OJSC
NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS

AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2014

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

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Independent Auditor's Report

To the Shareholders and Board of Directors of OJSC Novolipetsk Steel:

We have audited the accompanying consolidated financial statements of OJSC Novolipetsk Steel and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of 31 December 2014, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 provide a basis for our audit opinion.

Opinion

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

AO PricewaterhouseCoopers Audit

8 November 2015
Moscow, Russian Federation

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(millions of US dollars)

	Note	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Assets				
Current assets				
Cash and cash equivalents	3	549.2	970.0	951.2
Short-term financial investments	5	621.3	485.0	108.6
Trade and other accounts receivable	6	1,122.5	1,459.0	1,526.3
Inventories	7	1,562.8	2,123.8	2,826.9
Other current assets		5.3	7.6	30.5
		3,861.1	**5,045.4**	**5,443.5**
Non-current assets				
Long-term financial investments	5	141.3	82.5	18.4
Investments in associates and other companies accounted for using the equity method of accounting	4	106.2	419.1	8.1
Property, plant and equipment	8	5,613.6	9,892.1	11,603.3
Goodwill	9	285.4	463.4	786.1
Other intangible assets	9	193.9	374.5	418.0
Deferred income tax assets	19	124.9	136.4	312.5
Other non-current assets		23.0	39.6	30.9
		6,488.3	**11,407.6**	**13,177.3**
Total assets		**10,349.4**	**16,453.0**	**18,620.8**
Liabilities and equity				
Current liabilities				
Trade and other accounts payable	10	775.9	1,161.8	1,475.6
Short-term borrowings	11	804.3	1,136.7	1,837.8
Current income tax liability		47.5	21.6	23.8
		1,627.7	**2,320.1**	**3,337.2**
Non-current liabilities				
Long-term borrowings	11	1,964.2	3,053.8	2,850.2
Deferred income tax liability	19	407.4	641.0	813.6
Other long-term liabilities	12	93.4	39.6	422.7
		2,465.0	**3,734.4**	**4,086.5**
Total liabilities		**4,092.7**	**6,054.5**	**7,423.7**
Equity attributable to NLMK shareholders				
Common stock	14(a)	221.2	221.2	221.2
Accumulated other comprehensive loss		(5,491.9)	(839.9)	-
Retained earnings		11,512.7	10,989.1	11,008.8
		6,242.0	**10,370.4**	**11,230.0**
Non-controlling interests		**14.7**	**28.1**	**(32.9)**
Total equity		**6,256.7**	**10,398.5**	**11,197.1**
Total liabilities and equity		**10,349.4**	**16,453.0**	**18,620.8**

The consolidated financial statements as set out on pages 4 to 63 were approved on 8 November 2015.

	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
Revenue	16	10,395.7	10,818.4
Cost of sales		(7,389.0)	(8,665.9)
Gross profit		**3,006.7**	**2,152.5**
General and administrative expenses		(364.3)	(456.9)
Selling expenses		(923.1)	(945.6)
Other operating income / (expenses)		6.1	(6.6)
Taxes, other than income tax	18	(137.5)	(134.6)
Operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets		**1,587.9**	**608.8**
Loss on disposals of property, plant and equipment		(11.9)	(23.0)
Impairment losses and write-off of assets	4, 8	(657.2)	(21.0)
Share in net losses of associates and other companies accounted for using the equity method	4	(193.1)	(54.0)
Result of disposal of subsidiary	23	-	(51.4)
Income on change of restructuring provision		-	7.5
Gains on investments		37.4	2.3
Finance income	20	36.5	40.6
Finance costs	20	(136.8)	(121.9)
Foreign currency exchange gain, net	21	488.2	85.2
Other expenses, net		(15.0)	(53.9)
Profit before income tax		**1,136.0**	**419.2**
Income tax expense	19	(362.4)	(255.0)
Profit for the year		**773.6**	**164.2**
Profit attributable to:			
NLMK shareholders		**772.5**	**145.4**
Non-controlling interests		**1.1**	**18.8**
Earnings per share – basic and diluted:			
Earnings attributable to NLMK stockholders per share (US dollars)	15	0.1289	0.0243
Weighted-average shares outstanding: basic and diluted (in thousands)	14(a)	5,993,227	5,993,227

(millions of US dollars)

	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
Profit for the year		773.6	164.2
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustment	2(b)	(4,666.5)	(780.4)
Total comprehensive loss for the year attributable to		**(3,892.9)**	**(616.2)**
NLMK shareholders		(3,879.5)	(634.5)
Non-controlling interests		(13.4)	18.3

(millions of US dollars)

		NLMK shareholders				
	Note	**Common stock**	**Accumulated other comprehensive loss**	**Retained earnings**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2013		**221.2**	**-**	**11,008.8**	**(32.9)**	**11,197.1**
Profit for the year		-	-	145.4	18.8	164.2
Cumulative translation adjustment	2(b)	-	(779.9)	-	(0.5)	(780.4)
Change of non-controlling interests in existing subsidiaries	13	-	-	(49.5)	42.7	(6.8)
Disposal of other comprehensive income as a result of deconsolidation	23	-	(60.0)	-	-	(60.0)
Dividends to shareholders	14(b)	-	-	(115.6)	-	(115.6)
Balance at 31 December 2013		**221.2**	**(839.9)**	**10,989.1**	**28.1**	**10,398.5**
Profit for the year		-	-	772.5	1.1	773.6
Cumulative translation adjustment	2(b)	-	(4,652.0)	-	(14.5)	(4,666.5)
Dividends to shareholders	14(b)	-	-	(248.9)	-	(248.9)
Balance at 31 December 2014		**221.2**	**(5,491.9)**	**11,512.7**	**14.7**	**6,256.7**

The accompanying notes constitute an integral part of these consolidated financial statements.

(millions of US dollars)

	Note	For the year ended 31 December 2014	For the year ended 31 December 2013
Cash flows from operating activities			
Profit for the year		**773.6**	**164.2**
Adjustments to reconcile profit for the year to net cash provided by operating activities:			
Depreciation and amortization		793.5	871.1
Loss on disposals of property, plant and equipment		11.9	23.0
(Income) / losses on investments		(37.4)	49.1
Finance income		(36.5)	(40.6)
Finance costs		136.8	121.9
Share in net losses of associates and other companies accounted for using the equity method	4	193.1	54.0
Deferred income tax (benefit) / expense	19	(15.9)	87.7
Losses / (gains) on derivatives		3.1	(0.5)
Impairment losses		657.2	-
Unrealized gains on foreign currency exchange		(574.0)	-
Other adjustments		28.4	14.7
Changes in operating assets and liabilities			
Increase in trade and other accounts receivable		(49.9)	(321.3)
Increase in inventories		(97.6)	(95.8)
(Increase) / decrease in other current assets		(1.8)	7.4
(Decrease) / increase in trade and other accounts payable		(28.9)	396.4
Increase in current income tax liability		50.1	2.1
Net cash provided by operating activities		**1,805.7**	**1,333.4**
Cash flows from investing activities			
Purchases and construction of property, plant and equipment		(562.6)	(756.3)
Proceeds from sale of property, plant and equipment		15.0	5.8
Purchases of investments and loans given, net		(231.6)	(87.4)
Placement of bank deposits, net		(197.1)	(264.4)
Interest received		30.7	40.4
Disposal of investment in subsidiary	23	-	46.2
Net cash used in investing activities		**(945.6)**	**(1,015.7)**
Cash flows from financing activities			
Proceeds from borrowings		110.2	2,000.7
Repayment of borrowings and capital lease payments		(910.7)	(2,020.2)
Interest paid		(120.6)	(81.5)
Dividends to shareholders		(225.9)	(113.6)
Acquisition of additional stake in existing subsidiary	13	-	(9.6)
Net cash used in financing activities		**(1,147.0)**	**(224.2)**
Net (decrease) / increase in cash and cash equivalents		**(286.9)**	**93.5**
Effect of exchange rate changes on cash and cash equivalents		(133.9)	(74.7)
Cash and cash equivalents at the beginning of the year	3	970.0	951.2
Cash and cash equivalents at the end of the year	3	**549.2**	**970.0**
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Income tax paid		(352.3)	(143.3)
Placements of bank deposits		(1,997.8)	(1,232.0)
Withdrawals of bank deposits		1,800.7	967.6
Fair value of assets disposed of in course of partial disposal of investment	23	-	867.3
Conversion of debt to equity	23	270.4	-

(millions of US dollars)

1 Background

OJSC Novolipetsk Steel (the "Parent Company") and its subsidiaries (together – the "Group") is one of the world's leading steelmakers with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on 28 January 1993. On 12 August 1998 the Parent Company's name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group is one of the leading global suppliers of slabs and transformer steel and one of the leading suppliers to the Russian market of high value added products including pre-painted, galvanized and electrical steel as well as a variety of long steel products. The Group also operates in the mining segment (Note 24).

The Group's main operations are in the Russian Federation, the European Union and the USA and are subject to the legislative requirements of the subsidiaries' state and regional authorities. The Parent Company's registered office is located at 2, Metallurgov sq., 398040, Lipetsk, Russian Federation.

As at 31 December 2014 the Parent Company's major shareholder with 85.54% ownership interest is Fletcher Group Holdings Limited which is beneficially owned by Mr. Vladimir Lisin.

The major companies of the Group are:

	Activity	Country of incorporation	Share at 31 December 2014	Share at 31 December 2013	Share at 1 January 2013
Companies under the Group's control:					
Russian flat products					
LLC VIZ-Stahl	Production of steel	Russia	100.00%	100.00%	100.00%
OJSC Altai-Koks	Production of blast furnace coke	Russia	100.00%	100.00%	100.00%
Novex Trading (Swiss) S.A.	Trading	Switzerland	100.00%	100.00%	100.00%
Novexco (Cyprus) Ltd.	Trading	Cyprus	100.00%	100.00%	100.00%
Foreign rolled products					
NLMK DanSteel A/S	Production of steel	Denmark	100.00%	100.00%	100.00%
NLMK Indiana LLC	Production of steel	USA	100.00%	100.00%	100.00%
NLMK Pennsylvania LLC	Production of steel	USA	100.00%	100.00%	100.00%
Russian long products					
OJSC Nizhneserginski Hardware-Metallurgical Plant	Production of steel and long products	Russia	92.59%	92.59%	57.00%
LLC NLMK-Metalware	Production of metalware	Russia	100.00%	100.00%	100.00%
LLC NLMK-Kaluga	Production of long products	Russia	100.00%	100.00%	100.00%
LLC Vtorchermet NLMK	Processing of metal scrap	Russia	100.00%	100.00%	100.00%
Mining					
OJSC Stoilensky GOK	Mining and processing of iron-ore raw	Russia	100.00%	100.00%	100.00%

Among associates and other companies accounted for using the equity method the major is:

	Activity	Country of incorporation	Share at 31 December 2014	Share at 31 December 2013	Share at 1 January 2013
NLMK Belgium Holdings S.A. (Note 23)	Holding company	Belgium	79.50%	79.50%	100.00%

(millions of US dollars)

2 Basis of consolidated financial statements preparation

(a) Basis of preparation

For all periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These consolidated financial statements are the first prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described below. Refer to Note 31 for information on how the Group adopted IFRS. The principal accounting policies applied in the preparation of these consolidated financial statements are set out in Note 28. These policies have been consistently applied to all the periods presented in these consolidated financial statements.

(b) Functional and reporting currency

Functional currency of all Group's Russian entities is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency.

The results of operations and financial position of each Group entity are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates for each quarter (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historical rate;
- all resulting exchange differences are recognized in other comprehensive income.

Items of consolidated statements of cash flow are translated at average exchange rates for each quarter (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

When control over a foreign operation is lost, the previously recognized exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

The Central Bank of the Russian Federation's Russian ruble to US dollar closing rates of exchange as of the reporting dates and the period weighted average exchange rates for corresponding reporting periods are indicated below.

	2014	2013
As at 1 January		30.3727
For the 1st quarter	34.9591	30.4142
For the 2nd quarter	34.9999	31.6130
For the 3rd quarter	36.1909	32.7977
For the 4th quarter	47.4243	32.5334
As at 31 December	56.2584	32.7292

(millions of US dollars)

3 Cash and cash equivalents

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Cash			
Russian rubles	20.3	70.8	58.9
US dollars	150.8	194.1	98.4
Euros	54.3	158.6	180.7
Other currencies	8.0	2.0	2.6
Deposits			
Russian rubles	96.3	204.9	441.2
US dollars	158.0	331.8	105.9
Euros	53.6	5.7	46.5
Other currencies	7.8	1.9	3.7
Other cash equivalents	0.1	0.2	13.3
	549.2	**970.0**	**951.2**

4 Investments in associates and other companies accounted for using the equity method of accounting

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
NLMK Belgium Holdings S.A. (Note 23)	97.3	412.8	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	8.9	6.3	8.1
	106.2	**419.1**	**8.1**

The table below summarizes the movements in the carrying amount of the Group's investments in associates and other companies accounted for using the equity method of accounting.

