012 '000 USD	2013 '000 RUB	2012 '000 RUB
Revenue	45 161	46 704	1 438 292	1 452 167
Loss from continuing operations	(18 104)	(5 963)	(576 579)	(185 412)
Total comprehensive loss	**(18 104)**	**(5 963)**	**(576 579)**	**(185 412)**
Non-current assets	67 627	70 184	2 213 365	2 131 663
Current assets	31 033	40 489	1 015 693	1 229 748
Non-current liabilities	(7 239)	(12 310)	(236 939)	(373 894)
Current liabilities	(54 784)	(43 562)	(1 793 007)	(1 323 063)
Net assets	**36 637**	**54 801**	**1 199 112**	**1 664 454**

32. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the available-for sale financial assets, which are measured on fair value basis on each reporting date.

33. Changes in accounting policies

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

b. IFRS 10 Consolidated Financial Statements (2011)

c. IFRS 11 Joint Arrangements

d. IFRS 12 Disclosure of Interests in Other Entities

e. IFRS 13 Fair Value Measurement

f. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

g. IAS 19 Employee Benefits (2011)

The nature and effects of the changes are explained below.

(a) Offsetting of financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see note 25(d)).

(b) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. No changes in Group control conclusion were determined.

(c) Joint arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in one of its joint arrangements and has reclassified the investment in Ural Boeing Manufacturing CJSC from a joint venture to a joint operation. The Group has recognised its share in assets, liabilities, revenues and expenses. The quantative impact of the change is set out in (h) below.

(d) Disclosure of interests in other entities

As a result of IFRS 12, the Group has expanded its disclosures about equity-accounted investees (see note 16).

(e) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group’s assets and liabilities.

(f) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

(g) Post-employment defined benefit plans

As a result of revised IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Previously actuarial gains and losses were amortised over the remaining working lives of employees, to the extent to which these exceed 10% of the greater of the defined benefit obligation and plan assets. Under revised requirements the corridor method was removed and, therefore, all changes in the present value of the defined benefit obligation will be recognised immediately as they occur. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI.

The quantitative impact of the change is set out in (h) below.

(h) Summary of quantitative impacts

The following tables summarise the impacts of the above changes on the Group’s financial position, comprehensive income and cash flows. The impacts relate to the proportional consolidation of a joint arrangement (see (c)) and the changes related to defined benefit plans (see (g)).

Consolidated statement of financial position

1 January 2012 — **Impact of changes in accounting policies**

'000 USD	As previously reported	Post employment defined benefit plan (see (g))	Joint Arrangements (see (c))	As restated
Property, plant and equipment	861 242	-	14 367	875 609
Investments in associates and jointly controlled entities	70 218	-	(23 650)	46 568
Inventories	533 093	-	1 384	534 477
Trade and other receivables	335 556	-	770	336 326
Cash and cash equivalents	214 388	-	3 388	217 776
Other current assets	3 007	-	22	3 029
Others	211 124	-	-	211 124
Total assets	**2 228 628**	**-**	**(3 719)**	**2 224 909**
Trade and other payables (current)	(141 700)	-	(164)	(141 864)
Defined benefit obligation	(32 345)	(10 621)	-	(42 966)
Deferred tax liability	(24 802)	-	184	(24 618)
Others	(844 070)	-	3 045	(841 025)
Total liabilities	**(1 042 917)**	**(10 621)**	**3 065**	**(1 050 473)**
Others	(1 185 711)	10 621	654	(1 174 436)
Total equity	**(1 185 711)**	**10 621**	**654**	**(1 174 436)**

31 December 2012 — **Impact of changes in accounting policies**

'000 USD	As previously reported	Post employment defined benefit plan (see (g))	Joint Arrangements (see (c))	As restated
Property, plant and equipment	995 004	-	14 730	1 009 734
Investments in associates and jointly controlled entities	73 883	-	(23 028)	50 855
Inventories	769 831	-	1 617	771 448
Trade and other receivables	360 100	-	336	360 436
Cash and cash equivalents	207 336	-	1 897	209 233
Other current assets	5 043	-	27	5 070
Others	289 005	-	-	289 005
Total assets	**2 700 202**	**-**	**(4 421)**	**2 695 781**
Trade and other payables (current)	(120 448)	-	(20)	(120 468)
Defined benefit obligation	(37 052)	(17 311)	-	(54 363)
Deferred tax liability	(37 224)	-	293	(36 931)
Others	(1 045 307)	-	3 047	(1 042 260)
Total liabilities	**(1 240 031)**	**(17 313)**	**3 320**	**(1 254 022)**
NCI	(9 701)	-	-	(9 701)
Others	(1 450 470)	17 313	1 099	(1 432 058)
Total equity	**(1 460 171)**	**17 313**	**1 099**	**(1 441 759)**

