JSC Chelyabinsk zinc plant
Consolidated Financial Statements
for 2015
and Auditors' Report

Contents

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Auditors' Report

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

We have audited the accompanying consolidated financial statements of JSC "Chelyabinsk Zinc Plant" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, 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 a qualified opinion on the fair presentation of these consolidated financial statements.

Entity: JSC "Chelyabinsk Zinc Plant"

Registered by Administration of Kurchatovsky district of Chelyabinsk on 11 May 1993, Registration No. 208.

Registered in the Unified State Register of Legal Entities 16 December 2002 by tax inspection authority of Kurchatovsky district of Chelyabinsk, Registration No. 1027402551880, Certificate series 74 No. 0185519.

24, Sverdlovsky trakt, Chelyabinsk, Russia, 454008

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 Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Basis for Qualified Opinion

As disclosed in Note 7, management does not have information about ultimate owners of 35.10% of shares of the Company which are registered at nominee account of the central depository as at 31 December 2015. We were unable to obtain appropriate documentation about ultimate owners of these shares. Consequently we were unable to conclude whether related party disclosure is complete and whether an ultimate controlling party of the Company exists. We were unable to satisfy ourselves as to whether related party disclosure is complete and whether the Company has an ultimate controlling party by alternative means. As a result, we were unable to determine whether the disclosure requirements of International Financial Reporting Standard IAS 24 *Related Party Disclosures* have been complied with.

Qualifies Opinion

In our opinion, except for the possible omission of the disclosure described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

Vakhidov N.U.

Director of Ekaterinburg Branch of JSC "KPMG" – Ural Regional Center,

(power of attorney dated 24 March 2015)

JSC "KPMG" – Ural Regional Center

29 April 2016

Ekaterinburg, Russian Federation

'000 RUB	Note	31 December 2015	31 December 2014
Assets			
Property, plant and equipment	8	7,682,989	6,852,061
Advances for acquisition of business	10	3,400,000	3,400,000
Advances for acquisition of property, plant and equipment		121,345	103,830
Intangible assets	9	114,883	148,351
Other non-current assets		60	557
Non-current assets		**11,319,277**	**10,504,799**
Inventories	11	3,014,997	2,334,184
Trade and other receivables	12	9,964,819	3,181,629
Current income tax prepayment		131,984	1,420
Financial assets	13	1,377,950	56,694
Cash and cash equivalents	14	251,555	447,750
Current assets		**14,741,305**	**6,021,677**
Total assets		**26,060,582**	**16,526,476**
Equity	15		
Share capital		127,635	127,635
Share premium		1,375,231	1,375,231
Legal reserve		3,011	3,011
Translation reserve		177,614	1,274,349
Retained earnings		15,077,218	11,326,915
Total equity		**16,760,709**	**14,107,141**
Liabilities			
Borrowings	17	5,000,000	-
Provision for asset retirement obligations	18	178,940	145,173
Deferred income tax liabilities	26	248,143	183,274
Other non-current liabilities		74,168	62,287
Total non-current liabilities		**5,501,251**	**390,734**
Short- term financial liabilities	13	101,060	-
Accounts payable, accrued expenses and advances from customers	19	3,205,631	1,491,972
Current income tax payable		186,124	38,179
Other taxes payable	20	305,807	403,162
Bank overdrafts	14	-	95,288
Total current liabilities		**3,798,622**	**2,028,601**
Total liabilities		**9,299,873**	**2,419,335**
Total equity and liabilities		**26,060,582**	**16,526,476**

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 9 to 62.

'000 RUB	Note	2015	2014
Revenue	21	24,013,390	16,507,852
Cost of sales	22	(18,068,291)	(11,793,148)
Gross profit		**5,945,099**	**4,714,704**
Other operating income	24	1,118,604	393,457
Commercial costs	23	(1,039,592)	(796,979)
General and administrative expenses	23	(1,284,107)	(1,016,660)
Other operating expenses	24	(285,297)	(99,272)
Results from operating activities		**4,454,707**	**3,195,250**
Finance income		124,706	132,452
Finance expense		(221,479)	(18,557)
Foreign exchange profit/(loss)	25	528,283	(353,860)
Profit before income tax		**4,886,217**	**2,955,285**
Income tax expense	26	(1,135,914)	(602,742)
Profit for the period		**3,750,303**	**2,352,543**
Other comprehensive income			
Total items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		(1,096,735)	1,291,242
Total other comprehensive (loss)/income for the period		**(1,096,735)**	**1,291,242**
Total comprehensive income for the period		**2,653,568**	**3,643,785**
Profit is attributable to:			
Shareholders of the Company		3,750,303	2,352,543
Total comprehensive income attributable to:			
Shareholders of the Company		2,653,568	3,643,785
Earnings per share – basic and diluted (in RUB)	16	**69.2**	**43.4**

These consolidated financial statements were approved by management on 29 April 2016 and were signed on its behalf by:

P.A. Izbrekht
General Director

S.B. Kondakov
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 62.

’000 RUB

	Share capital	Share premium	Legal reserve	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2014	**127,635**	**1,375,231**	**3,011**	**(16,893)**	**8,974,372**	**10,463,356**
Profit for the period	-	-	-	-	2,352,543	2,352,543
Other comprehensive income				1,291,242	-	1,291,242
Total comprehensive income for the period	**-**	**-**	**-**	**1,291, 242**	**2,352,543**	**3,643,785**
Balance at 31 December 2014	**127,635**	**1,375,231**	**3,011**	**1,274,349**	**11,326,915**	**14,107,141**
Balance at 1 January 2015	**127,635**	**1,375,231**	**3,011**	**1,274,349**	**11,326,915**	**14,107,141**
Profit for the period	-	-	-	-	3,750,303	3,750,303
Other comprehensive loss				(1,096,735)	-	(1,096,735)
Total comprehensive income for the period	**-**	**-**	**-**	**(1,096,735)**	**3,750,303**	**2,653,568**
Balance at 31 December 2015	**127,635**	**1,375,231**	**3,011**	**177,614**	**15,077,218**	**16,760,709**

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 9 to 62.

’000 RUB	Note	2015	2014
Cash flows from operating activities			
Profit for the period		3,750,303	2,352,543
Adjustments for:			
Depreciation and amortisation	8, 9	1,322,391	985,221
Loss on disposal of property, plant and equipment		35,008	89,245
Impairment/(reversal of impairment) of loans issued, trade and other receivables		19,542	(1,037)
(Reversal of impairment)/impairment losses of inventory provision		(367)	1,602
Net finance expense/(income)		96,773	(113,895)
Unrealized foreign exchange gains/(losses)		(300,386)	237,186
Reversal of impairment losses on fixed assets and assets under construction	8	(970,878)	(322,221)
Adjustment of the expenses for electricity transmission services	22	737,516	(358,647)
Accrual/(reversal of) taxes provision		18,059	(19,342)
Other non-monetary operating expenses/(income)		108,203	(20,308)
Income tax expense	26	1,135,914	602,742
		5,952,078	**3,433,089**
Changes in:			
Trade and other receivables		(7,013,904)	357,154
Inventories		(848,111)	379,390
Trade and other payables		1,376,577	233,944
Taxes payable		(60,175)	58,994
Restricted cash balance		1,686	(727)
Cash flows from operations		**(591,849)**	**4,461,844**
Interest paid		(191,928)	-
Income tax paid		(893,925)	(435,369)
Net cash from operating activities		**(1,677,702)**	**4,026,475**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	8, 9	(1,940,406)	(1,640,475)
Advances for acquisition of business	10	-	(3 400 000)
Capitalized stripping costs	8	(108,891)	(211,546)
Proceeds from sale of property, plant and equipment		120	4,151
Loans issued		(1,272,352)	(28,701)
Proceeds from repayment of loans issued		4,113	25,199
Interest income received		2,560	3,534
Acquisition of promissory notes		(87,862)	-
Proceeds from sale of promissory notes		45,000	
Proceeds from bank deposits repayment		-	2,158,970
Bank deposits placements		-	(1,051,000)
Net cash used in investing activities		**(3,357,718)**	**(4,139,868)**
Cash flows from financing activities			
Borrowings		7,000,000	-
Repayment of borrowings		(2,000,000)	-
Net cash used in financing activities		**5,000,000**	**-**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents		(63,801)	19,342
Net decrease in cash and cash equivalents		**(99,221)**	**(94,051)**
Cash and cash equivalents at 1 January		**350,776**	**444,827**
Cash and cash equivalents at 31 December	14	**251,555**	**350,776**

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 9 to 62.

1. Background

(a) Business Environment

Russian Federation and Republic of Kazakhstan

The Group's operations are primarily located in the Russian Federation and the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and the Republic of Kazakhstan 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 and the Republic of Kazakhstan.

The 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 Rouble, 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 business environment in the Russian Federation and the Republic of Kazakhstan on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

JSC "Chelyabinsk Zink Plant" (the "Company") was incorporated in May 1993 and is domiciled in the Russian Federation. The Company is an open joint stock company and was set up in accordance with the Russian legislation. The Group includes the Company and its subsidiaries.

As of 31 December 2015 and 31 December 2014 the Group's immediate parent company was NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares.

The Company is listed on the Moscow Stock Exchange and the London Stock Exchange in the form of Global Depositary Receipts.

Principal activities. The Group's principal business activity is the extraction and integrated processing of ore with the purpose of producing zinc and lead concentrates, production and distribution of zinc, zinc alloys and by-products. The Group's manufacturing facilities are based in Chelyabinsk (the Russian Federation), Akzhal (the Republic of Kazakhstan) and Cannock (the United Kingdom). The Group includes a number of subsidiaries. The main Group companies were set up under the legislation of the Russian Federation (JSC Chelyabinsk zinc plant), the Republic of Kazakhstan (LLP "Nova Zinc") and the United Kingdom (Brock Metal Ltd). As of 31 December 2015 the Group employed 3,141 employees (31 December 2014: 3,173 employees).

The Group has a license to mine lead and zinc ore at the Akzhal field in the Karaganda Region issued by the authorities of the Republic of Kazakhstan. The license expires in 2017, however, based on the analysis of the current licensing practices, the Group management believes that the license will be extended without any significant costs.

Legal address of the Company: Russian Federation, 454008, Chelyabinsk, Sverdlovsky trakt, 24

2. Basis of accounting

(a) Statement of compliance

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

(b) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of LLP "Nova Zinc" is the Kazakhstani Tenge ("KZT"), and the functional currency of Brock Metal Ltd is the pound sterling ("GBP"). All financial information presented in RUB has been rounded to the nearest thousand, except when otherwise indicated.

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 average exchange rates considering the exchange rates fluctuations, volume and amount of transactions at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

On 20 August 2015 the Government and the National Bank of the Republic of Kazakhstan decided on the transition to the floating exchange rate regime. As a result the official exchange rate of Kazakhstani tenge to the US dollar, which is stated by the National Bank, fell by 80.2% as at 31 December 2015.

Change in exchange rates of Russian rouble to Kazakhstani tenge and English pound sterling significantly affected exchange differences on translation to presentation currency stated in the consolidated statement of profit or loss and other comprehensive income as well as translation reserve stated in the consolidated statement of financial position. The table below shows exchange rates used:

	Average exchange rates		**Spot exchange rates as at**	
Russian Rouble	**2015**	**2014**	**31 December 2015**	**31 December 2014**
1 Kazakhstani Tenge	0.2828	0.2151	0.2152	0.3083
1 Pound Sterling	93.73	63.36	107.98	87.42

(c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost convention, except for derivative financial instruments recognized at fair value.