	2014	2013
As at 1 January	**419.1**	**8.1**
Share of net loss of associates and other companies accounted for using the equity method of accounting	(193.1)	(54.0)
Conversion of debt to equity	270.4	-
Impairment of investments	(325.2)	-
Unrealized profit in inventory of associates and other companies accounted for using the equity method of accounting	(28.0)	(2.3)
Translation adjustment	(29.7)	(0.2)
Reclassification due to loss of control (Note 23)	-	467.5
Other adjustments	(7.3)	-
As at 31 December	**106.2**	**419.1**

(millions of US dollars)

4 Investments in associates and other companies accounted for using the equity method of accounting (continued)

The Group's interests in its principal associates and other companies accounted for using the equity method of accounting and their summarized financial information as at 31 December 2014 were as follows:

Company	Country of incorporation	Share	Assets	Liabilities	Revenue	Profit / (loss) for the year
NLMK Belgium Holdings S.A. (Note 23)	Belgium	79.50%	1,857.2	(1,542.9)	1,517.3	(243.4)
including from / (to) the Group		-	*24.7*	*(510.5)*	*54.9*	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	China	50.00%	18.4	(0.6)	12.3	0.9

The Group's interests in its principal associates and other companies accounted for using the equity method of accounting and their summarized financial information as at 31 December 2013 were as follows:

Company	Country of incorporation	Share	Assets	Liabilities	Revenue	Profit / (loss) for the year
NLMK Belgium Holdings S.A. (Note 23)	Belgium	79.50%	2,094.2	(1,782.4)	405.6	(70.9)
including from / (to) the Group		-	*6.1*	*(479.8)*	*5.9*	-
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	China	50.00%	17.4	(0.1)	4.4	0.5

Reconciliation of net assets of NBH to carrying amount of investment is below.

	2014
Net assets as at 1 January	**27.3**
Net loss for the period	(276.1)
Conversion of debt to equity	270.4
Other adjustments	(8.4)
Translation adjustment	15.0
Net assets as at 31 December	**28.2**
Share in net assets	22.4
Share in PP&E valuation difference	349.2
Share of other investor in conversion of debt to equity (Note 23)	55.4
Impairment of investments	(325.2)
Unrealised profit	(28.0)
Cumulative translation adjustment and other adjustments	23.5
Investments in NBH	**97.3**

Net assets of NBH as of the date of disposal, calculated in accordance with its consolidated financial statements, amounted to $88.8. Major adjustments in reconciliation of net assets of NBH to carrying amount of investment were: net loss (Note 23) and share in PP&E valuation difference.

(millions of US dollars)

5 Financial investments

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Short-term financial investments			
Loans to related parties (Note 26)	68.4	107.6	-
Bank deposits and other short-term financial investments	552.9	377.4	108.6
	621.3	485.0	108.6
Long-term financial investments			
Loans to related parties (Note 26)	141.2	78.0	-
Bank deposits and other long-term financial investments	0.1	4.5	18.4
	141.3	82.5	18.4
	762.6	**567.5**	**127.0**

6 Trade and other accounts receivable

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Financial assets			
Trade accounts receivable	802.0	901.7	847.3
Allowance for impairment of trade accounts receivable	(28.6)	(39.3)	(48.6)
Other accounts receivable	38.7	67.5	83.4
Allowance for impairment of other accounts receivable	(20.4)	(25.1)	(27.7)
	791.7	904.8	854.4
Non-financial assets			
Advances given to suppliers	69.7	81.7	122.5
Allowance for impairment of advances given to suppliers	(9.6)	(19.3)	(18.8)
VAT and other taxes receivable	269.0	488.5	563.7
Accounts receivable from employees	1.7	3.3	4.5
	330.8	554.2	671.9
	1,122.5	**1,459.0**	**1,526.3**

The carrying amounts of trade and other accounts receivable approximate their fair values.

As at 31 December 2014 and 2013 and 1 January 2013 accounts receivable of $137.6, $141.7 and $264.4, respectively, served as collateral for certain borrowings (Note 11).

Movements in the Group's provision for impairment of trade and other accounts receivables are as follows:

	2014	2013
As at 1 January	**(83.7)**	**(95.1)**
Provision for impairment during the year	(35.9)	(45.1)
Receivables written off during the year as uncollectible	0.3	2.4
Unused amounts reversed	21.1	38.6
Change in scope of consolidation	4.3	9.1
Translation adjustment	35.3	6.4
As at 31 December	**(58.6)**	**(83.7)**

(millions of US dollars)

6 Trade and other accounts receivable (continued)

The allocation of trade accounts receivable, net of provision for doubtful debt, by geographical area is follows:

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Russia	133.6	167.9	189.6
European Union	399.3	422.6	331.1
North America	146.9	142.5	96.4
Asia and Oceania	37.0	95.3	90.1
Middle East, including Turkey	21.0	10.6	27.8
Other regions	35.6	23.5	63.7
	773.4	**862.4**	**798.7**

7 Inventories

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Raw materials	623.1	980.7	1,201.5
Work in process	569.7	526.6	876.5
Finished goods and goods for resale	419.5	684.2	852.9
	1,612.3	2,191.5	2,930.9
Valuation to net realizable value	(49.5)	(67.7)	(104.0)
	1,562.8	**2,123.8**	**2,826.9**

As at 31 December 2014 and 2013 and 1 January 2013 inventories of \$562.0, \$310.5 and \$672.5, respectively, served as collateral for certain borrowings (Note 11).

Share of raw materials and acquired semi-finished goods in cost of sales for the years ended 31 December 2014 and 2013 amounted to 61.3% and 61.7%, respectively. Share of fuel and energy resources expenses in cost of sales for the years ended 31 December 2014 and 2013 amounted to 13.0% and 13.4%, respectively.

(millions of US dollars)

8 Property, plant and equipment

	Land	Buildings	Land and buildings improvements	Machinery and equipment	Vehicles	Construction in progress	Other	Total
Cost at 1 January 2013	270.9	2,544.7	2,218.9	10,737.9	437.8	2,827.3	153.3	19,190.8
Accumulated depreciation	-	(806.4)	(992.7)	(5,485.6)	(223.9)	-	(78.9)	(7,587.5)
Net book value at 1 January 2013	**270.9**	**1,738.3**	**1,226.2**	**5,252.3**	**213.9**	**2,827.3**	**74.4**	**11,603.3**
Additions	-	-	-	10.4	7.1	836.2	-	853.7
Disposals	(0.1)	(2.2)	(2.9)	(11.9)	(4.1)	(15.3)	(0.6)	(37.1)
Deconsolidation of subsidiaries (Note 23)	(42.2)	(174.0)	(12.5)	(698.1)	-	(30.4)	(24.0)	(981.2)
Available for use	3.9	580.0	239.1	691.2	22.3	(1,554.7)	18.2	-
Depreciation charge	-	(75.6)	(74.7)	(655.5)	(37.2)	-	(20.5)	(863.5)
Translation adjustment	(16.7)	(117.3)	(91.7)	(279.6)	(15.0)	(161.0)	(1.8)	(683.1)
Cost at 31 December 2013	215.8	2,748.0	2,267.0	9,804.7	413.8	1,902.1	103.2	17,454.6
Accumulated depreciation	-	(798.8)	(983.5)	(5,495.9)	(226.8)	-	(57.5)	(7,562.5)
Net book value at 31 December 2013	**215.8**	**1,949.2**	**1,283.5**	**4,308.8**	**187.0**	**1,902.1**	**45.7**	**9,892.1**
Additions	-	-	-	0.5	-	605.5	-	606.0
Disposals	(6.0)	(3.0)	(3.2)	(10.8)	(2.6)	(1.5)	(0.8)	(27.9)
Impairment	-	(122.6)	(41.6)	(139.3)	-	(4.3)	-	(307.8)
Available for use	9.2	90.0	154.7	645.5	13.9	(921.8)	8.5	-
Depreciation charge	-	(78.6)	(82.8)	(542.5)	(33.3)	-	(13.6)	(750.8)
Translation adjustment	(88.1)	(773.2)	(554.3)	(1,638.8)	(66.5)	(674.4)	(2.7)	(3,798.0)
Cost at 31 December 2014	130.9	1,583.7	1,378.7	6,231.3	235.5	905.6	78.6	10,544.3
Accumulated depreciation	-	(521.9)	(622.4)	(3,607.9)	(137.0)	-	(41.5)	(4,930.7)
Net book value at 31 December 2014	**130.9**	**1,061.8**	**756.3**	**2,623.4**	**98.5**	**905.6**	**37.1**	**5,613.6**

(millions of US dollars)

8 Property, plant and equipment (continued)

As at 1 January 2013, property, plant and equipment of $203.8 (net book value) served as collateral for certain borrowings (Note 11). As at 31 December 2014 and 2013 the Group did not have pledged property, plant and equipment.

The amount of borrowing costs capitalized is $59.0 and $164.0 for the years ended 31 December 2014 and 2013, respectively.

At 31 December 2014 and 2013 the Group's management considered that the low level of economic activity combined with a deterioration in the steel market represented a trigger for impairment testing and has performed the tests for impairment of assets using the income approach based on primarily Level 3 inputs.

For the purpose of impairment testing for the years ended 31 December 2014 and 2013, the Group's management has estimated cash flows for 7 years due to long useful-lives of steel making equipment and normalized cash flows for a post-forecast period. Prices for steel products in this estimate were determined on the basis of forecasts of investment banks' analysts.

The table below summarizes companies and types of assets, also subject to impairment test as of 31 December 2014, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined on the basis of forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their balance values. As of 31 December 2014 an impairment testing showed that recoverable amount of property, plant and equipment (value in use) of OJSC Nizhneserginski Hardware-Metallurgical Plant, LLC NLMK-Kaluga and NLMK DanSteel A/S was below its carrying amount by $113.7, $127.0 and $67.1, respectively.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average price*, $ per tonne of metal products (FCA)	Sensitivity, % of change	
						Price	Sales volume
OJSC NLMK	Property, plant and equipment and intangible assets	7	12-16%	Flat products	405	-17%	-17%
OJSC Stoilensky GOK	Property, plant and equipment and intangible assets	7	12-16%	Iron ore	34	-25%	-27%
OJSC Stoilensky GOK	Goodwill	7	12-16%	Iron ore	34	-7%	-8%
NLMK Pennsylvania LLC	Property, plant and equipment	7	9%	Flat products	799	-5%	-62%
NLMK Indiana LLC	Property, plant and equipment	7	9%	Flat products	705	-4%	-35%
OJSC Altai-Koks	Goodwill	7	12-16%	Coke, chemical products	116	-3%	-14%
LLC Vtorchermet NLMK	Property, plant and equipment	7	12-16%	Metal scrap	199	-2%	-43%
OJSC NSMMZ	Property, plant and equipment	7	12-16%	Long products and semi-finished goods	403	+2%	+7%
LLC NLMK-Kaluga	Property, plant and equipment	7	12-16%	Long-products and semi-finished goods	437	+3%	-
NLMK DanSteel A/S	Property, plant and equipment	6	9%	Plate	738	+2%	-

** Weighted average prices giving the product mix, averaged for the period from 2015 to 2021*

(millions of US dollars)

8 Property, plant and equipment (continued)

The table below summarizes companies and types of assets, subject to impairment test as of 31 December 2013, major assumptions and their sensitivity used in the impairment models. Prices for steel products in this estimate were determined on the basis of forecasts of investment banks' analysts. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their balance values.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average price*, $ per tonne of metal products (FCA)	Sensitivity, % of change	
						Price	Sales volume
LLC NLMK-Kaluga	Property, plant and equipment	7	11%	Long products and semi-finished goods	592	-1%	-5%
OJSC Nizhneserginski Hardware-Metallurgical Plant	Property, plant and equipment	7	11%	Long products	568	-3%	-10%
LLC NLMK-Metalware	Property, plant and equipment	7	11%	Metalware	697	-4%	-19%
LLC Vtorchermet NLMK	Property, plant and equipment	7	11%	Scrap	268	-1%	-5%
OJSC NLMK	Property, plant and equipment	7	11%	Flat products and semi-finished goods	631	-6%	-24%
NLMK DanSteel A/S	Property, plant and equipment	7	8%	Plate	895	-4%	-24%

** Weighted average prices giving the product mix, averaged for the period from 2014 to 2020*

As of the date of transition to IFRS the Group's management has performed an impairment testing, which showed that recoverable amount of property, plant and equipment (value in use) of NLMK Pennsylvania LLC as at 1 January 2013 was below its carrying amount by $38.5. The major assumptions and their sensitivity, used in this model, are indicated below. Sensitivity in the table below was determined as a percent of changes of corresponding factors in forecast and post-forecast periods when recoverable values of assets (value in use) become equal to their balance values. Impairment testing carried out in regards to the other Group's companies showed no impairment and the respective models had sufficient headroom.

