OJSC “Corporation VSMPO-AVISMA”

Consolidated Financial Statements
for 2014
and Auditors’ Report

Contents

Ekaterinburg branch of JSC "KPMG"
Ural Regional Center
8, Ul. Voevodina
Ekaterinburg, Russian Federation, 620014

Telephone +7 (343) 253 0900
Fax +7 (343) 253 1900
Internet www.kpmg.ru

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 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, 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 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

Koryakina K.V.

Deputy Director, (power of attorney dated 16 March 2015 No. 46/15)

Ekaterinburg branch of JSC "KPMG" - Ural Regional Center

17 April 2015

Ekaterinburg, Russian Federation

	Note	2014 '000 USD	2013 '000 USD	2014 '000 RUB	2013 '000 RUB
Revenue	6	1 630 894	1 612 240	61 909 223	51 346 606
Cost of sales	7	(899 224)	(952 271)	(34 134 832)	(30 327 912)
Gross profit		**731 670**	**659 969**	**27 774 391**	**21 018 694**
Distribution expenses	7	(37 850)	(41 027)	(1 436 800)	(1 306 613)
General and administrative expenses	7	(246 176)	(230 238)	(9 344 910)	(7 332 604)
Operating profit		**447 644**	**388 704**	**16 992 681**	**12 379 477**
Impairment loss on intangible assets	14, 15	(5 481)	(18 839)	(208 074)	(600 000)
Finance income	8	26 849	21 417	1 019 198	682 129
Share in loss of equity accounted investees	16	(3 355)	(3 173)	(127 349)	(101 067)
Finance costs	8	(264 651)	(40 287)	(10 046 247)	(1 283 044)
Profit before income tax		**201 006**	**347 822**	**7 630 209**	**11 077 495**
Income tax expense	12	(47 178)	(68 126)	(1 790 873)	(2 169 698)
Profit for the year		**153 828**	**279 696**	**5 839 336**	**8 907 797**
Other comprehensive income / (loss)					
items that will never be reclassified to profit or loss					
Revaluation of property, plant and equipment		44 705	-	1 697 011	-
Foreign currency translation differences		(532 713)	(97 115)	-	-
Remeasurement of defined benefit obligations		13 935	(5 206)	528 980	(165 779)
		(474 073)	**(102 321)**	**2 225 991**	**(165 779)**
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences		(101 283)	(10 239)	(8 467)	123 837
Net change in fair value of available-for-sale financial assets		(606)	126	(23 000)	3 997
Related tax		121	(25)	4 600	(799)
		(101 768)	**(10 138)**	**(26 867)**	**127 035**
Other comprehensive income / (loss) for the year, net of income tax		**(575 841)**	**(112 459)**	**2 199 124**	**(38 744)**
Total comprehensive (loss)/income for the year		**(422 013)**	**167 237**	**8 038 460**	**8 869 053**
Profit attributable to:					
Shareholders of the Company		157 088	280 471	5 963 099	8 932 474
Non-controlling interests		(3 260)	(775)	(123 763)	(24 677)
Profit for the year		**153 828**	**279 696**	**5 839 336**	**8 907 797**
Total comprehensive (loss)/income attributable to:					
Shareholders of the Company		(420 802)	169 308	8 084 460	8 938 440
Non-controlling interests		(1 211)	(2 071)	(46 000)	(69 387)
Total comprehensive (loss)/income for the year		**(422 013)**	**167 237**	**8 038 460**	**8 869 053**
Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD/RUB per share)	9	13.638	24.326	517.713	774.747

These consolidated financial statements were approved by management on 16 April 2015 and were signed on its behalf by:

Voevodin M. V.
General Director

Sannikov D. Yu.
Chief Accountant

ОАО «Корпорация ВСМПО-АВИСМА» * ОГРН 1026600784011 * ИНН 6607000556
ВСМПО АВИСМА

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 14 to 68.

	Note	’000 USD		’000 RUB	
		2014	**2013**	**2014**	**2013**
ASSETS					
Non-current assets					
Property, plant and equipment	13	723 684	1 006 303	40 713 311	32 935 497
Goodwill	15	35 583	61 163	2 001 817	2 001 817
Intangible assets	14	34 460	50 438	1 938 689	1 650 791
Equity-accounted investees	16	29 289	40 028	1 647 738	1 310 087
Long-term trade and other receivables	19	12 697	10 867	714 305	355 664
Other investments and loans receivable	17	52 339	5 060	2 944 498	165 593
Deferred tax assets	12	5 263	5 123	296 096	167 697
Other non-current assets		3 647	8 910	205 202	291 632
Total non-current assets		**896 962**	**1 187 892**	**50 461 656**	**38 878 778**
Current assets					
Inventories	18	492 813	834 251	27 724 844	27 304 381
Other investments and loans receivable	17	8 961	29 344	504 116	960 400
Short-term trade and other receivables	19	274 119	336 303	15 421 459	11 006 935
Income tax receivable		17 097	4 901	961 838	160 417
Cash and cash equivalents	20	496 620	498 791	27 939 066	16 325 038
Other current assets		6 564	4 255	369 270	139 259
Total current assets		**1 296 174**	**1 707 845**	**72 920 593**	**55 896 430**
Total assets		**2 193 136**	**2 895 737**	**123 382 249**	**94 775 208**

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 14 to 68.

		’000 USD		’000 RUB	
	Note	**2014**	**2013**	**2014**	**2013**
EQUITY AND LIABILITIES	21				
Equity					
Share capital		22 785	22 785	596 313	596 313
Share premium		158 054	158 054	4 800 527	4 800 527
Treasury shares		(29 365)	-	(1 654 690)	-
Retained earnings		1 548 483	1 567 465	43 926 218	44 108 735
Reserves		45 481	(12 674)	1 807 485	(400 106)
Cumulative currency translation difference		(868 946)	(232 901)	(10 615)	75 615
Total equity attributable to shareholders of the Company		**876 492**	**1 502 729**	**49 465 238**	**49 181 084**
Non-controlling interests		6 419	7 630	205 795	251 795
Total equity		**882 911**	**1 510 359**	**49 671 033**	**49 432 879**
Non-current liabilities					
Long-term borrowings	23	629 672	778 057	35 424 340	25 465 192
Defined benefit pension plan	10	25 007	57 487	1 406 837	1 881 504
Other long-term liabilities		2 384	7 651	134 147	250 398
Deferred tax liabilities	12	30 381	45 755	1 709 207	1 497 554
Total non-current liabilities		**687 444**	**888 950**	**38 674 531**	**29 094 648**
Current liabilities					
Trade and other payables	24	78 588	100 752	4 421 231	3 297 502
Current income tax payable		4 907	2 292	276 057	75 001
Other taxes payable		4 240	8 235	238 550	269 571
Short-term borrowings	23	475 907	224 722	26 773 763	7 354 964
Advances received from customers		58 561	144 710	3 294 546	4 736 233
Dividends payable		578	15 717	32 538	514 410
Total current liabilities		**622 781**	**496 428**	**35 036 685**	**16 247 681**
Total liabilities		**1 310 225**	**1 385 378**	**73 711 216**	**45 342 329**
Total equity and liabilities		**2 193 136**	**2 895 737**	**123 382 249**	**94 775 208**

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 14 to 68.

’000 USD	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury share reserve	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interests	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	-	-	-	(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 14 to 68.

’000 USD	Attributable to equity holders of the Company								
	Share capital	Share premium	Treasury share reserve	Retained earnings	Reserves	Cumulative translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2014	**22 785**	**158 054**	**-**	**1 567 465**	**(12 674)**	**(232 901)**	**1 502 729**	**7 630**	**1 510 359**
Total comprehensive income for the year									
Profit for the year	-	-	-	157 088	-	-	157 088	(3 260)	153 828
Other comprehensive income/(loss)									
Foreign currency translation difference	-	-	-	-	-	(636 045)	(636 045)	2 049	(633 996)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(606)	-	(606)	-	(606)
Revaluation of property, plant and equipment	-	-	-	-	44 705	-	44 705	-	44 705
Defined benefit plan actuarial gains/(losses)	-	-	-	-	13 935	-	13 935	-	13 935
Income tax on other comprehensive income	-	-	-	-	121	-	121	-	121
Total other comprehensive income/(loss)	-	-	-	-	58 155	(636 045)	(577 890)	2 049	(575 841)
Total comprehensive income for the year	**-**	**-**	**-**	**157 088**	**58 155**	**(636 045)**	**(420 802)**	**(1 211)**	**(422 013)**
Dividends	-	-	-	(176 070)	-	-	(176 070)	-	(176 070)
Treasury shares acquired	-	-	(29 365)	-	-	-	(29 365)	-	(29 365)
Total transactions with owners	-	-	(29 365)	(176 070)	-	-	(205 435)	-	(205 435)
Balance at 31 December 2014	**22 785**	**158 054**	**(29 365)**	**1 548 483**	**45 481**	**(868 946)**	**876 492**	**6 419**	**882 911**

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 14 to 68.

’000 RUB	**Attributable to equity holders of the Company**								
	Share capital	**Share premium**	**Treasury share reserve**	**Retained earnings**	**Reserves**	**Cumulative translation reserve**	**Total**	**Non-controlling interests**	**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	-	-	-	(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 14 to 68.

