# OAO Holding Company METALLOINVEST

## Condensed consolidated interim financial information

## 30 June 2012

# Contents

*Report on Review of Condensed Consolidated Interim Financial Information*

To the Shareholders of OAO Holding Company METALLOINVEST:

**Introduction**

We have reviewed the accompanying consolidated interim statement of financial position of OAO Holding Company METALLOINVEST and its subsidiaries (the "Group") as of 30 June 2012 and the related consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

**Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

28 September 2012
Moscow, Russia

*(in thousands of US dollars, unless otherwise stated)*

| | Note | 30 June 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property, plant and equipment | 5 | 2,982,645 | 2,961,272 |
| Intangible assets | 5 | 523,678 | 598,260 |
| Mineral rights | | 1,529,058 | 1,590,348 |
| Goodwill | 11 | 592,028 | 540,480 |
| Investments in associates | 12 | 66,176 | 100,994 |
| Available-for-sale financial assets | 6 | 1,319,370 | 1,039,655 |
| Loans advanced | | 336,516 | 394,031 |
| Other non-current assets | | 206,609 | 257,137 |
| **Total non-current assets** | | **7,556,080** | **7,482,177** |
| | | | |
| **Current assets:** | | | |
| Inventories | | 633,231 | 730,190 |
| Trade and other receivables | | 954,353 | 735,217 |
| Promissory notes receivable | 7 | 2,285,517 | - |
| Loans advanced and other investments | | 278,917 | 27,430 |
| Current income tax prepayment | | 4,521 | 3,404 |
| Cash and cash equivalents | | 270,066 | 1,165,980 |
| | | **4,426,605** | **2,662,221** |
| Assets held for sale | 12 | 143,387 | 320,197 |
| **Total current assets** | | **4,569,992** | **2,982,418** |
| **TOTAL ASSETS** | | **12,126,072** | **10,464,595** |
| | | | |
| **EQUITY** | | | |
| Share capital | | 187,640 | 187,640 |
| Retained earnings and other reserves | | 4,005,538 | 3,063,735 |
| **Capital and reserves attributable to the Company's owners** | | **4,193,178** | **3,251,375** |
| Non-controlling interests | | 89,308 | 86,071 |
| **TOTAL EQUITY** | | **4,282,486** | **3,337,446** |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities:** | | | |
| Long-term borrowings | 8 | 4,972,129 | 4,481,332 |
| Deferred income tax liability | | 552,440 | 561,575 |
| Liability to the regional administration | | 53,611 | 52,038 |
| Accounts payable | | 2,639 | 2,645 |
| Employee benefit obligations | 9 | 273,874 | 268,804 |
| **Total non-current liabilities** | | **5,854,693** | **5,366,394** |
| | | | |
| **Current liabilities:** | | | |
| Short-term borrowings | 8 | 1,406,260 | 1,116,984 |
| Accounts payable | | 440,942 | 445,897 |
| Income tax payable | | 47,697 | 47,079 |
| Value added tax and other taxes payable | | 89,588 | 96,509 |
| Liability to the regional administration | | 4,230 | 4,378 |
| | | **1,988,717** | **1,710,847** |
| Liabilities directly associated with assets held for sale | 12 | 176 | 49,908 |
| **Total current liabilities** | | **1,988,893** | **1,760,755** |
| **TOTAL LIABILITIES** | | **7,843,586** | **7,127,149** |
| **TOTAL LIABILITIES AND EQUITY** | | **12,126,072** | **10,464,595** |

Approved for issue and signed on 28 September 2012.

A.V. Varichev
Chief Executive Officer
OAO Holding Company METALLOINVEST

E.L. Potapov
Chief Executive Officer
OOO Management Company METALLOINVEST

The accompanying notes on pages 5 to 17 are an integral part of this condensed consolidated interim financial information.

*(in thousands of US dollars, unless otherwise stated)*

| | Note | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|---|
| Sales | | 4,457,920 | 5,093,992 |
| Cost of sales | | (2,103,392) | (2,315,624) |
| **Gross profit** | | **2,354,528** | **2,778,368** |
| Distribution expenses | | (723,649) | (898,681) |
| General and administrative expenses | | (203,952) | (195,525) |
| Loss on initial recognition of available-for-sale financial assets | 6 | - | (260,614) |
| Dividend income on available-for-sale financial assets | | 42,842 | 43,993 |
| Other operating expenses | 10 | (168,413) | (51,986) |
| **Operating profit** | | **1,301,356** | **1,415,555** |
| Finance income | 7 | 94,668 | 7,566 |
| Finance costs | | (252,685) | (177,812) |
| Foreign exchange gain from borrowings | | 3,870 | 45,972 |
| Share of net loss of associates | | (2,221) | (684) |
| **Profit before income tax** | | **1,144,988** | **1,290,597** |
| Income tax charge | | (256,607) | (360,348) |
| **Profit for the period from continuing operations** | | **888,381** | **930,249** |
| **Discontinued operations** | | | |
| Profit for the period from discontinued operations | 12 | 424,118 | 45,150 |
| **Profit for the period** | | **1,312,499** | **975,399** |
| **Other comprehensive income** | | | |
| Currency translation differences | | (144,222) | 310,398 |
| Reclassification of currency translation difference to profit or loss | 12 | (35,736) | - |
| Fair value gain on available for sale assets | 6 | 93,975 | 31,889 |
| **Other comprehensive income for the period** | | **(85,983)** | **342,287** |
| **Total comprehensive income for the period** | | **1,226,516** | **1,317,686** |
| **Profit is attributable to:** | | | |
| Owners of the Company | | 1,309,262 | 973,761 |
| Non-controlling interests | | 3,237 | 1,638 |
| | | **1,312,499** | **975,399** |
| **Total comprehensive income is attributable to** | | | |
| Owners of the Company | | 1,223,279 | 1,316,048 |
| Non-controlling interests | | 3,237 | 1,638 |
| | | **1,226,516** | **1,317,686** |
| **Basic and diluted earnings per ordinary share for profit attributable to the owners of the Company (in USD per share)** | | **0.0164** | **0.0122** |
| From continuing operations | | 0.0111 | 0.0116 |
| From discontinued operations | | 0.0053 | 0.0006 |