Company	Asset type	Forecast period, years	Discount rate, %	Product types	Average price*, $ per tonne of metal products (FCA)	Sensitivity, % of change	
						Price	Sales volume
NLMK Pennsylvania LLC	Property, plant and equipment	7	8%	Flat products	764	+0.3%	+3%

** Weighted average prices giving the product mix, averaged for the period from 2014 to 2020*

(millions of US dollars)

9 Intangible assets

	Goodwill	Mineral rights	Customer base	Industrial intellectual property	Beneficial lease interest	Total
Cost at 1 January 2013	786.1	557.7	196.8	59.5	8.7	1,608.8
Accumulated amortisation	-	(281.7)	(93.5)	(29.1)	(0.4)	(404.7)
Net book value at 1 January 2013	**786.1**	**276.0**	**103.3**	**30.4**	**8.3**	**1,204.1**
Additions	-	15.6	-	-	-	15.6
Disposals (Note 23)	(289.7)	-	-	(3.0)	-	(292.7)
Amortisation charge	-	(12.6)	(15.8)	(4.3)	(0.1)	(32.8)
Translation adjustment	(33.0)	(20.5)	(0.7)	(2.1)	-	(56.3)
Cost at 31 December 2013	463.4	532.1	189.1	52.2	8.7	1,245.5
Accumulated amortisation	-	(273.6)	(102.3)	(31.2)	(0.5)	(407.6)
Net book value at 31 December 2013	**463.4**	**258.5**	**86.8**	**21.0**	**8.2**	**837.9**
Amortisation charge	-	(11.4)	(44.4)	(9.4)	(0.1)	(65.3)
Translation adjustment	(178.0)	(104.4)	(5.1)	(5.8)	-	(293.3)
Cost at 31 December 2014	285.4	309.6	147.6	30.4	8.7	781.7
Accumulated amortisation	-	(166.9)	(110.3)	(24.6)	(0.6)	(302.4)
Net book value at 31 December 2014	**285.4**	**142.7**	**37.3**	**5.8**	**8.1**	**479.3**

The intangible assets were acquired in business combinations and met the criteria for separate recognition. They were recorded at fair values at the date of acquisition, based on their appraised values.

Useful lives of the Group's intangible assets as at 31 December 2014 are shown below.

	Company	Total useful life, months	Remaining useful life, months
Mineral rights	OJSC Novolipetsk Steel	240	128
Mineral rights	OJSC Novolipetsk Steel	240	204
Mineral rights	OJSC Novolipetsk Steel	240	193
Mineral rights	OJSC Stoilensky GOK	306	252
Customer base	LLC VIZ-Stahl	125	24
Customer base	Novexco (Cyprus) Ltd., Novex Trading (Swiss) S.A.	180	101
Industrial intellectual property	LLC VIZ-Stahl	149	48
Industrial intellectual property (Note 23)	NBH	60	-
Beneficial lease interest	NLMK Indiana LLC	974	900

In May 2011, the Group acquired a license for exploration and extraction of coal in the Zhernovsky Glubokiy coal field of the Zhernovsky coal deposit expiring in 2031. The carrying value of this license as at 31 December 2014 is \$6.3. In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit expiring in 2025. The carrying value of this license as at 31 December 2014 is \$10.4.

In March 2011, the Group acquired a license for exploration and extraction of coal in the mine field area No. 3 of the Usinsky coal deposit expiring in 2031. The carrying value of this license as at 31 December 2014 is \$23.0.

(millions of US dollars)

9 Intangible assets (continued)

A license for iron ore and non-metallics mining at Stoilensky iron-ore deposit in Belgorod Region expiring in 2035 was acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at 31 December 2014 is $103.0.

The Group's management believes that these licenses will be extended.

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2011 of a controlling interest in SIF S.A. (Note 23) amounted to $289.7. At the time of acquisition this goodwill was assigned to the steel segment and foreign rolled products segment in the amount of $128.4 and $161.3, respectively, and was disposed as a result of NBH deconsolidation (Note 23).

Goodwill allocation to each segment is as follows:

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Russian flat products	179.7	307.5	331.2
Foreign rolled products	35.7	35.7	325.4
Russian long products	3.3	5.7	6.1
Mining	66.7	114.5	123.4
	285.4	**463.4**	**786.1**

Goodwill impairment testing

The Group tested goodwill for impairment as at 31 December 2014 and 2013. The recoverable amount has been determined as values in use of respective assets. For the purpose of this impairment testing the Group used the same estimates as for testing of other assets, as disclosed in Note 8. As a result no impairment of the tested values was identified by the Group.

10 Trade and other accounts payable

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Financial liabilities			
Trade accounts payable	440.9	621.9	775.7
Dividends payable	0.7	1.4	1.5
Other accounts payable	23.1	89.0	172.9
	464.7	712.3	950.1
Non-financial liabilities			
Advances received	105.4	111.4	131.3
Taxes payable other than income tax	77.3	134.0	166.8
Accounts payable and accrued liabilities to employees	128.5	204.1	227.4
	311.2	449.5	525.5
	775.9	**1,161.8**	**1,475.6**

(millions of US dollars)

11 Borrowings

Rates	Currency	Maturity	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Bonds					
8% to 8.95%	RUR	2013-2017	543.9	1,400.7	1,669.3
4.45% to 4.95%	USD	2018-2019	1,196.1	1,319.6	506.5
Loans					
8.25% and 10%	RUR	2013-2017	23.1	38.4	366.3
LIBOR +1.2% to 2.5% and PRIME +0.625%	USD	2013-2016	374.9	541.0	384.7
EURIBOR +0.3% to EURIBOR +5.5%	EUR	2013-2022	620.9	853.4	1,697.9
Short-term and long-term finance lease liability and other borrowings			9.6	37.4	63.3
			2,768.5	**4,190.5**	**4,688.0**
Less: short-term loans and current maturities of long-term loans			(804.3)	(1,136.7)	(1,837.8)
Long-term borrowings			**1,964.2**	**3,053.8**	**2,850.2**

The carrying amounts and fair value of long-term bonds are as follows:

	As at 31 December 2014		As at 31 December 2013		As at 1 January 2013	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,444.9	1,278.6	2,216.6	2,215.8	1,487.7	1,499.2

The fair value of short-term borrowings equals their carrying amount. The fair values of long-term borrowings and finance lease liabilities approximate their carrying amount. The fair values of bonds are based on cash flows discounted using an applicable rate and are within level 2 of the fair value hierarchy.

The payments scheduled for long-term borrowings are as follows:

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
1-2 year	580.0	1,169.2	1,734.5
2-5 years	1,347.4	1,300.6	363.9
over 5 years	36.8	584.0	751.8
	1,964.2	**3,053.8**	**2,850.2**

Collateral

As at 31 December 2014 and 2013 and 1 January 2013, the total amount of collateral was $699.6, $452.2 and $1,140.7, respectively (Notes 6, 7, 8).

(millions of US dollars)

12 Other long-term liabilities

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Fair value of option (Note 23)	82.5	30.0	-
Employee benefit obligation	-	-	92.6
Payables for SIF S.A. shares	-	-	282.7
Other long-term liabilities	10.9	9.6	47.4
	93.4	**39.6**	**422.7**

13 Change in non-controlling interests in companies of Russian long product segment

In February 2013, the Parent Company acquired through a public auction for $9.6 a stake of 35.59% in OJSC NSMMZ. As a result of this transaction, there was a decrease in the additional paid-in capital by $49.5 with a corresponding change of non-controlling interests for the year ended 31 December 2013.

14 Shareholders' equity

(a) Shares

As at 31 December 2014 and 2013 and 1 January 2013, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the stockholders' meetings.

(b) Dividends

Dividends are paid on common shares at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to shareholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at 31 December 2014 and 2013, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $5,409.3 and $8,971.7, converted into US dollars using exchange rates at 31 December 2014 and 2013, respectively.

In 2014 the dividend policy provided for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP or IFRS.

In September 2014 the Parent Company declared interim dividends for the six months ended 30 June 2014 of 0.88 Russian rubles per share for the total of $133.9 (at the historical rate). Dividends payable amounted to $0.7 at 31 December 2014 (Note 10).

In June 2014, the Parent Company declared dividends for the year ended 31 December 2013 of 0.67 Russian rubles per share for the total of $115.0 (at the historical rate).

In June 2013, the Parent Company declared dividends for the year ended 31 December 2012 of 0.62 Russian rubles per share for the total of $115.6 (at the historical rate). Dividends payable amounted to $1.4 as at 31 December 2013 (Note 10).

14 Shareholders' equity (continued)

(c) Capital management

The Group's objectives when managing capital are to safeguard a financial stability and a target return for shareholders, as well as reduction of capital cost and optimization of its structure. To achieve these objectives the Group may revise investing program, borrow new or repay existing loans, offer share of debt instruments on capital markets.

When managing capital the Group uses the following indicators:

- the return on invested capital ratio which is defined as operating profit for the last twelve months less tax divided by capital employed;
- free cash-flow which is defined as net cash provided by operating activities less net cash used in investing activities less net interest paid.

There were no changes in the Group's approach to capital management during the reporting period.

15 Earnings per share

	For the year ended 31 December 2014	For the year ended 31 December 2013
Profit for the year attributable to NLMK shareholders (millions of US dollars)	772.5	145.4
Weighted average number of shares	5,993,227,240	5,993,227,240
Basic and diluted earnings per share attributable to NLMK shareholders (US dollars)	**0.1289**	**0.0243**

Basic net earnings per share is calculated by dividing profit for the year attributable to NLMK shareholders by the weighted average number of common shares outstanding during the reporting period.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended 31 December 2014 and 2013. The Parent Company does not have potentially dilutive financial instruments outstanding.

16 Revenue

(a) Revenue by product

	For the year ended 31 December 2014	For the year ended 31 December 2013
Pig iron, slabs and billets	2,486.4	2,202.2
Flat products	5,651.1	6,367.5
Long products and metalware	1,301.3	1,240.6
Iron-ore and sintering ore	311.4	327.0
Coke and other chemical products	259.8	254.4
Scrap	74.7	66.5
Other products	311.0	360.2
	10,395.7	**10,818.4**

(millions of US dollars)

16 Revenue (continued)

(b) Revenue by geographical area

The allocation of total revenue by geographical area is based on the location of end customers who purchased the Group's products. The Group's total revenue from external customers by geographical area for the years ended 31 December 2014 and 2013 is as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Russia	4,434.3	4,373.4
North America	2,084.9	1,558.9
European Union	1,819.6	1,982.8
Middle East, including Turkey	636.5	875.4
Asia and Oceania	319.3	794.2
Other regions	1,101.1	1,233.7
	10,395.7	**10,818.4**

The Group does not have customers with a share of more than 10% from revenue.

17 Labour costs

Group's labour costs, including social security costs, which are included in the corresponding lines of the consolidated statement of profit or loss were as indicated below.

	For the year ended 31 December 2014	For the year ended 31 December 2013
Cost of sales	(858.6)	(1,038.4)
General and administrative expenses	(231.4)	(295.8)
Selling expenses	(40.4)	(40.8)
	(1,130.4)	**(1,375.0)**

Management remuneration consists of payments to the members of Management Board and Board of Directors of the Parent Company. Compensation comprises annual remuneration and a performance bonus contingent on results. Total management remuneration, including social security costs, amounted to $13.6 and $9.3 in 2014 and 2013, respectively.

18 Taxes, other than income tax

Allocation of taxes, other than income tax to the functional items of consolidated statement of profit or loss is indicated below.

	For the year ended 31 December 2014	For the year ended 31 December 2013
Cost of sales	(122.4)	(122.5)
General and administrative expenses	(7.5)	(6.6)
Selling expenses	(0.6)	(0.7)
Other operating expenses	(7.0)	(4.8)
	(137.5)	**(134.6)**

(millions of US dollars)

19 Income tax

Income tax charge comprises the following:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Current income tax expense	(378.3)	(141.1)
Deferred income tax benefit / (expense)	15.9	(87.7)
Adjustment of current income tax for the previous periods, recognized in the reporting period	-	(26.2)
Total income tax expense	**(362.4)**	**(255.0)**

The corporate income tax rate applicable to the Group entities, located in Russia, is predominantly 20%. The corporate income tax rate applicable to income of foreign subsidiaries ranges from 30% to 35%.