’000 RUB	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury share reserve**	**Retained earnings**	**Reserves**	**Cumulative translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2014	**596 313**	**4 800 527**	**-**	**44 108 735**	**(400 106)**	**75 615**	**49 181 084**	**251 795**	**49 432 879**
Total comprehensive income for the year									
Profit for the year	-	-	-	5 963 099	-	-	5 963 099	(123 763)	5 839 336
Other comprehensive income/(loss)									
Foreign currency translation difference	-	-	-	-	-	(86 230)	(86 230)	77 763	(8 467)
Net change in fair value of available-for-sale financial assets	-	-	-	-	(23 000)	-	(23 000)	-	(23 000)
Revaluation of property, plant and equipment	-	-	-	-	1 697 011	-	1 697 011	-	1 697 011
Defined benefit plan actuarial gains (losses)	-	-	-	-	528 980	-	528 980	-	528 980
Income tax on other comprehensive income	-	-	-	-	4 600	-	4 600	-	4 600
Total other comprehensive income/(loss)	-	-	-	-	2 207 591	(86 230)	2 121 361	77 763	2 199 124
Total comprehensive income for the year	**-**	**-**	**-**	**5 963 099**	**2 207 591**	(86 230)	**8 084 460**	**(46 000)**	**8 038 460**
Dividends	-	-	-	(6 145 616)	-	-	(6 145 616)	-	(6 145 616)
Treasury shares acquired	-	-	(1 654 690)	-	-	-	(1 654 690)	-	(1 654 690)
Total transactions with owners	-	-	**(1 654 690)**	**(6 145 616)**	-	-	**(7 800 306)**	-	**(7 800 306)**
Balance at 31 December 2014	**596 313**	**4 800 527**	**(1 654 690)**	**43 926 218**	**1 807 485**	**(10 615)**	**49 465 238**	**205 795**	**49 671 033**

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 14 to 68.

	Note	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Cash flows from operating activities					
Profit before income tax		201 006	347 822	7 630 209	11 077 495
Adjustments for:					
Depreciation and amortization	13,14	117 922	125 137	4 476 352	3 985 325
Impairment/(reversal) of accounts receivable		9 865	(7 104)	374 486	(233 043)
Impairment loss on intangible assets		5 481	18 839	208 074	600 000
Impairment of investments		4 241	-	161 000	-
Share of loss in equity accounted investees		3 355	3 173	127 349	101 067
Interest income	8	(26 849)	(21 417)	(1 019 198)	(682 129)
Unrealized foreign currency translation loss		260 700	34 199	10 313 594	249 221
Interest expenses	8	30 680	32 461	1 164 630	1 033 823
Provision for inventory obsolescence	7(a)	735	1 304	27 912	116 294
Loss on disposal of property, plant and equipment	7(c)	2 998	944	113 815	30 082
Pension obligations	7(a)	4 434	5 481	168 313	174 559
Operating profit before changes in working capital and provisions		**614 568**	**540 839**	**23 746 536**	**16 452 694**
Change in trade and other receivables		(10 042)	8 449	(456 131)	227 026
Change in advances to suppliers		(2 061)	11 926	(99 157)	390 328
Change in inventories		(2 114)	(121 901)	(448 375)	(3 989 709)
Change in trade and other payables, advances received and other taxes payable		(43 893)	(16 996)	(961 066)	(553 177)
Change in other current assets		(2 755)	450	(114 399)	14 730
Change in other long-term liabilities		(4 942)	(2 378)	(187 606)	(77 845)
Cash flows from operations before income taxes and interest paid		**548 761**	**420 389**	**21 479 802**	**12 464 047**
Income taxes paid		(50 907)	(48 524)	(2 247 754)	(1 528 209)
Interest paid		(32 773)	(28 164)	(1 189 848)	(891 351)
Net cash from operating activities		**465 081**	**343 701**	**18 042 200**	**10 044 487**

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 14 to 68.

		2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Cash flows from investing activities					
Purchases of property, plant and equipment, including advances	13	(288 518)	(206 020)	(10 952 198)	(6 561 280)
Purchases of intangible assets	14	(15 414)	(794)	(585 118)	(25 275)
Proceeds from disposal of property, plant and equipment		9 121	11 588	346 159	368 988
Loans provided and acquisition of other investments		(93 071)	(3 770)	(3 533 016)	(120 057)
Proceeds from disposal of investments		17 447	58 467	662 296	1 862 057
Treasury shares		(29 365)	-	(1 654 690)	-
Dividends from equity-accounted investees		-	5 809	-	185 020
Interest received		27 205	21 254	1 018 158	676 897
Net cash used in investing activities		**(372 595)**	**(113 466)**	**(14 698 409)**	**(3 613 650)**
Cash flows from financing activities					
Dividends paid to shareholders		(191 209)	(90 800)	(6 627 488)	(2 891 807)
Proceeds from borrowings		805 610	1 687 554	30 581 186	54 600 913
Repayment of borrowings		(702 492)	(1 522 366)	(26 666 655)	(47 712 330)
Net cash (used in)/from financing activities		**(88 091)**	**74 388**	**(2 712 957)**	**3 996 776**
Effect of exchange rate changes on cash and cash equivalents		(6 566)	(15 065)	10 983 194	(457 558)
Net (decrease)/increase in cash and cash equivalents		**(2 171)**	**289 558**	**11 614 028**	**9 970 055**
Cash and cash equivalents at the beginning of the year	20	**498 791**	**209 233**	**16 325 038**	**6 354 983**
Cash and cash equivalents at the end of the year	20	**496 620**	**498 791**	**27 939 066**	**16 325 038**

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 14 to 68.

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 2014 the ultimate parent of the Group CJSC “Expotrade” controls 65,27% 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

Russian 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 recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations.

The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Ukrainian business environment

Ukraine’s political and economic situation has deteriorated significantly since the Government’s decision not to sign the Association Agreement and the Deep and Comprehensive 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. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in Donetsk and Lugansk regions escalated into military clashes and armed conflict between armed supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces. As at the date these consolidated financial statements were authorized for issue, the instability and unrest continue, and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics. As a result, Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

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 in the current circumstances, a continuation of the current unstable business environment could negatively affect 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. The following is summarised financial information of Ukrainian subsidiaries as at and for the years ended 31 December 2014 and 2013:

	2014 ’000 USD	**2013 ’000 USD**	**2014 ’000 RUB**	**2013 ’000 RUB**
Revenue	48 796	45 161	1 852 300	1 438 292
Total comprehensive loss	**(11 595)**	**(18 104)**	**(440 157)**	**(576 579)**
Non-current assets	39 791	67 627	2 238 556	2 213 365
Current assets	22 817	31 033	1 283 640	1 015 693
Non-current liabilities	(2 197)	(7 239)	(123 573)	(236 939)
Current liabilities	(42 654)	(54 784)	(2 399 650)	(1 793 007)
Net assets	**17 757**	**36 637**	**998 973**	**1 199 112**

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 13 – Property, plant and equipment
- Note 14 – Intangible assets;
- Note 15 – Goodwill;
- 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 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	**2014 ’000 USD**	**2013 ’000 USD**	**2014 ’000 RUB**	**2013 ’000 RUB**
Russia	677 164	670 807	25 705 334	21 363 851
North America	442 397	380 151	16 793 511	12 107 037
Europe	381 849	406 692	14 495 121	12 952 326
Asia	77 912	98 190	2 957 550	3 127 151
Other CIS countries	51 572	56 400	1 957 707	1 796 241
	1 630 894	**1 612 240**	**61 909 223**	**51 346 606**

The Group has revenue from one customer amounting to 10% or more of total revenue in the amount of approximately USD 212 million or RUB 8 029 million (2013: USD 167 million or RUB 5 318 million). Furthermore, revenue to parties under Government control is disclosed in note 30.

6. Revenue

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Revenue from sales of goods	1 592 710	1 579 877	60 459 745	50 315 897
Revenue from services provided	22 471	24 229	852 996	771 636
Other revenue	15 713	8 134	596 482	259 073
	1 630 894	**1 612 240**	**61 909 223**	**51 346 606**

7. Income and expenses

(a) Cost of sales

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Materials and consumables used	(364 419)	(343 499)	(13 833 454)	(10 939 751)
Personnel cost	(169 597)	(194 296)	(6 437 969)	(6 187 936)
Utilities	(160 103)	(182 589)	(6 077 543)	(5 815 092)
Depreciation	(110 246)	(121 397)	(4 184 959)	(3 866 237)
Contributions to State pension fund	(54 346)	(60 423)	(2 063 005)	(1 924 351)
Repairs and maintenance	(17 824)	(22 188)	(676 605)	(706 643)
Mechanical processing	(5 014)	(4 001)	(190 324)	(127 410)
Pension cost	(4 434)	(5 481)	(168 313)	(174 559)
Provision for inventory obsolescence	(735)	(1 304)	(27 912)	(116 294)
Other costs	(12 506)	(17 093)	(474 748)	(469 639)
	(899 224)	**(952 271)**	**(34 134 832)**	**(30 327 912)**

(b) Distribution expenses

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Transport	(9 682)	(10 191)	(367 540)	(324 563)
Personnel cost	(8 047)	(7 057)	(305 466)	(224 751)
Materials	(5 688)	(7 002)	(215 926)	(223 000)
Certification expenses	(4 837)	(5 068)	(183 614)	(161 406)
Customs	(3 293)	(5 414)	(125 021)	(172 425)
Contributions to State pension fund	(897)	(910)	(34 057)	(28 982)
Advertising expenses	(742)	(757)	(28 173)	(24 109)
Other expenses	(4 664)	(4 628)	(177 003)	(147 377)
	(37 850)	**(41 027)**	**(1 436 800)**	**(1 306 613)**

(c) General and administrative expenses

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Personnel cost	(83 318)	(91 061)	(3 162 791)	(2 900 109)
Insurance	(23 673)	(22 872)	(898 623)	(728 427)
Contributions to State pension fund	(18 962)	(21 752)	(719 801)	(692 757)
Charity expenses	(13 833)	(16 548)	(525 105)	(527 020)
Taxes other than income tax	(11 202)	(12 873)	(425 247)	(409 979)
Impairment (loss)/reversal on trade and other receivables	(9 865)	7 104	(374 486)	233 043
Depreciation	(7 434)	(3 604)	(282 228)	(114 766)
Repair and maintenance	(6 876)	(14 971)	(261 007)	(476 796)
Accrual of liabilities for customer claims	(6 179)	(1 520)	(234 558)	(48 400)
Consulting expenses	(5 211)	(5 725)	(197 813)	(182 330)
Net loss on disposal of property, plant and equipment	(2 998)	(944)	(113 815)	(30 082)
Materials	(1 918)	(3 754)	(72 823)	(119 557)
Other expenses	(54 707)	(41 718)	(2 076 613)	(1 335 424)
	(246 176)	**(230 238)**	**(9 344 910)**	**(7 332 604)**

8. Net finance costs

Finance income	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Interest income	26 849	21 417	1 019 198	682 129
Finance income	**26 849**	**21 417**	**1 019 198**	**682 129**
Finance costs				
Interest expenses	(30 680)	(32 461)	(1 164 630)	(1 033 823)
Foreign currency exchange loss, net	(233 971)	(7 826)	(8 881 617)	(249 221)
Finance costs	**(264 651)**	**(40 287)**	**(10 046 247)**	**(1 283 044)**

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.