(d) Critical accounting 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 7 – analysis of the relationship between the Group and the companies controlled by the shareholder;
- Note 8 – useful lives of property, plant and equipment;
- Note 8 – analysis of the degree of probability of assessment of the physical volume of field mineral reserves and the economic assumptions used in the assessment whether extraction is commercially feasible, as well as determination of units of measure to be used in the calculation of depreciation of mining assets applying units-of-production method;
- Note 8 - analysis of the influence of approval of the project for the underground development of the Akzhal ore deposit on the accounting of the stripping asset, accounted for as part of the mining assets;
- Note 10 – analysis of the existence of the Group's power to govern the relevant activities of JSC "Korbalikhinsk pit" and consequently the requirement to consolidate JSC "Korbalikhinsk pit" in the consolidated financial statements of 2015;
- Note 12 - analysis of accounts receivable reimbursement and accruing provision for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments;
- Note 12 , Note 19 – analysis of necessity of accruing provision for possible future expenses in the amount of services on electricity and energy power transmission provided by OJSC MRSK Ural with regard to the actual and probable legal proceedings between the company and JSC CZP and assessment of probability of repayment of VAT for the services specified;
- Note 17 – analysis of fulfillment of all the requirements and covenants of credit agreement;
- Note 18 – recognition and measurement of provision for asset retirement obligations.

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 8 – impairment test: key assumptions underlying recoverable amounts;

- Note 28 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

(e) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the notes 27.

3. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

- Defined benefit plans: employee contributions (amendments to IAS 19).
- Project "IFRS Improvements". Period 2010-2012 years.
- Project "IFRS Improvements". Period 2011-2013 years.

Adoption of standards and amendments to standards stated above has no significant impact on these consolidated financial statements.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 3, which addresses changes in accounting policies.

(a) Basis of consolidation

(i) 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.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment 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.

If significant 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.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

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 future economic benefits embodied within the component 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.

(iii) Stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in field development are capitalised as part of field development costs and are subsequently amortised using the unit of production method over the life of the field operation.

The Group recognizes a stripping activity asset if, and only if, all of the following are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved;
- the costs relating to the improved access to that component can be measured reliably.

The Group allocates the expenses related to the initial cost of the stripping activity asset and cost of inventory extracted in the current period using production ratios, such as actual versus expected ratio of waste volumes extracted. Thereby, the Group determines the average ratio of production waste removal works in relation to the volume of ore extracted which is used to allocate the stripping costs to the current period inventory and stripping activity asset.

After initial recognition, stripping activity assets are accounted at cost less accumulated depreciation and impairment loss. Depreciation is calculated using the units of production method over useful life of the component of ore body to which access has been approved.

Stripping activity asset that provides access to ore to be mined in the future is recognised as an item of property, plant and equipment as a component of mining assets to which it relates (note 8).

Depreciation of the stripping assets is calculated applying units-of-production method based on the ratio of ore mined by open pit from balance and off-balance ore reserves. Approval of the underground mining project did not affect the accounting of the stripping assets capitalized in the mining assets as at 31 December 2015, as stripping works performed before the reporting date have not enhanced access to the ore planned to be developed underground.

(iv) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date when the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value.

Depreciation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Buildings and infrastructure	10 to 50
Plant, machinery and equipment	5 to 30
Other	2 to 30

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Mining assets are depreciated using the unit-of-production method. Unit-of-production rates are based on proven developed reserves, which are zinc ore and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Zinc ore volumes are considered produced once they have been measured through meters at custody transfer.

Prior to May 2015 management of the Group calculated depreciation of the mining assets applying the units-of-production method based on the ratio of the ore mined by means of open pit from the balance, off-balance reserves and ore from production stockpiles. Starting from May 2015 after approval of the underground mining project, balance ore reserves relating to the underground mining are additionally used in the depreciation calculations.

(c) Intangible assets

(i) Exploration and evaluation costs

Recognition and subsequent measurement

Exploration and evaluation expenses are capitalized and measured at cost less provision for impairment, where required.

Exploration and evaluation expenditure relates to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs relating to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling; and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditure incurred on activities that precede exploration for and evaluation of mineral resources, being all expenditure incurred prior to securing the legal rights to explore an area, is expensed immediately.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. Costs are accumulated on a field-by-field basis. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a resource is proven. Once commercial reserves are found, exploration and evaluation assets are transferred to development tangible and intangible assets and amortised using the unit-of-production method based on proved and probable mineral reserves. No amortisation is charged during the exploration and evaluation stage.

(ii) Other intangible assets

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.

(iii) Subsequent expenditure

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 the profit or loss as incurred.

(iv) Amortisation

Amortisation is based on the cost of the asset less its estimated residual value.

Amortisation is generally recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets 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.

The estimated useful lives for the current and comparative periods are as follows:

Expenses on CZP SHG certificate	30 years
Computer software and licenses	3-5 years

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

(d) Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Significant accounting policies in relation to those financial instruments which are presented in the statement of financial position of the Group as at the reporting date are disclosed in the notes below.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and 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 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.

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

Loans and receivables

Loans and receivables are a category of 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 (see note 4(e)(i)).

Loans and receivables category comprise the following classes of financial assets: trade and other receivables (note 12), loans issued, bank deposits (note 13) and cash and cash equivalents (note 14).

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Restricted cash balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management. Bank overdrafts for which a legally enforceable right to offset against the cash balances exist and management intends to offset assets and liabilities simultaneously or on a net basis, are included in cash and cash equivalents or in bank overdrafts in the statement of financial position.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to reduce the risks related to the fluctuations of zinc prices. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(iii) Non-derivative financial liabilities - measurement

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 trade and other payables (note 19), borrowings (note 17).

(iv) 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) 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;
- 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.

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.

(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 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 (cash generating unit).

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.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Zinc ore is recognised as raw materials when delivered to the surface and is valued at the average cost of extraction. The cost of main finished goods and work in progress comprises raw material, direct labor, other direct costs and related production overheads (based on normal operating capacity) less cost of by-products. The cost of sales for by-products is determined on the basis of standard cost and the expected margin.

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

(g) 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.

Asset retirement obligations

Asset retirement costs include landfill site restoration and closure (dismantling and demolition of infrastructure, the removal of residual materials and remediation of disturbed areas). Estimated landfill site restoration and closure costs are provided for in the consolidated financial statements and included in the cost of property, plant and equipment in the accounting period when the obligation arising from the related disturbance occurs during the mine development phase, based on the net present value of estimated future costs. Provisions for asset retirement obligations do not include any additional obligations expected to arise from future disturbances. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated at regular intervals during the life of the operation to reflect known developments, e.g., updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review.

The amortisation, or "unwinding", of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period.

(h) Revenue

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, 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. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of zinc, the transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller. Generally for such products the buyer has no right of return.

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

(i) Employee benefits

(i) Short-term employee 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.

(ii) 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.

(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 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.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability 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 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.

(j) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

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) Leased assets

Assets held by the Group under leases that transfer to the Group 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.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(k) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the net gain or loss on derivative instruments recognized at fair value through profit or loss;

- the foreign currency gain or loss on financial assets and financial liabilities;
- the reclassification of net gains previously recognised in OCI.

Interest income and interest expense is recognised using the effective interest method.

(l) Income taxes

Income tax expense comprises current and deferred tax. It is 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.

(i) Current tax

Current tax comprises 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 dividends.

(ii) Deferred tax

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.

A deferred tax asset is recognised for unused tax losses, unused 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 used. 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.

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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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 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.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. The assessment of tax risks of the Group is disclosed in the note 28.

(m) 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 translated 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 items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at average exchange rates considering the exchange rates fluctuations, volume and amount of transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that 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 settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item 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.

(n) 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, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are presented in the consolidated financial statements based on the same principles as they are reported to the chief operating decision maker (the Governing Board). All operating segments' operating results are reviewed regularly by the Governing Board to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the Governing Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets.

5. 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 2015, 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 is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

- IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

  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 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

- IFRS 16 Leases replaces the exisiting guidance on accounting for leases, including IAS 17, IFRIC 4, SIC 15 and SIC 27. The new standard cancels double accounting model currently applied in the accounting of a lessee. This model requires classification between financial lease, recognised on the balance sheet and operating lease, accounted for off-balance. Instead a single model is introduced which is designed to reflect rent on the balance sheet and is similar with the currently exisiting financial lease accounting.

  For lessors currently existing accounting standards generally remain unchanged – lessors continue to classify lease on financial and operating.

  IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption is permitted provided that IFRS 15 is adopted as well. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).*
- *Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *Annual Improvements to IFRSs 2012–2014 Cycle – various standards.*
- *Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).*
- *Disclosure Initiative (Amendments to IAS 1).*

6. Operating segments

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

- Mining segment is represented by LLP "Nova Zinc", an operator of lead zinc mine "Akzhal" in the Republic of Kazakhstan, which produces zinc and lead concentrate.
- Smelting segment is represented by JSC Chelyabinsk zinc plant, which produces Special High Grade zinc of 99.995% metal purity and zinc-based alloys.
- Alloying segment is represented by Brock Metal Ltd, a British producer of die-cast zinc alloys.

The Governing Board assesses performance and allocates resources based on financial information for these segments, which includes earnings before interest, tax, depreciation and amortisation, adjusted for impairment, finance income and expenses and foreign exchange differences on borrowings and deposits (segment EBITDA) as a key measure of profitability. Since this indicator is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

There are varying levels of integration between reportable segments. This integration includes transfers of raw materials represented by zinc concentrate, zinc and zinc alloys.

The financial information reported on operating segments is based on management accounts. There are differences in the reported amounts and the amounts presented in this consolidated financial statements in accordance with IFRS due to the differences in accounting policies.

The segment revenue and EBITDA provided to the Governing Board and to the Board of Directors for the years ended 31 December 2015 and 31 December 2014, respectively, were as follows:

’000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
The year ended 31 December 2015				
Total segment revenue	3,028,796	19,568,214	5,403,357	28,000,367
Intersegment revenue	2,378,548	1,463,608	-	3,842,156
Revenue from external customers	650,248	18,104,606	5,403,357	24,158,211
Capital expenditure	459,435	1,133,192	14,312	1,606,940
Segment EBITDA	775,294	3,868,083	30,598	4,673,975
The year ended 31 December 2014				
Total segment revenue	2,216,019	12,302,308	3,398,032	17,916,359
Intersegment revenue	1,747,634	178,500	-	1,926,134
Revenue from external customers	468,385	12,123,808	3,398,032	15,990,225
Capital expenditure	267,010	862,482	15,527	1,145,019
Segment EBITDA	605,621	2,985,251	58,553	3,649,425

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

’000 RUB	**2015**	**2014**
Revenue from external customers of reportable segments	24,158,211	15,990,225
Reclassification of precious metals sales revenue recognised as other revenue	-	574,969
Timing differences (iii)	5,485	20,287
Adjustments for other revenue	(75,879)	(19,661)
Revenue from precious metals primary processing (i)	(196,488)	(173,083)
Other business activities not in scope of the Board of Directors and the Governing Board review	122,061	115,115
IFRS revenue	**24,013,390**	**16,507,852**

’000 RUB	2015	2014
Segments’ capital expenditure, including:	1,606,940	1,145,019
Capitalisation of expenses (iv)	521,456	453,774
Acquisition of equipment for installation	99,961	289,978
Adjustment of CIP cut-off	(117,644)	117,644
Social objects write-off	(25,683)	(19,712)
Adjustments	(55,876)	(59,131)
IFRS capital expenditure	**2,029,152**	**1,927,572**

’000 RUB	2015	2014
Segment EBITDA	**4,673,975**	**3,649,425**
Accounting policy differences:		
Inventory adjustments (ii)	246,375	(72,242)
Timing differences (iii)	16,471	2,099
Capitalisation of expenses (iv)	470,302	453,774
Elimination of intersegment operations	23,620	(193,325)
Employee benefits (v)	(25,634)	(1,210)
Reversal of tax provision	47,133	19,342
Adjustment of the disputed electricity transmission services expenses (Note 22)	(737,516)	-
Other reconciling items	91,495	387
Items excluded from segment EBITDA:		
Depreciation and amortisation	(1,322,392)	(985,221)
Reversal of impairment of property, plant and equipment	970,878	322,221
Foreign exchange profit/(loss), net	528,283	(353,860)
Finance income	124,706	132,452
Finance costs	(221,479)	(18,557)
IFRS profit/(loss) before tax based	**4,886,217**	**2,955,285**

The reconciling items are attributable to the following:

(i) Revenue related to primary processing of precious metals contained in zinc concentrate into clinker or cake which was netted-off in accordance with IFRS, as in fact precious metals are owned by suppliers of concentrates, subsoil users;

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

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

(iv) Capitalisation of expenses: certain costs and expenses in the management accounts which are required to be capitalised under IFRS as they extend the remaining useful life of an asset (capitalization of capital repairs and anodes, the costs of stripping activity);

(v) Employee benefits include directors’ and key management’s compensation which is recognised in different accounting periods in this consolidated financial statements as compared to the management accounts, accrual of unused vacation and pension plan benefits in accordance with IFRS.