Income before income tax is reconciled to the income tax expense as follows:

	For the year ended 31 December 2014	For the year ended 31 December 2013
Profit before income tax	1,136.0	419.2
Income tax at applicable tax rate 20%	(227.2)	(83.8)
Change in income tax:		
- tax effect of non-deductible expenses	(20.5)	(59.5)
- non-taxable translation adjustments	39.4	7.2
- effect of different tax rates	118.3	25.6
- unrecognized tax loss carry forward for current year	(99.6)	(82.3)
- utilization of previously unrecognized tax-losses carry-forward	22.6	-
- change in option (Note 23)	(16.3)	-
- write-off of previously recognized deferred tax assets	(53.0)	(62.7)
- loss on impairment of investment (Note 23)	(100.5)	-
- adjustment of current income tax for the previous periods, recognized in the reporting period	-	(26.2)
- other	(25.6)	26.7
Total income tax expense	**(362.4)**	**(255.0)**

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Deferred tax assets			
Trade and other accounts payable	100.8	170.3	180.6
Other non-current liabilities	-	0.1	0.6
Trade and other accounts receivable	15.8	27.5	29.1
Inventories	24.5	-	-
Net operating loss and credit carry-forwards	14.6	73.3	238.0
Other	13.9	6.4	-

(millions of US dollars)

19 Income tax (continued)

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
	169.6	**277.6**	**448.3**
Deferred tax liabilities			
Property, plant and equipment	(429.9)	(728.2)	(889.1)
Other intangible assets	(8.5)	(21.8)	(12.0)
Inventories	-	(32.2)	(43.0)
Other non-current liabilities	(13.7)	-	-
Other	-	-	(5.3)
	(452.1)	**(782.2)**	**(949.4)**
Total deferred tax liability, net	**(282.5)**	**(504.6)**	**(501.1)**

The movements in deferred income tax assets and liabilities are presented below:

	2014	2013
As at 1 January	**(504.6)**	**(501.1)**
Recognized in consolidated statement of profit or loss	(15.9)	87.7
Deconsolidation of subsidiaries (Note 23)	-	(50.1)
Translation adjustment	238.0	(41.1)
As at 31 December	**(282.5)**	**(504.6)**

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group has established a valuation allowance against certain deferred tax assets. The Group regularly evaluates assumptions underlying its assessment of the realizability of its deferred tax assets and makes adjustments to the extent necessary. In assessing whether it is probable that future taxable profit against which the Group can utilize the potential benefit of the tax loss carry-forwards will be available, management considers the current situation and the future economic benefits outlined in specific business plans for each subsidiary.

The table below summarizes not recognized cumulative tax-loss carry forwards, for which no deferred tax assets were recognised, with a breakdown by the expiry dates.

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
From 1 to 5 years	184.9	56.5	6.3
From 5 to 10 years	420.8	863.8	828.9
No expiration	1,084.8	1,180.9	243.5
	1,690.5	**2,101.2**	**1,078.7**

Accounting for deferred tax assets assumes best estimates of future tax consequences. A valuation analysis established or revised as a result of the assessment is recorded through deferred income tax expense in consolidated statement of profit or loss. In the second quarter of 2013 valuation models, previously supported deferred tax assets recoverability in Group's major European entities, were revised based on the results of analysis of economic condition in Europe. The revised models did not support recoverability of a part of these assets of $62.7, which resulted in write-off of previously recognized deferred tax assets in the second quarter of 2013. As at 31 December 2013 figures of these European entities were eliminated from consolidated statement of financial position of the Group (Note 23).

The Group has not recorded a deferred tax liability in respect of temporary differences of $1,061.1 and $1,230.2 for the years ended 31 December 2014 and 2013, respectively, associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(millions of US dollars)

19 Income tax (continued)

In accordance with Russian legislation, the Group's key Russian entities, including OJSC NLMK, were integrated in one consolidated tax group for the purpose of assessment and payment of corporate income tax in line with the comprehensive financial result of business operations. The Group's entities that do not constitute the consolidated tax group assess their income taxes individually.

As at 31 December 2014 and 2013 the Group analysed its tax positions for uncertainties affecting recognition and measurement thereof. Following the analysis, the Group believes that it is likely that all deductible tax positions stated in the income tax return recognised and valuated in accordance with the tax legislation.

20 Finance income and costs

	For the year ended 31 December 2014	For the year ended 31 December 2013
Interest income on bank accounts and bank deposits	29.5	36.2
Other finance income	7.0	4.4
Total finance income	**36.5**	**40.6**
Interest expense on borrowings	(178.9)	(221.5)
Capitalized interest	61.6	121.9
Other finance costs	(19.5)	(22.3)
Total finance costs	**(136.8)**	**(121.9)**

21 Foreign currency exchange

	For the year ended 31 December 2014	For the year ended 31 December 2013
Foreign exchange gain on cash and cash equivalents	251.9	55.1
Foreign exchange gain on financial investments	1,249.9	180.1
Foreign exchange loss on financial instruments	(33.1)	(1.2)
Foreign exchange loss on debt financing	(898.5)	(170.0)
Foreign exchange (loss) / gain on other assets and liabilities	(82.0)	21.2
	488.2	**85.2**

22 Financial instruments

The Group's management believes that the carrying values of cash, receivables and payables, and short-term borrowings indicate a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in an active market. Fair values for these investments are determined based on discounted cash flows and approximate their carrying values. The fair value of long-term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates their carrying value.

The Group holds and purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. Forward contracts were short-term with maturity dates in January, February and November 2013.

(millions of US dollars)

22 Financial instruments (continued)

In 2012, the Group entered into Russian ruble / US dollar cross-currency interest rate swap agreements in conjunction with Russian ruble denominated bonds issued by the Group. As a result, the Group pays US dollars at fixed rates varying from 3.11% to 3.15% per annum and receives Russian rubles at a fixed rate of 8.95% per annum. Maturity of the swaps was linked to the Russian ruble denominated bonds redemption, matured on November 2014.

The fair value of foreign currency derivatives is determined using Level 2 inputs. The inputs used include quoted prices for similar assets or liabilities in an active market.

The fair value of forwards is determined as the sum of the differences between the market forward rate in the settlement month prevailing at 1 January 2013 and the appropriate contract settlement rate, multiplied by discounted notional amounts of the corresponding contracts. The fair value of swaps is determined as the sum of the discounted contractual cash flows in Russian rubles and US dollars as at 1 January 2013.

The amounts recorded represent the US dollar equivalent of the commitments to sell and purchase foreign currencies. The table below summarizes the contractual amounts and positive fair values of the Group's unrealized forward exchange contracts in US dollars.

	As at 31 December 2014		**As at 31 December 2013**		**As at 1 January 2013**	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	-	-	-	-	34.6	1.2
Euro	-	-	-	-	31.9	0.5
	-	**-**	**-**	**-**	**66.5**	**1.7**

During 2013 gains from forward exchange contracts amounted to $4.6. These gains were included in "Foreign currency exchange gain, net" line in the consolidated statement of profit or loss. The table below summarizes the contractual amounts and positive fair values of the Group's unrealized cross-currency interest rate swap agreements in US dollars.

	As at 31 December 2014		**As at 31 December 2013**		**As at 1 January 2013**	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	-	-	83.3	0.6	99.9	7.3
	-	**-**	**83.3**	**0.6**	**99.9**	**7.3**

During 2014 and 2013 losses from cross-currency interest rate swap agreements amounted to $(25.8) and $(6.4), respectively, and were included in "Foreign currency exchange gain, net" line in the consolidated statement of profit or loss.

23 Disposal of companies which are under the Group's control

In September 2013, the Group signed an agreement with Societe Wallonne de Gestion et de Participations S.A. (SOGEPA), a Belgian state-owned company, to sell a 20.5% stake in SIF S.A.'s subsidiary – NLMK Belgium Holdings S.A. (NBH), which comprises NLMK Europe's operating and trading companies, excluding NLMK DanSteel A/S, for EUR 91.1 million ($122.9). The agreement provides SOGEPA with certain governance rights over NBH and its subsidiaries, and key management decisions will be taken jointly by the Group and SOGEPA by their representation on the Board of Directors of NBH.

(millions of US dollars)

23 Disposal of companies which are under the Group's control (continued)

The Group brought in SOGEPA as a strategic investor in the context of the continuing restructuring of its European assets aimed at further enhancing efficiency and optimizing costs.

The agreement resulted in the loss of control by the Group over NBH and therefore NBH was deconsolidated from the Group consolidated financial statements with effect from 30 September 2013.

The fair value of the Group's remaining 79.5% interest in NBH was determined based on management's best estimates of future cash flows, including assumptions regarding the increase in capacity utilization and the implementation of the operational business plan, including the restructuring plan. This stake in the amount of $459.2 was accounted for as an investment in associated undertakings which is treated as a related party. The Group has recorded a loss on disposal related to the transaction amounting to $51.4, which is included in "Result of disposal of subsidiary" line.

Proceeds	122.9
Net assets of NBH at date of disposal	(373.8)
Fair value of remaining 79.5% of NBH	459.2
Release of cumulative translation adjustment	60.0
Goodwill written off	(289.7)
Fair value of put / call option	(30.0)
Loss on disposal	**(51.4)**

As at the date of the disposal of NBH the Group was preparing its consolidated financial statements in accordance with US GAAP. US GAAP consolidated financial statements showed a gain on disposal of NBH amounting to $18.9. In accordance with IFRS transition rules all translation adjustments related to NBH were reclassified to retained earnings (Note 31), which resulted in change of result on disposal to $(51.4). Reconciliation of US GAAP and IFRS results of NBH disposal is as follows:

US GAAP gain on disposal of NBH	18.9
Less release of cumulative translation adjustment as at 1 January 2013	(70.3)
IFRS loss on disposal	**(51.4)**

Information about the Group's operations with NBH is disclosed in Note 26.

The carrying amounts of assets and liabilities of NBH as at the date of disposal were as follows:

Current assets	
Cash and cash equivalents	76.7
Trade and other accounts receivable	329.5
Inventories	609.4
Other current assets	14.3
	1,029.9
Non-current assets	
Property, plant and equipment	980.7
Deferred income tax assets	149.1
Other non-current assets	3.7
	1,133.5
Total assets	**2,163.4**

(millions of US dollars)

23 Disposal of companies which are under the Group's control (continued)

Current liabilities	
Trade and other accounts payable, including:	(624.7)
- accounts payable to NLMK Group	*(422.2)*
Short-term borrowings, including:	(302.2)
- loans from NLMK Group	*(0.1)*
	(926.9)
Non-current liabilities	
Long-term borrowings, including:	(531.9)
- loans from NLMK Group	*(76.6)*
Deferred income tax liability	(199.2)
Other long-term liabilities	(131.6)
	(862.7)
Total liabilities	**(1,789.6)**
Equity	**373.8**

Information on NBH's operations from 1 January 2013 to the date of disposal is as follows:

Revenue	1,047.1
Cost of sales	(973.3)
Income tax expense	(53.0)
Loss for the period	(276.7)

Revenue and net loss of NBH for the fourth quarter of 2013 amounted to $405.6 and $(70.9), respectively. Revenue and loss of NBH before impairment losses for 2014 amounted to $1,517.3 and $(243.4), respectively.

Continuous trend of low prices for steel products in Europe and underperformance of NBH holding companies resulted in a necessity of reassessment of impairment testing model for the investments in NBH in 2014, which showed no impairment in 2013. The revised model showed a necessity of further impairment of $325.2 as at 31 December 2014. For the purpose of impairment testing the Group has estimated cash flows for 9 years for different groups of assets and respective cash flows in the post-forecast period. Prices for steel products were determined on the basis of forecasts of investment banks' analysts. A discount rate of 8% was used. The impairment testing model is sensitive to assumptions used. For example, increase in the discount rate by 1% will result in additional impairment of $117.

Summarized financial information for NBH before impairment losses is as follows:

	As at 31 December 2014	**As at 31 December 2013**
Current assets	921.9	993.0
Non-current assets	935.3	1,101.2
Total assets	**1,857.2**	**2,094.2**
Current liabilities	(1,054.3)	(819.4)
Non-current liabilities	(488.6)	(963.0)
Total liabilities	**(1,542.9)**	**(1,782.4)**
Equity	**314.3**	**311.8**

The Group's share in NBH's net loss for the year ended 31 December 2014 and from the date of disposal to 31 December 2013 amounted to $(193.5) and $(54.2), respectively, and is included in "Share in net losses of associates and other companies accounted for using the equity method" line in the consolidated statement of profit or loss.

(millions of US dollars)

23 Disposal of companies which are under the Group's control (continued)

Deferred tax assets and deferred tax liabilities of NBH as at the date of disposal refer to the temporary differences originated from the following:

Trade and other accounts receivable	0.2
Inventories	(8.0)
Property, plant and equipment	(148.7)
Other intangible assets	0.3
Trade and other accounts payable	5.5
Non-current liabilities	2.3
Net operating loss and credit carry-forwards	94.7
Other	3.6
Net deferred tax liability	**(50.1)**

Fair value of options

In September 2013 SOGEPA and the Group also signed an option agreement, which provides call options for the Group and put options for SOGEPA over its 20.5% stake (5.1% of the common shares of NBH in each of 2016, 2017 and 2018, and any remaining stake after 2023).

Under the option agreement the exercise price was based on the book value of NBH net assets, subject to a minimum value of 20.5% of the shares of EUR 91.1 million plus fixed interest. The Group has recognized a liability in respect of these options, based on their fair value in the amount of $82.5 and $30.0 as at 31 December 2014 and 2013, respectively, included in "Other long-term liabilities" line of the consolidated statement of financial position. The change in the value of the option resulted in loss amounted to $(52.5) and included in "Gains on investments" line.

The options have been valued using standard, market-based valuation techniques. The Level 3 significant unobservable inputs used in the fair value measurement of the option agreement are the annualized volatility of the underlying shares and the fair value of the underlying shares.

Changes to NLMK Belgium Holdings' ownership structure and governance

In March 2015, the Group and SOGEPA signed an agreement to increase SOGEPA's share in NBH from 20.5% to 49%. Under the agreement the Group's and SOGEPA's existing respective put and call options over the SOGEPA shares in NBH were terminated.