In units of shares	2014	2013
Issued shares as at 1 January	11 529 538	11 529 538
Effect of treasury shares owned	(11 388)	-
Weighted average number of shares for the year ended 31 December	11 518 150	11 529 538

’000 USD	2014	2013
Weighted average number of shares for the year ended 31 December	11 518 150	11 529 538
Profit attributable to the equity holders of the Company (’000 USD)	157 088	280 471
Basic earnings per share (USD per 1 share)	13.638	24.326

’000 RUB	**2014**	**2013**
Weighted average number of shares for the year ended 31 December	11 518 150	11 529 538
Profit attributable to the equity holders of the Company (’000 RUB)	5 963 099	8 932 474
Basic earnings per share (RUB per 1 share)	517.713	774.747

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 2015 with a valuation date of 31 December 2014. 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	**2014**	**2013**
Balance at 1 January	**57 487**	**54 363**
Included in profit or loss		
Current service cost	717	1 748
Interest cost	3 717	3 733
	4 434	**5 481**
Included in OCI		
Remeasurements (gain)/loss :		
- Actuarial (gain)/loss	(13 935)	5 206
	(13 935)	**5 206**
Other		
Benefits paid	(3 003)	(3 454)
Cumulative translation adjustment	(19 976)	(4 109)
	(22 979)	**(7 563)**
Balance at 31 December	**25 007**	**57 487**

	Defined benefit obligation	
'000 RUB	**2014**	**2013**
Balance at 1 January	**1 881 504**	**1 651 156**
Included in profit or loss		
Current service cost	27 200	55 675
Interest cost	141 113	118 884
	168 313	**174 559**
Included in OCI		
Remeasurements loss:		
- Actuarial (gain)/loss	(528 980)	165 779
	(528 980)	**165 779**
Other		
Benefits paid	(114 000)	(109 990)
	(114 000)	**(109 990)**
Balance at 31 December	**1 406 837**	**1 881 504**

(b) Defined benefit obligation

(i) Actuarial assumptions

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

	2014	**2013**
Discount rate	13,00%	7,50%
Future salary growth	6,00%	5,00%
Future pension growth	6,00%	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 2013	Sverdlovsk region population 2012

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

(ii) Sensitivity analysis

31 December 2014	**Defined benefit obligation**	
'000 USD	**Increase**	**Decrease**
Discount rate (1% movement)	(1 376)	1 585
Future salary (1% movement)	1 681	(1 473)

31 December 2014	**Defined benefit obligation**	
'000 RUB	**Increase**	**Decrease**
Discount rate (1% movement)	(77 389)	89 184
Future salary (1% movement)	94 585	(82 864)

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

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Payroll and Contributions to State pension fund	(335 167)	(375 499)	(12 723 089)	(11 958 886)
Pension cost	(4 434)	(5 481)	(168 313)	(174 559)
	(339 601)	**(380 980)**	**(12 891 402)**	**(12 133 445)**

12. Income taxes

The Group’s applicable tax rate is the income tax rate of 20% (2013: 20%) for Russian companies.

(a) Amounts recognised in profit or loss

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Current tax expense				
Current year	(44 601)	(62 698)	(1 693 054)	(1 996 797)
(Under)/over provided in prior years	-	699	(9)	22 236
	(44 601)	**(61 999)**	**(1 693 063)**	**(1 974 561)**
Deferred tax expense				
Origination and reversal of temporary differences	(2 577)	(6 127)	(97 810)	(195 137)
	(47 178)	**(68 126)**	**(1 790 873)**	**(2 169 698)**

(b) Amounts recognised in other comprehensive income

’000 USD	**2014**			**2013**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	(606)	121	(485)	126	(25)	101
Remeasurement of defined benefit liability/asset	13 935	-	13 935	(5 206)	-	(5 206)
Fixed assets revaluation reserve	44 705	-	44 705	-	-	-
	58 034	**121**	**58 155**	**(5 080)**	**(25)**	**(5 105)**

’000 RUB	**2014**			**2013**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	(23 000)	4 600	(18 400)	3 997	(799)	3 198
Remeasurement of defined benefit liability/asset	528 980	-	528 980	(165 779)	-	(165 779)
Fixed assets revaluation reserve	1 697 011	-	1 697 011	-	-	-
	2 202 991	**4 600**	**2 207 591**	**(161 782)**	**(799)**	**(162 581)**

Reconciliation of effective tax rate:

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Profit before income tax	201 006	347 822	7 630 209	11 077 495
Income tax at applicable tax rate	(40 201)	(69 565)	(1 526 042)	(2 215 499)
Effect of income taxed at different rates	(997)	6 068	(37 883)	193 293
Non-deductible expenses	(5 980)	(5 328)	(226 939)	(169 728)
(Under)/over provided in prior years	-	699	(9)	22 236
	(47 178)	**(68 126)**	**(1 790 873)**	**(2 169 698)**

(c) Movement in deferred tax balances

’000 USD	1 January 2014	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2014 Net deferred balances	31 December 2014 Deferred tax asset	31 December 2014 Deferred tax liability
Property, plant and equipment	(53 028)	(938)	-	22 503	(31 463)	700	(32 163)
Intangible assets	394	1 003	-	(273)	1 124	3 242	(2 118)
Inventories	12 696	9 764	-	(8 484)	13 976	14 800	(824)
Trade and other receivables	2 355	3 443	-	(2 143)	3 655	4 137	(482)
Trade and other payables	6 566	1 385	-	(3 196)	4 755	4 755	-
Investments	(459)	872	121	(131)	403	626	(223)
Tax loss carry-forwards	3 068	(305)	-	(1 184)	1 579	1 579	-
Borrowings	(1 363)	(173)	-	627	(909)	-	(909)
Other items	(10 861)	(17 628)	-	10 251	(18 238)	639	(18 877)
Total deferred tax balances	**(40 632)**	**(2 577)**	**121**	**17 970**	**(25 118)**	**30 478**	**(55 596)**
Set-off of tax					**-**	**(25 215)**	**25 215**
Net deferred tax balances					**(25 118)**	**5 263**	**(30 381)**

’000 USD	1 January 2013	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2013 Net deferred balances	31 December 2013 Deferred tax asset	31 December 2013 Deferred tax liability
Property, plant and equipment	(50 958)	(5 620)	-	3 550	(53 028)	916	(53 944)
Intangible assets	(2 513)	3 154	-	(247)	394	4 408	(4 014)
Inventories	14 525	(940)	-	(889)	12 696	15 959	(3 263)
Trade and other receivables	1 528	929	-	(102)	2 355	2 355	-
Trade and other payables	6 676	335	-	(445)	6 566	6 566	-
Investments	(407)	(35)	(25)	8	(459)	-	(459)
Tax loss carry-forwards	2 568	637	-	(137)	3 068	3 068	-
Borrowings	(1 684)	206	-	115	(1 363)	-	(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)	1 425	(12 286)
Total deferred tax balances	**(36 931)**	**(6 127)**	**(25)**	**2 451**	**(40 632)**	**34 697**	**(75 329)**
Set-off of tax					**-**	**(29 574)**	**29 574**
Net deferred tax balances					**(40 632)**	**5 123**	**(45 755)**

’000 RUB	1 January 2014	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2014 Net deferred balances	Deferred tax asset	Deferred tax liability
Property, plant and equipment	(1 735 571)	(35 832)	-	1 355	(1 770 048)	39 371	(1 809 419)
Intangible assets	12 909	41 701	-	8 601	63 211	182 365	(119 154)
Inventories	415 532	370 711	-	-	786 243	832 615	(46 372)
Trade and other receivables	77 084	128 558	-	-	205 642	232 762	(27 120)
Trade and other payables	214 911	52 574	-	-	267 485	267 485	-
Investments	(15 027)	33 081	4 600	-	22 654	35 214	(12 560)
Tax loss carry-forwards	100 403	(11 560)	-	-	88 843	88 843	-
Borrowings	(44 594)	(6 570)	-	-	(51 164)	-	(51 164)
Other items	(355 504)	(670 473)	-	-	(1 025 977)	36 007	(1 061 984)
Total deferred tax balances	**(1 329 857)**	**(97 810)**	**4 600**	**9 956**	**(1 413 111)**	**1 714 662**	**(3 127 773)**
Set-off of tax					**-**	**(1 418 566)**	**1 418 566**
Net deferred tax balances					**(1 413 111)**	**296 096**	**(1 709 207)**

’000 RUB	1 January 2013	Recognized in profit or loss	Recognized in other comprehen-sive income	Translation difference	31 December 2013 Net deferred balances	Deferred tax asset	Deferred tax liability
Property, plant and equipment	(1 547 746)	(187 142)	-	(683)	(1 735 571)	29 976	(1 765 547)
Intangible assets	(76 317)	100 768	-	(11 542)	12 909	144 282	(131 373)
Inventories	441 153	(25 621)	-	-	415 532	522 323	(106 791)
Trade and other receivables	46 413	30 671	-	-	77 084	77 084	-
Trade and other payables	202 775	12 136	-	-	214 911	214 911	-
Investments	(12 359)	(1 869)	(799)	-	(15 027)	49	(15 076)
Tax loss carry-forwards	77 999	22 404	-	-	100 403	100 403	-
Borrowings	(51 155)	6 561	-	-	(44 594)	-	(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)	46 615	(402 119)
Total deferred tax balances	**(1 121 696)**	**(195 137)**	**(799)**	**(12 225)**	**(1 329 857)**	**1 135 643**	**(2 465 500)**
Set-off of tax					**-**	**(967 946)**	**967 946**
Net deferred tax balances					**(1 329 857)**	**167 697**	**(1 497 554)**