*(in thousands in US dollars, unless otherwise stated)*

| | Note | Six months ended 30 June 2012 | 30 June 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 1,581,078 | 1,349,190 |
| *Adjustments for:* | | | |
| Depreciation of property, plant and equipment | | 175,335 | 180,378 |
| Amortisation of intangible assets and mineral rights | | 35,811 | 46,250 |
| Loss on disposal of property, plant and equipment | | 2,564 | 4,188 |
| Loss on initial recognition of available-for-sale financial assets | 6 | - | 260,614 |
| Provision for impairment of receivables and prepayments | | 807 | 1,182 |
| Finance cost (net) | | 157,902 | 174,203 |
| Foreign exchange loss/(gain) | | 138,124 | (22,823) |
| Employee benefits | | 6,605 | 6,063 |
| Gain on disposal of discontinued operations | 12 | (368,659) | - |
| Share of net loss of associates | | 2,221 | 684 |
| Dividends income on available-for-sale financial assets | | (42,842) | (43,993) |
| Other | | (9,326) | (2,764) |
| **Operating cash flow before changes in working capital** | | **1,679,620** | **1,953,172** |
| Inventories | | 101,353 | 41,993 |
| Trade and other receivables | | (114,842) | (140,655) |
| Trade and other payables | | (98,669) | (33,610) |
| Employee benefit obligations | | (8,111) | (8,174) |
| **Cash generated from operations** | | **1,559,351** | **1,812,726** |
| Interest paid | | (172,294) | (197,877) |
| Income tax paid | | (286,935) | (315,584) |
| Waiver fees and other charges | | (598) | (3,869) |
| **Net cash from operating activities** | | **1,099,524** | **1,295,396** |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment and intangible assets | | (210,198) | (288,899) |
| Exploration and evaluation expenditures | | (22,996) | (15,590) |
| Acquisition of promissory notes | 7 | (2,478,726) | - |
| Acquisition of interest in subsidiaries, net of cash acquired | 11 | (81,892) | (7,553) |
| Acquisition of assets held for sale | | (12,917) | - |
| Proceeds from disposal of discontinued operations, net of cash disposed | 12 | 523,113 | - |
| Acquisition of available-for-sale financial assets | 6 | (155,890) | (2,200,025) |
| Change in restricted cash balances | | - | (968) |
| Loans advanced | | (558,308) | (158,304) |
| Repayment of loans advanced and short-term deposits with maturity more than three months | | 357,654 | 55,809 |
| Interest income received | | 17,711 | 3,119 |
| **Net cash used in investing activities** | | **(2,622,449)** | **(2,612,411)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (966,378) | (1,499,375) |
| Proceeds from borrowings | | 1,873,559 | 3,367,589 |
| Payment of financial liability | | - | (15,893) |
| Acquisition of additional interest in subsidiaries | | - | (19,406) |
| Dividends paid to owners of the Company | 1 | (290,077) | (267,001) |
| **Net cash from financing activities** | | **617,104** | **1,565,914** |
| Effect of exchange rate changes on cash and cash equivalents | | (24,403) | 5,474 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(930,224)** | **254,373** |
| **Cash and cash equivalents at the beginning of the year, net of restricted cash** | | **1,201,026** | **152,005** |
| Included in cash and cash equivalents per the statement of financial position | | 1,165,980 | 152,005 |
| Included in the assets of the disposal group | | 35,046 | - |
| **Cash and cash equivalents at the end of the period, net of restricted cash** | | **270,802** | **406,378** |
| Included in cash and cash equivalents per the statement of financial position | | 270,066 | 406,378 |
| Included in the assets of the disposal group | | 736 | - |