Segments' assets and liabilities

Total segments' assets and liabilities provided to the Governing Board and to the Board of Directors for the years ended 31 December 2015 and 31 December 2014, respectively, were as follows:

'000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
As at 31 December 2015:				
Inventories	166,968	2,632,576	79,799	2,879,343
Accounts receivable	2,169,724	8,295,369	1,167,944	11,633,037
Segments' assets	**2,336,692**	**10,927,945**	**1,247,743**	**14,512,380**
Accounts payable	598,804	3,680,771	81,959	4,361,534
Segments' liabilities	**598,804**	**3,680,771**	**81,959**	**4,361,534**
As at 31 December 2014:				
Inventories	224,446	2,038,656	121,689	2,384,791
Accounts receivable	1,345,736	1,597,024	1,024,105	3,966,865
Segments' assets	**1,570,182**	**3,635,680**	**1,145,794**	**6,351,656**
Accounts payable	299,690	2,218,869	87,706	2,606,265
Segments' liabilities	**299,690**	**2,218,869**	**87,706**	**2,606,265**

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

'000 RUB	**31 December 2015**	**31 December 2014**
Total segments' assets	14,512,380	6,351,656
Intersegment eliminations	(1,891,506)	(1,035,884)
Elimination of income tax prepayment	(131,984)	(1,420)
Netting of accounts receivable and accounts payable	(7,440)	(26,563)
Inventory adjustments (ii)	312,756	70,400
Timing differences (iii)	(47,733)	(20,701)
Adjustment on input VAT related to electricity expenses under litigation (Note 12)	132,753	38,127
Other business activities not in scope of the Board of Directors and the Governing Board review	19,779	18,715
Other differences	80,811	121,483
IFRS inventories, trade and other receivables	**12,979,816**	**5,515,813**

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

’000 RUB	31 December 2015	31 December 2014
Total segments’ liabilities	4,361,534	2,606,265
Intersegment eliminations	(1,748,743)	(874,137)
Settlements with employees	35,356	38,516
Timing differences (iii)	(53,521)	1,746
Netting of accounts receivable and accounts payable	(45,261)	(29,012)
Taxes payable	165,965	126,157
Provision for ecological litigation (Note 28)	82,700	54,660
Other business activities not reviewed by the Board of Directors	30,320	27,115
Provision for upcoming expenses and payments (Note 19)	870,269	-
Adjustment on input VAT related to electricity expenses under litigation	-	38,127
Other differences	100,003	39,164
IFRS current liabilities	**3,798,622**	**2,028,601**

Geographical information

In presenting the following information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

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

’000 RUB	31 December 2015	31 December 2014
Russia	9,128,344	8,537,825
Kazakhstan	2,108,065	1,899,548
United Kingdom	74,508	57,522
Other	8,300	9,904
IFRS non-current assets	**11,319,217**	**10,504,799**

Revenues are reported separately as follows:

’000 RUB	2015	2014
Russia	16,970,063	12,292,710
United Kingdom	2,516,319	1,918,191
Kazakhstan	887,351	623,850
Germany	603,176	335,137
Austria	513,665	129,835
Italy	369,593	266,322
France	298,486	175,267
Other countries	1,854,737	766,540
IFRS revenue	**24,013,390**	**16,507,852**

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

’000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
For 2015				
The group of companies MMK	-	6,365,075	-	6,365,075
JSC Severstal	-	4,567,518	-	4,567,518
The group of companies UGMK	-	2,356,234	-	2,356,234,
Other customers	666,309	4,652,709	5,405,545	10,724,563
Total IFRS revenue	**666,309**	**17,941,536**	**5,405,545**	**24,013,390**

’000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
For 2014				
The group of companies MMK	-	3,746,249	-	3,746,249
JSC Severstal	-	2,640,371	-	2,640,371
The group of companies UGMK	-	2,497,694	-	2,497,694
Other customers	451,964	3,759,763	3,411,812	7,623,538
Total IFRS revenue	**451,964**	**12,644,076**	**3,411,812**	**16,507,852**

7. Related parties

As at 31 December 2015 a significant proportion of CZP shares was in free-float, including 35.10% of the Company’s shares which were recorded in central depository nominee shareholder account. Central depository nominee shareholder has not provided information about the owners of the shares. Consequently, management prepared related parties disclosure based on the information available and also could not assess whether there is an ultimate controlling party.

(a) Parent company

The Company’s immediate parent company is NF Holdings BV. No publicly available financial statements are produced by the Company’s parent company.

(b) Transactions with key management personnel

Total directors’ and key management’s compensation is represented by contractual salary and discretionary bonus. It is recorded in general and administrative expenses in the consolidated statement of profit or loss in the amount of RUB 132,517 thousand and RUB 107,579 thousand for the years ended 31 December 2015 and 31 December 2014, respectively. There were 30 members of the directors and key management group for the year ended 31 December 2015 (2014: 29 members of the directors and key management group).

(c) Other related party transactions

In December 2014 one of the shareholders significantly reduced its interest in the Group; therefore the transactions effected from the date of sales of shares and outstanding balances on the transactions with certain companies previously disclosed as transactions with related parties were not included in the related parties disclosure in the Group consolidated financial statements for the year ended 31 December 2014.

In June 2015 this shareholder acquired an additional interest in the Group from a third party and reestablished its ability to exercise significant influence over the Group. Consequently, the transactions effected from the date of purchase of shares and outstanding balances on the transactions with the companies controlled by this shareholder are included in the related parties disclosure. Transactions and balances with related parties are presented below. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Outstanding balances on the transactions with related parties

'000 RUB	**31 December 2015**	**31 December 2014**
Operating activity		
Accounts receivable	1,163,835	-
Advances received	(269)	-
Accounts payable	(135,733)	(3,610)
Advances issued	5,002,954	-
Total operating activity	**6,030,787**	**(3,610)**
Financial arrangements		
Deposit contributions	38,000	-
Loans issued	1,271,283	-
Total financial arrangements	**1,309,283**	-
Investing arrangements		
Advances for acquisition of business	3,400,000	-
Advances for capital consruction	1,076	-
Liabilities for purchased property, plant and equipment	(2,826)	-
Total investing arrangements	**3,398,250**	-

As of 31 December 2015, trade receivables on operations with related parties amounted to RUB 923,259 thousand, were past due but not impaired (Note 12).

Balances on advances given include the advance to a related party in the amount of RUB 5,000,000 thousand for the purpose of concentrate supply. According to the amendment to zinc concentrate supply contract the Group shall require repayment of the advance in cash within 20 days upon request or contract cancelation. In connection with the condition stated above the advance was included in credit risk disclosure (Note 27).

Short-term loans issued in RUB as at 31 December 2015 include a loan issued to related party in the amount of RUB 571,283 thousand. In May 2015, the Group concluded a loan agreement under which the Group will issue a loan amounted to RUB 707,501 thousand in several tranches for the period until 30 April 2016 at interest rate of 13.5% per annum for the purpose of financing the construction of the underground facilities of the Korbalikhinsk pit (Note 10). Management of the Group recognized this loan in the financial assets for the purpose of consolidated financial statements for the year 2015. At the same time as at the reporting date the parties have not agreed on the terms of the loan settlement and different options of loan settlement are considered.

In addition, short-term loans issued in RUB include a loan given to related party in the amount of RUB 700,000 thousand under a loan agreement concluded in October 2015. In accordance to this agreement the Group will issue a loan of RUB 1,000,000 thousand for the period until 30 October 2016 at interest rate of 11% per annum.

As at 31 December 2015 the Group has contractual obligations with related parties related to the capital investments in fixed assets in the amount of RUB 6,921 thousand (31 December 2014: no obligations).

'000 RUB	Note	2015	2014
Operating activity			
Revenue			
Tolling fee	21	948,256	1,891,688
Sales of goods		441,289	480,325
Total revenue		**1,389,545**	**2,372,013**
Purchases			
Purchases of inventory		(587,072)	(423,035)
Purchases of electric power and gas		(539,878)	(1,198,116)
Total purchases		**(1,126,950)**	**(1,621,151)**
Operating expenses		**(87,878)**	**(60,107)**
Total operating arrangements		**1,143,071**	**690,755**
Financial arrangements			
Deposit contributions/ (withdrawal)		(591,000)	800,000
Loans issued		1,218,226	-
Interest on deposits		38,955	43,279
Interest on loans issued		41,561	-
Total financial arrangements		**707,741**	**843,279**
Investing arrangements			
Acquisition of property, plant and equipment		(10,274)	(22,978)
Total investing arrangements		**(10,274)**	**(22,978)**

During 2015 the Group supplied 1,065 tonnes of zinc sulphate (2014: 1,302 tonnes), 689 tonnes of copper-bearing cake (2014: 1,327 tonnes) and 2,929 tonnes of lead cake (2014: 5,962 tonnes) to related parties.

During 2015 the Group purchased from related parties 9,071 tonnes of zinc concentrate (2014: 4,008 tonnes).

Due to significance of transactions with the companies controlled by the shareholder which significantly reduced its interest in the Group in December 2014 till 30 June 2015 management of the Group decided to disclose these transactions for information purposes in the additional note to this disclosure.

'000 RUB	Note	From the date of sales of shares till 31 December 2014	31 December 2014	From 1 January 2015 till the date of acquisition of shares
Operating activity				
Accounts receivable		x	125,622	x
Advances received		x	(6,475)	x
Accounts payable		x	(207,802)	x
Advances issued		x	333	x

’000 RUB		**From the date of sales of shares till 31 December 2014**	**31 December 2014**	**From 1 January 2015 till the date of acquisition of shares**
Revenue				
Tolling fee	21	82,575	x	632,134
Sales of goods		43,107	x	334,057
Total revenue		**125,682**	**x**	**966,191**
Purchases				
Purchases of inventory		(122,999)	x	(472,122)
Purchases of electric power and gas		(99,562)	x	(508,357)
Total purchases		**(222,561)**	**x**	**(980,479)**
Other operating expenses		(15,295)	x	(10,546)
Total operating activity		**(112,174)**	**(88,322)**	**(24,834)**
Financial arrangements				
Deposit contributions		-	-	629,000
Loans issued		-	-	53,057
Interest on deposits		756	-	18,557
Total financial arrangements		**756**	**-**	**700,614**
Investing arrangements				
Advances for acquisition of business		3,400,000	3,400,000	x
Purchases of property, plant and equipment		(13,879)	x	(2,558)
Total investing arrangements		**3,386,121**	**3,400,000**	**(2,558)**

As at 31 December 2014 the Group had contractual obligations with companies controlled by the shareholder for the capital investments in fixed assets in the amount of RUB 15,951 thousand.

For the period from 1 January 2015 till the date of acquisition of the shares the Group delivered 576 tons of zinc sulphate, 556 tons of cooper cake and 2,589 tons of lead cake to these companies.

For the period from the date of shares sales till 31 December 2014 the Group delivered 27 tons of zinc sulphate, 107 tons of cooper cake and 517 tons of lead cake to these companies.