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

Year of expiration	Tax base, 2014 ’000 USD	Tax base, 2014 ’000 RUB	Tax base, 2013 ’000 USD	Tax base, 2013 ’000 RUB
2018	1 437	80 786	2 663	87 148
2019	816	45 910	1 853	60 636
2020	17	931	1 172	38 373
2021	1 689	95 038	2 896	94 768
2022	1 368	76 954	2 370	77 578
2023	173	9 747	299	9 779
2028	651	36 647	1 234	40 420
Total	**6 151**	**346 013**	**12 487**	**408 702**

As at 31 December 2014 a deferred tax liability for temporary differences (before calculating tax effect) of USD 180 229 thousand or RUB 10 139 390 thousand (2013: USD 274 811 thousand or RUB 8 994 349 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 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**
Cost							
Balance at 1 January 2014	348 411	1 034 195	29 865	75 586	83 518	326 433	1 898 008
Reclassification	(43 091)	68 751	151	11 529	(37 340)	-	-
Additions	5 104	51 368	81 098	3 211	3 544	146 373	290 698
Transfers	12 980	67 484	2 537	2 615	1 734	(87 350)	-
Disposals	(1 771)	(50 868)	(2 729)	(137)	(5 036)	(3 768)	(64 309)
Revaluation	-	-	44 705	-	-	-	44 705
Translation to presentation currency	(137 179)	(477 248)	(53 433)	(37 213)	(22 902)	(154 530)	(882 505)
Balance at 31 December 2014	**184 454**	**693 682**	**102 194**	**55 591**	**23 518**	**227 158**	**1 286 597**
Accumulated depreciation							
Balance at 1 January 2014	(168 691)	(611 160)	(17 390)	(36 688)	(57 776)	-	(891 705)
Reclassification	5 450	(34 855)	11	(1 747)	31 141	-	-
Depreciation charge	(9 368)	(96 018)	(4 749)	(4 109)	(3 436)	-	(117 680)
Disposals	1 450	47 097	2 054	96	1 493	-	52 190
Translation to presentation currency	71 373	282 872	8 151	17 218	14 668	-	394 282
Balance at 31 December 2014	**(99 786)**	**(412 064)**	**(11 923)**	**(25 230)**	**(13 910)**	**-**	**(562 913)**
Net book value							
Balance at 1 January 2014	**179 720**	**423 035**	**12 475**	**38 898**	**25 742**	**326 433**	**1 006 303**
Balance at 31 December 2014	**84 668**	**281 618**	**90 271**	**30 361**	**9 608**	**227 158**	**723 684**

'000 RUB	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construction	Total
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**	**1 186 218**	**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**
Cost							
Balance at 1 January 2014	11 403 200	33 848 373	977 443	2 473 863	2 733 532	10 683 880	62 120 291
Reclassification	(1 635 762)	2 609 813	5 744	437 654	(1 417 449)	-	-
Additions	193 739	1 949 954	3 078 513	121 872	134 534	5 556 348	11 034 960
Transfers	492 737	2 561 706	96 296	99 278	65 826	(3 315 843)	-
Disposals	(67 214)	(1 930 948)	(103 591)	(5 210)	(191 151)	(143 020)	(2 441 134)
Revaluation	-	-	1 697 011	-	-	-	1 697 011
Translation to presentation currency	(9 609)	(13 428)	(2 180)	-	(2 136)	(1 853)	(29 206)
Balance at 31 December 2014	**10 377 091**	**39 025 470**	**5 749 236**	**3 127 457**	**1 323 156**	**12 779 512**	**72 381 922**
Accumulated depreciation							
Balance at 1 January 2014	(5 521 114)	(20 002 764)	(569 171)	(1 200 763)	(1 890 982)	-	(29 184 794)
Reclassification	206 898	(1 323 102)	419	(66 302)	1 182 087	-	-
Depreciation charge	(355 612)	(3 644 858)	(180 276)	(155 993)	(130 448)	-	(4 467 187)
Disposals	55 024	1 787 807	77 963	3 650	56 716	-	1 981 160
Translation to presentation currency	1 030	878	288	-	14	-	2 210
Balance at 31 December 2014	**(5 613 774)**	**(23 182 039)**	**(670 777)**	**(1 419 408)**	**(782 613)**	**-**	**(31 668 611)**
Net book value							
Balance at 1 January 2014	**5 882 086**	**13 845 609**	**408 272**	**1 273 100**	**842 550**	**10 683 880**	**32 935 497**
Balance at 31 December 2014	**4 763 317**	**15 843 431**	**5 078 459**	**1 708 049**	**540 543**	**12 779 512**	**40 713 311**

In 2014 the Group acquired recreation resort for RUB 724 821 thousand, or USD 19 094 thousand. The assets are under reconstruction and planned to be used for corporate purposes of the Group. Key assets acquired are land lease rights for 50 years (RUB 584 309 thousand, or USD 15 393 thousand) accounted for as Intangible assets (see note 14), buildings (RUB 180 915 thousand, or USD 4 766 thousand) and other property, plant and equipment (RUB 14 468 or USD 381 thousand). Other liabilities, acquired with these assets, amount to RUB 54 871 thousand, or USD 1 446 thousand. The acquisition does not qualify as a business combination.

The major amount of additions within "Transport" group in 2014 refers to airplane acquired by the Group. After significant acquisitions in 2014 the Group decided to change its accounting policy in respect of accounting model for Transport and changed from cost model to revaluation. As at 31 December 2014 the Group employed independent appraiser to determine fair value of these fixed assets. The fair value was determined using cost approach based on current replacement cost of similar assets as at the date of fair value measurement which was adjusted for physical and economical depreciation. Information on current replacement cost was obtained from producers of the respective fixed assets or based on actual historic cost of the fixed assets inflated to the valuation date. Given significance of unobservable inputs used in the valuation, the fair value measurement is classified as Level 3 in hierarchy of fair values (see note 25). As a result, fair value of transport increased by RUB 1 697 011 thousand or USD 44 705 thousand as at 31 December 2014. Should the Group continue accounting for transport items using cost model as at 31 December 2014 net book value of these fixed assets would amount to RUB 3 381 448 thousand or USD 60 106 thousand. Revaluation surplus recognized in the amount of RUB 1 697 011 thousand or USD 44 705 thousand is not subject to distribution to shareholders of the Group.

Depreciation expense of USD 110 246 thousand or RUB 4 184 959 thousand (2013: USD 121 397 thousand or RUB 3 866 237 thousand) has been charged to cost of goods sold and USD 7 434 thousand or RUB 282 228 thousand (2013: USD 3 604 thousand or RUB 114 766 thousand) to administrative expenses.

Advances given to suppliers for capital construction in the amount of USD 26 024 thousand or RUB 1 464 050 thousand (31 December 2013: USD 51 183 thousand or RUB 1 675 184 thousand) are included in the balance of assets under construction.

In 2014 capitalized borrowing costs related to the construction of new property, plant and equipment amounted to USD 2 180 thousand or RUB 82 762 thousand (2013: USD 2 269 thousand or RUB 72 282 thousand) with an average capitalization rate of 3% (2013: 3%).

Properties with a net book value of USD 7 391 thousand or RUB 415 816 thousand (2013: USD 10 244 thousand or RUB 335 277 thousand) are pledged to secure bank loans, see note 23.

14. Intangible assets

’000 USD	**Mining rights**	**Land lease rights**	**Other**	**Total**
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**
Cost				
Balance at 1 January 2014	90 085	-	1 687	91 772
Acquisitions	2	15 393	19	15 414
Disposals	-	-	(20)	(20)
Effect of the movement of exchange rates	(40 869)	(5 007)	(441)	(46 317)
Balance at 31 December 2014	**49 218**	**10 386**	**1 245**	**60 849**

’000 USD	**Mining rights**	**Land lease rights**	**Other**	**Total**
Accumulated amortization and impairment losses				
Balance at 1 January 2014	(40 420)	-	(914)	(41 334)
Amortization for the year	-	(147)	(94)	(242)
Impairment losses	(5 481)	-	-	(5 481)
Effect of the movement of exchange rates	20 481	48	139	20 668
Balance at 31 December 2014	**(25 420)**	**(99)**	**(869)**	**(26 389)**
Carrying amounts				
As at 1 January 2014	**49 665**	**-**	**773**	**50 438**
As at 31 December 2014	**23 798**	**10 287**	**376**	**34 460**

'000 RUB	**Mining rights**	**Land lease rights**	**Other**	**Total**
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**
Cost				
Balance at 1 January 2014	2 920 960	-	53 149	2 974 109
Acquisitions	81	584 309	728	585 118
Disposals			(742)	(742)
Effect of the movement of exchange rates	(152 135)	-	16 903	(135 232)
Balance at 31 December 2014	**2 768 906**	**584 309**	**70 038**	**3 423 253**
Accumulated amortization and impairment losses				
Balance at 1 January 2014	(1 294 317)	-	(29 001)	(1 323 318)
Amortization for the year	-	(5 590)	(3 575)	(9 165)
Impairment losses	(208 074)	-	-	(208 074)
Effect of the movement of exchange rates	72 321	-	(16 328)	55 993
Balance at 31 December 2014	**(1 430 070)**	**(5 590)**	**(48 904)**	**(1 484 564)**
Carrying amounts				
As at 1 January 2014	**1 626 643**	**-**	**24 148**	**1 650 791**
As at 31 December 2014	**1 338 836**	**578 719**	**21 134**	**1 938 689**

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 242 thousand or RUB 9 165 thousand (2013: USD 136 thousand or RUB 4 322 thousand) has been charged to administrative expenses.

Significant additions to "Land lease rights" category relates to acquisition of recreation resort. Additional information is presented in Note 13.

(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. The term of the license is until 2029. 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.