*(in thousands of US dollars, unless otherwise stated)*

| | Note | Attributable to owners of the Company | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| | | Share capital | Other reserves | Retained earnings | Total | | |
| **Balance at 1 January 2012** | | **187,640** | **(447,725)** | **3,511,460** | **3,251,375** | **86,071** | **3,337,446** |
| Profit for the period | | - | - | 1,309,262 | 1,309,262 | 3,237 | **1,312,499** |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | | - | (144,222) | - | (144,222) | - | **(144,222)** |
| Fair value gain on available-for-sale financial assets | 6 | - | 93,975 | - | 93,975 | - | **93,975** |
| Reclassification of currency translation difference to profit or loss | 12 | - | (35,736) | - | (35,736) | - | **(35,736)** |
| **Total comprehensive income for the period ended 30 June 2012** | | | **(85,983)** | **1,309,262** | **1,223,279** | **3,237** | **1,226,516** |
| Dividends declared by the Company | 1 | | | (281,476) | (281,476) | | **(281,476)** |
| **Balance at 30 June 2012** | | **187,640** | **(533,708)** | **4,539,246** | **4,193,178** | **89,308** | **4,282,486** |
| **Balance at 1 January 2011** | | **187,640** | **(91,332)** | **2,344,704** | **2,441,012** | **92,261** | **2,533,273** |
| Profit for the period | | - | - | 973,761 | 973,761 | 1,638 | **975,399** |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | | - | 310,398 | - | 310,398 | - | **310,398** |
| Fair value gain on available-for-sale financial assets | 6 | - | 31,889 | - | 31,889 | - | **31,889** |
| **Total comprehensive income for the period ended 30 June 2011** | | **-** | **342,287** | **973,761** | **1,316,048** | **1,638** | **1,317,686** |
| Acquisition of additional interest in subsidiaries | | - | - | (18,054) | (18,054) | (1,352) | **(19,406)** |
| Dividends declared by the Company | 1 | - | - | (267,001) | (267,001) | - | **(267,001)** |
| **Balance at 30 June 2011** | | **187,640** | **250,955** | **3,033,410** | **3,472,005** | **92,547** | **3,564,552** |

*(in thousands of US dollars, unless otherwise stated)*

## 1 General information

OAO Holding Company METALLOINVEST and its subsidiaries (the “Group”) principal activity is the production and sale of iron ore products and ferrous metals. These products are sold both in the Russian Federation and abroad. The Company is incorporated and domiciled in the Russian Federation. The address of its registered office is Rublyovskoye shosse, 28, Moscow, Russia. The Group’s manufacturing facilities are primarily based in Kursk, Belgorod and Orenburg regions.

The principal activities of the Group are not subject to seasonal fluctuations.

At 30 June 2012 and at 31 December 2011, USM STEEL & MINING GROUP LIMITED (Cyprus) (prior to 7 May 2012 named Gallagher Holdings Limited) owned a 50% stake in the Company, Seropaem Holdings Limited (Cyprus) owned a 30% stake and OAO VTB Bank (Russia) owned a 19.99% stake.

In January 2012 the Company declared a dividend on ordinary shares of RUB 8,807 million or USD 281,476 thousand (USD 290,077 thousand at an exchange rate as on the date of payment). In April 2011 the Company declared a dividend on ordinary shares of RUB 7,474 million or USD 267,001 thousand.

## 2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with IAS 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

***Change in accounting policy***

In 2011 the Group changed its presentational currency from Russian Rouble to US dollars, in order to improve comparability of the Group’s results of operations with results of operations of other capital markets participants. These are the first interim financial information for the six-month period ended 30 June 2012 presented in US dollars and all comparative information was restated in accordance with the requirements set out in IAS 21 “The Effects of Changes in Foreign Exchange Rates” with respect to translation of results to presentational currency:

(i) assets and liabilities were translated into US dollars using the closing exchange rate at the date of the relevant statement of financial position;

(ii) income, expenses and cash flows recognised in the period were translated at an average exchange rate prevailing for the relevant period;

(iii) share capital was translated at the historic exchange rate at 1 January 2004, the date of transition to IFRS;

(iv) all resulting exchange differences were recognised as currency translation differences in other comprehensive income and included in the cumulative currency translation difference reserve.

The applicable exchange rates US dollar/Russian Rouble used were:

| **Period ended** | **30 June 2012** | **30 June 2011** | **31 December 2011** |
|---|---|---|---|
| Average rate | 30.6480 | 28.6242 | 29.3874 |
| Closing rate | 32.8169 | 28.0758 | 32.1961 |

## 3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011.

Income taxes in interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to have a material impact on the Group's financial statements.

## 3 Accounting policies (continued)

The following new standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

***IFRS 9, Financial Instruments: Classification and Measurement.*** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- 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 as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

***IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

***IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing police choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

***IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

***IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

## 3 Accounting policies (continued)

***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** was changed and its objective is now to prescribe the accounting and requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements".

***IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

***Amendments to IAS 1, Presentation of financial statements, (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012),*** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'.

***Amendments to IAS 19, Employee benefits, (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013),*** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

***Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

***Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

***IFRS 1, First time adoption of IFRS, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013).*** The amendmentclarifies that an entity may apply IFRS 1 more than once under certain circumstances and also clarifies that an entity can choose to adopt IAS 23 "Borrowing costs", either from its date of transition or from an earlier date.