8. Property, plant and equipment

'000 RUB	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Mineral resources	Construction-in-progress	Total
Cost							
Balance at 1 January 2014	**45,419**	**3,619,080**	**6,553,601**	**1,145,253**	**3,287,117**	**878,005**	**15,528,475**
Additions and transfers of construction in progress	-	213,970	969,825	102,688	211,546	415,603	1,913,632
Disposals	-	(24,133)	(249,296)	(116,899)	(11,816)	(26,635)	(428,779)
Translation to presentation currency	-	241,566	436,340	194,323	1,427,865	38,764	2,338,858
Balance at 31 December 2014	**45,419**	**4,050,483**	**7,710,470**	**1,325,365**	**4,914,712**	**1,305,737**	**19,352,186**
Balance at 1 January 2015	**45,419**	**4,050,483**	**7,710,470**	**1,325,365**	**4,914,712**	**1,305,737**	**19,352,186**
Additions and transfers of construction in progress	-	448,897	759,222	127,481	200,309	478,984	2,014,893
Disposals	-	(48,049)	(203,191)	(47,000)	(5,426)	(10,869)	(314,535)
Translation to presentation currency	-	(307,669)	(452,225)	(241,253)	(1,530,542)	(65,471)	(2,597,160)
Balance at 31 December 2015	**45,419**	**4,143,662**	**7,814,276**	**1,164,593**	**3,579,053**	**1,708,381**	**18,455,384**
Depreciation and impairment losses							
Balance at 1 January 2014	**-**	**(1,791,657)**	**(4,696,313)**	**(797,500)**	**(3,031,558)**	**(92,030)**	**(10,409,058)**
Depreciation for the year	-	(164,285)	(645,584)	(98,574)	(74,855)	-	(983,298)
Impairment loss	-	54,212	67,371	71,233	125,606	3,799	322,221
Disposals	-	8,236	231,903	99,395	-	-	339,534
Translation to presentation currency	-	(156,245)	(342,106)	(78,946)	(1,192,227)	-	(1,769,524)
Balance at 31 December 2014	**-**	**(2,049,739)**	**(5,384,729)**	**(804,392)**	**(4,173,034)**	**(88,231)**	**(12,500,125)**
Balance at 1 January 2015	**-**	**(2,049,739),**	**(5,384,729)**	**(804,392)**	**(4,173,034)**	**(88,231)**	**(12,500,125)**
Depreciation for the year	-	(198,404)	(778,415)	(150,173)	(193,595)	-	(1,320,587)
Reversal of impairment	-	-	-	-	970,397	481	970,878
Disposals	-	42,697	196,811	39,817	-	201	279,526
Translation to presentation currency	-	215,243	397,371	141,282	1,044,022	(4)	1,797,913
Balance at 31 December 2015	**-**	**(1,990,203),**	**(5,568,962)**	**(773,466)**	**(2,352,211)**	**(87,553)**	**(10,772,394)**
Carrying amounts							
At 1 January 2014	**45,419**	**1,827,423**	**1,857,288**	**347,753**	**255,559**	**785,975**	**5,119,417**
At 31 December 2014	**45,419**	**2,000,744**	**2,325,741**	**520,973**	**741,678**	**1,217,506**	**6,852,061**
At 31 December 2015	**45,419**	**2,153,459**	**2,245,314**	**391,126**	**1,226,842**	**1,620,828**	**7,682,989**

Depreciation expense of RUB 1,201,821 thousand has been charged to cost of goods sold, RUB 4,715 thousand to commercial expenses and RUB 96,533 thousand to administrative expenses (2014: RUB 861,374 thousand, 6,969 thousand and 81,451 thousand, respectively). The total amount of depreciation charge for 2015, disclosed in the notes 8 and 9, of RUB 1,322,391 thousand (2014: RUB 985,221 thousand) exceeds depreciation charge recognized as expenses by the amount of depreciation charge on the fixed assets, used in the stripping activities, which was capitalized in mineral resources.

Reversal of impairment loss on property, plant and equipment

As at 31 December 2008 management of the Group performed an analysis of the carrying amount and calculated the recoverable amount of the property, plant and equipment of the Group. As a result of the impairment test the impairment loss in the amount of RUB 1,973,442 thousand was recognized in relation to the mining assets of the subsidiary company of the Group.

In April 2015 management of the Group approved the underground mining project for Akzhal ore deposit, providing mining of ore until 2038, with the Committee of Geology and Subsoil Use of the Ministry of Investment and Development of the Republic of Kazakhstan. Management of the Group started the implementation phase of the underground mining project and intends to develop the field in accordance with the approved project in the long term.

As at 30 June 2015 recoverable amount of the mining assets of the subsidiary company of the Group was determined based on the fair value less costs to sell. For the purpose of fair value determination the forecasted discounted cash flows model was prepared which includes open and underground mining of Akzhal ore deposit. Costs to sell were estimated at 1% of the fair value.

The discounted cash flows were projected for the period from 1 July 2015 to 2038, when the underground mining of Akzhal ore deposit is expected to cease, based on actual operating results, the budget for the year 2015 and the data in the approved technical and economic feasibility study of the underground mining project for Akzhal ore deposit.

The forecasted cash flows model was prepared in US dollars as sales revenue is linked to market prices on metals denominated in US dollars. Operating costs forecast was based on Kazakhstan inflation ratio and translated into US dollars using corresponding forecast exchange rate of Kazakhstani tenge to US dollar.

Information on independent market analysts' forecasts on average annual zinc prices on London Metal Exchange (LME) and rates of Kazakhstani tenge to US dollar used in calculation of the recoverable amount of mineral assets of LLP "Nova Zinc" as at 30 June 2015 and 31 December 2014 is provided below:

	2015	**2016**	**2017**	**2018**	**2019**
As at 30 June 2015					
Average price of zinc metal, USD per ton	2,259	2,410	2,585	2,578	2,646
Average rate of Kazakhstani tenge to the USD	188.6	203.3	218.2	224.9	227.7
As at 31 December 2014					
Average price of zinc metal, USD per ton	2,280	2,379	2,469	2,403	2,402
Average rate of Kazakhstani tenge to the USD	201.4	211.8	212.9	212.1	209.2

Information on the average annual price of zinc on the LME for the period from 2020 to 2038 was calculated based on the assumption that LME quotes will change in line with the level of USA inflation rates due to the fact that LME prices are nominated in USD dollars. Forecast USA inflation rates were obtained from independent market analysts's sources.

The remaining assumptions used in determination of the recoverable amount of the mining assets are provided below:

- the forecasted volume of open ore extraction was calculated based on actual proven ore reserves and mining plan for the years 2012-2020 approved in 2012;
- the forecasted volume of underground ore extraction was calculated based on actual proven ore reserves and Akzhal ore deposit underground mining project approved in April 2015. In accordance with the project first ore will be mined in 2016 and subsidiary company is planning to reach the full capacity by the 2024;
- net present value of expected capital investments in underground mining of Akzhal ore deposit was estimated in the amount of RUB 5,943,114 thousand;
- management believes that the existing license for mineral resources extraction will be renewed in 2017 till the end of the forecasted period without significant additional costs;
- exchange rates of Kazakhstani tenge to US dollar were estimated based on independent market analysts' forecasts;
- post-tax discount rate used is 15.5% (31 December 2014: pre-tax discount rate 16.75%)

As at 30 June 2015 the recoverable amount exceeded the carrying amount of mining assets, which led to the recovery of the carrying amount of assets to their book value, that would have been had the impairment loss not been recognized as at 31 December 2008.

Thus the reversal of previously accrued impairment loss of RUB 970,397 thousand was recognized in other operating income in the consolidated interim condensed statement of profit or loss and other comprehensive income for the reporting period.

The management of the Group performed a sensitivity analysis of the results of the impairment test to the changes in the assumptions used:

- A 35% weakening of the forecasted Kazakhstani tenge to USD exchange rate in all forecasted periods leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 4,330,175 thousand. A 15% strengthening of the forecasted Kazakhstani tenge to USD exchange rate in all forecasted periods leads to the carrying amount of fixed assets exceeding their recoverable amount by RUB 1,465,260 thousand;
- A 15% increase in the forecasted zinc prices leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 3,032,830 thousand. A 25% decrease in the forecasted zinc prices leads to the carrying amount of fixed assets exceeding their recoverable amount by RUB 2,341,526 thousand;
- A 2% increase in discount rate leads to the recoverable amount of property, plant and equipment exceeding the carrying value by RUB 438,408 thousand. A 2% decrease in discount rate leads to the recoverable amount exceeding the carrying value of property, plant and equipment by RUB 1,978,639 thousand. If discount rate is 19.15%, the carrying value of assets will be equal to its recoverable amount.

As at 31 December 2015 the management of the Group performed an analysis to identify indicators of possible impairment of the property, plant and equipment of JSC Chelyabinsk zinc plant and LLP Nova Zinc.

Taking into consideration that during the period from 30 June 2015 to 31 December 2015 parameters of the underground mining project for Akzhal ore deposit have not changed, the only impairment indicator identified was a decrease of 2015 average zinc and lead market prices denominated in US dollars comparing to the prices in 2014 by 11% and 18%, correspondingly. However a 24% weakening of average Kazakhstani tenge to USD exchange rate in 2015 in comparison with average rate in 2014, which has a positive effect on the recoverable amount of fixed assets of the Company and as sensitivity analysis undertaken in the previous years shows, a more significant effect on the amount specified, offsets a negative effect from metal prices decrease. Based on the analysis undertaken the Management of the Group has decided not to perform a detailed calculation of the recoverable amount of the property, plant and equipment of LLP Nova Zinc as at 31 December 2015.

Similarly for JSC CZP, a separate CGU, the management of the Group did not calculate the recoverable amount of the property, plant and equipment due to the fact, that the average Russian Ruble to USD exchange rate fell by 59% comparing to the average rate in 2014, while the average zinc price denominated in US dollars, which has a lesser effect on the recoverable amount of fixed assets of the Company, decreased during the same period by 11%.

Property, plant and equipment under construction

Property, plant and equipment under construction mainly comprise expenditures on acquisition of equipment, construction and assembling works related to modernization and re-equipment of the main production workshops of JSC Chelyabinsk zinc plant, as well as construction of new production facilities. These expenditures should enable the Company to achieve new level of production capacity in the medium-term period.

Property, plant and equipment under construction includes costs for borrowings for General purposes in the amount of RUB 47,199 thousand (note 17).

9. Intangible assets

The carrying value of intangible assets as at 31 December 2015 amounted to RUB 114,883 thousands (31 December 2014: RIB 148,351 thousand) and include exploration and evaluation assets and other intangible assets

The carrying value of exploration and evaluation assets as at 31 December 2015 amounted to RUB 98,241 thousand (31 December 2014: RUB 130,206 thousand) and mainly includes expenses related to the combined and subsurface ore extraction project preparation on Akzhal deposit, and exploration and evaluation activities in the relevant area of interest.

Other intangible assets comprise the expenses on obtaining CZP SHG (Chelyabinsk Zinc Plant Special High Grade) certificate. The carrying value of this asset at 31 December 2015 is RUB 14,995 thousand (31 December 2014: RUB 15,783 thousand). The product was officially registered with London Metal Exchange in December 2004.

The intangible assets included costs for borrowings for General purposes, in the amount of RUB 3,954 thousand (note 17).

The amortisation expense in the amount of RUB 1,804 thousand has been charged to administrative expenses (in 2014 – RUB 1,923 thousand).

10. Advances for acquisition of business

In December 2014, the Group signed an agreement on financing with the company controlled by one of the shareholders of the Group, which significantly reduced its interest in the Group in December 2014. The subject of the financing agreement is the complex of actions required for the Group to acquire rights for the development and extraction on Korbalikhinsk pit in Altay region. The payment of RUB 3,400,000 thousand made by the Group was accounted for as an advance for acquisition of business in the Group consolidated financial statements for the years ended 31 December 2015 and 2014 (Note 7).

Korbalikhinsk pit is the largest deposit of polymetallic ores in Russia. Estimated reserves amount is approximately 26 mln.tonnes of ore with high content of zinc, as well as copper, lead, gold and silver. The pit is currently operating and being further developed, extraction is expected to be approximately 1 mln. tonnes of ore per year when it achieves its full production capacity. All the ore extracted is currently processed at the facilities of the company controlled by one of the shareholders of the Group, which significantly reduced its interest in the Group in December 2014, and all zinc concentrate produced is sold to the Group.