In 2012 impairment loss of USD 22 330 thousand or RUB 694 317 thousand was recognized. 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 Group has significant investment program for production assets. Based on this investment program it was decided in 2014 to start development of the deposit not earlier than 2019. Impairment loss of USD 5 481 thousand or RUB 208 074 thousand was recognized in 2014 as a result of delays in realization of the project and change in discount rate.

(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 2015.

In 2013 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. The impairment loss occurred due to the delay in project realisation and increase of discount rate due to increased country risks.

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 2015 and reach planned capacity of 50 thousand tons in 2021. The production will remain stable for the rest of the projection period till 2035 when management expects to complete exploration of the deposit.
- A pre-tax discount rates of 37% and 34.6% were applied to discount projected cash flows in 2015 and 2016, respectively. For the remaining period a pre-tax discount rates in range of 33,5%-35,2% were used to discount projected cash flows;
- The discount rate was estimated based on an industry weighted average cost of capital, which applied a possible debt leveraging of 35.14% at a market borrowing rate of 16.6%.

Based on the result of the above test carrying amount of the mining rights as at 31 December 2014 approximates its value in use as at reporting date. As a result no additional impairment or reversal of previous impairments is required as at 31 December 2014.

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 1.5 million or RUB 82 million. An increase in sales prices of 10% and decrease in discount rate of 1%-point lead to an excess in amount of approximately USD 16.1 million or RUB 907 million.

15. Goodwill

	Limpieza and DGOK	AVISMA	Total
	’000 USD	’000 USD	’000 USD
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**
Balance as at 1 January 2014	**12 248**	**48 915**	**61 163**
Cumulative translation adjustment	(5 122)	(20 458)	(25 580)
Balance as at 31 December 2014	**7 126**	**28 457**	**35 583**

	Limpieza and DGOK	AVISMA	Total
	’000 RUB	’000 RUB	’000 RUB
Balance as at 1 January 2013	**400 875**	**1 600 942**	**2 001 817**
Cumulative translation adjustment	-	-	-
Balance as at 31 December 2013	**400 875**	**1 600 942**	**2 001 817**
Balance as at 1 January 2014	**400 875**	**1 600 942**	**2 001 817**
Cumulative translation adjustment	-	-	-
Balance as at 31 December 2014	**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 2013-2014 and budgets for 2015-2019. 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 2014 of approximately 28.9 thousand tons (2013: 29.3 thousand tons). The projections of target production levels are supported with past experience of the Group.
- A pre-tax discount rates of 30% and 22,8% were applied to discount projected cash flows in 2015 and 2016, respectively. For the remaining period a pre-tax discount rate of 21,6% was used to discount projected cash flows.
- Discount rates were estimated based on an industry weighted average cost of capital, which applied a possible debt leveraging of 35.14% at a market borrowing rate of 12.94%.
- A terminal rate of 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:

		2014			2013		
	Country	**Carrying value ’000 USD**	**Carrying value ’000 RUB**	**Interest**	**Carrying value ’000 USD**	**Carrying value ’000 RUB**	**Interest**
LLC “Uniti”	USA	7 687	432 450	50%	16 046	525 182	50%
OJSC “UralRedMet”	Russia	14 450	812 942	25%	23 982	784 905	25%
LLC “Aviacapital Service”	Russia	7 152	402 346	27%	-	-	
		29 289	**1 647 738**		**40 028**	**1 310 087**	

(a) Joint venture

LLC “Uniti”

On 29 April 2003, the Group entered into the 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 LLC “Uniti” (“Uniti”), a company registered in the United States of America. The Group’s share in net assets 2014 – 53,9% (2013 – 44,5%).

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 22,6% and 31,3% of the net loss (income) of Uniti in 2014 and 2013, respectively.

The following is summarised financial information of Uniti as at and for the years ended 31 December 2014 and 2013:

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Non-current assets	85	121	4 758	3 960
Current assets	32 813	44 842	1 846 032	1 467 054
Current liabilities	(7 696)	(8 951)	(432 963)	(292 370)
Net assets (100%)	**25 202**	**36 012**	**1 417 827**	**1 178 644**

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Revenue	96 201	149 022	3 651 827	4 746 053
Loss and total comprehensive income for the year (100%)	**(10 799)**	**(10 854)**	**(409 950)**	**(345 678)**
Group’s share of loss for the year	(2 443)	(3 400)	(92 732)	(108 283)
Dividends received by the Group	**-**	**(5 809)**	**-**	**(185 020)**

The Group had sales to Uniti of USD 24 736 thousand or RUB 938 986 thousand and USD 43 751 thousand or RUB 1 393 382 thousand during 2014 and 2013, respectively.

(b) Associates

OJSC “UralRedMet”

In September 2010 VSMPO-AVISMA acquired 18.98% of shares in the company OJSC “UralRedMet”, 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 OJSC “UralRedMet” for USD 6 168 thousand or RUB 181 261 thousand. After this acquisition the Group’s share in OJSC “UralRedMet” increased to 25% + 1 share and resulted in obtaining significant influence over the operating and financial activities of the company. Investments in OJSC “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 OJSC “UralRedMet” as at and for the year ended 31 December 2014 and 31 December 2013:

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Revenue	71 901	82 390	2 729 400	2 623 944
Profit for the year (100%)	**2 954**	**923**	**112 150**	**29 397**
Group’s share of profit for the year	739	231	28 037	7 352
Non-current assets	26 910	50 023	1 513 932	1 637 204
Current assets	23 423	26 926	1 317 722	881 280
Non-current liabilities	(3 991)	(7 566)	(224 551)	(247 619)
Current liabilities	(6 924)	(5 017)	(389 545)	(164 213)
Net assets (100%)	**39 418**	**64 366**	**2 217 558**	**2 106 652**
Group’s share of net assets (25%)	9 855	16 092	554 390	526 663

Purchases of the Group for the year ended 31 December 2014 were USD 64 030 thousand or RUB 2 430 606 thousand (2013: USD 74 857 thousand or RUB 2 384 056 thousand).

LLC “Aviacapital-Service”

In September 2014 the Group acquired 27% share in statutory capital of LLC “Aviacaptal-Service”. The Group converted loan issued to this company in 2012 in the amount of RUB 465 000 thousand or USD 8 265 thousand to the share in statutory capital. LLC “Aviacapital-Service” is involved in aircraft leasing business and currently holds three active agreements for delivery of new airplanes: Boeing 737 (deliveries scheduled in 2018 – 2020), MC-21 (deliveries scheduled in 2017 - 2025) and Sukhoi Super Jet (delivery scheduled in 2015).” After this transaction, the Group obtained significant influence over the operating and financial activities of the company.

The following is summarized financial information of LLC “Aviacapital-Service” as at 31 December 2014 and for the period 1 September to 31 December 2014:

	2014 **’000 USD**	**2014** **’000 RUB**
Revenue	-	-
Loss for the period from 1 September to 31 December 2014	**(6 109)**	**(231 881)**
Group’s share of loss for the period from September to December 2014	(1 651)	(62 654)
Non-current assets	21 796	1 226 213
Current assets	16 662	937 365
Non-current liabilities	(462)	(26 010)
Current liabilities	(9 337)	(525 309)
Net assets (100%)	**28 659**	**1 612 259**
Group’s share of net assets (27%)	7 744	435 632

(c) Joint operation

The Group is a 50% partner in CJSC “Ural Boeing Manufacturing” (located in V.Salda, Russia) a joint arrangement formed with the Boeing Company to perform titanium forgings machining services. CJSC “Ural Boeing Manufacturing” 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. The Group classifies the joint arrangement as a joint operation and consolidates 50% of assets and liabilities of the arrangement.

17. Other investments and loans receivable

	2014 **’000 USD**	**2013** **’000 USD**	**2014** **’000 RUB**	**2013** **’000 RUB**
Non-current				
Loans receivable	51 195	2 698	2 880 175	88 311
Investments available-for-sale measured at fair value	468	1 507	26 308	49 307
Other investments	676	855	38 015	27 975
	52 339	**5 060**	**2 944 498**	**165 593**
Current				
Loans receivable	5 343	21 546	300 590	705 188
Bank deposits	116	140	6 526	4 572
Investments held-to-maturity	3 502	7 658	197 000	250 640
	8 961	**29 344**	**504 116**	**960 400**

Current loans receivable are shown net of provision of USD 2 862 thousand or RUB 161 000 thousand (2013: nil).

In December 2014 the Group issued a subordinated loan to CJSC "AKB Novikombank", which is controlled by the Russian Technologies State Corporation, in the amount of RUB 2 800 000 thousand or USD 59 155 thousand at the exchange rate at the date of transaction. Key conditions of the deal were agreed by the parties in the middle of 2014 and were approved by the Central bank of the Russian Federation in November 2014. The loan is payable in 2020. Interest rate amounts to 14% fixed per annum. Interest is payable on a monthly basis. The loan is not secured. The Group estimates risks of default on this loan as low.

18. Inventories

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Raw materials and consumables	194 924	316 782	10 966 119	10 368 008
Work in progress	142 777	241 294	8 032 415	7 897 368
Finished goods and goods for resale	155 112	276 175	8 726 310	9 039 005
	492 813	**834 251**	**27 724 844**	**27 304 381**

Inventories are shown net of provision of USD 19 425 thousand or RUB 1 092 830 thousand (31 December 2013: USD 32 537 thousand or RUB 1 064 918 thousand).

At 31 December 2014 inventory with a net book value of USD 46 072 thousand or RUB 2 591 923 thousand (31 December 2013: USD 57 748 thousand or RUB 1 890 046 thousand) had been pledged as security for certain bank loans of the Group, see note 23.