***IAS 1, Presentation of financial statements, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013).*** The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either as required by IAS 8 "Accounting policies, changes in accounting estimates and errors" or voluntarily. Amendment to IFRS 1 as a result of this amendment to IAS 1 clarifies that a first-time adopter should provide the supporting notes for all statements presented.

***IAS 16, Property, plant and equipment, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013).*** The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

***IAS 32, Financial instruments: Presentation, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013).*** The amendment clarifies the treatment of income tax relating to distributions and transaction costs.

***IAS 34, Interim financial reporting, (revised in May 2012 and effective for annual periods beginning on or after 1 January 2013).*** The amendment clarifies the disclosure requirements for segment assets and liabilities in interim financial statements.

## 3 Accounting policies (continued)

***Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued on 28 June 2012 and effective for annual periods beginning 1 January 2013).*** The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

***Other revised standards and interpretations:*** The amendments to IFRS 1 "First-time adoption of IFRS", dealing with loans received from governments at a below market rate of interest, will not have any impact on the Group's financial statements. The amendments to IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" consider when and how to account for the benefits arising from the stripping activity in mining industry.

The Group is currently assessing the impact of new standards and interpretations on its financial statements.

## 4 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors of the Group. The Group is organised on the basis of the following reportable operating segments:

- Mining – production and sale of iron ore products and co-products (includes LGOK and MGOK);
- Steel – production and sale of ferrous metal products (includes OEMK, Ural Steel and OOO Ural Scrap Company);
- Trading – overseas trading of the Group's products (includes Ferrous Metal Company Limited and Metalloinvest Trading AG);
- Transportation – transportation and logistics services rendered by Metalloinvesttrans.

Other activities have been included in the "All other segments" column. These activities include central management, certain services and investment activities, activities of Hamriyah steel plant and the Group's activities in exploration and evaluation of oil and gas and copper deposits.

Starting from 2011 Transportation segment was presented as discontinued operation following the approval of the Group's management for its sale.

*(in thousands of US dollars, unless otherwise stated)*

## 4 Segment information (continued)

Segment information for the six months ended 30 June 2012 is as follows:

| | Mining | Steel | Trading | Transportation* | All other segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| External revenue | 984,932 | 1,247,044 | 2,191,450 | 23,044 | 34,494 | - | 4,480,964 |
| Inter-segment revenue | 1,241,110 | 757,852 | - | 264,828 | 1,983 | (2,265,773) | - |
| **Total revenue** | **2,226,042** | **2,004,896** | **2,191,450** | **287,872** | **36,477** | **(2,265,773)** | **4,480,964** |
| **EBITDA** | **1,340,386** | **188,564** | **37,935** | **58,610** | **16,455** | **-** | **1,641,950** |
| Depreciation and amortisation | 67,530 | 69,804 | 45 | 8,477 | 10,997 | - | 156,853 |
| Interest income | 14,189 | 4,130 | 266 | 115 | 44,165 | - | 62,865 |
| Inter-segment interest income | 48,511 | 23,827 | 1,400 | - | 15,337 | (89,075) | - |
| Interest expense | 90,216 | 45,862 | 7,587 | 1,341 | 43,889 | - | 188,895 |
| Inter-segment interest expense | 13,780 | 4,733 | - | - | 70,562 | (89,075) | - |
| Income tax charge/(credit) | 229,451 | 19,701 | 2,367 | 9,567 | 17 | - | 261,103 |

* Transportation segment was presented as discontinued operation in the consolidated statement of comprehensive income.

*(in thousands of US dollars, unless otherwise stated)*

## 4 Segment information (continued)

Segment information for the six months ended 30 June 2011 is as follows:

| | Mining | Steel | Trading | Transportation* | All other segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| External revenue | 658,118 | 1,505,594 | 2,828,071 | 37,880 | 102,209 | - | 5,131,872 |
| Inter-segment revenue | 1,796,984 | 856,206 | 82,964 | 259,748 | 2,512 | (2,998,414) | - |
| **Total revenue** | **2,455,102** | **2,361,800** | **2,911,035** | **297,628** | **104,721** | **(2,998,414)** | **5,131,872** |
| **EBITDA** | **1,559,133** | **317,467** | **31,705** | **67,956** | **6,687** | **-** | **1,982,948** |
| Depreciation and amortisation | 59,923 | 70,752 | 37 | 18,390 | 4,973 | - | 154,075 |
| Interest income | 3,085 | 737 | 315 | 70 | 3,290 | - | 7,497 |
| Inter-segment interest income | 47,238 | 27,983 | - | 5,318 | 10,105 | (90,644) | - |
| Interest expense | 76,469 | 53,912 | 6,250 | 7,299 | 1,915 | - | 145,845 |
| Inter-segment interest expense | 16,473 | 5,375 | - | - | 68,796 | (90,644) | - |
| Income tax charge/(credit) | 304,764 | 55,121 | 4,656 | 10,182 | (2,247) | - | 372,476 |
| **Total reportable segment assets** | | | | | | | |
| **30 June 2012** | **571,559** | **197,610** | **57,048** | **-** | **59,992** | **-** | **886,209** |
| **31 December 2011** | **594,562** | **165,350** | **67,694** | **(30,104)** | **(3,265)** | **-** | **794,237** |

* Transportation segment was presented as discontinued operation in the consolidated statement of comprehensive income.