For the purpose of financing the construction of the underground facilities of the Korbalikhinsk pit the Group concluded a loan agreement in May 2015 under which the Group will issue a loan amounted to RUB 707,501 thousand to the same company (Note 7). The amount of loan issued equals to the amount of financed capital investments agreed by the parties.

Following the terms of the agreement on financing the Group concluded another agreement on purchase of 100% shares of JSC "Korbalikhinsk pit" with the same company in June 2015. In accordance with the terms of the purchase agreement, the title for the shares is transferred to the Group after certain contingent conditions are met. Not all of these contingent conditions were met as at the reporting date. All required procedures necessary to meet contingent conditions are at the stage of approval by authorized bodies. The purchase agreement stipulates that contingent commitments shall be met until 1 June 2016 with a possibility of automatic prolongation.

11. Inventories

'000 RUB	**31 December 2015**	**31 December 2014**
Raw materials and consumables	1,641,861	1,130,126
Work in progress	1,131,671	843,228
Finished goods and goods for resale	235,226	358,774
Other inventories	9,939	10,269
Inventory provision	(3,700)	(8,213)
Total inventory	**3,014,997**	**2,334,184**

In 2015 raw materials, consumables and changes in finished goods and work in progress recognised in cost of sales amounted to RUB 10,991,509 thousand (2014: RUB 6,873,010 thousand). The reversal of obsolence provision on inventory amounted to RUB 3,066 thousand in 2015 (2014: write-down in amount of RUB 1,602 thousand). The reversal and write-down are included in cost of sales.

Significant increase in raw materials and consumables and work in progress' balances is a result of increase in volumes of raw materials and work in progress as well as the weakening of RUB against the US dollar.

12. Trade and other receivables

'000 RUB	Note	31 December 2015	31 December 2014
Balances on operations with third parties			
Trade receivables denominated in RUB		1,691,243	1,202,408
Trade receivables denominated in GBP		542,183	470,669
Trade receivables denominated in EUR		450,073	451,873
Trade receivables denominated in USD		209,967	43,623
Trade receivables denominated in Tenge		67,749	9,939
Interest income in RUB		44,770	1,889
Other financial assets		54,475	56,548
Balances on operations with related parties			
Trade receivables denominated in RUB	7	1,163,835	-
Impairment provision		(4,034)	(1,549)
Total financial assets within trade and other receivables		**4,220,261**	**2,235,400**
VAT and other taxes recoverable		610,887	559,328
Advances given – third parties		96,747	374,862
Advances given – related parties	7	5,002,954	-
Other receivables – third parties		41,812	14,774
Impairment provision		(7,842)	(2,735)
Total trade and other receivables		**9,964,819**	**3,181,629**

Information about the fair value of accounts receivable as at 31 December 2015 is disclosed in note 27.

Significant increase in trade and other receivables as at 31 December 2015 is caused both by growth in trade receivables balances on operations with related parties and by issuing the advance to a related party (Note 7).

Tax receivables balance as at 31 December 2015 includes VAT recoverable balance in the amount of RUB 207,522 thousand (31 December 2014: RUB 312,793 thousand), accounted by the subsidiary LLP "Nova Zinc" (Note 28).

Tax receivables balance as at 31 December 2015 also includes VAT recoverable of smelting segment in respect of not submitted export and zinc concentrate purchases from companies of Trade Union in the amount of RUB 165,438 thousand (31 December 2014: RUB 36,344 thousand).

In addition tax receivables balance as at 31 December 2015 includes VAT recoverable balance in the amount of RUB 132,753 thousand relating to electricity transmission services provided within the period of 1 May 2013 and 31 July 2014 accrued applying tariffs of OJSC "MRSK Ural", which has not been yet submitted for recovery by management due to continuing litigation proceedings between JSC "Chelyabinsk Zinc Plant" and OJSC "MRSK Ural" (Note 28). Based on the existing court practice and argumentation available, management believes that subsequent VAT refund is probable and recognizes an asset as at 31 December 2015. Apart from tax receivables balance as at 31 December 2014 included VAT recoverable balance in the amount of RUB 38,127 thousand relating to electricity transmission services accrued applying tariffs of OJSC "FSK UES", which had been recovered in 2015.

As at 31 December 2015, total amount of provision for accounts receivable possible impairment amounted to RUB 11,876 thousand (31 December 2014: RUB 4,284 thousand), including impairment provision for trade receivables in the amount of RUB 4,034 thousand (31 December 2014: RUB 1,549 thousand). Individually impaired receivables mainly relate to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances.

The ageing of trade receivables included in provision per past due period is:

’000 RUB	**31 December 2015**	**31 December 2014**
Less than 3 months	-	-
3 to 6 months	3,231	274
Over 6 months	803	1,275
Total amount of impaired accounts receivable	**4,034**	**1,549**

As of 31 December 2015, trade receivables of RUB 1,674,882 thousand (31 December 2014: RUB 169,239 thousand), including receivables on operations with related parties amounted to RUB 923,259 thousand, were past due but not impaired. These amounts relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables per past due periods is as follows:

’000 RUB	**31 December 2015**	**31 December 2014**
Less than 3 months	1,391,484	168,671
3 to 6 months	283,398	282
Over 6 months	-	286
Trade accounts receivable past due but not impaired	**1,674,882**	**169,239**

The management believes that the unimpaired past due amounts are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customers’ credit ratings if they are available.

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

’000 RUB	**2015**	**2014**
As of 1 January	**4,284**	**3,061**
Provision accrued	14,025	2,884
Receivable write-offs	-	-
Reversal of unused amount	(3,694)	(2,984)
Foreign exchange differences	(2,739)	1,324
As of 31 December	**11,876**	**4,284**

Accrual and reversal of provision for impaired receivables were included in other income and expenses in the consolidated statement of profit or loss. Receivable balances included in the provision are normally written off against the provision as soon as management acknowledges that there is a remote possibility that these receivables could be collected from the counterparty. Other classes within receivables do not contain impaired assets.

The Group’s exposure to credit and currency risks related to trade and other receivables is disclosed in Note 27.

13. Financial assets and short-term financial liabilities

’000 RUB	Note	31 December 2015	31 December 2014
Promissory note denominated in RUB		-	45,000
Promissory note denominated in USD		103,493	-
Short-term loans issued denominated in KZT		3,174	5,446
Short-term loans issued denominated in RUB	7	1,271,283	-
Other short-term financial assets		-	6,248
Total short-term financial assets		**1,377,950**	**56,694**
Total financial assets		**1,377,950**	**56,694**

In March 2015 the Group acquired a promissory note for the amount of USD 1,420 thousand. The promissory note bears interest rate of 4.46%. Maturity is on demand, but not earlier than 31 March 2016 and not later than 02 April 2016. The acquired promissory note is a pledge under the bank guarantee agreement. Bank guarantee is valid until 28 February 2016 for the amount of USD 1,400 thousand and is provided as an enforcement of Group’s obligations for a timely payment for the supplied zinc concentrate.

Short-term financial liabilities as at 31 December 2015 are represented by forward contracts in the amount of RUB 50,845 thousand, which are not recognised in accordance with hedging rules and have been accounted for at fair value through profit and loss and by Group’s financial liabilities in the amount of RUB 50,215 thousand.

14. Cash and cash equivalents, overdrafts

’000 RUB	31 December 2015	31 December 2014
RUB denominated bank balances payable on demand and petty cash	20,806	210,192
RUB denominated deposits	179,000	157,700
KZT denominated bank balances payable on demand and petty cash	222	40,048
USD denominated bank balances/(overdrafts)	37,838	22,100
USD denominated bank balances/(overdrafts)	(51,076)	
EUR denominated bank balances/(overdrafts)	(337,696)	15,927
GBP denominated bank balances payable on demand	402,388	97
Swiss francs denominated bank balances payable on demand	73	-
Total cash and cash equivalents	**251,555**	**446,064**
Restricted cash	-	1,686
Total cash and cash equivalents	**251,555**	**447,750**
GBP denominated bank balances	-	193,023
USD denominated bank balances	-	35,492
EUR denominated balances overdrafts	-	(323,803)
Total balance of overdrafts	**-**	**(95,288)**
Total balances of cash and cash equivalents within the Statement of cash flows	**251,555**	**350,776**

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

As at 31 December 2015 the Group includes overdraft in the cash and cash equivalents based on the legally enforceable right and management intention to offset overdraft against cash balances denominated in other currencies placed with this bank. As at 31 December 2014 net amount of overdraft liabilities is presented separately in the consolidated financial statements due to total overdraft liabilities exceeding the cash balances placed with this bank.

As at 31 December 2015 interest rates on bank deposits in RUB were at 8.0% - 10.4% (31 December 2014: 15%).

15. Equity

The total number of ordinary shares in issue comprises:

’000 RUB	**Number of ordinary shares**	**Book value of ordinary shares**	**Share premium**	**Total**
As at 31 December 2014	54,195,410	127,635	1,375,231	1,502,866
As at 31 December 2015	54,195,410	127,635	1,375,231	1,502,866

As at 31 December 2015, the authorized, issued and fully paid share capital of the Company consisted of 54,195,410 ordinary shares with a nominal value of RUB 1 each (31 December 2014: 54,195,410 ordinary shares). Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

During the years ended 31 December 2015 and 2014, the Company did not issue or repurchase its own shares.

Profit distribution is based on the statutory accounting data of the Group’s entities. Russian legislation states net profit as the basis of distribution. Net statutory profit of the Company for 2015 as reported in the published annual statutory financial statements is RUB 2,336,276 thousand (unaudited) (for 2014: RUB 1,676,503 thousand (unaudited)) and the closing balance of the accumulated profit including the current year net statutory profit as at 31 December 2015 totalled RUB 14,040,973 thousand (unaudited) (2014: RUB 11,681,970 thousand (unaudited)).

During 2015 and 2014, in accordance with the annual shareholders general meeting’s decisions, the Company did not accrue or pay dividends on placed ordinary shares. As at 31 December 2015 and 31 December 2014, the Group did not have liabilities related to unpaid dividends for prior periods.

Capital management

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

Consistent with others in the industry, the Group monitors capital using a ratio of adjusted net debt to equity. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including loans issued, borrowings, short-term financial liabilities, trade and other payables, income tax payable and other taxes payable, as shown in the consolidated statement of financial position) less bank deposits, cash and cash equivalents and restricted cash.

There were no changes in the Group’s approach to capital management during the year.

16. Earnings/(loss) per share

Earnings/(loss) per share as at 31 December 2015 was calculated by dividing the profit attributable to the equity holders of the Company in the amount of RUB 3,750,303 thousand (2014: loss in the amount of RUB 2,352,543 thousand) by the weighted average number of ordinary shares outstanding of 54,195,410 shares (31 December 2014: 54,195,410 shares). The Company has no financial instruments that may entail dilution of equity.

17. Borrowings

’000 RUB	**31 December 2015**	**31 December 2014**
Long-term borrowings		
Bank credit line	5,000,000	-
Total long-term borrowings	**5,000,000**	**-**
Total borrowings	**5,000,000**	**-**

During the reporting period the Group entered into agreement on opening a bank credit line with a limit of RUB 7,000,000 thousand and expiry date of 31 August 2018. Under the terms of this agreement as at 31 December 2015 the interest rate is 13% per annum.

During 2015 interest expenses accrued and paid amounted to RUB 243,082 thousand. Out of this amount RUB 51,153 thousand were recognized within Property, plant and equipment in construction and Non-material assets (Notes 8 and 9).

The loan agreement contains a number of restrictive covenants, including financial performance.

During the reporting period the terms stipulated by the credit agreement were not violated by the Group, as well as payments of interest accrued were made timely.

18. Provision for asset retirement obligations

In accordance with the environmental legislation and contracts on subsurface use, the subsidiary LLP “Nova Zinc” in Kazakhstan has a legal obligation to rehabilitate damaged environments caused by its operating activity and decommission its mining properties and restore a landfill site after its closure. Provisions are made, based on net present value of site restoration costs as soon as the obligation arises from past operating activities.