1 January 2012	**Impact of changes in accounting policies**			
'000 RUB	**As previously reported**	**Post employment defined benefit plan (see (g))**	**Joint Arrangements (see (c))**	**As restated**
Property, plant and equipment	27 728 629	-	462 562	28 191 191
Investments in associates and jointly controlled entities	2 260 720	-	(761 454)	1 499 266
Inventories	17 163 529	-	44 574	17 208 103
Trade and other receivables	10 803 582	-	24 783	10 828 365
Cash and cash equivalents	6 902 385	-	109 075	7 011 460
Other current assets	96 822	-	715	97 537
Other	6 797 355	-	-	6 797 355
Total assets	**71 753 022**	**-**	**(119 745)**	**71 633 277**
Trade and other payables (current)	(4 562 201)	-	(5 287)	(4 567 488)
Defined benefit obligation	(1 041 367)	(341 982)	-	(1 383 349)
Deferred tax liability	(798 542)	-	5 919	(792 623)
Others	(27 175 714)	-	98 077	(27 077 637)
Total liabilities	**(33 577 824)**	**(341 982)**	**98 709**	**(33 821 097)**
Others	(38 175 198)	341 982	21 036	(37 812 180)
Total equity	**(38 175 198)**	**341 982**	**21 036**	**(37 812 180)**

31 December 2012	**Impact of changes in accounting policies**			
'000 RUB	**As previously reported**	**Post employment defined benefit plan (see (g))**	**Joint Arrangements (see (c))**	**As restated**
Property, plant and equipment	30 220 954	-	447 393	30 668 347
Investments in associates and jointly controlled entities	2 244 026	-	(699 410)	1 544 616
Inventories	23 381 853	-	49 105	23 430 958
Trade and other receivables	10 937 192	-	10 203	10 947 395
Cash and cash equivalents	6 297 370	-	57 613	6 354 983
Other current assets	153 159	-	829	153 988
Other	8 777 902	-	-	8 777 902
Total assets	**82 012 456**	**-**	**(134 267)**	**81 878 189**
Trade and other payables (current)	(3 658 322)	-	(602)	(3 658 924)
Defined benefit obligation	(1 125 362)	(525 794)	-	(1 651 156)
Deferred tax liability	(1 130 591)	-	8 895	(1 121 696)
Others	(31 748 804)	-	92 528	(31 656 276)
Total liabilities	**(37 663 079)**	**(525 794)**	**100 821**	**(38 088 052)**
NCI	(321 182)	-	-	(321 182)
Others	(44 028 195)	525 794	33 446	(43 468 955)
Total equity	**(44 349 377)**	**525 794**	**33 446**	**(43 790 137)**

Consolidated statement of profit or loss and OCI

For 2012	Impact of changes in accounting policies			
’000 USD	**As previously reported**	**Post employment defined benefit plan (see (g))**	**Joint Arrangements (see (c))**	**As restated**
Revenue	1 415 277	-	(351)	1 414 926
Cost of sales	(823 702)	581	(1 551)	(824 672)
General and administrative expenses	(253 238)	286	(710)	(253 662)
Finance income	25 841	-	141	25 982
Share in profit of equity accounted investees	850	-	1 995	2 845
Finance costs	(24 926)	-	(21)	(24 947)
Income tax expense	(65 174)	-	96	(65 078)
Others	(74 682)	-	-	(74 682)
Profit	**200 246**	**867**	**(401)**	**200 712**
Foreign currency translation differences for foreign operations	71 982	(778)	(49)	71 155
Defined benefit plan	-	(6 776)	-	(6 776)
Income tax on comprehensive income	(43)	-	-	(43)
Other	215	-	-	215
OCI, net of tax	**72 154**	**(7 554)**	**(49)**	**64 551**
Total comprehensive income	**272 400**	**(6 687)**	**(450)**	**265 263**