19. Trade and other receivables

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Long-term trade accounts receivable	12 697	10 867	714 305	355 664
Short-term trade accounts receivable	207 653	204 620	11 682 251	6 697 062
Other accounts receivable	25 282	61 480	1 422 311	2 012 192
Less: provision	(20 420)	(24 517)	(1 148 811)	(802 412)
	225 212	**252 450**	**12 670 056**	**8 262 506**
Advances to suppliers	29 484	39 495	1 658 726	1 292 624
Less: provision	(1 126)	(1 685)	(63 343)	(55 148)
Value-added tax recoverable	21 392	28 720	1 203 452	939 977
Other taxes receivable	11 854	28 190	666 873	922 640
	286 816	**347 170**	**16 135 764**	**11 362 599**

At 31 December 2014 receivables with a carrying amount of USD 91 192 thousand or RUB 5 130 313 thousand (2013: USD 58 787 thousand or RUB 1 924 042 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

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Petty cash	401	89	22 568	2 903
Bank balances	18 093	43 232	1 017 891	1 414 957
Call deposits	474 448	454 711	26 691 632	14 882 340
Other cash and cash equivalents	3 678	759	206 975	24 838
	496 620	**498 791**	**27 939 066**	**16 325 038**

Bank deposits were classified as cash equivalents as the Group has the right to withdraw the deposits before their contractual maturities at any time with no significant penalties.

As at 31 December 2014 other cash equivalents include irrevocable letter of credit in the amount of RUB 165 312 thousand or USD 2 938 thousand opened for settlements from import operations. This balance can only be used for these settlements and therefore restricted for usage by the Group.

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Cash on hand and bank balances denominated in RUB	1 667	10 072	93 837	329 635
Cash on hand and bank balances denominated in USD	12 951	28 689	728 577	938 954
Cash on hand and bank balances denominated in other currencies	3 876	4 560	218 045	149 271
Short-term bank deposits, denominated in RUB	28 736	32 425	1 616 578	1 061 255
Short-term bank deposits, denominated in USD	445 452	421 800	25 060 404	13 805 165
Short-term bank deposits, denominated in other currencies	260	486	14 650	15 920
Other cash equivalents	3 678	759	206 975	24 838
	496 620	**498 791**	**27 939 066**	**16 325 038**

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:

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Cash on hand	401	89	22 568	2 903
Rated Ba2 and above*	55 322	78 189	3 112 354	2 559 048
Rated B2 stable	425	-	23 884	-
Rated Caa1*	439 739	-	24 739 029	-
Rated Caa2*	-	420 460	-	13 761 326
Unrated	733	53	41 231	1 761
	496 620	**498 791**	**27 939 066**	**16 325 038**

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

Obligations rated Ba2 and above* have medium, high and the highest quality. Obligations rated B2 are highly speculative. Obligations rated Caa1* and 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 2014**	**Ordinary shares 2013**
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 2014 in respect of 2013 to the holders of ordinary shares in the amount of RUB 533.91 per ordinary share (equivalent to USD 15.30 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 176 360 thousand or RUB 6 155 736 thousand and in 2013 in respect of 2012 to holders of ordinary shares of RUB 279.83 per ordinary share (equivalent to USD 8.56 per share translated at exchange rate prevailing at the date of declaration), for the total amount of USD 98 637 thousand or RUB 3 226 311 thousand. In 2014 the Group recovered dividends for previous years that were not received by shareholders in amount of USD 290 thousand or RUB 10 120 thousand (2013: nil).

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 2014 the net statutory profit of the Company as reported in the published annual statutory reporting forms was RUB 4 019 million (equivalent to USD 105 865 thousand translated at the average exchange rate for 2014) (2013: RUB 7 451 million (equivalent to USD 233 961 thousand translated at the average exchange rate for 2013)) and the closing balance of the accumulated profit including the current year net statutory profit totalled RUB 35 220 million (equivalent to USD 626 040 thousand translated at the closing exchange rate for 2014) (2013: RUB 37 318 million (equivalent to USD 1 140 205 thousand translated at the closing exchange rate for 2013).

(b) Treasury share reserve

In 2014 the Group companies acquired from minority shareholders on open market 130 551 of the Company’s shares (2013: nil) for a total amount of RUB 1 654 690 thousand or USD 29 365 thousand. As at 31 December 2014 these shares are recorded in the Treasury share reserve.

(c) Revaluation reserve

Revaluation reserve relates to the revaluation of property, plant and equipment and to the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

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.

In 2014 the Group changed calculation of net debt to align it with definitions in loan agreements of the Group.

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.

The Group monitors capital using a ratio of adjusted net debt to equity. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings, less cash and cash equivalents. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position according to IFRS. In 2014, the Group’s strategy was to keep the ratio below 1.

	2014	**2013**	**2014**	**2013**
	’000 USD	**’000 USD**	**’000 RUB**	**’000 RUB**
Total loans and borrowings	1 105 579	1 002 779	62 198 103	32 820 156
Less: cash and cash equivalents	(496 620)	(498 791)	(27 939 066)	(16 325 038)
Net debt	608 959	503 988	34 259 037	16 495 118
Total equity	882 911	1 510 359	49 671 033	49 432 879
Net debt to equity ratio at 31 December	0.69	0.33	0.69	0.33

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.

	2014	**2013**	**2014**	**2013**
	’000 USD	**’000 USD**	**’000 RUB**	**’000 RUB**
Non-current liabilities				
Unsecured bank loans	629 672	778 057	35 424 340	25 465 192
	629 672	**778 057**	**35 424 340**	**25 465 192**
Current liabilities				
Secured bank loans	35 197	5 028	1 980 102	164 562
Unsecured bank loans	440 710	219 694	24 793 661	7 190 402
	475 907	**224 722**	**26 773 763**	**7 354 964**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

’000 USD			2014		2013	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Unsecured bank loans						
UniCreditBank	USD	2016-2019	276 168	274 717	247 600	245 049
Nordea Bank	USD	2018	162 622	161 765	191 000	189 250
SberBank	USD	2016-2018	120 833	120 428	237 500	236 777
Raiffeisenbank	USD	2016	28 947	28 797	50 000	49 550
ING Bank	USD	2016	22 222	22 113	44 444	44 111
Commerzbank AG	EUR	2025	16 443	16 308	-	-
UniCredit Bank AG	EUR	2016-2017	5 544	5 544	13 320	13 320
			632 779	**629 672**	**783 864**	**778 057**

’000 USD			2014		2013	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Short-term loans						
Secured bank loans						
Bank of America-Merrill Lynch	USD	2015	35 197	35 197	5 000	5 000
ING Lease Bank	USD	2014	-	-	28	28
			35 197	***35 197***	***5 028***	***5 028***
Unsecured bank loans						
UniCreditBank	USD	2015	147 556	146 778	47 034	46 460
SberBank	USD	2015	116 707	116 641	100 000	99 985
Raiffeisen bank	USD	2015	51 053	50 732	50 000	49 625
Credi Agricole	USD	2015	40 000	40 000	-	-
AKB Rosbank	USD	2015	30 000	30 000	10 000	10 000
Nordea Bank	USD	2015	28 378	28 213	-	-
ING Bank	USD	2015	22 222	22 113	5 556	5 515
UniCreditBank AG	EUR	2015	6 233	6 233	8 109	8 109
			442 149	***440 710***	***220 699***	***219 694***
			477 346	**475 907**	**225 727**	**224 722**

’000 RUB			2014		2013	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Unsecured bank loans						
UniCreditBank	USD	2016-2019	15 536 793	15 455 197	8 103 750	8 020 258
Nordea Bank	USD	2018	9 148 832	9 100 664	6 251 277	6 194 001
SberBank	USD	2016-2018	6 797 890	6 775 083	7 773 185	7 749 525
Raiffeisenbank	USD	2016	1 628 533	1 620 049	1 636 460	1 621 732
ING Bank	USD	2016	1 250 187	1 244 017	1 454 631	1 443 721
Commerzbank AG	EUR	2025	925 077	917 448	-	-
UniCredit Bank AG	EUR	2016-2017	311 882	311 882	435 955	435 955
			35 599 194	**35 424 340**	**25 655 258**	**25 465 192**

’000 RUB			**2014**		**2013**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Short-term loans						
Secured bank loans						
Bank of America-Merrill Lynch	USD	2015	1 980 102	1 980 102	163 646	163 646
ING Lease Bank	USD	2014	-	-	916	916
			1 980 102	***1 980 102***	***164 562***	***164 562***
Unsecured bank loans						
UniCreditBank	USD	2015	8 301 292	8 257 579	1 539 400	1 520 614
SberBank	USD	2015	6 565 740	6 562 018	3 272 920	3 272 443
Raiffeisen bank	USD	2015	2 872 139	2 854 103	1 636 460	1 624 187
Credi Agricole	USD	2015	2 250 336	2 250 336	-	-
AKB Rosbank	USD	2015	1 687 752	1 687 752	327 292	327 292
Nordea Bank	USD	2015	1 596 522	1 587 199	-	-
ING Bank	USD	2015	1 250 187	1 244 017	181 829	180 464
UniCreditBank AG	EUR	2015	350 657	350 657	265 402	265 402
			24 874 625	***24 793 661***	***7 223 303***	***7 190 402***
			26 854 727	**26 773 763**	**7 387 865**	**7 354 964**

Bank loans are secured by following:

- Property, plant and equipment with a carrying amount of USD 7 391 thousand or RUB 415 816 thousand (2013: USD 10 244 thousand or RUB 335 277 thousand), see note 13;
- Inventory with a carrying amount of USD 46 072 thousand or RUB 2 591 923 thousand (2013: USD 57 748 thousand or RUB 1 890 046 thousand), see note 18;
- Trade and other accounts receivable with a carrying amount of USD 91 192 thousand or RUB 5 130 313 thousand (2013: USD 58 787 thousand or RUB 1 924 042 thousand), see note 19;

As at 31 December 2014 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 2014 the assets of Tirus US amounted to USD 154 328 thousand or RUB 8 682 264 thousand (2013: USD 140 387 thousand or RUB 4 594 760 thousand), excluding Uniti.

As at 31 December 2014 the Group had undrawn credit line facilities for the total amount of USD 80 000 thousand or RUB 4 500 672 thousand (2013: USD 358 595 thousand or RUB 11 736 515 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.