The Group has an obligation to restore the landfill site resulting from the mining operations and to decommission its mining property after its expected closure in 2020. These obligations relate to the mineral property of the Group disclosed in Note 8.

The provision for mining asset retirement and landfill site restoration is estimated based on the management’s interpretation of the current environmental legislation in the Republic of Kazakhstan and related programme adopted by LLP “Nova Zinc” for restoration of the contracted territory after mining and other operating activities supported by the feasibility study and the engineering research performed in accordance with the existing rehabilitation standards and techniques. Rehabilitation cost estimates are subject to potential changes in environmental regulatory requirements and interpretations of the law.

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

Movements in provisions for asset retirement obligations are as follows:

'000 RUB	
Carrying value as at 1 January 2014	**100,693**
Changes to the forecasts recognised in property, plant and equipment cost	(11,816)
Unwinding of accrued discount	10,053
Effect of presentation currency translation	46,243
Carrying value as at 31 December 2014	**145,173**
Changes in estimates recognised in property, plant and equipment cost	91,418
Unwinding of accrued discount	14,847
Effect of presentation currency translation	(72,498)
Carrying value as at 31 December 2015	**178,940**

The discount rate used to calculate the net present value of future costs of asset retirement obligations as of 31 December 2015 was 10.53% p.a. (31 December 2014: 8.75% p.a.). The increase in provision for asset retirement obligations is due to additional provision for dismantling of buildings and constructions located in the contract area.

19. Accounts payable, accrued expenses and advances from customers

'000 RUB	Note	31 December 2015	31 December 2014
Balances on operations with third parties			
Trade payables – RUB denominated		812,571	643,286
Trade payables – USD denominated		601,320	144,582
Trade payables – KZT denominated		147,856	102,133
Trade payables – GBP denominated		59,175	43,797
Trade payables – EUR denominated		756	4,546
Trade payables – Swiss francs denominated		1,531	844
Payables for purchased property, plant and equipment and intangible assets		217,264	198,295
Accrued liabilities and other payables		1,010,042	113,434
Balances on operations with related parties			
Trade payables – RUB denominated	7	132,928	-
Trade payables – KZT denominated	7	2,805	3,610
Total financial liabilities within trade and other payables		**2,986,248**	**1,254,527**
Advances received RUB denominated – third parties		6,740	15,165
Advances received RUB denominated – related parties	7	269	-
Advances received USD denominated – third parties		958	10,170
Advances received KZT denominated – third parties		337	2,105
Payroll and social tax payable		151,822	149,844
Unused vacation accrual		59,257	60,161
Total trade and other payables		**3,205,631**	**1,491,972**

Accrued liabilities and other payables as at 31 December 2015 include provision on ecological litigation in the amount of RUB 82,700 thousand (31 December 2014: RUB 54,660 thousand) (Note 28).

Additionally accrued liabilities and other payables as at 31 December 2015 include provision for upcoming expenses and payments in the amount of RUB 870,269 thousand, accrued for electricity and energy power transmission services, rendered by OJSC "MRSK Urala" over the period 1 May 2013 to 31 July 2014 in connection with the actual and potential litigations between the said company and JSC "CHZP" (Note 28).

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

20. Other taxes payable

'000 RUB	**31 December 2015**	**31 December 2014**
Value Added Tax	114,646	208,469
Mineral Extraction Tax	97,090	97,957
Land tax and other payments for land use	4,908	5,563
Property tax	16,943	15,737
Personal income tax	23,450	17,558
Withholding tax	4,265	6,114
Other taxes	44,505	51,764
Total other taxes payable	**305,807**	**403,162**

Value Added Tax payable balance as at 31 December 2015 includes accrued accounts payable in the amount of RUB 81,753 thousand of previously refunded VAT (31 December 2014: includes provision in the amount of RUB 66,046 thousand) (Note 28).

21. Revenue

'000 RUB	**Note**	**2015**	**2014**
Zinc and zinc alloys		19,458,991	11,869,036
Tolling fee	7	1,580,390	1,974,263
Lead concentrate		763,192	539,870
Precious metals		572,724	574,969
Other		1,638,093	1,549,714
Total revenue		**24,013,390**	**16,507,852**

During 2015 sales of zinc by smelting segment of the Group increased due to the weakening of RUB against USD. At the same time revenue of smelting segment from tolling services has decreased due to a decrease of the processed volumes. Also during 2015 sales of zinc alloy of alloying segment of the Group have significantly increased due to the development of sales in Europe.

Other revenue in 2015 mainly comprises sales of by-products. Increase in sales of by-products in 2015 is caused by the weakening of RUB against USD.

22. Cost of sales

’000 RUB	2015	2014
Raw materials and consumables used in production	11,147,154	6,683,516
Utilities and fuel	2,911,568	1,593,512
Staff cost	1,331,165	1,038,398
Depreciation of property, plant and equipment	1,201,821	861,374
Repairs and maintenance	781,581	736,329
Mineral extraction tax	396,712	254,303
Other taxes	162,274	165,966
Production overheads	129,548	105,936
Reversal of inventory provision	(3,066)	1,602
Other cost of sales items	165,179	162,718
Change in finished goods	136,125	272,683
Change in work-in-progress	(291,770)	(83,189)
Total cost of sales	**18,068,291**	**11,793,148**

During 2015 expenses on raw materials and consumables increased significantly due to the weakening of RUB against USD.

In 2015 utilities and fuel expenses increased due to legal proceedings between JSC “Chelyabinsk Zinc Plant” and OJSC ”MRSK-Ural” the provision for possible future expenses has been created as well as an adjusted cost of sales for the amount of expenses on the transmission of electricity services for the period from 1 May 2013 to 31 July 2014 amounting to RUB 737,516 thousands. In 2014 expenses for electricity transmission services were accrued applying tariffs of OJSC “FSK UES”. In addition, cost of sales for 2014 includes adjustment for the expenses for electricity transmission services accrued for the period from 1 May 2013 to 31 December 2013 in the amount of RUB 358,647 thousand due to finalization of litigation proceedings between JSC “Chelyabinsk Zinc Plant” and OJSC “FSK UES” (Note 28).

23. Commercial, general and administrative expenses

(a) Commercial expenses

’000 RUB	2015	2014
Transportation and customs duties	982,198	747,723
Packing materials	52,679	42,287
Depreciation of property, plant and equipment	4,715	6,969
	1,039,592	**796,979**

(b) General and administrative expenses

’000 RUB	2015	2014
Wages and salaries	580,162	470,383
Depreciation and amortisation	98,337	83,374
Security costs	98,524	68,864
Audit, consulting, information and other professional services	64,282	53,951
Utilities and fuel	45,530	35,044
Repairs	33,681	34,609
Insurance costs	11,710	8,965
Accrual of provision for ecological proceedings (Note 28)	58,560	38,134
Other general and administrative expenses	293,321	223,336
Total general and administrative expenses	**1,284,107**	**1,016,660**

Total depreciation expenses and staff costs in the costs of sales, commercial, general and administrative expenses and other operating expenses amounted to RUB 1,304,873 thousand (2014: RUB 951,717 thousand) and RUB 1,911,327 thousand (2014: RUB 1,508,781 thousand), respectively.

24. Other operating income and expenses

’000 RUB	Note	2015	2014
Reversal of previously accrued impairment	8	970,878	322,221
Refund of amount under ecological proceedings		53,301	-
Other operating income		94,425	71,236
Total other operating income		**1,118,604**	**393,457**
Social expenses		72,821	67,115
Penalties and tax provisions		100,730	5,031
Revaluation of financial derivatives’ fair value		50,845	-
Other operating expenses		60,901	27,126
Total other operating expenses and income, net		**285,297**	**99,272**

25. Foreign exchange gain/(loss)

Major part of foreign exchange differences in 2015 in the amount of RUB 528,283 thousand (in 2014: loss amounted to RUB 358,860 thousand) was caused by more significant weakening of the Kazakhstani tenge exchange rate than Russian Rouble to US dollar and a significant inter-segment revenue and balances of mining and smelting segments nominated in US dollars.

26. Income taxes

Pre-tax profit from operations in the Russian Federation and Kazakhstan Republic is taxed based on the effective rate of 20% (2014: 20%). In accordance with the tax legislation of the Great Britain the subsidiary Brock Metal Ltd with operating activities located on the territory of the United Kingdom used tax rate 23.3%.

’000 RUB	2015	2014
Current tax expenses	911,306	527,157
Adjustment in respect of prior years	87,271	-
Deferred tax expenses – origination and reversal of timing differences	137,337	75,585
Income tax expense for the year	**1,135,914**	**602,742**

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

	2015		2014	
	’000 RUB	%	’000 RUB	%
Profit before tax	4,886,217	100	2,955,285	100
Tax using the Company’s domestic tax rate	(977,243)	(20)	(591,057)	(20)
Effect of tax rates in foreign jurisdictions	(147)	(0)	(1,547)	(0,05)
Adjustment for prior years	(87,271)	(1.79)	-	-
Non-deductible expenses	(71,253)	(1.46)	(10,138)	(0,3)
	(1,135,914)	**(23,25)**	**(602,742)**	**(20,4)**

Deferred tax assets and liabilities are attributable to the following:

’000 RUB	Assets		Liabilities		Net	
	2015	2014	2015	2014	2015	2014
Property, plant and equipment	-	-	(373,679)	(265,344)	(373,679)	(265,344)
Inventories	-	-	(31,972)	(5,738)	(31,972)	(5,738)
Trade and other receivables	-	857	(13,219)	(13,313)	(13,219)	(12,456)
Provision for asset retirement obligation	35,788	29,034	-	-	35,788	29,034
Trade and other payables	131,768	71,065	-	-	131,768	71,065
Other	3,170	165	-	-	3,170	165
Tax assets/(liabilities)	170,726	101,121	(418,870)	(284,395)	(248,143)	(183,274)
Set off of tax	(170,726)	(101,121)	170,726	101,121	-	-
Net tax assets/(liabilities)	-	-	(248,143)	(183,274)	(248,143)	(183,274)

Increase in deferred tax liability as at 31 December 2015 attributable to property, plant and equipment was caused by reversal of previously recognized impairment of property, plant and equipment (Note 8).

Increase in deferred tax asset as at 31 December 2015 attributable to accounts payables was caused by the temporary differences in the recognition of expenses relating to electricity transmission services in these financial statements and tax accounting due to continuing litigation proceedings between JSC “Chelyabinsk Zinc Plant” and OJSC “MRSK Ural” (Note 28). Management believes that the probability of realization of the temporary difference is high and recognize asset as at 31 December 2015.

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

’000 RUB	1 January 2014	Charged to profit and loss	Translation difference, restated	31 December 2014	Charged to profit and loss	Translation difference	31 December 2015
Property, plant and equipment	(127,594)	(100,233)	(37,517)	(265,344)	(190,398)	82,063	(373,679)
Inventories	(84,806)	79,068	-	(5,738)	(26,233)	-	(31,972)
Trade and other receivables	(5,455)	(7,368)	367	(12,456)	(435)	(329)	(13,219)
Provision for asset retirement obligation	20,139	(354)	9,249	29,034	16,321	(9,567)	35,788
Trade and other payables	103,942	44,700	11,823	71,065	60,403	300	131,768
Other	2,163	(1,998)	-	165	3,006	-	3,170
Total net deferred tax assets/(liabilities)	**(91,611)**	**(75,585)**	**(16,078)**	**(183,274)**	**(137,337)**	**72,468**	**(248,143)**

As at 31 December 2015 the Group has not recognized a deferred tax liability in respect of taxable temporary differences and a deferred tax asset in respect of deductible temporary differences of RUB 742,311 thousand and 436,726 thousand, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the realisation of those temporary differences and does not intend to realise them in the foreseeable future (31 December 2013: RUB 565,935 thousand and 755,332 thousand, respectively). Significant increase of taxable temporary differences and decrease of deductible temporary differences relate to the significant profit gained by the Group’s foreign subsidiaries for the period.