NBH board of directors is increased to include four representatives of NLMK Group and three representatives of SOGEPA. SOGEPA will also receive board seats at production subsidiaries of NBH.

Earlier, in December 2014, the Group made a conversion of existing loans given into NBH share capital in the amount of EUR 220 million with a corresponding reflection in the consolidated financial statements for the year ended 31 December 2014. These contributions did not change Group's share in NBH. These investments are also a part of the agreement signed in March 2015.

The Group and SOGEPA have agreed to support NBH in obtaining financing of its working capital. In March 2015 the shareholders made additional contributions into NBH share capital proportionally their shares (EUR 20.4 million and EUR 19.6 million, respectively).

24 Segment information

The Group has five reportable business segments: Russian flat products, Foreign rolled products, Russian long products, Mining and Investments in associate entity NBH (Note 23). These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above five segments meet the criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to two operating segments of the Group. Those segments include insurance and other services. None of these segments has met any of the quantitative thresholds to be reported separately. Equity in net earnings / (losses) of associates are included in the Russian flat products segment.

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating profit before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets, and profit for the year.

Intersegmental operations and balances include elimination of intercompany dividends paid to Russian flat products segment by other segments and presented within line "Profit / (loss) for the year" together with other intercompany elimination adjustments, including elimination of NBH liabilities to the Group companies (Note 26). NBH deconsolidation adjustments include full elimination of sales of NBH with further recognition of the Group's sales to NBH and elimination of unrealised profits (Notes 4, 26), recognition of investment in associate (Note 4), recognition of impairment and share of loss arising for NBH and other consolidation adjustments.

(millions of US dollars)

24 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2014 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	Foreign rolled products	Investments in associate entity NBH	All other	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	345.9	5,684.1	1,446.9	2,015.0	1,462.4	0.1	-	(558.7)	10,395.7
Intersegment revenue	721.8	2,187.9	367.7	-	54.9	-	(3,277.4)	(54.9)	-
Cost of sales	(347.5)	(5,667.2)	(1,578.4)	(1,896.7)	(1,375.3)	(0.1)	3,004.6	471.6	(7,389.0)
Gross profit / (loss)	720.2	2,204.8	236.2	118.3	142.0	-	(272.8)	(142.0)	3,006.7
Operating profit / (loss)*	576.3	874.2	242.3	21.4	(215.9)	(2.2)	(124.1)	215.9	1,587.9
Net finance income / (costs)	27.9	(9.1)	(82.9)	(37.2)	(21.3)	1.0	-	21.3	(100.3)
Income tax expense	(193.6)	(221.9)	(19.0)	27.2	11.1	(0.2)	45.1	(11.1)	(362.4)
Profit / (loss) for the year	763.0	1,426.3	(96.3)	(154.6)	(243.4)	6.4	(652.5)	(275.3)	773.6
Segment assets	1,948.9	8,902.9	1,367.9	1,491.9	1,857.2	99.7	(3,611.8)	(1,707.3)	10,349.4
Segment liabilities	(480.0)	(4,138.9)	(996.3)	(1,956.0)	(1,542.9)	(27.6)	4,016.6	1,032.4	(4,092.7)
Depreciation and amortization	(63.6)	(538.5)	(106.6)	(82.7)	(101.1)	(2.1)	-	101.1	(793.5)
Capital expenditures	(195.0)	(279.8)	(51.2)	(17.9)	-	(18.7)	-	-	(562.6)

** Operating profit / (loss) before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets*

(millions of US dollars)

24 Segment information (continued)

Information on segments' profit or loss for the year ended 31 December 2013 and their assets and liabilities on this date is as follows:

	Mining	Russian flat products	Russian long products	Foreign rolled products	Investments in associate entity NBH	All other	Inter-segmental operations and balances	NBH deconsoli-dation adjust-ments	Total
Revenue from external customers	372.2	6,240.6	1,328.2	1,693.0	1,446.9	0.6	-	(263.1)	10,818.4
Intersegment revenue	978.8	1,623.8	388.1	1.7	5.8	-	(2,992.4)	(5.8)	-
Cost of sales	(423.0)	(6,655.5)	(1,507.8)	(1,795.7)	(1,327.6)	(0.3)	2,826.3	217.7	(8,665.9)
Gross profit / (loss)	928.0	1,208.9	208.5	(101.0)	125.1	0.3	(166.1)	(51.2)	2,152.5
Operating profit / (loss)*	787.1	(254.6)	324.8	(42.3)	(244.9)	(8.1)	10.3	36.5	608.8
Net finance income / (costs)	23.3	52.1	(107.3)	(37.0)	(18.5)	1.0	-	5.1	(81.3)
Income tax expense	(118.1)	(85.8)	(5.5)	6.0	(81.7)	(0.2)	1.6	28.7	(255.0)
Profit / (loss) for the year	766.2	167.1	197.3	(61.4)	(347.6)	0.8	(574.9)	16.7	164.2
Segment assets	2,382.5	13,223.2	2,799.6	1,476.3	2,094.2	62.8	(3,912.6)	(1,673.0)	16,453.0
Segment liabilities	(177.0)	(6,021.3)	(1,996.5)	(1,692.2)	(1,782.4)	(53.1)	4,366.1	1,301.9	(6,054.5)
Depreciation and amortization	(71.5)	(553.1)	(88.0)	(74.8)	(112.6)	-	-	28.9	(871.1)
Capital expenditures	(125.7)	(391.5)	(179.8)	(48.5)	-	(10.8)	-	-	(756.3)

** Operating profit / (loss) before equity share in net losses of associates and other companies accounted for using the equity method of accounting, impairment and write-off of assets*

Geographically, all significant assets, production and administrative facilities of the Group are located in Russia, USA and Europe.

(millions of US dollars)

25 Risks and uncertainties

(a) Operating environment of the Group

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations (Note 27(f)).

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business.

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including the weakening of the Russian ruble. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which on Russian economy, if they were to be implemented, are difficult to determine at this stage. These events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict.

The major financial risks inherent to the Group's operations are those related to market risk, credit risk and liquidity risk. The objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

(b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: interest rate risk, foreign currency risk and commodity price risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with variable interest rates. To manage this risk the Group analyses interest rate risks on a regular basis. The Group reduces its exposure to this risk by having a balanced portfolio of fixed and variable rate loans.

The interest rate risk profile of the Group is follows:

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Fixed rate instruments			
Financial assets	2,103.5	2,363.9	1,932.6
- cash and cash equivalents (Note 3)	*549.2*	*970.0*	*951.2*
- short-term financial investments (Note 5)	*621.3*	*484.6*	*108.6*
- trade and other accounts receivable less allowance (Note 6)	*791.7*	*904.8*	*854.4*
- long-term financial investments (Note 5)	*141.3*	*4.5*	*18.4*
Financial liabilities	(2,366.9)	(3,508.3)	(3,630.5)
- trade, other accounts payable and dividends payable (Note 10)	*(464.7)*	*(712.3)*	*(950.1)*
- short-term borrowings (Note 11)	*(302.5)*	*(525.0)*	*(1,114.7)*
- long-term borrowings (Note 11)	*(1,599.7)*	*(2,271.0)*	*(1,565.7)*

(millions of US dollars)

25 Risks and uncertainties (continued)

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Variable rate instruments			
Financial assets	-	78.4	-
- short-term financial investments (Note 5)	*-*	*0.4*	*-*
- long-term financial investments (Note 5)	*-*	*78.0*	*-*
Financial liabilities	(866.3)	(1,394.5)	(2,007.6)
- short-term borrowings (Note 11)	*(501.8)*	*(611.7)*	*(723.1)*
- long-term borrowings (Note 11)	*(364.5)*	*(782.8)*	*(1,284.5)*

A change of 100 basis points in interest rates for variable rate instruments would have insignificantly change profit and equity (about $11 and $17 for the years ended 31 December 2014 and 2013, respectively).

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The export-oriented companies of the Group are exposed to foreign currency risks. To minimize foreign currency risks the export program is designed taking into account potential (forecast) major foreign currencies' exchange fluctuations. The Group diversifies its revenues in different currencies. In its export contracts the Group controls the balance of currency positions: payments in foreign currency are settled with export revenues in the same currency. At the same time standard hedging instruments to manage foreign currency risk might be used.

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between assets and liabilities denominated in a currency other than the functional currency of the entity at 31 December 2014.

	US dollar	Euro
Cash and cash equivalents	230.4	107.1
Trade and other accounts receivable	7.0	402.1
Short-term financial investments	423.0	164.8
Long-term financial investments	-	141.2
Trade and other accounts payable	(40.7)	(107.2)
Short-term borrowings	(117.7)	(126.9)
Long-term borrowings	(1,178.3)	(494.0)
Net foreign currency position	**(676.3)**	**87.1**

(millions of US dollars)

25 Risks and uncertainties (continued)

The net foreign currency position presented below is calculated in respect of major currencies by items of consolidated statement of financial position as the difference between assets and liabilities denominated in a currency other than the functional currency of the entity at 31 December 2013.

	US dollar	Euro
Cash and cash equivalents	460.5	161.2
Trade and other accounts receivable	3.1	418.4
Short-term financial investments	350.3	107.2
Other non-current assets	0.6	-
Trade and other accounts payable	(51.2)	(93.3)
Short-term borrowings	(169.6)	(170.6)
Long-term borrowings	(1,400.0)	(682.8)
Net foreign currency position	**(806.3)**	**(259.9)**

Sensitivity analysis

Sensitivity is calculated by multiplying a net foreign currency position of a corresponding currency by percentage of currency rates changes.

A 25 percent strengthening of the following currencies against the functional currency as at 31 December 2014 and 2013 would have increased / (decreased) equity by the amounts shown below, however effect on profit for the year would be different due to foreign exchange gain from intercompany operations (Note 21).

	For the year ended 31 December 2014	For the year ended 31 December 2013
US dollar	(169.1)	(201.6)
Euro	21.8	(65.0)

A weakening of these currencies against the functional currency would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Commodity price risk

Commodity price risk is a risk arising from possible changes in price of raw materials and metal products, and their impact on the Group’s future performance and the Group’s operational results.

The Group minimizes its risks, related to production distribution, by having a wide range of geographical zones for sales, which allows the Group to respond quickly to negative changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

One of the commodity price risk management instruments is vertical integration. A high degree of vertical integration allows cost control and effective management of the entire process of production: from mining of raw materials and generation of electric and heat energy to production, processing and distribution of metal products.

To mitigate the corresponding risks the Group also uses formula pricing tied to price indices for steel products when contracting raw and auxiliary materials.

(millions of US dollars)

25 Risks and uncertainties (continued)

(c) Credit risk

Credit risk is the risk when counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily for trade receivables and advances given to suppliers) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

The Group controls the levels of credit risk it undertakes by assessing the degree of risk for each counterparty or groups of parties. Such risks are monitored on a revolving basis and are subject to a quarterly, or more frequent, review.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

The Group's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets on the consolidated statement of financial position is as follows:

	As at 31 December 2014	**As at 31 December 2013**	**As at 1 January 2013**
Cash and cash equivalents (Note 3)	549.2	970.0	951.2
Trade and other accounts receivable (Note 6)	791.7	904.8	854.4
Short-term financial investments (Note 5)	621.3	485.0	108.6
Long-term financial investments (Note 5)	141.3	82.5	18.4
Total on-balance sheet exposure	**2,103.5**	**2,442.3**	**1,932.6**
Financial guarantees issued (Note 26(d))	611.6	790.6	-
	2,715.1	**3,232.9**	**1,932.6**

Analysis by credit quality, based on international agencies' credit rating of bank balances and term deposits as well as short-term and long-term bank deposits is as follows:

	As at 31 December 2014	**As at 31 December 2013**	**As at 1 January 2013**
Bank balances and term deposits			
AAA-BBB	504.9	837.6	864.5
BB-B	38.9	122.0	78.7
Unrated and cash on hand	5.4	10.4	8.0
	549.2	**970.0**	**951.2**
Short-term and long-term bank deposits			
AAA-BBB	549.2	370.3	106.0
BB-B	0.2	10.4	6.9
Unrated	-	-	3.3
	549.4	**380.7**	**116.2**

(millions of US dollars)

25 Risks and uncertainties (continued)

As at 31 December 2014, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue	669.3	49.3	290.9
Overdue, including:	132.7	20.4	18.5
- up to 1 month	*60.1*	*6.8*	*0.9*
- from 1 to 3 months	*31.2*	*3.6*	*0.5*
- from 3 to 12 months	*11.7*	*5.3*	*4.9*
- over 12 months	*29.7*	*4.7*	*12.2*
	802.0	69.7	309.4
Allowance	(28.6)	(9.6)	(20.4)
Net of allowance	**773.4**	**60.1**	**289.0**

As at 31 December 2013, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue	730.7	55.9	529.2
Overdue, including:	171.0	25.8	30.1
- up to 1 month	*67.2*	*7.4*	*0.9*
- from 1 to 3 months	*43.8*	*4.8*	*0.6*
- from 3 to 12 months	*5.3*	*2.5*	*2.3*
- over 12 months	*54.7*	*11.1*	*26.3*
	901.7	81.7	559.3
Allowance	(39.3)	(19.3)	(25.1)
Net of allowance	**862.4**	**62.4**	**534.2**

(millions of US dollars)

25 Risks and uncertainties (continued)

As at 1 January 2013, trade, other receivables and advances given to suppliers were overdue as indicated below with accruals of corresponding allowance after due dates:

	Trade accounts receivable	Advances given to suppliers	Other accounts receivable
Undue	680.5	80.9	548.2
Overdue, including:	166.8	41.6	103.4
- up to 1 month	*61.0*	*9.5*	*0.6*
- from 1 to 3 months	*36.2*	*5.6*	*0.4*
- from 3 to 12 months	*32.7*	*7.9*	*91.8*
- over 12 months	*36.9*	*18.6*	*10.6*
	847.3	122.5	651.6
Allowance	(48.6)	(18.8)	(27.7)
Net of allowance	**798.7**	**103.7**	**623.9**

As at 31 December 2014 and 2013 and 1 January 2013 the Group does not have trade and other accounts receivable which was overdue and not impaired.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group monitors its risk to a shortage of funds using a regular cash flow forecast. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, finance leases. To provide for sufficient cash balances required for settlement of its obligations in time the Group uses detailed budgeting and cash flow forecasting instruments.