In 2014 the Group breached covenant with respect to unsecured bank loan with a carrying amount of RUB 9 787 729 thousand or USD 173 978 thousand at 31 December 2014 (2013: RUB 5 670 334 thousand or USD 173 250 thousand) which requires certain level of turnovers on Group’s bank accounts opened with in this bank. The Group informed the bank on the breach in 2014 and the bank agreed not to demand early repayment of the loan. Given that the bank provided waiver in 2014, as at 31 December 2014 the Group retained its right to defer payments under this loan for more than 12 months from the reporting date therefore the loan was classified as long term in accordance with contractual payment terms

24. Trade and other payables

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Trade accounts payable	40 519	43 480	2 279 534	1 423 064
Accrued liabilities and other creditors	25 725	36 681	1 447 246	1 200 534
Payroll and social tax payable	12 344	20 591	694 451	673 904
	78 588	**100 752**	**4 421 231**	**3 297 502**

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 and fair value hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, which are not measured at fair value as at 31 December 2014 in the statement of financial position:

	Carrying amount		Fair value	
	’000 USD	’000 RUB	’000 USD	’000 RUB
Loans receivable	56 538	3 180 765	50 520	2 842 148
Investments held-to-maturity	3 502	197 000	3 367	189 432
Long-term trade and other receivables	12 697	714 305	11 987	674 350
Loans and borrowings	(1 105 579)	(62 198 103)	(1 071 232)	(60 265 783)

As at 31 December 2014 fair value of financial assets and liabilities was calculated by applying discounted cash flows technique using market discount rate and relates to Level 3 in fair value hierarchy.

As at 31 December 2014 carrying amount of short-term trade and other receivables, other investments, cash and cash equivalents, and trade and other payables did not differ significantly from its fair value.

As at 31 December 2013 carrying value of all financial assets and liabilities did not differ significantly from its carrying value.

Financial instruments not measured at fair value

Type of financial instrument	Valuation technique
Trade and other receivables	Discounted cash flows
Other investments and loans receivable	Discounted cash flows
Cash and cash equivalents	Discounted cash flows
Trade and other payables	Discounted cash flows
Loans and borrowings	Discounted cash flows

(b) Fair value hierarchy

The table below analyses financial instruments and property, plant and equipment 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 2014				
Financial assets available-for-sale	468	-	-	468
"Transport" category of property, plant and equipment	-	-	90 271	90 271
	468	**-**	**90 271**	**90 739**
31 December 2013				
Financial assets available-for-sale	1 507	-	-	1 507
	1 507	**-**	**-**	**1 507**

'000 RUB	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2014				
Financial assets available-for-sale	26 308	-	-	26 308
"Transport" category of property, plant and equipment		-	5 078 459	5 078 459
	26 308	**-**	**5 078 459**	**5 104 767**
31 December 2013				
Financial assets available-for-sale	49 307	-	-	49 307
	49 307	**-**	**-**	**49 307**

Additional information related to fair value of property, plant and equipment is presented in Note 13.

(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 13% (2013: 10%) 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.

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**	
	2014 '000 USD	**2013 '000 USD**	**2014 '000 RUB**	**2013 '000 RUB**
Loans receivable	56 538	24 244	3 180 765	793 499
Investments held-to-maturity	3 502	7 658	197 000	250 640
Bank deposits, current	116	140	6 526	4 572
Trade accounts receivable	203 765	196 203	11 463 495	6 421 579
Other account receivable	21 447	56 247	1 206 561	1 840 927
Cash and cash equivalents	496 620	498 791	27 939 066	16 325 038
	781 988	**783 283**	**43 993 413**	**25 636 255**

Impairment losses

The ageing of trade receivables at the reporting date was as follows:

	2014		**2013**	
'000 USD	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Less than 3 months	195 878	(270)	178 136	(270)
From 3 to 6 months	5 877	-	16 474	-
From 6 to 12 months	3 017	(1 223)	938	(201)
Over 12 months	15 578	(15 092)	19 939	(18 813)
	220 350	**(16 585)**	**215 487**	**(19 284)**

	2014		**2013**	
'000 RUB	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Less than 3 months	11 019 787	(15 190)	5 830 260	(8 837)
From 3 to 6 months	330 613	-	539 186	-
From 6 to 12 months	169 750	(68 831)	30 684	(6 564)
Over 12 months	876 406	(849 040)	652 596	(615 746)
	12 396 556	**(933 061)**	**7 052 726**	**(631 147)**

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

	2014		2013	
’000 USD	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**19 284**	**5 233**	**20 880**	**14 112**
Impairment loss recognised	8 980	1 542	305	1 267
Provision reversed	(657)	-	(405)	(8 271)
Provision used	(370)	(370)	-	(859)
Cumulative translation adjustment	(10 652)	(2 570)	(1 496)	(1 016)
Provision for impairment as at 31 December	**16 585**	**3 835**	**19 284**	**5 233**

	2014		2013	
’000 RUB	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**631 147**	**171 265**	**634 191**	**428 610**
Impairment loss recognised	340 888	58 538	9 840	40 336
Provision reversed	(24 940)	-	(12 884)	(270 335)
Provision used	(14 034)	(14 053)	-	(27 346)
Provision for impairment as at 31 December	**933 061**	**215 750**	**631 147**	**171 265**

(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 2014						
Unsecured loans and borrowings	1 070 382	1 125 140	471 594	360 103	149 288	144 155
Secured loans and borrowings	35 197	35 708	35 708			
Trade and other accounts payable	78 588	78 588	78 588	-	-	-
Total current and non-current liabilities	**1 184 167**	**1 239 436**	**585 890**	**360 103**	**149 288**	**144 155**
As at 31 December 2013						
Unsecured loans and borrowings	997 751	1 100 438	250 062	373 943	304 766	171 667
Secured loans and borrowings	5 028	5 539	5 539	-	-	-
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**

’000 RUB	Carrying amount	Contractual cash flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3 yrs
As at 31 December 2014						
Unsecured loans and borrowings	60 218 001	63 298 628	26 531 150	20 258 820	8 398 713	8 109 945
Secured loans and borrowings	1 980 102	2 008 875	2 008 875	-	-	-
Trade and other accounts payable	4 421 231	4 421 231	4 421 231	-	-	-
Total current and non-current liabilities	**66 619 334**	**69 728 734**	**32 961 256**	**20 258 820**	**8 398 713**	**8 109 945**
As at 31 December 2013						
Unsecured loans and borrowings	32 655 594	36 016 476	8 184 336	12 238 861	9 974 735	5 618 544
Secured loans and borrowings	164 562	181 301	181 301	-	-	-
Trade and other accounts payable	3 297 502	3 297 502	3 297 502	-	-	-
Total current and non-current liabilities	**36 117 658**	**39 495 279**	**11 663 139**	**12 238 861**	**9 974 735**	**5 618 544**

(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 2014 **’000 USD**	**USD**	**EUR**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	458 614	5 015	2 576
Accounts receivable	184 246	937	431
Bank deposits	-	-	116
Other investments	-	-	1
Loans receivable	4 347	-	-
	647 207	**5 952**	**3 124**

At 31 December 2014 **’000 USD**	**USD**	**EUR**	**Other foreign currencies**
Monetary financial liabilities:			
Accounts payable and other liabilities	(13 060)	(10 928)	(1 454)
Loans and borrowings	(1 077 494)	(28 085)	-
	(1 090 554)	**(39 013)**	**(1 454)**
Net exposure	**(443 347)**	**(33 061)**	**1 670**

At 31 December 2013 **’000 USD**	**USD**	**EUR**	**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 2014 **’000 RUB**	**USD**	**EUR**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	25 800 870	282 160	144 907
Accounts receivable	10 365 403	52 738	24 252
Bank deposits	-	-	6 526
Other investments	-	-	38
Loans receivable	244 556	-	-
	36 410 829	**334 898**	**175 723**
Monetary financial liabilities:			
Accounts payable and other liabilities	(734 736)	(614 777)	(81 794)
Loans and borrowings	(60 618 116)	(1 579 987)	-
	(61 352 852)	**(2 194 764)**	**(81 794)**
Net exposure	**(24 942 023)**	**(1 859 866)**	**93 929**

At 31 December 2013 **’000 RUB**	**USD**	**EUR**	**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**

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

	31 December 2014	**Average for 12 months 2014**	**31 December 2013**	**Average for 12 months 2013**
USD	56.2584	37.9603	32.7292	31.8480
EUR	68.3427	50.8150	44.9699	42.3018

Sensitivity analysis

A 10% weakening of the RUB against the following currencies at 31 December 2014 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 2013.

Sensitivity analysis

2014	Equity ’000 USD	Profit or loss ’000 USD
USD strengthening 10%	(44 335)	(44 335)
Euro strengthening 10%	(3 306)	(3 306)
2013		
USD strengthening 10%	(36 063)	(36 063)
Euro strengthening 10%	(2 092)	(2 092)

2014	Equity ’000 RUB	Profit or loss ’000 RUB
USD strengthening 10%	(2 494 202)	(2 494 202)
Euro strengthening 10%	(185 987)	(185 987)
2013		
USD strengthening 10%	(1 180 302)	(1 180 302)
Euro strengthening 10%	(68 465)	(68 465)

(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:

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Fixed rate instruments				
Loans receivable	56 538	19 657	3 180 765	643 359
Bank deposits classified as cash equivalents	474 448	454 711	26 691 632	14 882 340
Bank deposits	116	140	6 526	4 572
	531 102	**474 508**	**29 878 923**	**15 530 271**
Variable rate instruments				
Loans receivable	-	4 587	-	150 140
Current loans and borrowings	(475 907)	(224 722)	(26 773 763)	(7 354 964)
Non-current loans and borrowings	(629 672)	(778 057)	(35 424 340)	(25 465 192)
	(1 105 579)	**(998 192)**	**(62 198 103)**	**(32 670 016)**

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
2014				
100 bp parallel fall	11 056	11 056	621 981	621 981
100 bp parallel rise	(11 056)	(11 056)	(621 981)	(621 981)
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)

(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 2014		
Gross amounts	93 262	13 505
Amounts offset in accordance with IAS 32 offsetting criteria	-	(1 380)
Net amounts presented in the statement of financial position	93 262	12 125
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(671)	(1 717)
Net amount	**92 591**	**10 408**

’000 USD	**Trade and other receivables**	**Trade and other payables**
31 December 2013		
Gross amounts	47 689	15 472
Amounts offset in accordance with IAS 32 offsetting criteria	-	(1 432)
Net amounts presented in the statement of financial position	47 689	14 040
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(762)	(2 664)
Net amount	**46 927**	**11 376**

’000 RUB	Trade and other receivables	Trade and other payables
31 December 2014		
Gross amounts	5 246 750	759 796
Amounts offset in accordance with IAS 32 offsetting criteria	-	(77 628)
Net amounts presented in the statement of financial position	5 246 750	682 168
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(37 748)	(96 595)
Net amount	**5 209 002**	**585 573**

’000 RUB	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	1 560 835	506 391
Amounts offset in accordance with IAS 32 offsetting criteria	-	(46 862)
Net amounts presented in the statement of financial position	1 560 835	459 529
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(24 928)	(87 189)
Net amount	**1 535 907**	**372 340**

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.