27. Fair values and risk management

(a) Accounting classifications and fair values

Assets and liabilities not measured at fair values with fair value disclosed in accordance with the requirements of IFRS

Type	Valuation technique	Note
Short-term financial assets	Discounted cash flows	13
Trade and other receivables	Discounted cash flows	12
Trade and other payables	Discounted cash flows	19

The management of the Group consider that the carrying amount of the mentioned above assets not measured at fair value is a reasonable approximation of its fair value.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- market risk (see note 27(b)(ii));
- credit risk (see note 27(b)(iii));
- liquidity risk (see note 27(b)(iv)).

Information disclosed in this note comprise the information on exposure of the Group to each of the above mentioned risks, the purposes of the Group and its policy, procedures of assessment and management of risks, and capital management policy. Additional quantitive information is disclosed accordingly in this consolidated financial statements.

(i) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The internal audit department is responsible for developing and monitoring the Group's risk management policies. This department reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Although the Group lacks a formalised risk management programme its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance.

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

(ii) 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.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. The Group does not apply hedge accounting in order to manage volatility in profit or loss.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of Group entities. The functional currencies of Group companies are primarily the Russian Rouble (RUB), but also Kazakhstani Tenge (KZT) and Sterling (GBP). The currencies in which these transactions primarily are primarily denominated are EUR and USD.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

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

'000 RUB	USD-nominated 2015	EUR-denominated 2015	USD-denominated 2014	EUR-denominated 2014
Trade and other receivables	209,967	450,073	43,623	451,873
Cash and cash equivalents	37,838	75	57,592	15,927
Bank overdrafts	(51,076)	(337,771)	-	(323,803)
Trade and other payables	(601,320)	(756)	(144,582)	(4,546)
Net risk exposure	**(404,591)**	**111,622**	**(43,367)**	**139,451**

The following exchange rates have been applied during the year which had significant influence on the Group's operating results:

	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
Russian rouble				
USD 1	61.32	38.60	72.88	56.26
EUR 1	67.99	50.99	79.70	68.34
GB sterling				
EUR1	1.38	1.24	1.36	1.27
USD 1	1.53	1.65	1.47	1.56
Kazakhstani tenge				
USD 1	222.25	179.12	339.47	182.35

Sensitivity analysis

As at 31 December 2015, if the RUB had weakened/strengthened by 24% against USD with all other variables held constant, the net profit for the year would have been RUB 76,840 thousand lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated trade payables. As at 31 December 2015 if the GBP had weakened/strengthened by 6% against EUR with all other variables held constant, the net profit for the year would have been RUB 5,733 thousand higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated trade receivables and overdraft liability.

As at 31 December 2014, if the RUB had weakened/strengthened by 40% against USD with all other variables held constant, the net profit for the year would have been RUB 37,914 thousand lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated trade payables. As at 31 December 2014 if the GBR had weakened/strengthened by 5% against EUR with all other variables held constant, the net profit for the year would have been RUB 4,931 thousand higher/lower, mainly as a result of foreign exchange gains/losses on translation of EUR denominated trade receivables and overdraft liability.

Since the Group does not hold any financial instruments revalued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

Price risk

The Group is exposed to commodity price risk because prices for zinc and zinc concentrate are determined based on London Metal Exchange (“LME”) quotations for zinc Special High Grade (“SHG”). To manage its price risk, the Group determines a price mechanism in its zinc concentrate purchase agreements so that the price is fixed as the LME quotation in approximately one month period after the shipment date. In its sales contracts the prices for zinc are normally based on spot LME quotations. Due to this pricing mechanism similar prices are used to determine both sale and purchase prices, which minimises the price risk for the Group.

In addition as at 31 December 2015, the Group had forward contracts totalling 4,325 tonnes of zinc (31 December 2014: forward contracts totalling 625 tonnes of zinc) that were not recognised in accordance with hedging rules and have been accounted for at fair value through profit and loss. The profit on such contracts in the amount of RUB 50,845 thousand for the year ended 31 December 2014 (2014: profit of RUB 6,248 thousand) was recognised in “other operating income and expenses” in the consolidated statement of profit or loss and other comprehensive income.

If the LME quotations for SHG zinc had been 25% lower/higher during the year ended 31 December 2015, the net profit of the Group would have been RUB 1,972,712 thousand lower/higher. If the LME quotations for SHG zinc had been 15% higher/lower during the year ended 31 December 2014, the net profit of the Group would have been RUB 824,909 thousand higher/lower.

Interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group’s profit and operating cash flows are substantially independent of changes in market interest rates. Management considers that the risk is insignificant for the Group’s business.

The financial instruments are represented by the financial assets and liabilities with fixed interest rate comprise bank deposits and promissory note in the amount of RUB 103,494 thousand as at 31 December 2015 (as at 31 December 2014: RUB 45,000 thousand), and loans issued in the amount of RUB 1,274,457 thousand as at 31 December 2015 (as at 31 December 2014 5,446 thousand) and the loan received in the amount of RUB 5,000,000 thousand as at 31 December 2015 (as at 31 December 2014: 0).

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for bank deposits and loans issued with fixed interest rates at fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(iii) 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, loans issued and bank deposits. The carrying amount of financial assets represents the maximum credit risk exposure.

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

'000 RUB	**Note**	**31 December 2015**	**31 December 2014**
Trade and other receivables	12	4,220,261	2,235,400
Advances issued	12	5,000,000	
Less trade receivables covered by credit insurance		(2,700)	(18,358)
Total unsecured trade and other receivables		9,217,562	2,217,042
Bank deposits and promissory note	13	103,493	45,000
Cash and cash equivalents	14	251,555	447,750
Other financial assets	13	1,274,457	11,694
Total maximum exposure to credit risk		**10,847,067**	**2,721,486**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances. Approximately 55% (2014: 54%) of the Group's revenue is attributable to sales transactions with three major customers. At 31 December 2015, accounts receivable from these customers amounts to 79% (2014: 31%) of the total trade and other receivables outstanding.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's wholesale customers. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

In relation to Alloying segment's trade receivables which comprise RUB 1,099,483 thousand as at 31 December 2015 (31 December 2014: RUB 966,165 thousand) the management of the Group applies a policy which requires an appropriate credit check on potential customers prior to sales. Moreover, as a matter of additional credit risk mitigation, management also provided credit insurance of accounts receivable. The amount of insured trade receivables as at 31 December 2015 is RUB 3,852 thousand (31 December 2014: 26,014 thousand), the maximum insurance coverage as at 31 December 2015 is RUB 2,700 thousand (31 December 2014: RUB 18,358 thousand).

Bank deposits and loans issued

The Group limits its exposure to credit risk by only providing loans to and placing deposits with those counterparties that management believes have a minimal default risk at the moment of loans issuance or deposits placement.

Bank deposits and cash equivalents are issued and placed with the same counterparties for a number of years and losses on transactions with these counterparties have never occurred:

'000 RUB	**Credit rating**	**Rating agency**	**31 December 2015**	**31 December 2014**
Bank 1	BB+	Fitch ratings	145,459	40
Bank 2	BBB-	Fitch ratings	104,321	45,125
Bank 3	B++	Expert RA	84,955	26
Bank 4	A+	Fitch ratings	13,498	-
Bank 5	BB-	Fitch ratings	2,522	186,882
Bank 6	BB+	Fitch ratings	-	215,308
Bank 7	BB+	S&P	-	39,631
Total			**350,754**	**487,012**

(iv) 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 uses reasonable liquidity risk management which assists it in monitoring cash flow requirements and optimising its cash return on investments. The Group aims to maintain the level of cash and cash equivalents and other highly liquid instruments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 30 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The Group maintains controls on liquidity within the budgeting process.

Exposure to liquidity risk

The exposure to liquidity risk is connected with the financial liabilities of the Group which are represented by short-term trade payables, loans, short-term financial obligations and bank overdrafts. The Group manages the liquidity risk inherent in its financial liabilities by matching their maturity with cash resources, projected cash flows from operating activities.

The table below provides an analysis of financial liabilities into relevant maturity groupings based on the contractual maturity as at the balance sheet date. The amounts are gross and undiscounted at spot rates and include estimated interest payments and exclude the impact of netting agreements.

		Contractual cash flows				
'000 RUB	**Carrying amount**	**Total**	**On demand**	**Less than 1 year**	**1-2 yrs**	**2-5 yrs**
31 December 2015						
Borrowings	5,000,000	6,574,583	-	650,000	650,000	5,274,583
Short- term financial liabilities	101,060	101,060	-	101,060	-	-
Trade and other payables	2,986,248	2,986,248	2,986,248	-	-	-
	8,087,308	**9,661,891**	**2,986,248**	**751,060**	**650,000**	**5,274,583**
31 December 2014						
Trade and other payables	1,254,527	1,254,527	1,254,527	-	-	-
Bank overdrafts	95,288	95,288	-	95,288	-	-
	1,349,815	**1,349,815**	**1,254,527**	**95,288**	**-**	**-**

As it is disclosed in Note 17, the Group entered into a credit agreement including restrictive covenants. Violation of these conditions in the future can lead to the situation where the Group is obliged to return its borrowings before the term specified in the table above. Interest payments on the loan stated in the above table, reflect the current interest rate on the loan as at the end of the period and may vary with changes in market interest rates. With the exception of these financial liabilities it is not expected that contractual cash flows which are analysed in accordance with the maturity may occur much earlier or their amounts can differ significantly.

(c) 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 RUB	Cash and cash equivalents	Overdrafts	Trade and other receivables	Trade and other payables
31 December 2015				
Gross amounts	402,345	388,847	985,562	274,075
Amounts offset in accordance with IAS 32 offsetting criteria	(388,847)	388,847	-	-
Net amounts presented in the statement of financial position	**13,498**	**-**	**985,562**	**274,075**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-	(274,075)	(274,075)
Amounts related to financial collateral (including cash collateral)	-	-	-	-
Net amount	**13,498**	**-**	**711,487**	**-**
31 December 2014				
Gross amounts	228,515	323,803	69,026	188,332
Amounts offset in accordance with IAS 32 offsetting criteria	(323,803)	(323,803)	-	-
Net amounts presented in the statement of financial position	**(95,288)**	**-**	**69,026**	**188,332**
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-	(69,026)	(69,026)
Amounts related to financial collateral (including cash collateral)	-	-	-	-
Net amount	**(95,288)**	**-**	**-**	**119,307**

28. Contingencies and commitments

(a) Legal proceedings

During the year ended 31 December 2015 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) that arose in the ordinary course of business. On the basis of management’s opinion, there are no current legal proceedings or other claims outstanding, except for described below, that could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Legal proceedings with OJSC “FSK UES” and OJSC “MRSK-Ural”

Currently, JSC “Chelyabinsk Zinc Plant” is involved in legal proceedings with OJSC “MRSK-Ural”, as part of which OJSC “MRSK-Ural” submitted the claim to the court on collection from JSC “Chelyabinsk Zinc Plant” debt in the amount of RUB 535,053 thousand for the services on electricity and energy power transmission provided for the period from August to December 2013.

Management of JSC “Chelyabinsk Zinc Plant” considers that no electricity and energy power transmission services were provided by OJSC “MRSK-Ural” to JSC “Chelyabinsk Zinc Plant” during the period starting from 1 August 2013 till 31 December 2013 and therefore excess payments in the amount of RUB 251,302 thousand made by JSC “Chelyabinsk Zinc Plant” in favor of OJSC “MRSK-Ural” should be treated as unjust enrichment of OJSC “MRSK Ural”.

During the year ended 31 December 2014 JSC “Chelyabinsk Zinc Plant” won legal proceeding against OJSC “FSC-UES” compelling to conclude the contract on electricity and energy power transmission for the period from 1 May 2013 to 31 December 2013 in the courts of Appeal and

Cassation. According to the terms of the draft contract contractual obligations should be extended for each subsequent year under the same conditions if before the end of the term neither of the parties declares termination, modification or conclusion of a new contract. Based on the decisions of courts management of JSC “Chelyabinsk Zinc Plant” accrued electricity and energy power transmission services applying tariffs of OJSC “FSC-UES” for the year ended 31 December 2014, as well as adjusted cost of sales for the amount of expenses on the transmission of electricity services for the period from 1 May 2013 to 31 December 2013 for the amount of RUB 358,647 thousands (Note 22).