*(in thousands of US dollars, unless otherwise stated)*

## 4 Segment information (continued)

A reconciliation of EBITDA to profit for the period is provided as follows:

| | Six month ended 30 June 2012 | | |
|---|---|---|---|
| | Continuing operations | Discontinued operations | Total |
| **EBITDA for reportable segments** | **1,566,885** | **-** | **1,566,885** |
| **Other segments EBITDA** | **16,455** | **-** | **16,455** |
| **EBITDA of Transportation segment presented as discontinued operations** | | **58,610** | **58,610** |
| **Total** | **1,583,340** | **58,610** | **1,641,950** |
| *Adjustments to EBITDA arising from differences in management accounting and requirements of IFRS:* | | | |
| Capitalisation of elements of cost of non-current assets recognised as expenses in profit or loss in accordance with RAS | 12,664 | 1,509 | 14,173 |
| Additional loss on disposal of property, plant and equipment | (5,632) | (5,757) | (11,389) |
| Unrealised profits adjustment | 34,873 | - | 34,873 |
| (Additional)/Reverse of provision for impairment of receivables | (992) | 56 | (936) |
| Employee benefit obligations adjustment | 1,422 | - | 1,422 |
| Reclassification of waiver fees and other charges from operating expenses to finance costs | 3,375 | - | 3,375 |
| Recognition of vacation reserve in profit or loss | (5,549) | (58) | (5,607) |
| Other adjustments | 21,263 | 13,243 | 34,506 |
| | **1,644,764** | **67,603** | **1,712,367** |
| *Other reconciling items:* | | | |
| Depreciation and amortisation | (211,146) | - | (211,146) |
| Finance income | 94,668 | 115 | 94,783 |
| Finance costs | (252,685) | - | (252,685) |
| Foreign exchange (loss)/gain | (137,837) | (287) | (138,124) |
| Gain on disposal of discontinued operations | - | 368,659 | 368,659 |
| Other operating income | 9,445 | - | 9,445 |
| Share of net loss of associates | (2,221) | - | (2,221) |
| Income tax charge | (256,607) | (11,972) | (268,579) |
| **Profit for the period** | **888,381** | **424,118** | **1,312,499** |

| | Six month ended 30 June 2011 | | |
|---|---|---|---|
| | Continuing operations | Discontinued operations | Total |
| **EBITDA for reportable segments** | **1,908,305** | **-** | **1,908,305** |
| **Other segments EBITDA** | **6,687** | **-** | **6,687** |
| **EBITDA of Transportation segment presented as discontinued operations** | | **67,956** | **67,956** |
| **Total** | **1,914,992** | **67,956** | **1,982,948** |
| *Adjustments to EBITDA arising from differences in management accounting and requirements of IFRS:* | | | |
| Capitalisation of elements of cost of non-current assets recognised as expenses in profit or loss in accordance with RAS | 25,957 | - | 25,957 |
| Additional loss on disposal of property, plant and equipment | (7,753) | (10) | (7,763) |
| Unrealised profits adjustment | (40,507) | - | (40,507) |
| Additional provision for impairment of receivables | (762) | - | (762) |
| Employee benefit obligations adjustment | 2,133 | - | 2,133 |
| Reclassification of waiver fees and other charges from operating expenses to finance costs | 1,082 | - | 1,082 |
| Annual bonus 2010 reverse | 36,468 | - | 36,468 |
| Recognition of vacation reserve in profit or loss | (2,194) | - | (2,194) |
| Other adjustments | (10,775) | 1,909 | (8,866) |
| | **1,918,641** | **69,855** | **1,988,496** |
| *Other reconciling items:* | | | |
| Depreciation and amortisation | (219,333) | (7,295) | (226,628) |
| Finance income | 7,566 | 70 | 7,636 |
| Finance costs | (177,812) | (4,027) | (181,839) |
| Foreign exchange gain/(loss) | 22,833 | (10) | 22,823 |
| Loss on initial recognition of available-for-sale financial assets | (260,614) | - | (260,614) |
| Share of net loss of associates | (684) | - | (684) |
| Income tax charge | (360,348) | (13,443) | (373,791) |
| **Profit for the period** | **930,249** | **45,150** | **975,399** |

*(in thousands of US dollars, unless otherwise stated)*

## 4 Segment information (continued)

An analysis of the Group's sales from external customers by their geographical location presented as follows:

| | Six months ended | |
|---|---|---|
| | **30 June 2012** | **30 June 2011** |
| Russia | 1,840,419 | 1,624,467 |
| Rest of CIS | 392,719 | 473,225 |
| Total CIS | 2,233,138 | 2,097,692 |
| | | |
| China | 390,716 | 1,011,137 |
| Rest of Asia | 375,467 | 149,306 |
| Total Asia | 766,183 | 1,160,443 |
| | | |
| Middle East | 458,479 | 761,654 |
| Europe | 844,055 | 985,424 |
| Other countries | 156,065 | 88,779 |
| **Total Continuing Operations** | **4,457,920** | **5,093,992** |
| Total Discontinued Operations – Russia | 23,044 | 37,880 |
| **Total Sales** | **4,480,964** | **5,131,872** |