The table below analyses the Group's short-term and long-term borrowings by their remaining corresponding contractual maturity. The amounts disclosed in the maturity table are the undiscounted cash outflows.

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Less than 1 year	877.6	1,269.1	1,880.1
From 1 to 2 years	719.7	1,396.0	2,064.8
From 2 to 5 years	1,442.7	1,998.0	602.1
Over 5 years	8.7	29.1	605.8
Total borrowings	**3,048.7**	**4,692.2**	**5,152.8**

As at 31 December 2014 and 2013 and 1 January 2013 the Group does not have significant trade and other accounts payable with maturity over one year and its carrying amount approximates its fair value.

(e) Insurance

To minimize risks the Group concludes insurance policies which cover property damages and business interruptions, freightage, general liability and vehicles. In respect of legislation requirements, the Group purchases compulsory motor third party liability insurance, insurance of civil liability of organizations operating hazardous facilities. The Group also buys civil liability insurance of the members of self-regulatory organizations, directors and officers liability insurance, voluntary health insurance for employees of the Group.

(millions of US dollars)

26 Related party transactions

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial or operational decisions as defined by IAS 24, Related Party Disclosures. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group carries out operations with related parties on arm's length.

(a) Sales to and purchases from related parties

	For the year ended 31 December 2014	For the year ended 31 December 2013
Sales		
NBH group companies	985.7	227.7
Other related parties	7.7	9.1
Purchases		
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	375.9	411.3
Other related parties	60.6	16.3

(b) Accounts receivable from and accounts payable to related parties

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Accounts receivable and advances given			
NBH group companies	300.9	294.2	-
Other related parties	17.5	36.8	39.9
Accounts payable			
Universal Cargo Logistics Holding group companies (companies under the common control of beneficial owner)	2.3	15.2	6.5
Other related parties	25.2	6.3	0.4

(c) Financial transactions

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Loans, issued to NBH group companies (Note 5)	209.6	185.6	-
Deposits and current accounts in PJSC Bank ZENIT and OJSC Lipetskcombank (companies under the significant influence of the Group's controlling shareholder)	36.5	92.4	77.1

Interest income from deposits and current accounts in PJSC Bank ZENIT and OJSC Lipetskcombank for the years ended 31 December 2014 and 2013 amounted to $3.5 and $3.3, respectively.

(d) Financial guarantees issued

As at 31 December 2014 and 2013 guarantees issued by the Group for borrowings of NBH group companies' amounted to $611.6 and $790.6, respectively, which is the maximum potential amount of future payments, paid on demand of the guarantee. Corresponding guarantees were accounted for within the Group as at 1 January 2013. As at 1 January 2013 the Group did not have guarantees issued for the loans of companies outside the Group. No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the Group assesses probability of cash outflows, related to these guarantees, as low.

(millions of US dollars)

26 Related party transactions (continued)

The maturity of the guaranteed obligations is as follows:

	As at 31 December 2014	As at 31 December 2013	As at 1 January 2013
Less than 1 year	528.9	176.8	-
From 1 to 2 years	61.8	533.3	-
Over 2 years	20.9	80.5	-
	611.6	**790.6**	**-**

(e) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund in 2014 and 2013 amounted to $9.1 and $6.5, respectively. The Group has no long-term commitments to provide funding, guarantees or other support to the abovementioned funds.

27 Commitments and contingencies

(a) Anti-dumping investigations

The Group's export trading activities are subject from time to time to compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The Group's management believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the accompanying consolidated financial statements.

Initiated in January 2010 by the non-controlling shareholder of OJSC Maxi-Group court proceeding at the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (hereinafter, ICA Court) regarding the enforcement of the additional payment by the Parent Company for the shares of OJSC Maxi-Group ended in January 2012 in favour to the Parent Company.

Initiated in December 2012 by the non-controlling shareholder of OJSC Maxi-Group court proceeding at ICA Court regarding the loss of assets in connection with a share-purchase agreement ended in January 2014. Arbitrators stated that ICA Court lacks jurisdiction to adjudicate the claim of Maxi-Group's non-controlling shareholder against the Parent Company and terminated examinations.

No further appeal is possible in these claims.

Recently there are still few court proceedings initiated by the non-controlling shareholder of OJSC Maxi-Group going on in certain European courts and related to the claim filed to ICA Court in January 2010. In April 2014 the French court decided to execute a decision of the court of Russia (which was cancelled in Russia) on the territory of France. In December 2014 the Parent Company claimed the appeal on this decision. The Group's management considers the probability of unfavourable outcome and cash outflow in connection with these court proceedings is low and accordingly, no accruals in relation to these claims were made in these consolidated financial statements.

In the third quarter of 2014 the Group received about $104.0 in course of bankruptcy proceedings which were the result of execution of the decision taken by Russian court in 2012. This amount is included in "Gains on investments" line in the consolidated statement of profit or loss.

27 Commitments and contingencies (continued)

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation 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. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be reasonably estimated. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $620.8, $498.6 and $712.5 as at 31 December 2014 and 2013 and 1 January 2013, respectively.

(e) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

(f) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities, including certain operation of intercompany financing of Russian subsidiaries within the Group, that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed, and certain expenses used for profit tax calculation may be excluded from tax returns. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation was amended starting from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international principles. The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (defined by applicable legislation), provided that the transaction price is not arm's length. Management exercises its judgment about whether or not the transfer pricing documentation that the entity has prepared, as required by the new legislation, provides sufficient evidence to support the Group's tax positions. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated, however, it may be significant to the financial position and the results of the Group's operations.

Starting from 1 January 2015 new provisions aimed at deoffshorisation of Russian economy were included in Russian tax legislation. Particularly, the following new concepts were introduced: controlled foreign companies' rules, beneficial ownership concept for applying the preferential terms of international tax treaties concluded by Russian Federation, Russian tax residency concept for foreign entities, taxation of indirect sale of immovable property located in Russia. Management analyses the impact of new tax provisions on Group's activity and implements the required actions in order to comply with new Russian tax requirements. Given that the practice of implementation of new provisions aimed at deoffshorisation of Russian economy has not yet formed, the impact of these changes on the financial position and the results of the Group's operations cannot be reliably estimated.

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

27 Commitments and contingencies (continued)

(g) Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with all debt covenants as at each reporting date.

28 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group from one reporting period to another.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are those entities that the Group controls because the Group has (a) power over the investees (that is, it can direct relevant activities of the investees that significantly affect their returns); (b) exposure, or rights, to variable returns from its involvement with the investees; and (c) the ability to use its power over the investees to affect the amount of investor returns.

Subsidiaries are consolidated when the Group obtains control over an investee and terminates when the Group ceases to have control over the investee.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Parent Company’s equity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction-by-transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of an acquiree from the aggregate of: the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree, and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews the appropriateness of their measurement.

Consideration transferred for an acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition-related costs such as fees for advisory, legal, valuation and similar professional services. Transaction costs related to an acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of a business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

28 Significant accounting policies (continued)

All intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, unless the cost cannot be recovered. The Parent Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Associates and other companies accounted for using the equity method of accounting

Associates and other companies accounted for using the equity method of accounting are entities over which the Group has significant influence, but not control or joint control over financial or operating policies.

Investments in associates and other companies accounted for using the equity method of accounting are initially recognised at cost (fair value of the consideration transferred).

The Group also uses the equity method of accounting to account for an agreement under which the parties exercising joint control of the arrangement are entitled to the net assets of the company accounted for using the equity method of accounting. Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Dividends received from associates and other companies accounted for using the equity method of accounting reduce the carrying value of the investment in associates and other companies accounted for using the equity method of accounting. The Group's share of profits or losses of associates and other companies accounted for using the equity method of accounting after acquisition is recorded in the consolidated statement of profit or loss for the year as share of financial result of associates and other companies accounted for using the equity method of accounting. The Group's share in the change of other comprehensive income after the acquisition is recorded within other comprehensive income as a separate line item. All other changes in the Group's share of the carrying amount of net assets of the associates and other companies accounted for using the equity method of accounting are recognised in profit or loss within the share of financial results of the associates and other companies accounted for using the equity method of accounting, but the treatment could be different depending on the substance of the change.

However, when the Group's share of losses in an associate and other companies accounted for using the equity method of accounting equals or exceeds its interest in the associate or company accounted for using the equity method of accounting, including any other unsecured receivables, the Group does not recognise further losses, unless this is required by law or it has incurred obligations or made payments on behalf of the associate or other companies accounted for using the equity method of accounting.

Unrealised gains on transactions between the Group and its associates and other companies accounted for using the equity method of accounting are eliminated to the extent of the Group's interest in these entities. Unrealised losses arising from transactions between the Group and its associates and other companies accounted for using the equity method of accounting are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

In the consolidated statement of financial position, the Group's share in the associate or other companies accounted for using the equity method of accounting is presented at the carrying amount inclusive of goodwill at the acquisition date and the Group's share of post-acquisition profits and losses net of impairment loss.

Disposals of subsidiaries, associates or other companies accounted for using the equity method of accounting

When the Group ceases to have control or significant influence, any retained interest in the subsidiary, associate or company accounted for using the equity method of accounting is re-measured to its fair value, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, company accounted for using the equity method of accounting, or financial asset. In addition, any amounts previously recognised in other comprehensive income, in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

28 Significant accounting policies (continued)

At the date when the Group's control ceases, it de-recognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognises profit or loss connected with the loss of control attributable to the former controlling stake.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) Cash and cash equivalents

Cash and cash equivalents include cash balances in hand, cash on current accounts with banks, bank deposits and other short-term highly liquid investments with original maturities of three months or less.

(c) Restricted cash

Restricted cash balances comprise balances of cash and cash equivalents which are legally or contractually restricted from withdrawal.

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

(d) Value added tax (VAT)

Output value added tax arising upon the sale of goods (performance of work, provision of services) is payable to the tax authorities on the earlier of: (a) collection of receivables from customers; or (b) delivery of goods (work, services) or property rights to customers. VAT is excluded from revenue.

Input VAT on goods and services purchased (received) is generally recoverable against output VAT upon receipt of the VAT invoice. VAT related to sales / purchases and services provision / receipt payments to the budget which has not been settled with at the balance sheet date (deferred VAT) is recognised in the consolidated statement of financial position on a gross basis and disclosed separately within current assets and current liabilities.

Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debt, including VAT.

(e) Inventories

Inventories are recorded at the lower of cost and net realisable value (the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses).

Inventories include raw materials designated for use in the production process, finished goods, work in progress and goods for resale.

Release to production or any other write-down of inventories is carried at the weighted average cost.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Other costs are included in the cost of inventories only to the extent they were incurred to provide for the current location and condition of inventories.

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories, including obsolete inventories written down, shall be recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

28 Significant accounting policies (continued)

(f) Property, plant and equipment (PP&E)

Measurement at recognition

Property, plant and equipment are initially stated at cost (historical cost model). The PP&E cost includes:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the relevant entity's management;
- the initial estimate of the cost of subsequent dismantling and removal of a fixed asset, and restoring the site on which it was located, the obligation for which the relevant entity incurs either when the item is acquired or as a consequence of having used the item during a specific period for purposes other than to produce inventories during that period.

The value of property, plant and equipment built using an entity's own resources includes the cost of materials and labour, and the relevant portion of production overhead costs directly attributable to the construction of the PP&E.

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to prepare for use or sale are included in the cost of this asset.

Recognition of costs in the carrying amount of a property, plant and equipment item ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management of the relevant entity.

Subsequent measurement

Property, plant and equipment items are carried at cost less accumulated depreciation and recognised impairment losses.

Subsequent expenditures

The costs of minor repairs are expensed when incurred. The costs of regular replacement of large components of property, plant and equipment items are recognised in the carrying amount of the relevant asset when incurred subject to recognition criteria. The carrying amount of the parts being replaced is de-recognised.