However, on 21 December 2015 the Supreme Court of the Russian Federation issued a decision which concludes that the entity actually providing services of electricity and energy power transmission in 220 V lines for the period from 1 January 2014 to 31 March 2014 was not identified by the lower instances courts. With regard to this decision on 19 January 2016 Arbitrage Appeal court enforced JSC “CZP” to pay OJSC “MRSK-Ural” the amount of RUB 535,053 thousand for the services on electricity and energy power transmission provided for the period from August to December 2013. On 26 April Arbitrage court of the Ural district denied to satisfy the cassation appeal of JSC “CZP”.

As at 31 December 2015 based on court decisions specified and with regard to the risks of future similar legal proceedings concerning other periods the Group management has accrued provision for services of electricity and energy power transmission provided by OJSC “MRSK Urala” in the period of 1 May 2013 to 31 July 2014 as well as adjusted cost of sales for the amount of expenses for the services mentioned in the amount of RUB 737,516 thousand (Note 22).

(b) Tax legislation

Both Russian and Kazakhstan tax, currency and customs legislation is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities.

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

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

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

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

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

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

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

In addition, during the 4 quarter of 2014 number of new laws were issued which are introducing amendments into tax legislation of the Russian Federation. These laws are effective since 1 January 2015. In particular, amendments refer to regulations of offshore companies operations and transactions with them. Potentially, this amendments could affect the Group's tax positions.

These circumstances may create tax risks in the Russian Federation and Kazakhstan 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 and Kazakhstan 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.

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

In the course of its activity, the Group interacts with numerous third party suppliers. The Group's management took reasonable steps to be sure they comply with the tax legislation. However, in accordance with the practice that has been developed in Russia, if tax authorities find out that the Group's suppliers are not fully compliant with the current tax requirements, tax claims may be brought against the Group. As a result, additional taxes, penalties and interest may be assessed which amounts cannot be reliably estimated by management.

During 2015 tax authorities examined the Company's tax compliance with respect to major taxes for a number of prior years. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties.

As at 31 December 2015 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Management believes that there is a risk of tax obligations of RUB 178,086 thousand as at 31 December 2015 (31 December 2014: RUB 92,751 thousand) mostly related to the income tax, occurance of which is possible.

In addition as at 31 December 2015 LLP “Nova Zinc” disputes a number of tax authorities’ decisions relating to refuses of VAT refund:

- The decision of the tax authorities on return of previously refunded VAT for the period from 2008 to 2010 in the amount of RUB 43,535 thousand as at 31 December 2015. In October 2013 and April 2014 decisions of the Court of first instance and the Court of Appeals were made in favor of the company, however the Court of Cassation returned the case back for further consideration by the Court of Appeal. In September 2014 the Court of Appeal made a decision in favor of the company. Having considered the ambiguous court practice and complexity of the case management believes that there is a risk of cash outflows on the dispute with the tax authorities, therefore as at 31 December 2014 accrued provision in the amount of RUB 66,046 thousand. In September 2015 Supervisory Judicial Board of the Supreme Court of the Republic of Kazakhstan canceled all the decisions in favor of the company, made in previous court instances. Based on this decision as at 31 December 2015, management recognized the accounts payable in the amount of RUB 81,753 thousand, including payables of previously refunded VAT in the amount of RUB 33,362 thousand and penalties in the amount of RUB 48,391 thousand (note 20). Accounts payable were fully repaid in January 2016.

- The decision of the tax authorities on the refusal to refund VAT for the period from October 2011 to June 2012 in the amount of RUB 84,594 thousand as at 31 December 2015. During 2014-2015 the decisions of the Court of first instance and the Court of Appeals were made in favor of the company. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 12).

- The decision of the tax authorities, issued in August 2014, on the refusal to refund VAT for the period from July 2012 to September 2014 in the amount of RUB 158,831 thousand as at 31 December 2014. In November 2014 the Court of first instance made a decision in favor of the company, in February and June 2015 the Court of Appeal and the Court of Cassation made a decision in favor of the company as well. As at 31 December 2015 the claims of the Company were fully satisfied, tax authorities of the Republic of Kazakhstan offset VAT against the other taxes in the amount of submitted claims.

- The decision of the tax authorities, issued in November 2014, on the refusal to refund VAT for the 4 quarter of 2013 in the amount of RUB 27,371 thousand as at 31 December 2014. In December 2014 the company filed the claim into the Court. By the court decision of 23 June 2015 claims regarding VAT claimed for refund were satisfied in full. On 19 August 2015 Appeal Board ruled that the decision of the first instance court remains unchanged. As at 31 December 2015 the claims of the Company were fully satisfied, tax authorities of the Republic of Kazakhstan made refund to the company’s bank account.

- The decision of the tax authorities, issued in 2015, on the refusal to refund VAT for the 2014 in the amount of RUB 43,167 thousand. In 2015 the company filed the claim into the Court. By the court decision of 22 January 2016 claims were denied. On 19 February 2016 the company filed the appeal in regional Court. Appeal Judicial Board session is scheduled on 11 May 2016. Based on the court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 12).

In addition, as at 31 December 2015 LLP “Nova Zinc” did not file a VAT return for the amount of RUB 79,761 thousand for the period from 1 April 2015 to 31 December 2015 (Note 12). Based on the existing practice of VAT refund, management believes that the probability of refusal in VAT refund is possible.

(c) Commitments under the Contract of Akzhal minefield subsoil use

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

LLP "Nova Zinc", the Group's subsidiary in accordance with the provisions set forth in the subsoil use contract is required to meet a number of commitments connected with application of technologies, safeguarding during mining process, usage of goods, works and services manufactured and rendered by companies operating in Kazakhstan and remediation of contractual territories.

In 2012 LLP "Nova Zinc" signed an addendum #7 to the existing subsoil use contract. The addendum established requirements for the content of goods, work and services to be purchased from Kazakh companies in the total amount of purchased goods and services (the required ratio for Kazakh goods is no less than 25% and for services no less than 95% of the total amount of purchased goods and services, respectively). Non-compliance with the requirements of the subsoil use contract could lead to penalties or contract cancellation by government authorities.

In August 2013 LLP "Nova Zinc" signed an addendum #8 to the contract in which the requirement to the share of purchased goods and services reduced from 25% to 18%. During the year 2013 the share of purchased goods was 11%. In addition, in accordance with the signed addendum the Group accepted obligations to finance the research and development expenditure of 1% from the total income of the company under contractual activities and obligations to make deductions on the socio-economic development of the region and infrastructure development in the budget of the local Executive.

During 2015 LLP "Nova Zinc" met the requirements of subsoil contract in terms of share of purchased goods and services and is striving to meet necessary level of financing of the research and development expenditures and the requirements of the contract regarding obligations on deductions to socio-economic development of the region.

Management of the Group is taking all necessary measures to ensure that all contractual and statutory requirements are met.

(d) Capital expenditure commitments

Capital expenditure commitments. As of 31 December 2015 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 301,808 thousand (31 December 2014: RUB 198,775 thousand). Capital commitments mainly comprise commitments on purchases of equipment and, construction, assembling and project works related to re-equipment of production facilities of the plant, and the project on increase in the production capacity of JSC "Chelyabinsk Zinc Plant".

(e) Operating lease commitments

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

’000 RUB	31 December 2015	31 December 2014
Less than 1 year	5,479	8,786
1 to 5 years	36,187	35,676
Over 5 years	68,915	75,230
Total operating lease commitments	**110,581**	**119,692**

(f) Insurance

The insurance industry in the Russian Federation and the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. At 31 December 2015 the Company had entered into civil liability insurance contracts covering an entity operating hazardous production facilities against any damage to life, health or property of third parties resulting from an industrial accident at the hazardous production facility. The insurance amount is RUB 426,829 thousand (31 December 2014: RUB 481,901 thousand). The insurance premium is RUB 6,726 thousand (31 December 2014: RUB 9,349 thousand).

(g) Environmental matters

The enforcement of environmental legislation in the Russian Federation and the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately in the consolidated financial statements. Potential liabilities, which might arise as a result of changes in existing regulations, litigation or legislation, cannot be estimated precisely but could be material. Management believes that in the conditions of the existing system of control over the compliance with environmental legislation, the Group does not have significant liabilities related to environmental damages, besides stated below:

Compliance with environmental norms in the Republic of Kazakhstan.

In March 2014, the Committee for ecological regulation and control of the Ministry of Environmental Protection of the Republic of Kazakhstan issued an act based on the audit of compliance of LLP “Nova Zinc” with the requirements of environmental norms in the Kazakhstan for the period from 1 January 2013 to 29 November 2013. As a result of the audit, breach of the requirements of the Environmental Code of the Republic of Kazakhstan was revealed relating to the late obtaining of the emission and waste disposal permissions, which expired on 8 July 2013. These permissions were not received in time due to the non-compliance of applications filed by management of the company with new requirements of the Environmental Code of the Republic of Kazakhstan.

According to the issued act the company should have paid a fine of RUB 123,480 thousand for conducting emission and waste disposal without appropriate permissions, as well as tax and administrative fines and penalties in the amount of RUB 56,194 thousand.

Amount of tax and administrative fines and penalties was paid out by the company during 2014.

During 2014 management failed to justify its position in the Courts of first, appeal and cassation instances. However, on 29 December 2014 the Government of the Republic of Kazakhstan issued amendments to several laws, including amendments to the Environmental Code, which were putted into forces retrospectively starting form 2011. Considering this fact the Supreme Court of the Republic of Kazakhstan upheld position of the company.

In addition, the company filed a claim into the Court of Appeal which partially upheld the claim of LLP "Nova Zinc" and reduced the amount of the fine for conducting emission and waste disposal without appropriate permissions to RUB 54,660 thousand as at 31 December 2014. The risk of accrual of these liabilities was estimated by management as high, therefore the Group management accrued the provision for the amount of RUB 54,660 thousand (Note 19) as at 31 December 2014.

During 2015 the company filed a claim into the Appeal Court for civil and administrative cases to review the decision of the court based on newly discovered facts. The claim was partially satisfied, amount of fine for conducting emission and waste disposal without appropriate permissions was reduced from RUB 54,660 thousand to RUB 7,213 thousand, which were paid in 2015.

During 2015 pursuant to the decisions adopted the Company issued a letter to tax authority with the request to return tax and administrative fines and penalties in the amount of RUB 53,301thousand paid in 2014. The compensation was offset with mineral extraction tax payable (Note 24).

At the same time the Supreme Court of the Republic of Kazakhstan upheld the claims of the Company concerning the breach of the requirements of the Environmental Code of the Republic of Kazakhstan in relation to the late receipt of the emission and waste disposal permits for the period from 1 December 2013 to 8 June 2014. As a result of several legal proceedings in the Courts of first, appeal and cassation instances during 2015 an administrative fine in the amount of RUB 31,101 thousand was imposed on the Company. Taking into consideration controversial judicial practice the Group management accrued the provision for tax and administrative fines and penalties concerning the breach of the requirements of the Environmental Code of the Republic of Kazakhstan in relation to the late receipt of the emission and waste disposal permits for the period from 1 December 2013 to 8 June 2014 in the amount of RUB 82,700 thousand (Note 19).

29. Subsequent events

On 11 January 2016 an amendment to a loan agreement of 27 May 2015 (Note7) was signed. Under the amendment specified the Group will provide additional funding to a related party in the amount of RUB 689,976 thousand by several tranches for the period to 31 December 2016 for the purpose of financing the construction of the Korbalikhinsk pit facilities with the other terms of loan agreement remaining unchanged.

In January 2016 an advance provided to a related party for concentrate supply in the amount of RUB 5,000,000 thousand (Note 12) was returned in cash. On 20 January 2016 the Group concluded a loan agreement with a related party in the amount of RUB 5,000,000 thousand to 1 September 2017 at interest rate of 13% per annum.

Numbered, bound and sealed 62 (sixty two) sheets.

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