Other information

26. Significant subsidiaries

	Country of incorporation	2014 Ownership/ voting	2013 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 Limited	Gibraltar	100%	100%
VSMPO Titan Scandinavia AB	Sweden	100%	100%
VSMPO-TIRUS Ltd	UK	100%	100%
VSMPO-Tirus (Bejing)	China	100%	100%
Limpieza Limited	Cyprus	75%	75%
VSMPO Titan Ukraine	Ukraine	100%	100%
DK Titan Dnepr	Ukraine	100%	100%
LLC Demurinskiy gorno-obogatitelny kombinat	Ukraine	75%	75%
NORVEX LIMITED	British Virgin Islands	100%	-
LLC Sanatorny complex	Russia	100%	-
JSC Upravlenie gostinits	Russia	100%	-

27. Operating leases

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

	2014 ’000 USD	2013 ’000 USD	2014 ’000 RUB	2013 ’000 RUB
Less than 1 year	4 449	3 872	250 310	126 720
1 to 5 years	12 649	11 274	711 586	368 998
Over 5 years	7 256	4 680	408 212	153 165
	24 354	**19 826**	**1 370 108**	**648 883**

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 2 914 thousand or RUB 110 617 thousand (2013: USD 4 255 thousand or RUB 135 510 thousand) was recognised in the consolidated statement of comprehensive income in respect of operating leases.

28. Commitments

(a) Capital commitments

As at 31 December 2014 the Group has entered into contracts to purchase plant and equipment for USD 148 152 thousand or RUB 8 334 769 thousand (2013: USD 228 082 thousand or RUB 7 464 961 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

(a) 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.

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 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 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 certain 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 as transfer pricing tax audits under new rules started recently, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect 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.

In addition, a number of new laws introducing changes to the Russian tax legislation have been adopted in the fourth quarter 2014 and are effective 1 January 2015. In particular, those changes are aimed at regulating transactions with offshore companies and their activities which may potentially impact the Group’s tax position and create additional tax risks going forward.

30. Related parties

(a) Government

The Government of the Russian Federation controls the Russian Technologies State Corporation (“Rostech”), 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.

(b) Transactions and balances with related parties

In the normal course of business, the Group enters into transactions with related parties and 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

Relationship	2014 '000 USD	2013 '000 USD	2014 '000 RUB	2013 '000 RUB
Revenue				
Parties under Government control	260 664	228 936	9 894 889	7 291 167
Entities under Rostech control	171 624	182 291	6 514 890	5 805 610
Joint arrangement	24 791	43 826	941 057	1 395 768
Associates	2 449	2 212	92 960	70 435
Purchases				
Parties under Government control	(148 977)	(169 904)	(5 655 227)	(5 411 114)
Entities under Rostech control	(5 780)	(7 893)	(219 423)	(251 389)
Joint arrangement	(5 014)	(4 001)	(190 324)	(127 410)
Associates	(64 030)	(74 857)	(2 430 606)	(2 384 056)
Purchases of property, plant and equipment				
Parties under Government control	(2 036)	(773)	(77 284)	(24 608)
Entities under Rostech control	-	(19)	-	(599)
Sales of property, plant and equipment				
Joint arrangement	2 116	-	80 321	-
Loans given				
Entities under Rostech control	(73 761)	-	(2 800 000)	-
Loans received				
Parties under Government control	-	346 508	-	11 035 595
Current income tax				
Government	(28 829)	(52 753)	(1 094 354)	(1 680 083)
Property and other taxes				
Government	(10 886)	(12 873)	(413 250)	(409 979)
Contributions to State pension fund				
Government	(71 505)	(80 105)	(2 714 368)	(2 551 199)
Custom duties				
Government	(3 292)	(5 410)	(124 949)	(172 283)
Interest income				
Parties under Government control	24 344	21 520	924 111	685 374
Entities under Rostech control	1 208	3 231	45 846	102 916
Associates	700	-	26 591	-
Interest expenses				
Parties under Government control	(9 191)	(6 862)	(348 888)	(218 527)

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:

Relationship	31 December 2014 '000 USD	31 December 2013 '000 USD	31 December 2014 '000 RUB	31 December 2013 '000 RUB
Bank balances				
Parties under Government control	516	1 990	29 008	65 121
Entities under Rostech control	425	-	23 884	-
Trade receivables				
Parties under Government control	10 645	4 298	598 846	140 686
Entities under Rostech control	11 674	35 183	656 788	1 151 498
Joint arrangement	1 598	3 615	89 895	118 322
Associates	264	366	14 843	11 969
Advances to suppliers				
Parties under Government control	2 791	7 729	157 037	252 951
Entities under Rostech control	2	135	115	4 415
Bank deposits, classified as cash and cash equivalents				
Parties under Government control	445 920	426 652	25 086 746	13 963 971
Investments available-for-sale measured at fair value				
Parties under Government control	468	1 507	26 308	49 307
Loans receivable				
Entities under Rostech control	49 770	14 207	2 800 000	465 000
Top management	1 354	1 051	76 165	34 396
Other investments				
Entities under Rostech control	2 400	7 658	135 000	250 640
Loans and borrowings				
Parties under Government control	(237 540)	(337 500)	(13 363 630)	(11 046 105)
Trade payables				
Parties under Government control	(1 123)	(1 577)	(63 187)	(51 623)
Entities under Rostech control	(371)	(1 242)	(20 845)	(40 653)
Joint arrangement	(1 356)	(691)	(76 264)	(22 632)
Associates	(2 926)	(2 498)	(164 633)	(81 753)
Advances received				
Parties under Government control	(32 212)	(68 834)	(1 812 168)	(2 252 872)
Entities under Rostech control	(11 226)	(29 231)	(631 576)	(956 706)
Joint arrangement	(178)	(1 729)	(9 994)	(56 601)
Associates	(1)	-	(30)	(6)
Customs duties prepaid				
Government	880	2 288	49 498	74 890
Current income tax prepayments				
Government	17 097	4 901	961 838	160 417
VAT Recoverable				
Government	21 392	28 720	1 203 452	939 977
Current income tax payable				
Government	(4 907)	(2 292)	(276 057)	(75 001)
Property and other taxes receivable				
Government	8 885	22 672	499 847	742 037
Contributions to State pension fund (payable) / receivable				
Government	(4 807)	(7 530)	(270 451)	(246 440)
VAT Payable				
Government	(1 271)	(2 718)	(71 525)	(88 969)

All outstanding balances with related parties are expected to be settled within twelve months of the reporting date except for loans. Loan issued to entity under Rostech control is not past due and was granted with the interest rate of 14.00%. 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%.

During 2014 loan issued to entity under Rostech control was repaid by conversion into share in the authorized capital in the amount of RUB 465 000 thousand or USD 8 265 thousand (see note 16).

Bank deposits in USD, classified as cash and cash equivalents, in banks under Government control have interest rate from 2% to 6%.

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 2014 amounted to USD 8 652 thousand or RUB 328 436 thousand (2013: USD 9 423 thousand or RUB 300 104 thousand). Related state pension and social security costs for the year ended 31 December 2014 amounted to USD 1 549 thousand or RUB 58 788 thousand (2013: USD 1 947 thousand or RUB 62 009 thousand). There were no significant post-employment or other long-term benefits.

31. Subsequent events

There are no significant subsequent events.

32. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the available-for-sale financial assets and the “Transport” category of property, plant and equipment, 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.

As of 1 January 2014 the Group applied Revaluation model to the “Transport” category of property, plant and equipment. Changes were introduced due to significant additions to the category (see Note 13).

The Group has adopted the following amendments to a standard and new interpretation with a date of initial application of 1 January 2014:

a. IFRIC 21 Levies;
b. Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36);
c. Financial Instruments: Presentation-Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32);
d. Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

The new pronouncements do not have a significant effect on the consolidated financial statements of the Group.

34. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes described above (see Note 33) and have been applied consistently by Group entities.

(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.

Joint operation is joint arrangement whereby the Group together with other party that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The consolidated financial statements include Group’s share of joint operation assets, liabilities, revenue and expenses.

(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 or redeemable on demand without any restrictions or penalties 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

Items of property, plant and equipment, except for the “Transport” category, are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

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) Revaluation of the “Transport” category

Transport is measured at fair value, based on periodic valuation by external independent appraisers. A revaluation increase on Transport is recognised directly under the heading of revaluation surplus in other comprehensive income. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

A revaluation decrease on Transport is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus.

(iii) 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 2014, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group has not analysed the likely impact on the financial position or performance. The Group does not intend to adopt this standard early.
- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group has not analysed the likely impact on the financial position or performance. The Group does not intend to adopt this standard early.

Numbered, bound and sealed 68 (sixty eight) sheets.

Koryakina K.V.
Deputy Director of Ekaterinburg branch of
JSC KPMG - Ural Regional Center

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