## 5 Property, plant and equipment and intangible assets

| **Six months ended 30 June 2011** | **Property, plant and equipment** | **Intangible assets (excluding goodwill)** |
|---|---|---|
| **Opening net book amount at 1 January 2011** | **3,257,052** | **615,953** |
| Additions | 245,910 | 14,892 |
| Disposals | (33,085) | - |
| Depreciation and amortisation | (183,406) | (10,476) |
| Currency translation differences | 264,979 | 52,752 |
| **Closing net book amount at 30 June 2011** | **3,551,450** | **673,121** |

| **Six months ended 30 June 2012** | **Property, plant and equipment** | **Intangible assets (excluding goodwill)** |
|---|---|---|
| **Opening net book amount at 1 January 2012** | **2,961,272** | **598,260** |
| Acquisitions through business combinations | 18,205 | - |
| Additions | 283,892 | 14,822 |
| Reclassification to non-current assets held for sale | (22,786) | (74,867) |
| Disposals | (24,859) | - |
| Depreciation and amortisation | (173,755) | (2,408) |
| Currency translation differences | (59,324) | (12,129) |
| **Closing net book amount at 30 June 2012** | **2,982,645** | **523,678** |

As of 30 June 2012, the Group had contractual commitments for the purchase of property, plant and equipment for USD 322,055 thousand (31 December 2011: USD 269,187 thousand).

## 6 Available-for-sale financial assets

| | Six months ended | |
|---|---|---|
| | **30 June 2012** | **30 June 2011** |
| **At 1 January** | 1,039,655 | - |
| Additions | 185,740 | 1,939,411 |
| Fair value gain | 93,975 | 31,889 |
| **At 30 June** | **1,319,370** | **1,971,300** |

*OAO "MMC "Norilsk Nickel" ADR.* In May-June 2011 the Group acquired 75,240,247 American depository receipts (ADRs) representing approximately 4.0 per cent interest in OAO "MMC "Norilsk Nickel" for USD 2,200,025 thousand. The market value of the ADRs at the dates of acquisition amounted to USD 1,939,411 thousand. The purchase price of the ADRs exceeded market value at the dates of acquisition by USD 260,614 thousand. The Group recognised the excess as a loss on initial recognition of available-for-sale financial assets in profit or loss.

In May-June 2012 the Group acquired additional 8,344,253 OAO "MMC "Norilsk Nickel" ADRs at market value of USD 126,040 thousand.

The Group recognises subsequent fair value gains in other comprehensive income.

*(in thousands of US dollars, unless otherwise stated)*

## 6 Available-for-sale financial assets (continued)

*OOO South Ural Mining & Processing Works.* In May 2012 the Group acquired 19.9% share in OOO South Ural Mining & Processing Works, a cement producer, for cash consideration of USD 59,700 thousand from a third party. The Group accounts for this investment as an available-for-sale financial asset as the Group acquired less than 20% of the issued share capital and does not exercise significant influence over the investment.

## 7 Promissory notes receivable

In March 2012 the Company invested into the RUB-denominated discount promissory notes issued by OAO VTB Bank for a consideration of USD 2,478,726 thousand. Interest income accrued and foreign currency translation loss for the period from the date of acquisition till 30 June 2012 was USD 68,554 thousand and USD 261,763 thousand respectively. The promissory notes mature in December 2012.

## 8 Short-term and long-term borrowings

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| Long-term borrowings | 3,520,733 | 3,788,839 |
| Short-term borrowings | 1,113,866 | 787,060 |
| Unsecured corporate bonds | 758,922 | - |
| Guaranteed notes | 692,474 | 692,493 |
| Bank overdraft | 292,394 | 329,924 |
| **Total borrowings** | **6,378,389** | **5,598,316** |

Movements in borrowings are analysed as follows:

| | Six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| **Opening amount at 1 January** | **5,598,316** | **4,146,645** |
| Borrowings received | 1,024,337 | 3,317,026 |
| Repayments of borrowings | (953,188) | (1,490,526) |
| Issue of unsecured corporate bonds, net of transaction cost | 850,199 | - |
| Foreign exchange gain and currency translation difference, net | (141,275) | 192,059 |
| **Closing amount at 30 June** | **6,378,389** | **6,165,204** |

In March 2012 the Company issued USD 853,310 thousand 9.0% RUB-denominated unsecured corporate bonds with maturity in 2022 and an early redemption option in 2015.

Interest accrued on borrowings of USD 45,163 thousand (31 December 2011: 24,847 thousand) is presented in current accounts payable.

## 9 Employee benefit obligations

The Group companies operate both funded and unfunded post-employment benefits plans.