When a large-scale technical inspection is conducted, related costs are recognised in the carrying amount of a fixed asset as replacement of previous technical inspection subject to recognition criteria. Any costs related to the previous technical inspection that remain in the carrying value shall be de-recognised.

Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in these assets.

All other expenses are treated as costs in the consolidated statement of profit or loss in the reporting period as incurred.

Property, plant and equipment line of the consolidated statement of financial position also includes capital construction and machinery, and equipment to be installed.

If PP&E items include major units with different useful lives, then each individual unit of the related asset is accounted for separately.

28 Significant accounting policies (continued)

Borrowing costs

Borrowing costs are capitalised from the date of capitalisation and up to the date when the assets are substantially ready for utilisation or sale.

The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale.

When funds borrowed for common purposes are used to purchase an asset, capitalised borrowing costs are determined through multiplying the capitalisation rate by expenses related to the asset.

Interest payments capitalised under IAS 23 are classified in consolidated statement of cash flows in a manner that is consistent with the classification of the underlying asset on which the interest is capitalised.

All other borrowing costs are attributed to expenses in the reporting period when incurred and recorded in the consolidated statement of profit or loss in the “Finance costs” line.

Mineral rights

Exploration and evaluation assets are carried at original cost and classified consistently within tangible or intangible assets depending on their nature. Mineral rights acquired as a result of a business combination are measured at fair value at the acquisition date. Other mineral rights and licenses are recorded at cost. Mineral rights are amortised using the straight-line basis over the license term given approximately even production output during the license period.

Depreciation

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets through an even write-down of historical cost to their net book value. Property, plant and equipment items under finance leases and subsequent capitalised expenses are depreciated on a straight-line basis over the estimated remaining useful lives of the individual assets. Depreciation commences from the time an asset is available for use, i.e. when the location and condition provide for its operation in line with the Group management’s intentions.

Depreciation is not charged on assets to be disposed of and on land. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the consumption of benefits to be derived from it.

The range of estimated useful lives of different asset categories is as follows:

Buildings and land and buildings improvements	1 – 91 years
Machinery and equipment	1 – 45 years
Vehicles	1 – 42 years

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

If the cost of land includes the costs of site dismantlement, removal of PP&E items and restoration expenses, that portion of the land asset is depreciated over the period of consumption of benefits obtained by incurring those costs.

Impairment of PP&E is outlined in section (j) “Impairment of non-current assets”.

28 Significant accounting policies (continued)

(g) Leasing

Leasing transactions are classified according to the relevant lease agreements, which specify the risks and rewards associated with the leased property and distributed between the lessor and lessee. Lease agreements are classified as financial leases or operating leases.

In a financial lease, the Group receives the major portion of economic benefits and risks associated with the ownership of the asset. At the commencement of the lease term, the leased asset is recognised in the consolidated statement of financial position at the lower of fair value or discounted value of future minimum lease payments. The corresponding rental obligations are included in borrowings. Interest expenses within lease payments are charged to profit or loss over the lease term using the effective interest method.

Accounting policies for depreciation of leased assets are consistent with the accounting policies applicable to owned depreciable assets.

A lease is classified as an operating lease if it does not imply transferring the major portion of risks and rewards associated with the ownership of the asset. Payments made under operating leases are recorded as an expense on a straight-line basis over the lease term.

(h) Goodwill and intangible assets

Goodwill is the difference between:

- the comprehensive acquisition date fair value of the consideration transferred and non-controlling interest, and, where the entity is acquired in instalments, the acquisition date fair value of the non-controlling interest previously held by the buyer in the acquired entity; and
- the share of net fair value of identifiable assets acquired and liabilities assumed.

The excess of the share of net fair value of identifiable assets bought and obligations assumed by the Group over the consideration transferred and the fair value of non-controlling interest at the acquisition date previously owned by the buyer in the acquired entity, represents income from a profitable acquisition. Income is recognised in the consolidated statement of profit or loss at the acquisition date.

Goodwill on associates and other equity-accounted entities is included in the carrying amount of investments in these entities.

When interest in the previously acquired entity increases (within non-controlling interest) goodwill is not recognised. The difference between the acquired share of net assets and consideration transferred is recognised in equity.

Goodwill is measured at historical cost and subsequently stated less accumulated impairment losses.

Impairment of goodwill

The goodwill is not amortised but tested for impairment at least annually and whenever there are indications that goodwill may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (“CGUs”) that are expected to benefit from the synergies of the combination. The evaluation of impairment for cash-generating units, among which goodwill was distributed, is performed once a year or more often, when there are indicators of impairment of such CGUs.

If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to any other assets of the CGU pro-rata to the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

28 Significant accounting policies (continued)

Disposal of goodwill

If goodwill is a part of the cash-generating unit, and a part of the unit is disposed of, the goodwill pertaining to that part of disposed operations is included in the carrying amount of that operation when profit or loss on its disposal is determined. In such circumstances, the goodwill disposed of is generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:

- its purchase price, including non-refundable purchase taxes, after deducting trade discounts and rebates;
- any directly attributable cost of preparing the asset for its intended use.

If an intangible asset is acquired as a result of a business combination, the cost of the intangible asset equals its fair value at the acquisition date.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the entire period of credit unless it is capitalised in accordance with IAS 23, “Borrowing Costs”.

None of the intangible assets that constitute the result of research (or implementation of the research stage of an internal project) is subject to recognition. Research expenditures (or at the research stage of an internal project) shall be recognised as an expense when incurred.

If an intangible asset is an integral part of a fixed asset to which it belongs, then it is recorded as part of that asset.

After the initial recognition of intangibles, they are carried at cost less any accumulated amortisation and any accumulated impairment loss. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Amortisation

An intangible asset with an indefinite useful life is not amortised. Intangible assets with a definite useful life are amortised using the straight-line method over the shorter of: the useful life or legal rights thereto.

(i) Decommissioning obligation

The Group’s obligations related to assets disposal include estimating costs related to restoration of land in accordance with applicable legal requirements and licenses.

Decommissioning costs are carried at the present value of expected expenses to settle obligations that is calculated using estimated cash flows and are recognised as a part of the historical cost of the asset. Capitalised costs are amortised over the asset’s useful life.

Cash flows are discounted at the current rate before tax, which reflects risks inherent to the asset decommissioning obligations. The effect of discounting is recognised in the consolidated statement of profit or loss as finance costs.

The estimated future costs related to decommissioning are reviewed annually and adjusted as necessary.

28 Significant accounting policies (continued)

(j) Impairment of non-current assets

At each reporting date, the Group determines if there are any objective indications of potential impairment of an individual asset or group of assets.

Intangible assets that are not available for use and intangible assets with indefinite useful lives are tested for impairment at least once a year if their carrying amount impairment indicators are identified.

Recoverable value measurement

If any such impairment indicators exist, then the asset’s recoverable amount is estimated. In the event of impairment, the value of the asset is written down to its recoverable value, which represents the higher of: the fair value less costs to sell or the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset or payable on the transfer of a liability at the evaluation date, in an arm’s length transaction between knowledgeable, willing parties, less any direct costs related to the sale or transfer.

Value in use is the present value of estimated future cash flows from expected continuous use of an asset and its disposal at the end of its useful life.

In assessing value-in-use, the anticipated future cash proceeds are discounted to their current value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units), which in most cases are determined as individual subsidiaries of the Group. Estimated cash flows are adjusted in line with the risk of specific conditions at sites and discounted at the rate based on the weighted average cost of capital. With regard to assets that do not generate cash regardless of cash flows generated by other assets, the recoverable amounts are based on the cash-generating unit to which such assets relate.

Impairment loss

The asset’s carrying amount is written down to its estimated recoverable value, and loss is included in the consolidated statement of profit or loss for the period. Impairment loss is reversed if there are indications that the assets’ impairment losses (other than goodwill) recognised in previous periods no longer exist or have been reduced, and if any consequent increase in the recoverable value can be objectively linked to the event that took place after the impairment loss recognition. Impairment loss is reversed only to the extent that the carrying amount of an asset does not exceed its carrying amount that would be established (less amortisation) if the asset impairment loss had not been recognised. An impairment loss is reversed for the relevant asset immediately through consolidated statement of profit or loss.

(k) Pension and post-retirement benefits other than pensions

The Group recognises liabilities for post-employment benefits, including one-off payments made upon retirement. For the nine months ended 30 September 2013, the Group maintained defined benefit pension plans that covered the majority of its employees in Europe (Note 23).

The Parent Company and some other Group companies maintain defined contribution plans in accordance with which contributions are made on a monthly basis to a non-government pension fund (the “Fund”), calculated as a certain fixed percentage of the employees’ salaries. These pension contributions are accumulated in the Fund during the employment period and subsequently distributed by the Fund. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

28 Significant accounting policies (continued)

The Group complies with the pension and social insurance legislation of the Russian Federation and the other countries where it operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions constitute defined contribution plans.

Payments under defined contribution plans are expensed as incurred.

(l) Provisions for liabilities and charges

Provisions for liabilities and charges are accrued when the Group:

- has present obligations (legal or constructive) as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle such an obligation;
- a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision shall be the best estimate of the expenses required to settle the present obligation at the end of the reporting period. Where the impact of the time factor on the value of money is significant, the provision should equal the present value of the expected cost of settling the liability using the discount rate before taxes. Any increase in the carrying amount of the provision is recorded in the consolidated statement of profit or loss as finance costs.

The nature and estimated value of contingent liabilities and assets (including court proceedings, environmental costs, etc.) are disclosed in notes to the consolidated financial statements where the probability of economic benefits outflow is insignificant.

The creation and release of provision for impaired receivables have been included in selling expenses in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

(m) Call and put options

Call and put options are carried at their fair value in the consolidated financial statements. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of options are reflected in the consolidated statement of profit or loss.

(n) Income taxes

Income tax expense comprises current and deferred tax. The current and deferred taxes are recognised in profit or loss for the period, except for the portion thereof that arises from a business combination or transactions or events that are recognised directly within equity.

Current tax

Current tax liabilities are measured in the amount expected to be paid to (recovered from) the tax authorities, applying the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax assets and liabilities are recognised for the differences between the carrying amount of an asset or liability in the consolidated statement of financial position and their tax base.

28 Significant accounting policies (continued)

Deferred tax is not recognised if temporary differences:

- arise at the goodwill initial recognition;
- arise at the initial recognition (except for business combination) of assets and liabilities that do not impact taxable or accounting profits;
- are associated with investments in subsidiaries where the Group controls the timing of the reversal of these temporary differences, and it is probable that the temporary differences will not be utilised in the foreseeable future.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Estimation of tax assets and liabilities reflects tax implications that would arise depending on the method to be used at the end of the reporting period to recover or settle carrying value of these assets or liabilities.

Deferred tax assets are recognised in respect of the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits may be utilised.

The carrying amount of deferred tax assets is subject to revision at the end of each reporting period and is decreased to the extent of reduced probability of receiving sufficient taxable income to benefit from utilising the deferred tax assets partially or in full.

Deferred tax assets and liabilities are offset if there is a legal right for the offset of current tax assets and liabilities, and when they relate to income taxes levied by the same tax authority or on the same taxpayer; and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(o) Dividends payable

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting date and before the consolidated financial statements have been authorised for issue are disclosed in the subsequent events note.

(p) Revenue recognition

Revenue from sales of goods and provision of services

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. The Group recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the Group, and the specific criteria stipulated by IAS 18, "Revenue" have been met for each type of Group revenues.

Revenue is recorded less of discounts, provisions, value added tax and export duties, and refunds, and after excluding internal Group sales turnover.

28 Significant accounting policies (continued)

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenue from services is recognised in the period in which the services were rendered, by reference to the 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 rendered under the relevant agreement.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Dividend income on investments is recognised when the Group becomes entitled to receive the payment.

(q) Segment information

The Group provides separate disclosures on each operating segment that meets the criteria outlined in paragraph 11 of IFRS 8, "Operating Segments".

The Group's organisation comprises five reportable segments:

- the Russian flat products segment, comprising production and sales of steel products and coke, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanised cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- the Foreign rolled products segment, comprising production and sales of steel products in the United States and Europe;
- the Russian long products segment, comprising a number of steel-production facilities combined in a single production system beginning from scrap iron collection and recycling to steel-making, production of long products, reinforcing rebar and metalware;
- the Mining segment, which comprises mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, and supplies raw materials to the steel segment and third parties;
- Investments in associate entity NBH, comprising production of hot rolled, cold rolled coils and galvanized and pre-pained steel, and also production of a wide range of plates as well as a number of steel service centers located in the European Union.

Other activities and operating segments that are not reportable segments are combined and disclosed in "all other segments".

The accounting policies of each segment are similar to the principles outlined in significant accounting policies.

(r) Financial instruments

Financial assets

The Group's financial assets include cash and short-term deposits, trade and other accounts receivable, loans and other amounts receivable, quoted and non-quoted financial instruments and derivatives.

Financial assets have the following categories:

- loans and receivables;
- held-to-maturity investments.

28 Significant accounting policies (continued)

Loans and receivables

Loans and receivables represent non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to the initial recognition, such financial assets are measured at amortised cost using the effective interest method less any impairment losses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity investments if the Group intends and is able to hold them to maturity. Subsequent to the initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment losses.