For 2012	Impact of changes in accounting policies			
’000 RUB	**As previously reported**	**Post employment defined benefit plan (see (g))**	**Joint Arrangements (see (c))**	**As restated**
Revenue	44 005 216		(10 906)	43 994 310
Cost of sales	(25 611 371)	18 023	(48 212)	(25 641 560)
General and administrative expenses	(7 873 928)	8 881	(22 062)	(7 887 109)
Finance income	803 475	-	4 391	807 866
Share in profit of equity accounted investees	26 421	-	62 044	88 465
Finance costs	(775 001)	-	(642)	(775 643)
Income tax expense	(2 026 443)	-	2 977	(2 023 466)
Others	(2 322 074)	-	-	(2 322 074)
Profit	**6 226 295**	**26 904**	**(12 410)**	**6 240 789**
Foreign currency translation differences for foreign operations	(123 909)	-	-	(123 909)
Defined benefit plan	-	(210 716)	-	(210 716)
Income tax on comprehensive income	(1 339)	-	-	(1 339)
Other	6 695	-	-	6 695
OCI, net of tax	**(118 553)**	**(210 716)**		**(329 269)**
Total comprehensive income	**6 107 742**	**(183 812)**	**(12 410)**	**5 911 520**

Consolidated statement of cash flows

For 2012	Impact of changes in accounting policies			
'000 USD	**As previously reported**	**Post employment defined benefit plan (see (g))**	**Joint Arrangements (see (c))**	**As restated**
Net cash from operating activities	116 462	-	(1 059)	115 403
Net cash from investing activities	(254 273)	-	(879)	(255 152)
Net cash from financing activities	129 538	-	-	129 538
Effect of exchange rate changes on cash and cash equivalents	1 221	-	447	1 668
Net decrease in cash and cash equivalents	**(7 052)**	**-**	**(1 491)**	**(8 543)**

For 2012	Impact of changes in accounting policies			
'000 RUB	**As previously reported**	**Post employment defined benefit plan (see (g))**	**Joint Arrangements (see (c))**	**As restated**
Net cash from operating activities	3 665 562	-	(15 942)	3 649 620
Net cash from investing activities	(7 953 050)	-	(27 346)	(7 980 396)
Net cash from financing activities	4 027 159	-	-	4 027 159
Effect of exchange rate changes on cash and cash equivalents	(344 686)	-	(8 174)	(352 860)
Net decrease in cash and cash equivalents	**(605 015)**	**-**	**(51 462)**	**(656 477)**

The disclosure regarding effect of impact of changes in accounting policies on the current period are not prepared as it is impracticable to determine amount of adjustment and amount of the adjustment is considered to be immaterial.

34. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in the note 33, which addresses changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus

- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iv) Interests in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group’s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to presentation currency at exchange rates at the dates of the transactions, or by applying average exchange rate for a period of transactions, if deemed appropriate.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

(c) Financial instruments

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

(i) Non-derivative financial assets

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

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

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

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

Held-to-maturity financial assets

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

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

Loans and receivables

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

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments (see note 17), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets of the Group comprise equity securities.

(ii) Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost.

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

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

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

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

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are recognised net within general and administrative expenses in profit or loss.

(ii) Subsequent costs

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

(f) Intangible assets

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

Subsequent measurement

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

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and mining rights, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Intangible assets useful lives range between 3 and 20 years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Mining rights are amortized using the units-of-production method.

(g) Leased assets

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

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

(h) Inventories

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

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

(i) Impairment

(i) Non-derivative financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security or observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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

(j) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Short-term benefits

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

(iii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

(l) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and VAT. Revenues from sales of the Group’s titanium products and related by-products are recognised when risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

(ii) Services

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(m) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(n) Finance income and costs

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

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

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

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

(o) Income tax

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

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

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

(p) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

35. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment

entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance;

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group;

- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance;

- IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group;

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning on or after 1 July 2014. Entities are permitted to apply them earlier. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.