Amounts recognised in the statement of comprehensive income were as follows:

| | Six months ended | |
|---|---|---|
| | 30 June 2012 | 30 June 2011 |
| Current service costs | 5,408 | 4,900 |
| Interest costs | 12,429 | 13,446 |
| Expected return on assets | (134) | (139) |
| Past service costs | 1,197 | 1,163 |
| **Net periodic benefit costs** | **18,900** | **19,370** |

Amounts recognised in the statement of financial position were as follows:

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| **Present value of defined benefit obligations** | **297,936** | **294,423** |
| Fair value of plan assets | (2,668) | (2,592) |
| Unrecognised past service costs | (21,394) | (23,027) |
| **Net liability in the statement of financial position** | **273,874** | **268,804** |

*(in thousands of US dollars, unless otherwise stated)*

## 10 Other operating expenses

| | Six months ended | |
|---|---|---|
| | **30 June 2012** | **30 June 2011** |
| Foreign exchange loss on operating activities, net | 141,707 | 23,139 |
| Charity expenses | 22,204 | 11,310 |
| Social costs | 9,167 | 10,274 |
| Other (income)/expenses | (4,665) | 7,263 |
| **Total** | **168,413** | **51,986** |

## 11 Acquisitions

In April 2012 the Group increased its interest in OOO OSMiBT, a brick and ceramics producer, from 40% to 100% by means of acquisition of remaining share in the company, and acquired 100% in ZAO Zheleznogorsky Brick Plant, a brick producer, and ZAO Ruslime, a lime producer, from a related party for a total cash consideration of USD 127,369 thousand. Management has commenced assessment of the fair values of the assets and liabilities acquired and provisionally determined goodwill of USD 68,785 thousand arising on the acquisitions. The assessment was not completed at the time of finalising this condensed consolidated interim financial information.

## 12 Assets held for sale and discontinued operations

*OOO Metalloinvesttrans*

In May 2012 the Group disposed of 100% interest in its wholly owned subsidiary OOO Metalloinvesttrans to a third party for cash consideration of USD 569,040 thousand. The subsidiary was previously classified as a discontinued operation and its assets and liabilities were accordingly reclassified in the consolidated statement of financial position. The details of the disposed assets and liabilities are as follows:

| | **As at the date of disposal** | **Carrying amount as at 31 December 2011** |
|---|---|---|
| Property, plant and equipment | 224,751 | 209,605 |
| Trade and other receivable | 67,580 | 66,667 |
| Cash and cash equivalents | 16,887 | 35,046 |
| Non-current assets held for sale | - | 5,055 |
| VAT and other taxes receivable | 26,074 | 14,664 |
| Other assets | 746 | 1,120 |
| Assets with the Group's entities eliminated on consolidation | - | (33,327) |
| **Total assets** | **336,038** | **298,830** |
| Trade and other payables | 74,373 | 112,421 |
| Finance lease liability | - | 76,563 |
| Deferred income tax liability | 25,548 | 33,240 |
| Income tax payable | - | 6,020 |
| Liabilities with the Group's entities eliminated on consolidation | - | (178,336) |
| **Total liabilities** | **99,921** | **49,908** |
| **Net assets of subsidiary** | **236,117** | |

The Group recognised a gain on disposal of USD 368,659 thousand in profit for the period from discontinued operations.

Previously recognised currency translation difference related to the discontinued operation in amount of USD 35,736 thousand was reclassified from other comprehensive income to profit or loss as part of the gain on disposal.

*Non-current assets classified as assets held for sale*

At 30 June 2012 items of exploration and evaluation expenditures, items of property, plant and equipment and other assets relating to the Sladkovsko-Zarechnoye oil and gas deposit with a carrying value of USD 114,378 thousand were classified as non-current assets held for sale following the management's plan to sell the assets. In July 2012 the Group disposed the license to a third party for consideration of USD 125,000 thousand (Note 14).

*(in thousands of US dollars, unless otherwise stated)*

## 12 Assets held for sale and discontinued operations (continued)

*Non-current assets classified as assets held for sale (continued)*

At 30 June 2012 the Group classified its 30% interest in OOO KB Ferrobank with a carrying value of USD 8,046 thousand as a non-current asset held for sale following the management's plan to sell the asset. The Group's interest in OOO KB Ferrobank was previously accounted as an investment in associate. In August 2012 the Group disposed its interest in OOO KB Ferrobank to the related parties.

At 30 June 2012 items of property, plant and equipment with carrying value of USD 20,963 thousand (31 December 2011: USD 21,367 thousand) were classified as non-current assets held for sale following the management's plan to sell the assets. The Company expects to complete the sale in 2012.