Valuation techniques

Depending on their classification, financial instruments are carried at fair value or amortised cost. Below are the methods and key definitions.

Fair value is the price that would be received from selling an asset or paid when transferring a liability in an orderly transaction between market participants as at the valuation date. The best evidence of fair value is the price quoted in an active market.

The fair value of financial instruments traded in active markets at each reporting date is determined based on the market quotes or dealers' quotes (buy quotes for long positions and sell quotes for short positions) without deducting transaction costs.

Valuation techniques, such as discounted cash flow models, or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure the fair value of financial instruments for which external market pricing information is unavailable.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount (calculated using the effective interest method), and for financial assets less any impairment loss.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

Initial recognition of financial assets

Financial investments available for sale and financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date when the Group commits to buy or sell a financial asset.

28 Significant accounting policies (continued)

De-recognition

The Group de-recognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control in respect of these assets.

Control of an asset is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale. If the Group neither transfers nor retains substantially all risks and rewards of ownership of the asset, but retains control over such transferred asset, the Group continues recognition of its share in this asset and the related obligation in the amount of the anticipated consideration.

Impairment of financial assets

At each reporting date, the Group assesses whether the objective indicators exist that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets are considered to be impaired only when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that have had an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or group of debtors are experiencing significant financial difficulty, cannot service their debt or are demonstrating delinquency in interest or principal payments; or they are likely to undergo bankruptcy procedures or any other financial reorganisation. In addition, such evidence includes observable data testifying to an identifiable decline in estimated future cash flows under a financial instrument, in particular, negative changes in a counterparty's payment status caused by changes in the national or local business environment that impact the counterparty, or a significant impairment of collateral, if any, as a result of deteriorated market conditions.

Impairment of financial assets carried at amortised cost

The carrying amount of an asset is reduced by the amount of the allowance for impairment of financial assets. Losses from impairment of financial assets carried at amortised cost are carried through profit or loss as they arise.

Accrual of interest income on the reduced carrying value is continued based on the interest rate applied to discounting the future cash flows for impairment loss assessment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then de-recognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment of financial investments available for sale

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that a financial investment or a group of financial investments is impaired.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year.

28 Significant accounting policies (continued)

Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the current period's profit or loss.

Financial liabilities

The Group's financial liabilities include trade and other payables, bank overdrafts, borrowings, financial guarantee agreements and derivative financial instruments.

Financial liabilities are respectively classified as:

- financial liabilities at fair value through profit or loss;
- borrowings and loans.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trade and financial liabilities designated initially at fair value through profit or loss. Financial liabilities are classified as held for trade if acquired for the purpose of selling in the short term. Income and expense on liabilities held for trade are recognised in the consolidated statement of profit or loss.

Borrowings

After initial recognition, interest-bearing borrowings are carried at amortised cost using the effective interest method. Gains and losses on such financial liabilities are recognised in consolidated statements of profit or loss upon their de-recognition and also as amortisation accrued using the effective interest method.

Initial recognition of financial liabilities

All financial liabilities are initially recorded at fair value less transaction costs incurred (except for financial liabilities at fair value through the consolidated statements of profit or loss).

De-recognition

A financial liability is de-recognised from the consolidated statement of financial position if it was settled, cancelled or expired.

If the existing financial liability is replaced by another liability to the same creditor, on terms that significantly differ from the previous terms, or the terms of the existing liability significantly differ from the previous terms, such replacement or change is recorded as de-recognition of the initial liability and recognition of a new liability, and the difference in their carrying amount is recognised in the consolidated statement of profit or loss.

Financial guarantee agreements

Financial guarantees issued by the Group are irrevocable agreements requiring a payment to compensate losses incurred by the owner of the agreement due to the inability of the debtor to duly pay under the terms of a debt instrument. Financial guarantee agreements are initially recorded at fair value. Consequently the liability is measured at the higher of the best likelihood estimate of costs necessary to settle the liability at the reporting date, and the amount of the liability less accumulated amortisation.

Derivative financial instruments

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options, are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

28 Significant accounting policies (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(s) Related parties

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

29 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as disclosures. Management also makes certain judgements, in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates, and management's estimates can be revised in the future, either negatively or positively, based on the facts surrounding each estimate.

Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are reported below.

(a) Consolidation of subsidiaries

Management judgement is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements.

(b) Tax legislation and potential tax gains and losses

The Group's potential tax gains and losses are reassessed by management at every reporting date. Liabilities which are recorded for income tax positions are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle tax liabilities at the reporting date.

(c) Estimation of remaining useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production volumes, inventories, technical obsolescence rates, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may affect future useful lives (Note 8).

(d) Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the tangible and identifiable intangible assets acquired, net of liabilities, is recorded as goodwill. A significant amount of judgement is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

29 Critical accounting estimates and judgements (continued)

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

(e) Impairment analysis of property, plant and equipment and goodwill

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on finished goods, operating costs, capital investment, and macroeconomic factors such as inflation and discount rates. In addition, judgement is applied in determining the cash-generating units assessed for impairment (Notes 8, 9).

Accounting for provisions

Accounting for impairment includes provisions against capital construction projects, financial assets, other non-current assets and inventory obsolescence (at least annually).

(f) Accrual of accounts receivable impairment provision

The impairment provision for accounts receivable is based on the management's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than estimates, the actual results could differ from these estimates.

(g) Control and the consolidation or accounting using equity method of accounting of entities in the Group's consolidated financial statements

Management judgement is involved in the assessment of control and the consolidation or accounting using equity method of accounting of certain entities in the Group's consolidated financial statements. As at 31 December 2014 the Group owned 79.5% of shares in NBH, however, management had concluded that in the light of giving certain governance rights to the party owing the residual interest in this company, the Group does not control this company, thus the Group's investment in NBH should be accounted for under the equity method starting 30 September 2013 (Note 23).

After the partial disposal of NBH as of 30 September 2013, which the Group executed in the context of the continuing restructuring of its European operations aimed at further enhancing efficiency optimizing costs, the Group retained its presence in Europe and in the rolled products line of business. Therefore management believes that this disposal does not meet the definition of a discontinued operations under IFRS 5.

30 New or revised standards and interpretations

In 2013 the Group adopted all IFRS, amendments and interpretations which have been in effect since 1 January 2013 and which are relevant to its operations.

The following new standards and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2015. In particular the Group has not early adopted the following standards and amendments:

- IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
    - Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

30 New or revised standards and interpretations (continued)

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for trade and lease receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

▪ Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition". The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

30 New or revised standards and interpretations (continued)

- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact four standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from “held for sale” to “held for distribution” or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim financials, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of “information disclosed elsewhere in the interim financial report”.

30 New or revised standards and interpretations (continued)

The Group is currently assessing the impact of the amendments on its financial position and results of operation.

The following new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements once adopted:

- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- IFRS 14 "Regulatory Deferral Accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (issued in May 2014 and effective for the periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 41 "Agriculture: Bearer plants" - (issued in June 2014 and effective for annual periods beginning 1 January 2016).
- Amendments to IAS 27 "Equity Method in Separate Financial Statements" (issued in August 2014 and effective for annual periods beginning 1 January 2016).
- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued in September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendment to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 "Presentation of Financial Statements" (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).
- The amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" (issued in May 2014 and effective for annual periods beginning on or after 1 January 2016).

31 First-Time Adoption of IFRS

These consolidated financial statements for the year ended 31 December 2014 represent the Group's first IFRS financial statements. The date of transition to IFRS was 1 January 2013.

The accounting policies summarised in Note 28 were consistently used in the preparation of the consolidated financial statements for the year ended 31 December 2014, related comparatives and the opening balance sheet at the date of transition.

The Group applied IFRS 1 "First-Time Adoption of International Financial Reporting Standards". IFRS 1 requires retrospective application of all IFRS in effect at 31 December 2014, and establishes mandatory exceptions and voluntary exemptions from retrospective application.

The Group applied the following mandatory exceptions:

Accounting estimates

Accounting estimates used to prepare IFRS financial statements at the IFRS transition date are consistent with estimates made at the same dates under US GAAP (after adjustments for differences in accounting policies), unless there is objective evidence that those estimates were in error.

(millions of US dollars)

31 First-Time Adoption of IFRS (continued)

De-recognition of financial assets and financial liabilities

Financial assets and liabilities de-recognised before the transition to IFRS are not re-recognised under IFRS. Management chose not to apply the IAS 39 "Financial Instruments: Recognition and Measurement" de-recognition criteria from an earlier date.

The Group used the following voluntary exemptions:

Business combinations

The Group will not apply IFRS 3 "Business Combinations" retrospectively to any business combinations that took place before its transition to IFRS. The Group shall recognise all assets and liabilities at the IFRS transition date that were acquired or recognised as a result of the past business combinations and shall keep the same classification as in its US GAAP statements.

Borrowing costs

The Group adopted IAS 23 "Borrowing Costs" prospectively from its IFRS transition date. The Group did not restate the borrowing costs component that was capitalised under US GAAP and included in the carrying amount of assets.

Deemed historical cost of property, plant and equipment

At 1 January 2013 the deemed historical cost for some PP&E items was the cost of previous acquisitions. All other fixed assets were accounted for at historical cost. In addition, the cost of PP&E purchased before 2003 was adjusted for the effects of hyperinflation. The effect of this approach was to increase the US GAAP carrying amount of these assets by $165.0 to $11,603.3 under IFRS on the date of the Group's transition to IFRS as of 1 January 2013.

Reconciliation of shareholder's equity as at 1 January 2013 and 31 December 2014 with previously reported under US GAAP.

	As at 31 December 2014	As at 1 January 2013
Equity under US GAAP	**6,322.9**	**11,090.3**
Effects of changes in accounting policies:		
Property, plant and equipment: restatement for hyperinflation	72.2	165.0
Property, plant and equipment: impairment and other adjustments	(138.4)	(58.2)
IFRS equity	**6,256.7**	**11,197.1**

Reconciliation of comprehensive loss for the year ended 31 December 2014 with previously reported under US GAAP.

	For the year ended 31 December 2014
Comprehensive loss under US GAAP	**(3,689.6)**
Effects of changes in accounting policies:	
Depreciation: restatement of property, plant and equipment for hyperinflation	(12.6)
Depreciation: impairment of property, plant and equipment and other adjustments	(59.8)
Cumulative translation adjustment	(117.5)
IFRS comprehensive loss	**(3,879.5)**

31 First-Time Adoption of IFRS (continued)

Adjustments

Application of IAS 29 "Financial Reporting in Hyperinflationary Economies" to property, plant and equipment.

The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29. As part of the Group's transition to IFRS, non-monetary assets, non-monetary liabilities and equity items arising from transactions prior to 1 January 2003 were restated in accordance with IAS 29 for the changes in the general purchasing power of the Russian ruble from the dates of the transactions until 31 December 2002. The amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, transactions after 1 January 2003 are not subject to restatement in accordance with the provisions of IAS 29.

In the preparation of the first IFRS consolidated statement of financial position, (opening balance sheet) calculations have been performed and appropriate adjustments were made to PP&E of $165.0 recognized in US GAAP financial statements with due regard for the requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" for IFRS purposes.

Impairment of property, plant and equipment under IFRS

As of 1 January 2013, an IFRS PP&E impairment test has been performed. As a result of the analysis using discounted cash flow against undiscounted cash flows under US GAAP an impairment of $38.5 was identified (Note 8). Additionally, an impairment of PP&E of $194.1 was recognized as of 31 December 2014.

The Group's operating, investing and financing cash flows reported under US GAAP did not significantly differ from IFRS.

32 Subsequent events

In June 2015, the Parent Company declared dividends for the year ended 31 December 2014 of 2.44 Russian rubles per share for the total of $303.9 (including interim dividends for the six months ended 30 June 2014 of 0.88 Russian ruble per share for the total of $133.9) translated at the historical rate and for the three months ended 31 March 2015 of 1.64 Russian rubles per share for the total of $178.7 (at the historical rate).

In July 2015, the Parent Company closed the order book for issuing bonds with a total value of 5 billion Russian rubles, with a maturity period of 10 years and a coupon rate of 11.5% per annum. The terms of issuing provide put option in 1 year.

In September 2015, the Parent Company completed the sales to a company under common control of its full controlling interest in OJSC North Oil and Gas Company (51.0%) for $10.1 cash consideration received in October 2015. Disposal of OJSC North Oil and Gas Company resulted in deconsolidation of assets amounting to $20.4 and liabilities amounting to $20.1. Net assets of the entity as of the date of disposal were $0.3.

In October 2015, the Parent Company closed the order book for issuing bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 5 billion Russian rubles), with a maturity period of 10 years and a coupon rate of 11.1% per annum. The terms of issuing provide put option in 2 years.

In November 2015, the Parent Company has closed a 4-year $400.0 pre-export loan facility at LIBOR +3%. The Group plans to use the proceeds to refinance its short-term debt, as well as for general corporate purposes.

The Group's management has performed an evaluation of subsequent events and did not find any, except mentioned above, through the period from 1 January 2015 to 8 November 2015, which is the date when these consolidated financial statements are published.