## 13 Balances and transactions with related parties

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over 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. Other related parties include entities that are significantly influenced by the Company's shareholders. The Company's shareholders are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 30 June 2012 and 31 December 2011 are detailed below:

### (i) Balances and transactions with other related parties

| **Period-end balances:** | **30 June 2012** | **31 December 2011** |
|---|---|---|
| Trade accounts receivable | 11,709 | 17,482 |
| Advances issued | 224 | 73,507 |
| Other receivables | 71,446 | 72,427 |
| Trade accounts payable | (24,479) | (29,641) |
| Advances received | - | (82) |
| Other accounts payable | - | (5,744) |

| | **Six months ended** | |
|---|---|---|
| **The transactions carried out during the period** | **30 June 2012** | **30 June 2011** |
| Sales of goods and services | 23,046 | 20,715 |
| Sales of property, plant and equipment | 14,513 | 1 |
| Purchases of raw materials and components | 19,466 | 23,123 |
| Purchases of property, plant and equipment | 4,030 | 71,180 |
| Purchases of available-for-sale financial assets | - | 2,200,025 |
| Purchase of services | 18,737 | 28,485 |
| Acquisition of subsidiaries | 127,369 | - |
| Finance cost | 34,691 | - |
| Acquisition of interest in associate | - | 2,670 |

| | **Six months ended** | |
|---|---|---|
| **Loans advanced to other related parties:** | **30 June 2012** | **30 June 2011** |
| **At 1 January** | **313,828** | **188,994** |
| Loans advanced during the period | 386,826 | 149,609 |
| Repayments of loans advanced | (185,553) | (51,893) |
| Loans advanced of subsidiaries acquired | 5,819 | - |
| Interest income accrued | 15,785 | 6,191 |
| Interest income received | (7,473) | (832) |
| Foreign exchange (loss)/gain and currency translation difference, net | (752) | 14,514 |
| **At 30 June** | **528,480** | **306,583** |
| **At 1 January** | **5,233** | **5,168** |
| Currency translation difference | - | 57 |
| **At 30 June** | **5,233** | **5,225** |

*(in thousands of US dollars, unless otherwise stated)*

## 13 Balances and transactions with related parties (continued)

### (ii) Balances and transaction with shareholders

| | Six months ended | |
|---|---|---|
| **Loans advanced to shareholders:** | **30 June 2012** | **30 June 2011** |
| **At 1 January** | **164,409** | **-** |
| Loans advanced during the period | 159,178 | - |
| Repayments of loans advanced | (163,000) | - |
| Interest income accrued | 1,887 | - |
| Interest income received | (2,016) | - |
| Foreign exchange loss and currency translation difference, net | (4,042) | - |
| **At 30 June** | **156,416** | **-** |

### (iii) Balances and transaction with associates

| **Period-end balances arising from transactions with associates:** | **30 June 2012** | **31 December 2011** |
|---|---|---|
| Cash and cash equivalents | 30,103 | 30,957 |
| Trade accounts receivable | - | 184 |
| Other receivables | 51 | - |
| Other accounts payable | (45) | - |

| | Six months ended | |
|---|---|---|
| **The transactions carried out during the period with associates:** | **30 June 2012** | **30 June 2011** |
| Sales of goods and services | 568 | 722 |
| Purchases of raw materials and consumables | 95 | 22 |

| | Six months ended | |
|---|---|---|
| **Loans advanced to associates:** | **30 June 2012** | **30 June 2011** |
| **At 1 January** | **15,756** | **4,266** |
| Loans advanced during the period | - | 3,575 |
| Repayments of loans advanced | (1,631) | - |
| Repayments of short-term deposits with maturity more than three months | (6,833) | - |
| Loans advanced of subsidiaries acquired | 2,950 | - |
| Interest income accrued | 350 | 217 |
| Interest income received | (426) | (217) |
| Currency translation difference | (223) | 351 |
| **At 30 June** | **9,943** | **8,192** |

### (iv) Contractual commitments to other related parties

As at 30 June 2012 the Group had contractual commitments to other related parties of USD 4,587 thousand (31 December 2011: USD 85,238 thousand) for the purchase of property, plant and equipment.

### (v) Guarantees issued

At 30 June 2012, the Group's guarantees against obligations of other related parties amounted to USD 189,689 thousand (31 December 2011: USD 198,171 thousand).

### (vi) Operating lease

In August 2008, the Group entered into a rent agreement with other related party to lease office premises for 10 years. The total lease payments for a 10-year period amount to USD 335,144 thousand. During the six months ended 30 June 2012 lease charges amounted to USD 14,135 thousand (the six months ended 30 June 2011: USD 18,370 thousand).

### (vii) Key management personnel compensation

Compensation of key management personnel consists of remuneration paid to managing directors of the Group's main subsidiaries and to members of the Company's Boards of Directors and its main subsidiaries. Compensation comprises short-term benefits.

Total key management personnel compensation included in general and administrative expenses for the six months ended 30 June 2012 amounted to USD 9,053 thousand (the six months ended 30 June 2011: USD 6,463 thousand).

## 14 Events after the reporting period

In July 2012 the Group disposed of a license for the Sladkovsko-Zarechnoye oil and gas deposit to a third party for consideration of USD 125,000 thousand (Note 12).

In August 2012 the Group signed a credit facility agreement for RUB 50,000 million or USD 1,600 million to refinance existing credit facilities. The new facility matures in August 2015.

In August 2012 the Group entered into a long-term agreement with third parties to construct additional production facilities to expand the hot briquetted iron (HBI) production at Lebedinskiy Mining and Processing Works (LGOK). Total amount of the agreement is Euro 184,831 thousand and USD 99,400 thousand or USD 246,687 thousand. The construction is to be completed within three years.